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, 2002

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, 2002, there were 344,255,067 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 $15,566,956,689.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [✓] No [ ]

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.

- 2003 Annual Meeting Proxy Statement (Proxy Statement) - Part III
- Annual Report to Security Holders filed as an appendix to the 2003 Annual Meeting Proxy Statement (Appendix) - Parts I, II, and IV

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PART I

Item 1. Business.

Principal Lines of Business / Nature of Operations

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 (1 000 to 14 500 kilowatts).

3. ***Financial Products*** - financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division 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 Caterpillar Insurance Holdings, Inc. and their subsidiaries.

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 22 "Segment information" of the Notes to Consolidated Financial Statements on pages A-22 through A-27 of the Appendix.

Company Strengths

Caterpillar is the leader in construction and mining equipment, diesel and natural gas engines and industrial gas turbines in our size range. Annual sales and revenues top $20 billion, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter, with more than half of its sales outside the United States. Through its global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For over 75 years, the Caterpillar name has been associated with the highest level of quality products and services.

Competitive Environment

Caterpillar products and product support services are sold worldwide into a variety of highly competitive markets. In all markets, we compete on the basis of product performance, customer service, quality and price. From time to time, the intensity of competition results in price discounting in a particular industry or region. Such price discounting puts pressure on margins and can negatively impact operating profit.

Outside of the United States, certain competitors enjoy competitive advantages inherent to operating in their home countries.

Machinery

Caterpillar machinery competitors include John Deere in the Americas, and Komatsu, Hitachi Construction Machinery, Terex Corporation, Volvo Construction Machinery, JCB, CNH, and Ingersoll Rand globally. These competitors manufacture a wide range of earthmoving, construction, and mining machines that compete across all lines of Caterpillar business. The industry has been characterized by industry consolidation and overcapacity resulting in fierce competition and deteriorating financial performance.

During 2002, all competitors were faced with declining or shrunken markets, and continued intense price competition. Japan-based competitors continued to focus on cost reduction, manufacturing efficiency, and improved global marketing. Certain global competitors based in the United States and Europe continued with acquisitions or added new product lines - strengthening their competitive positions. However, most competitors slowed or revised their competitive strategies in the face of falling sales and eroded profitability.

Joint development and acquisition programs for components and purchased-finished material continued with certain competitors, aimed primarily at reducing manufacturing costs without sacrificing competitive differentiation.

Industry consolidation continued, as large international competitors integrated acquisitions and refined operations.

Most competitors experienced continued severe pressure on distribution systems, exacerbating pressure on financial results. Marketplace confusion continues as certain European and Asian competitors seek to manage the results of changing alliances. However, competitive focus remains on meeting volume requirements - especially for Asian competitors - at the expense of profitability.

Continuing excess capacity meant a continued global environment of intense competition for the available customers and deals. In addition, increasingly well-informed customers have high expectations for product performance and support services, with little willingness to allow higher transaction prices.

Japanese government policies and revised public works plans initiated during 2001 continued to reduce domestic demand and put pressure on Japanese manufacturers and their partners to find replacement demand.

Increasing business in China for traditional products, and the introduction of new products, substantially benefited all competitors - and especially benefited certain Japanese competitors that needed to replace declining Japanese demand with new markets.

Engines

Caterpillar operates in a very competitive engine/turbine manufacturing and packaging environment. The company manufactures diesel, heavy fuel and natural gas engines for the on- and off-highway markets, and industrial turbines for the oil & gas and power generation applications. In North America, on-highway diesel engine competitors include Cummins Inc., Volvo Group AB, Mack Trucks, Inc. (part of Volvo), Detroit Diesel Corporation (part of DaimlerChrysler Corporation) and Navistar International Corporation. Overseas on-highway diesel engine competitors include Mercedes Benz (part of DaimlerChrysler Corporation), Volvo, Mitsubishi Heavy Industries, Scania, MAN B&W, Iveco Diesel Engines, Isuzu Motors, Ltd., Hino Motors and MWM Brazil.

North America off-highway diesel and natural gas engine/turbine competitors include Cummins Inc., John Deere Power Systems, Ford Power Products, GE, and Waukesha. Overseas off-highway diesel, natural gas and heavy-fuel engine/turbine competitors include Wartsila NSD, MAN B&W, MTU Friedrichshafen (part of DaimlerChrysler), Volvo Penta (part of Volvo), Mitsubishi Heavy Industries, Deutz, Jenbacher, Kubota, Isuzu, Kawasaki Heavy Industries and Alstom.

Electric power packaging and other engine/turbine-related packaging business remained fragmented. North American packagers include GE, Cummins, Kohler, Katolight, Generac, Multiquip, Detroit Diesel, Stuart & Stevenson, Hanover, and other regional packagers. Overseas packagers include Alstom, Rolls Royce, Wartsila NSD, MAN B&W, Jenbacher, SDMO, Himoinsa, Mitsubishi Heavy Industries, Daewoo, Denyo, Atlas Copco, Kawasaki Heavy Industries and many other local and regional packagers dispersed around the world. These packagers leveraged engine/turbine over-capacity and off-the-shelf technology to expand operations and product lines, and to enter new markets. They also used flexible/global sourcing and flexible distribution channels to reach new customers, maximize volumes and keep costs down.

Competitors formed or continued joint ventures and partnerships in an effort to share development costs, secure customer bases, reach new markets, and/or leverage core competencies. In addition, component suppliers such as Delphi Automotive Systems, Bosch GmbH, Denso, and Stanadyne Automotive played more visible roles as technology drivers, partners, and key suppliers to the engine business.

Competitors in North America introduced new on-highway truck diesel engines utilizing cooled exhaust re-circulation technology to meet lower emission standards mandated pursuant to a United States Environmental Protection Agency (EPA) consent decree which required the company and other engine manufacturers to meet certain emission standards by October 2002. The industry continues to invest in new technology to meet emission deadlines in North America, Europe, and Asia.

Caterpillar's competitive position in the diesel engine line of business continued to strengthen in 2002. Prior to the implementation of the consent decree in October 2002, Caterpillar's share of industry sales of heavy-duty engines increased 5% in 2002. This improvement is continuing. Similar results are occurring with our mid-range product. We believe this is occurring because the consent decree motivated most of our competitors to accelerate their production of Exhaust Gas Recirculation (EGR) engines in advance of the October 2002 deadline. This new technology had not been previously used or tested and has large amounts of new content. The technology that Caterpillar developed and uses, however, is an outgrowth of existing technology and requires significantly less new content than our competitors' products. We employ a phased introduction of new technology that assures customers of only limited new technology in any given engine model. We have been phasing in the technological components for our Advanced Combustion Emission Reduction Technology (ACERT™) engines since we made the decision to abandon EGR in early 2001. For example, we introduced aftertreatment technology into our medium heavy-duty product in early 2001, one of the four major components used in our ACERT product. Similarly, our October 2002 heavy heavy-duty bridge engines phased in ACERT fuels systems and aftertreatment technology. We believe that this phased in approach has helped our competitive position, as higher new content is recognized to carry a higher risk in new developments. Our view is supported by engine orders received since October 2002.

Moreover, the consent decree lead to our competitors' initiation and announcement of an industry wide emissions-related price increase for engines that comply with the October 2002 deadline. This price increase bolstered Caterpillar's competitive position because it made it economically feasible for us to sell a bridge engine with the associated NCPs as opposed to exiting the market until compliant ACERT engines were certified.

Further, we believe that Caterpillar's development of one technology that can be used for both on-highway and off-highway purposes may give us a further competitive advantage. One competitor has already announced that it will not be using its EGR technology for off-highway. Therefore, this competitor will need to develop new technology for off-highway, while Caterpillar is able to use its on-highway technology for off-highway engines.

We believe that all of our competitors, who are subject to consent decree requirements, have certified at least one engine model as fully compliant with the consent decree requirements, as have we. However, it is our understanding that some competitive engine manufacturers have chosen to reduce the number of engine models for which they are seeking certification. We also understand that at least one other engine manufacturer may seek to sell an engine model subject to NCPs.

Additional information about the consent decree appears in Item 1 of this Form 10-K under "Environmental Matters."

Financial Products

Caterpillar Financial Services Corporation (Cat Financial), incorporated in Delaware, is a wholly owned finance subsidiary of Caterpillar Inc. Cat Financial provides retail financing alternatives for Caterpillar machinery and engines as well as other equipment and marine vessels to customers and dealers around the world and provides wholesale financing to Caterpillar dealers. It has over 20 years of experience in providing financing in these markets, contributing to knowledge of asset values, industry trends, product structuring, and customer needs. Cat Financial emphasizes prompt and responsive service and offers various financing plans to meet customer requirements, increase Caterpillar sales, and generate financing revenue. As of December 31, 2002, Cat Financial had 1,201 employees.

Cat Financial offers various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. Its activity is conducted primarily in the United States, with additional offices in Asia, Australia, Canada, Europe and Latin America.

Cat Financial's operations are subject to supervision and regulation by state, federal, and various foreign government authorities as well as laws and judicial and administrative decisions imposing requirements and restrictions, which, among other things, (i) regulate credit granting activities, (ii) establish maximum interest rates, finance charges, and other charges, (iii) require disclosures to customers, (iv) govern secured transactions, (v) set collection, foreclosure, repossession, and other trade practices, (vi) prohibit discrimination in the extension of credit and administration of loans, and (vii) regulate the use and reporting of information related to borrower's credit experience.

Cat Financial's retail financing plans include:

Investment in finance leases - retail:

- Leases that, for tax purposes, Cat Financial is considered the owner of the equipment, but depending on the characteristics of the lease, are classified as either operating or finance leases for financial reporting purposes (20 percent*).

- Finance (non-tax) leases where the lessee is considered the owner of the equipment during the term of the contract and that either require or allow the customer to purchase the equipment for a fixed price at the end of the term (16 percent*).

- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structure payments over time (20 percent*).

- Governmental lease-purchase plans in the U.S. that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivable:

- Working capital loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing for other business needs (26 percent*).

Wholesale financing plans (17 percent*) include wholesale notes receivable and investment in finance leases that are secured by the assets of the dealers.

* Indicates the percentage of Cat Financial's total portfolio at December 31, 2002. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 18 of the Notes to Consolidated Financial Statements on pages A-20 through A-21 of the Appendix.

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's main competitors include Citibank, GECC, CIT Group, John Deere Capital Corporation, Case New Holland Credit, JCB Credit, and local banks. The sluggish economy in 2002 created a highly competitive environment for sales. Competitive manufacturers used below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. Caterpillar and Cat Financial work together to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

Cat Financial is largely dependent upon Caterpillar dealers' ability to sell equipment and customers' willingness to enter into financing or leasing agreements with it. It is also affected by the availability of funds from its financing sources and general economic conditions such as inflation and market interest rates.

Cat Financial has 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, Cat Financial uses 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. Cat Financial also uses these instruments to gain an economic and/or competitive advantage through a 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. For more information regarding match funding, please see Note 2 of Notes to Consolidated Financial Statements.

In managing foreign currency risk for Cat Financial's operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our policy allows the use of foreign currency forward contract to offset the risk of currency mismatch between our receivable and debt portfolio.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength, and intended use of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

Cat Financial finances a significant portion of Caterpillar dealers' sales, especially in North America. Cat Financial's competitive position is improved by marketing programs, subsidized by Caterpillar and/or Caterpillar dealers, which allow it to offer below-market interest rates. Under these programs, Caterpillar, or the dealer, subsidizes an amount at the outset of the transaction, which Cat Financial then recognizes as revenue over the term of the financing.

Caterpillar Insurance Company, a wholly owned subsidiary of Caterpillar Insurance Holdings Inc., is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. The insurance company is licensed to conduct Property and Casualty Insurance business in forty-six states and the District of Columbia, and as such, is regulated in those jurisdictions as well. As the state of Missouri acts as the lead regulatory authority, it monitors the financial status to ensure that the company is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners.

Caterpillar Insurance Company Ltd., a wholly owned subsidiary of Caterpillar Insurance Holdings Inc. is a reinsurance company domiciled in Bermuda and regulated by the Bermuda Monetary Authority. The company is a Class 2 insurer (as defined by the Bermuda Insurance Amendment Act of 1995), which primarily insures affiliates and as such the Bermuda Monetary Authority requires an Annual Financial Filing for purposes of monitoring compliance with solvency requirements.

Cat Insurance provides protection for claims under the following programs:

- Extended service contracts (parts and labor) offered by third party dealers to purchasers of eligible categories of machines and engines manufactured by Caterpillar.
- Reinsurance for the worldwide cargo risks of Caterpillar products.
- Reinsurance for the risks of physical damage to equipment manufactured by Caterpillar, which is leased, rented, or sold by third party dealers.

Transaction processing time and the supporting technologies continue to drive us in our efforts to respond quickly to customers, improve internal processing efficiencies and reduce cost. Our web-based Cat Financ*Express*SM transaction processing and information tool currently available in the U.S. and France gives us a competitive advantage. Financ*Express* collects information on-line to provide finance quotes, credit decisions, and print documents, all in a very short time frame.

Other information about our operations in 2002 and outlook for 2003, including risks associated with foreign operations appears in Item 7 of this Form 10-K.

Business Developments in 2002

Due to some of the weakest markets in a decade, geopolitical uncertainty and a sluggish global economic recovery, the company focus in 2002 was on achieving breakthroughs in cost reduction, quality and process improvement with respect to its core products and there was no one particular event, new product, agreement or development that individually or in the aggregate had a material impact on our financial performance.

Unusual Charges

Information regarding unusual charges is incorporated by reference from Note 24 "Unusual charges" of the Notes to Consolidated Financial Statements on page A-27 of the Appendix.

Backlog Orders

The dollar amount of backlog believed to be firm was approximately $2.90 billion and $3.05 billion at December 31, 2002 and December 31, 2001, respectively. Of the total backlog, approximately $310 million and $350 million at December 31, 2002 and December 31, 2001, respectively, was not expected to be filled in the following year. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

Dealers

Machines are distributed principally through a worldwide organization of dealers (dealer network), 59 located in the United States and 156 located outside the United States. Worldwide, these dealers serve 180 countries and operate 2,888 places of business, including 1,276 dealer rental outlets. 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 164 distributors located in 140 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.

The company's relationship with each independent dealer within the dealer network is memorialized in a standard sales and service agreement. Pursuant to this agreement, the company grants the dealer the right to purchase its products and to sell the products in a specified geographic region. Dealer prices are established by the company after receiving input from dealers on transactional pricing in the marketplace. The company also agrees to defend the company's intellectual property and to provide warranty and technical support to the dealer. The agreement further grants the dealer a non-exclusive license to the company's trademarks, service marks and brand names.

In exchange for these rights, the agreement obligates the dealer to develop and promote the sale of the company's products to current and prospective customers in the dealer's region. Each dealer specifically agrees to employ adequate sales and support personnel to market, sell and promote the company's products, demonstrate and exhibit the products, perform the company's product improvement programs, inform the company concerning any features that might affect the safe operation of any of the company's products and maintain detailed books and records of the dealer's financial condition, sales and inventories and make these books and records available at the company's reasonable request.

These sales and service agreements are terminable at will by either party upon 90 days written notice and terminate automatically if the dealer files for bankruptcy protection or upon the occurrence of comparable action seeking protection from creditors.

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 2002, 2001, and 2000, we spent $854 million, $898 million, and $854 million, respectively, on our research and engineering programs. Of these amounts, $656 million in 2002, $696 million in 2001, and $649 million in 2000 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, 2002, we employed 68,990 persons of whom 32,527 were located outside the United States.

In the U.S., other than a few extremely narrow exceptions, Caterpillar employees are at will employees and, therefore, are not subject to any kind of employment contract or agreement. At select business units, certain highly specialized employees have been hired under employment contracts that specify a term of employment and specified pay and other benefits. The only other agreements or contracts we have that apply to employees are collective bargaining agreements that apply to hourly employees who are members of the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), the International Association of Machinists (IAM) or other union organizations, which have varying expiration dates. We also have employees, particularly employees who deal with proprietary or other confidential information, sign confidentiality agreements. Agreements with employees are important to Caterpillar, and are given a great deal of attention, particularly at the time of union bargaining for collective bargaining agreements, but they have no appreciable impact on Caterpillar's overall business.

As of December 31, 2002, the UAW represented approximately 8,700 Caterpillar employees under a six-year central labor agreement that will expire April 1, 2004; the IAM represented approximately 2,300 employees under labor contracts that expire on October 30, 2004, December 5, 2004, April 30, 2005 and May 29, 2005. Based on our historical experience during periods when labor unrest or work stoppage by union employees has occurred, we do not expect the occurrence of such events, if any, arising in connection with the expiration of these agreements will have a material impact on our operations or results.

Outside the U.S., the company enters standard employment contracts in those countries in which such contracts are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

Sales
Sales outside the United States were 55% of consolidated sales for 2002, 51% for 2001, and 50% for 2000.

Environmental Matters
The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions in all our operations. 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 accrued 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 sites in the very early stages of clean-up, 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 with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003. Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards – in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.

- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.

- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.

- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.

- If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was $40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax or about 5 cents per share) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). We recorded the $40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited $41.4 million (the recorded $40 million based on our estimates plus an additional $1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included $17 million for medium heavy-duty engine models and $24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released $8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining $9 million from the medium heavy-duty engine escrow account and paid an additional $900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

The following table reflects the 2002 impact of the emission standard changes:

2002 (millions of dollars)		
Price (Engines Sold x Price Increase)	$	20
Incremental Costs (Cost of Additional Materials)		(4)
NCPs (Engines Sold x Projected NCP per Engine)		(40)
Net Effect Pre-Tax	$	(24)
Tax		7
Net Effect After Tax	$	(17)

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $21 million, of which $10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately $93 million pre-tax), product cost increases and ramp-up production costs (approximately $76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately $153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be $5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately $93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

2003 (millions of dollars)		
Price (Bridge or ACERT Price Increase x Projected Engine Sales)	$	153
Incremental Costs (Cost of Additional Materials)		(76)
NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits)	$	(93)
Net Effect Pre-Tax		(16)
Tax		4
Net Effect After Tax	$	(12)

As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the $3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

Available Information

The company files electronically with the Securities and Exchange Commission required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders on Forms 3, 4, and 5 as required by Section 16 of the Securities and Exchange Act of 1934; and registration statements on Forms S-3 and S-8, as necessary. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed with the SEC are available free of charge through our Internet site (www.CAT.com/secfilings) as soon as reasonably practicable after filing with the SEC. Additional company information may be obtained as follows:

Current information -

- phone our Information Hotline - 800-228-7717 (U.S. or Canada) or 858-244-2080 (outside U.S. or 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 email alerts at www.CAT.com/materialsrequest

Historical information -

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

Item 1a. Executive Officers of the Registrant as of December 31, 2002

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 (63)	Chairman and Chief Executive Officer (1999)	• Group President (1990 - 1998) • Vice Chairman (1998 - 1999)
Vito H. Baumgartner (62)	Group President (2000)	• Chairman, Caterpillar Overseas S.A. (1990-present) • Vice President (1990-2000)
Douglas R. Oberhelman (49)	Group President (2001)	• Vice President (1995-2001) • Chief Financial Officer (1995-1998)
James W. Owens (56)	Group President (1995)	
Gerald L. Shaheen (58)	Group President (1998)	• Vice President (1995-1998)
Richard L. Thompson (63)	Group President (1995)	
Ali M. Bahaj (49)	Vice President (2002)	• Director, Division Services, Engine Products Division (1998-2001) • Director, Business Development & Consulting Services (2001-2002)
Sidney C. Banwart (57)	Vice President (1998)	• General Manager (1995-1998) • Chief Information Officer (2001- present)
Michael J. Baunton (51)	Vice President (1998)	• Divisional Managing Director, Varity Perkins (1996-1998) • President, Perkins Engine Company Limited (1998 - present)
James S. Beard (61)	Vice President (1990)	
Richard A. Benson (59)	Vice President (1989)	
James B. Buda (55)	Vice President, General Counsel and Secretary (2001)	• Associate General Counsel (1996-1999) • Associate General Counsel, UK (1999-2001)
Rodney L. Bussell (56)	Vice President (2001)	• Manager, Transmission Business Unit (1992-1998) • General Manager, Large Engine Products & Fuel Systems Division (1998-2001)
Thomas A. Gales (54)	Vice President (2000)	• Sloan Fellow, M.I.T. (1997-1998) • Managing Director, Caterpillar France, S.A. (1998-2000)
Stephen A. Gosselin (45)	Vice President (2002)	• Special Assignment, Distribution Team (1997-1998) • Regional Engine Manager, Engine Products Division (1998-1999) • North American Distribution Manager, Engine Products Division (1999-2000) • Regional Manager, North American Commercial Division (2000-2002)
Donald M. Ings (54)	Vice President (1993)	• President, Solar Turbines Incorporated (1993-1998)
Richard P. Lavin (50)	Vice President (2001)	• Product Manager, Track-Type Tractors Division (1996-1998) • Director, Corporate Human Relations (1998-1999) • Director, Compensation & Benefits (1999-2001)
Stuart L. Levenick (49)	Vice President (2000)	• Regional Manager, Caterpillar Asia Pte. Ltd. (1995-1998) • General Manager, Commonwealth of Independent States (1998-2000) • Chairman, Shin Caterpillar Mitsubishi Ltd. (2000 - present)
Robert R. Macier (54)	Vice President (1998)	• Business Unit Manager (1994-1998)
David A. McKie* (58)	Vice President (1998)	• Managing Director, Caterpillar Belgium S.A. (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
F. Lynn McPheeters (60)	Vice President and Chief Financial Officer (1998)	• Treasurer (1996-1998)
Daniel M. Murphy (55)	Vice President (1996)	
Gerald Palmer (57)	Vice President (1992)	
James J. Parker (52)	Vice President (2001)	• General Manager, Truck Engine Division (1996-1998) • Director, Electric Power (1998-2001)
Edward J. Rapp (45)	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* (62)	Vice President (1992)	
Christiano V. Schena (53)	Vice President (2002)	• Managing Director, Caterpillar Brasil Ltda. (1996-2000) • Managing Director, Caterpillar France S.A. (2000) • General Manager, EAME Product Development Division (2000-2002) • Managing Director, Building Construction Products Europe (2002)
William F. Springer (51)	Vice President (2002)	• Manager, Hydraulic Excavator Product (1996-1998) • President, Caterpillar Logistics (1998-2002)
Gary A. Stroup (53)	Vice President (1992)	• President, Solar Turbines Incorporated (1998-present)
Gerard R. Vittecoq (54)	Vice President (2000)	• Treasurer, Caterpillar Overseas S.A. (1996-1998) • Managing Director, Caterpillar Belgium S.A. (1998-2000)
Sherril K. West (55)	Vice President (1995)	
Donald G. Western (54)	Vice President (1995)	
Steven H. Wunning (51)	Vice President (1998)	• President, Caterpillar Logistics (1994-1998)
Kenneth J. Zika* (55)	Controller (2001)	• Manager, Cost Management & Business Services (1997-1998) • Treasurer (1998-2001)
David B. Burritt (47)	Controller (2002)	• Director, Strategy & Planning, Caterpillar Overseas S.A. (1998-1999) • General Manager, Strategic & Business Services - Europe, Caterpillar Overseas S.A. (1999-2001) • Corporate 6 Sigma Champion (2001-2002)
Kevin E. Colgan (50)	Treasurer (2001)	• Vice President, Caterpillar Financial Services Corporation (1997-2001)

* Retired effective December 31, 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.

Plant Closings

Information regarding unusual charges relating to plant closings is incorporated by reference from Note 24 "Unusual charges" of the Notes to Consolidated Financial Statements on page A-27 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, 2002, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

Year	Expenditures		Acquisitions		Provisions for	Disposals and Other	Net Increase (Decrease)
	U.S.	Outside U.S.	U.S.	Outside U.S.	Depreciation	Adjustments	During Period
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
2002	$ 1,030	$ 743	$ 15	$ 0	$ (1,199)	$ (146)	$ 443

At December 31, 2002, the net book value of properties located outside the United States represented about 36% 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 "Depreciation and amortization" on page A-9 and Note 7 "Property, plant and equipment" on page A-14 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
- Dixon
- East Peoria
- Joliet
- Mapleton
- Mossville
- Peoria
- Pontiac
- Sterling
- Woodridge[1]

Indiana
- Lafayette

Kansas
- Wamego

Kentucky
- Danville

Michigan
- Menominee
- Mt. Clemens

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

Mississippi
- Oxford

Missouri
- Boonville
- West Plains

North Carolina
- Clayton
- Franklin
- 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
- Nottingham
- Peterborough
- Peterlee
- Saxham
- Shrewsbury
- Skinningrove
- Stafford
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock

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

England
- Shrewsbury

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 our 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 and 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 $100 million in damages arising from Navistar's alleged breach of contract. On January 22, 2003, Caterpillar filed its First Amended Complaint to add four new defendants -- Franklin Power Products, Inc., Newstream Enterprises, Sturman Industries, Inc., and Sturman Engine Systems, Inc. The Amended Complaint alleges that Franklin and Newstream failed to pay the contract price for shipments of unit injectors; Caterpillar seeks damages of approximately $2 million and $5 million from each defendant respectively. With respect to Sturman Industries, Inc. and Sturman Engine Systems, Inc., the Amended Complaint alleges that the two companies colluded with International to utilize technology that Sturman misappropriated from Caterpillar to help Navistar develop its G2 fuel system. The Amended Complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc. and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system. At December 31, 2002, the past due receivable from Navistar related to this case was $104 million.

On January 17, 2002, International Truck and 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 damages "in an amount to be determined at trial, but presently estimated to exceed $500 million" arising out of Caterpillar's alleged breach. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this complaint; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria described above. The company believes the claims are without merit and will vigorously contest them.

On May 7, 2002 International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar denies International's claims and will vigorously contest them. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

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-44 and from "Dividends declared per share of common stock" on page A-31 of the Appendix.

Non-U.S. Employee Stock Purchase Plans
We have twenty-six employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2002, those plans had approximately 9,442 participants in the aggregate. During the fourth quarter of 2002, a total of 30,816 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Particpants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar Inc. common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" on page A-31 of the Appendix.

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

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 22A "Basis for segment information" of the Notes to Consolidated Financial Statements on page A-22 of the Appendix, 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 VI "Segment Information" of the Notes to Consolidated Financial Statements on pages A-24 through A-26 of the Appendix (see "Reconciliation of *Machinery and Engine* Sales by Geographic Region to External Sales by Marketing Segment" in Item 7 of this Form 10-K). 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*, 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 (1 000 to 14 500 kilowatts).

Financial Products—financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division 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 Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries.

Machinery and Engines Sales **(Millions of dollars)**		**Total**		**North America**		**EAME ***		**Latin America ****		**Asia/ Pacific**
Fourth Quarter 2002										
Machinery	$	3,151	$	1,643	$	878	$	186	$	444
Engines ***		1,838		728		589		270		251
	$	4,989	$	2,371	$	1,467	$	456	$	695
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

* Europe, Africa & Middle East and Commonwealth of Independent States.
** Latin America includes Mexico.
*** Does not include internal engine transfers of $316 million and $296 million in fourth quarter 2002 and fourth quarter 2001, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

FOURTH QUARTER 2002 COMPARED WITH FOURTH QUARTER 2001

Fourth-quarter 2002 sales and revenues were $5.38 billion compared to $5.10 billion in 2001. The increase of more than 5 percent was due to a $180 million improvement in price realization, about half of which was due to the favorable impact of currency and higher sales volume. Price realization is defined as the net impact of price changes, sales variances and currency fluctuations on sales. Sales variances include items such as warranty, special retail and wholesale incentive programs and manufacturer and cash discounts. Profit for the fourth quarter 2002 was $305 million or 88 cents per share compared to $167 million or 48 cents per share in the fourth quarter 2001. Excluding the $97 million after-tax impact of unusual charges recorded in 2001 for sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions, earnings per share increased 16 percent. The $90 million favorable impact of improved price realization (excluding currency) plus the impact of lower SG&A and R&D expenses were partially offset by continuing manufacturing inefficiencies related to volume shifts at most U.S. engine manufacturing facilities.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable pretax impact on earnings of $22 million for the fourth quarter. This was partially offset by a $14 million pretax increase in pension and other postretirement benefit expense. The increase was a result of lower plan asset returns in recent years and assumed discount rates used in 2002 compared to 2001, partially offset by the favorable pretax impact of other postretirement benefit plan changes made in the second quarter. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were $3.15 billion, an increase of $352 million or 13 percent from fourth quarter 2001. Sales volume for the quarter increased 9 percent from a year ago, mainly due to year-over-year changes in dealer inventories. In the fourth quarter of 2001, dealers decreased machine inventories about 12 percent. In the fourth quarter of 2002, dealer inventories increased 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine sales were $1.84 billion, a decrease of $98 million or 5 percent from fourth quarter 2001. Sales volume for the quarter decreased 9 percent from a year ago. While on-highway truck and bus engine sales were flat, engine sales into the electric power, petroleum and marine sectors decreased about 10 percent due to reduced corporate profits and continued business investment uncertainties in these industries.

Operating Profit

(Millions of dollars)	Fourth Quarter 2002	Fourth Quarter 2001
Machinery	$ 351	$ 137
Engines	26	39
	$ 377	$ 176*

* Includes $153 million of unusual charges for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. The unusual charges were split $98 million and $55 million to machinery and engines, respectively.

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

Machinery operating profit increased $214 million from fourth quarter 2001. Excluding the $98 million impact of unusual charges, operating profit increased $116 million or 49 percent. Higher sales volume contributed about $60 million of the improvement, with the remainder due to improved price realization (excluding the impact of currency) and cost reduction.

Engine operating profit decreased $13 million from fourth quarter 2001. Excluding the $55 million impact of unusual charges, operating profit decreased $68 million or 72 percent. Lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and non-conformance penalties for on-highway truck and bus engines reduced operating profit by approximately $110 million. This was partially offset by improved price realization (excluding currency) and cost reduction.

Interest expense was $10 million higher than a year ago primarily due to increased long-term borrowings and less capitalized interest year-over-year.

Other income/expense was income of $43 million compared to income of $42 million last year.

FINANCIAL PRODUCTS

Financial Products revenues for the fourth quarter were $431 million, up $16 million or 4 percent compared with fourth quarter 2001. The favorable impact of approximately $60 million due to the continued portfolio growth of finance receivables and leases at Cat Financial was partially offset by the approximately $44 million unfavorable impact of generally lower interest rates on finance receivables.

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

(Millions of Dollars)	2002	2001	2000
North American Geographic Region	$ 9,480	$ 10,260	$ 10,492
Engine sales included in the Power Products segment	(2,962	(3,463)	(3,880)
Company owned dealer sales included in the All Other segment	(350)	(438)	(350)
North America Geographic Region sales which are included in the All Other segment	(339	(263)	(197)
Other*	(254)	(218)	(204)
North American Marketing external sales	$ 5,575	$ 5,878	$ 5,861
EAME Geographic Region	$ 5,178	$ 5,114	$ 5,041
Power Products sales not included in the EAME Marketing segment	(1,611	(1,750)	(1,817)
Other*	(739)	(517)	(456)
EAME Marketing external sales	$ 2,828	$ 2,847	$ 2,768
Latin America Geographic Region	$ 1,598	$ 1,639	$ 1,431
Power Products sales not included in the Latin America Marketing segment	(639	(280)	(247)
Other*	354	142	119
Latin America Marketing external sales	$ 1,313	$ 1,501	$ 1,303
Asia/Pacific Geographic Region	$ 2,392	$ 2,014	$ 1,949
Power Products sales not included in the Asia/Pacific Marketing segment	(524	(351)	(303)
Other*	(208)	(255)	(269)
Asia/Pacific Marketing external sales	$ 1,660	$ 1,408	$ 1,377

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

Machinery and Engine Sales by Geographic Region

(Millions of dollars)	Total	North America	EAME *	Latin America **	Asia/ Pacific
2002					
Machinery	$ 11,975	$ 6,517	$ 3,156	$ 818	$ 1,484
Engines***	6,673	2,963	2,022	780	908
	$ 18,648	$ 9,480	$ 5,178	$ 1,598	$ 2,392
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

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

** Latin America includes Mexico

*** Does not include internal engine transfers of $1,286 million, $1,231 million and $1,356 million in 2002, 2001 and 2000, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

Before-tax profit for *Financial Products* was $68 million, down $14 million or 17 percent from fourth quarter 2001, primarily due to lower gains on the securitization of receivables of $9 million before tax at Cat Financial and lower income (mostly investment income) of $9 million before tax at Cat Insurance.

INCOME TAXES

Fourth-quarter tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits increased $6 million from fourth quarter a year ago, primarily due to improved profitability of Shin Caterpillar Mitsubishi Ltd.

2002 COMPARED WITH 2001

For the full year, the company achieved sales and revenues of $20.15 billion compared to $20.45 billion in 2001. This decline of about 1 percent was due to lower sales volume of about $680 million, partially offset by improved price realization of approximately $300 million. About half of the price realization improvement was due to the favorable impact of the weaker U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit for the full year was $798 million or $2.30 per share, compared to $805 million or $2.32 per share, down less than 1 percent from 2001. Excluding the $97 million after-tax impact of the unusual charges recorded in the fourth quarter of 2001, profit declined 12 percent. The combined effect of favorable price realization and net favorable currency of approximately $250 million was more than offset by lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable before-tax impact on 2002 earnings of $85 million. This was more than offset by a $93 million before-tax increase in pension and other postretirement benefit expense. This increase was a result of lower plan asset returns in recent years, partially offset by the favorable before-tax impact of other postretirement benefit plan changes made in the second quarter of 2002. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were $11.98 billion, a decrease of $183 million or 2 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Higher sales in Asia/Pacific were due to higher retail demand. Sales in North America, EAME and Latin America declined due to lower retail demand. Sales were also affected by changes in dealer inventories. In 2001, dealers decreased machine inventories about 7 percent. In 2002, dealer inventories increased by about 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine sales were $6.67 billion, a decrease of $196 million or 3 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Caterpillar truck engine sales rose 36 percent due to a surge in demand from North American truck OEMs for heavy-duty truck engines prior to the October 2002 emissions deadline and improved truck fleet operating profits. Sales into the petroleum sector increased 4 percent as higher sales of turbine engines more than offset a decline in sales of reciprocating engines. These increases were more than offset by 30 percent lower sales to the electric power sector, where financial uncertainties and depressed operating profits within the electric utility, technology and telecommunications industries impacted demand.

Operating Profit

(Millions of dollars)	2002	2001	2000
Machinery	$ 932	$ 849	$ 1,001
Engines	175	348	667
	$ 1,107	$ 1,197*	$ 1,668

* Includes $153 million of unusual charges for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. The unusual charges were split $98 million and $55 million to machinery and engines, respectively.

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

Machinery operating profit increased $83 million, or 10 percent from 2001. Excluding the $98 million impact of unusual charges, operating profit decreased $15 million or 2 percent. The favorable profit impact of price realization, net impact of currency and lower SG&A expenses were more than offset by the profit impact of lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 machinery operating profit of approximately $10 million. This was more than offset by a $62 million before-tax increase in pension and other postretirement benefit expense.

Engine operating profit decreased $173 million, or 50 percent from 2001. Excluding the $55 million impact of unusual charges, operating profit decreased $228 million or 57 percent. Increased turbine and on-highway truck and bus engine volumes and improved price realization improved operating profit by approximately $140 million. These favorable items were more than offset by the profit impact of lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and nonconformance penalties for on-highway truck and bus engines.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 engine operating profit of approximately $75 million. This was partially offset by a $31 million before-tax increase in pension and other postretirement benefit expense.

Interest expense was $6 million lower in 2002 compared to 2001 primarily due to lower interest rates on short-term borrowings.

Other income/expense improved by $87 million year-over-year primarily due to the absence of foreign currency losses and lower expenses related to the sales of receivables to Cat Financial.

Supplemental Information

(Millions of dollars)	2002	2001	2000
Identifiable Assets:			
Machinery	$ 10,793	$ 10,121	$ 9,602
Engines	7,300	7,154	6,952
Total	$ 18,093	$ 17,275	$ 16,554
Capital Expenditures:			
Machinery	$ 393	$ 616	$ 573
Engines	305	493	327
Total	$ 698	$ 1,109	$ 900
Depreciation and Amortization:			
Machinery	$ 437	$ 424	$ 419
Engines	348	411	394
Total	$ 785	$ 835	$ 813

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

FINANCIAL PRODUCTS

Financial Products revenues for 2002 were $1.68 billion, up $33 million or 2 percent compared with 2001. A favorable impact of approximately $205 million due to a $2.1 billion increase in the portfolio at Cat Financial and an increase in third party insurance premiums and fees earned of approximately $21 million at Cat Insurance was mostly offset by the impact of generally lower interest rates on finance receivables at Cat Financial.

Before-tax profit was $287 million, down $58 million or 17 percent from 2001. A $41 million before-tax charge of "other than temporary" declines in the market value of securities in the investment portfolio at Cat Insurance resulted from poor overall market performance. Also, there was less securitization-related income of approximately $28 million before tax and higher operating expenses of $17 million before tax at Cat Financial. These items were partially offset by higher rental income, net of depreciation, of $30 million before tax at Cat Financial and higher underwriting income of $7 million before tax at Cat Insurance.

INCOME TAXES

Tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits decreased $7 million from a year ago, primarily due to losses at Shin Caterpillar Mitsubishi Ltd. resulting from depressed construction equipment demand in Japan.

UPDATE—2001 UNUSUAL CHARGES

In 2001, we recorded unusual charges of $153 million ($97 million after tax). These charges were for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions.

During 2002, we reduced the Challenger exit cost reserve by $38 million, primarily for cash outlays for research and development expenses and manufacturing equipment in accordance with the contract with AGCO. We reduced the Shrewsbury redundancy reserve by $6 million for separation benefits for 225 employees. As planned, the U.S. employment reduction was achieved entirely through voluntary retirements. As a result, the reserve of $34 million was reclassified to our pension accounts upon completion of the retirement program.

Future cash outlays for contractual commitments for the Challenger line of approximately $2 million per year will continue through 2008. Most of the diesel engine production at our Shrewsbury, England plant ceased in 2002; however, it has taken longer than anticipated to finalize the design of one replacement engine. As a result, some diesel engine production at Shrewsbury will continue through 2003. The reserve will be reduced as redundancy and exit costs are incurred through 2003.

Unusual Charges

(Millions of dollars)	2001 Charge	Asset Impairments	2002 Activity*	12/31/02 Balance
Challenger:				
Asset impairments	$ 32	$ (32)	$ -	$ -
Exit costs	49	-	(38)	11
	81	(32)	(38)	11
Shrewsbury:				
Asset impairments	16	(16)	-	-
Redundancy	10	-	(6)	4
Exit costs	4	-	(2)	2
	30	(16)	(8)	6
U.S. employment reduction	34	-	(34)	-
Other asset impairments	8	(8)	-	-
Total	$ 153	$ (56)	$ (80)	$ 17

* All amounts were paid in cash except for the U.S. employment reduction of $34 million, which was reclassified to our pension accounts.

SUPPLEMENTAL INFORMATION

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

Worldwide dealer sales (including both sales to end users and deliveries to dealer rental operations) declined 8 percent from 2001. The capital spending environment remained weak in the industrial countries of North America and Europe, the result of slow economic growth, a delayed recovery in corporate profitability, the crisis in corporate governance and uncertainty associated with rising geopolitical tensions in the second half of the year. Dealer sales were also impacted by reduced cash flow in the metal and coal mining industries, which depressed worldwide equipment sales to these industries.

Dealer sales (including both sales to end users and deliveries to dealer rental operations) in North America declined 10 percent from 2001, the same as industry demand. Caterpillar's share of industry sales remained at year earlier levels. Dealer sales declined in both the United States, down 11 percent, and Canada, down 5 percent. For the region, sales increased 2 percent in the heavy construction sector due to higher sales to the U.S. military, spurred by increased defense spending, and for airport construction. In addition, sales to highway construction remained strong, as public infrastructure construction remained at high levels. Sales to the quarry and aggregates sector were up 10 percent, due primarily to an increase in Caterpillar’s share of industry sales. Sales growth in these two sectors was more than offset by a 37 percent reduction in sales to mining, especially coal. Sales to the general construction sector declined 9 percent due to reductions in dealer rental deliveries as well as reduced purchases by residential and non-residential builders.

Dealer sales in EAME declined 9 percent due to 14 percent lower sales in Europe. General business conditions in Europe were weak due to slow economic growth. Sales increased in the Commonwealth of Independent States, up 7 percent, and Africa & Middle East, up 1 percent. For the region, sales to the heavy construction sector increased about 5 percent due to new product shipments, major pipeline projects in Russia and infrastructure projects in the Middle East. Sales to quarry and aggregate producers were up 6 percent as well. These increases were more than offset by 21 percent lower sales to the general construction sector. Sales were also lower to industrial, down 22 percent; and mining, down 13 percent.

In Asia/Pacific, dealer sales increased 7 percent, led by a strong 45 percent gain in China, as economic growth was good and public infrastructure spending increased. For the region, sales were 28 percent higher in the heavy construction sector and industrial sector sales grew 43 percent. Sales also increased to the general construction sector, up 7 percent; and the quarry and aggregates sector, up 14 percent. These gains more than offset 13 percent lower sales to the mining sector, resulting from sharp cutbacks in purchases by coal mining companies.

Dealer sales in Latin America declined 5 percent. Sales in Mexico increased 20 percent due to an expansion in overall construction activity, and sales in Brazil increased 14 percent due to good economic growth in the first half of the year. However, these increases were more than offset by declines in Argentina, down 88 percent, Peru, down 34 percent and Chile, down 19 percent. Sales declined sharply in Argentina due to political uncertainty while sales in Peru and Chile declined due to reduced cash flow in the metal mining industry. For the region, sales were up 8 percent in the heavy construction sector, mostly due to major pipeline projects. This gain was more than offset by 25 percent lower sales to the mining sector, especially metals, as well as a 6 percent decline in sales to the general construction sector.

Dealer Inventories of New Machines

Worldwide dealer new machine inventories at year-end 2002 were about 3 percent higher than 2001 levels. Inventories increased in North America, up 6 percent; Asia/Pacific, up 9 percent; and EAME, up 4 percent. Dealer inventory declined 20 percent in Latin America. Despite the overall increase in dealer inventories, inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine Sales to End Users and OEMs

Worldwide engine sales to dealer customers and OEMs were up 1 percent in 2002. Sales to the on-highway truck and bus sector rose 38 percent and sales to the petroleum sector rose 5 percent, more than offsetting 21 percent lower sales to the electric power sector and 6 percent lower sales to the marine sector. Similar to the market fundamentals discussed above for construction machinery, global engine sales were impacted by the weak capital spending environment in industrialized countries and depressed operating profits and heightened investor uncertainties concerning new electric utility and energy investments.

In North America, Caterpillar sales of on-highway truck and bus engines rose 38 percent but were more than offset by lower sales in electric power, down 36 percent; petroleum, down 32 percent; and marine, down 42 percent. North American sales were impacted by sluggish economic growth, weak corporate profits, continuing economic uncertainties and delayed new investments. Caterpillar widened its leadership position in the North American on-highway truck and bus industry; Caterpillar's share of industry demand rose significantly for both heavy-duty and midrange truck engines. The heavy-duty truck industry and Caterpillar heavy-duty truck engine demand were substantially higher than we originally expected for 2002. We estimate about 40,000 extra heavy-duty trucks were built in 2002 to accommodate an artificial surge in customer demand for trucks with engines built before the October 2002 emissions deadline. This artificial demand added an estimated $200 million to Caterpillar's 2002 truck engine sales, representing about 50 percent of the total year-over-year sales increase to the on-highway truck and bus sector.

In EAME, overall sales declined 3 percent, with a 30 percent increase in demand for larger reciprocating and turbine engines used in the petroleum sector more than offset by 16 and 14 percent lower sales into the electric power and marine sectors, respectively. Electric power and marine engine sales were impacted by weakening economic trends in Western Europe and increased business uncertainty which delayed new business investment decisions.

Sales in Asia/Pacific rose 20 percent with sales gains in all sectors except electric power where sales declined 17 percent. Sales of large reciprocating and turbine engines used in the petroleum sector surged 62 percent, as developing countries in Asia/Pacific and Latin America increased oil and gas exploration and development to raise local energy production and offset higher costs of imported fuels. Sales in Latin America increased 60 percent with sales gains in all sectors and pronounced strength in large reciprocating and turbine engine sales into the petroleum and marine sectors, which rose 48 and 242 percent, respectively.

2001 COMPARED WITH 2000

Sales and revenues for 2001 were $20.45 billion, 1 percent more than 2000. The increase was due to higher sales volume of about $390 million and increased *Financial Products* revenues of approximately $160 million, which were partially offset by approximately $275 million of lower price realization. More than 90 percent of the price realization detriment was due to the unfavorable impact of the stronger U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit of $805 million, including unusual 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 unusual charges, profit was $902 million, down $151 million or 14 percent. The combined effect of higher sales volume and a net favorable currency impact of approximately $225 million was more than offset by cost inefficiencies resulting from sharp volume shifts at some manufacturing facilities and higher SG&A expenses related to spending for future growth and improving long-term cost structure. The net favorable currency impact occurred as 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 sales volume. Sales were higher in all regions except Latin America, which was about flat. In North America, sales increases due to higher share of industry sales and a slower rate of dealer inventory reduction more than offset reduced industry demand. In EAME and Asia/Pacific, improved retail demand more than offset the impact of reductions in dealer inventory. Sales in Latin America remained near 2000 levels as higher retail demand offset reductions in dealer inventory.

Engine sales were $6.87 billion, a decrease of $187 million or 3 percent from 2000 even though sales 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 in other currencies caused the sales decline. Higher sales in the electric power, petroleum and marine sectors were offset by a substantial drop in truck engine sales.

Machinery operating profit decreased $152 million from 2000. The favorable impact of higher sales volume and the net favorable impact of currency were more than offset by higher costs, including unusual charges of $98 million, employment-related cost increases and higher energy costs.

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

Interest expense was $7 million lower than a year ago as lower effective borrowing rates more than offset the impact of higher borrowings.

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

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 a $1.1 billion increase in the portfolio at Cat Financial.

Before-tax profit increased $67 million or 24 percent from 2000. Record profit at Cat Financial resulted from an approximate one-percentage point increase in the spread on the receivables portfolio and increased gains of $31 million on sales of receivables.

The wider interest rate spread on the portfolio was principally a result of 2001's interest rate environment, where the continuing rapid decrease in rates allowed Cat Financial's debt rates to decrease more rapidly than the portfolio rates because we are not 100% "match funded." As rates stabilize or increase our interest rate spread is expected to narrow accordingly.

The increase in gains on sales of receivables at Cat Financial was due to North American dealer trade receivables purchased from Caterpillar Inc. that were paid earlier than estimated at their purchase date. Cat Financial purchases trade receivables each week at discounts that are expected to yield a market rate of interest over their term. Because the discounts are based on estimates as to when the receivables will be paid, the actual yield on the receivables can be higher or lower than the rates used to determine the discounts. In 2001 the yield was higher because the receivables paid substantially earlier than estimated. However, similar results are not expected in future periods.

INCOME TAXES

Excluding the tax effect of the unusual 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.

2001 UNUSUAL CHARGES

In December 2001, we 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. By selling the Challenger we will avoid the substantial new investment in distribution that would be required to make this product profitable. The sale will also provide our distribution network the expanded line of agricultural products it needs to be successful. A total charge of $81 million was recognized for the Challenger sale. These charges reflect the provisions of the agreement with AGCO and are comprised of the following:

- $32 million for write-downs of land, buildings and equipment at our DeKalb, Illinois, facility to fair market value based on the negotiated contract price with AGCO.
- $49 million for exit costs. The contract with AGCO requires that we complete the design of the new Challenger tractor, ensure a successful market launch and pay for the remaining capital assets required for the production of the tractor. These amounts reflect our estimate of costs to fulfill our contract obligations and will be incurred in 2002. Also included in exit costs are contractual obligations that will remain after the sale to AGCO but will provide no benefit to Caterpillar. These obligations range from one to seven years.

In December 2001, we 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. Upon closure of the plant, we expect an annual benefit to cost of goods sold of approximately $16 million. This represents lower overhead and other fixed manufacturing expenses as the production moves to other existing Caterpillar locations. A total charge of $30 million was recognized for the closing and comprised the following:

- $16 million for write-downs of land, buildings and equipment to fair market value as determined by third-party appraisers.
- $10 million of separation costs for termination of 495 employees at the Shrewsbury plant. These benefits were communicated to impacted employees in December.
- Exit costs of $4 million associated with closing the facility.

In December 2001, we announced plans to reduce U.S. salaried and management employment by 433 people at selected business units during the first half of 2002. These reductions are being made to reduce costs and improve efficiencies in support of our long-term growth and profitability goals. We expect this reduction to be achieved through voluntary early retirements but if the reduction goal is not met, we will use involuntary separations. The charge of $34 million for this program reflects the cost of retirement incentives. We expect lower annual labor costs of approximately $35 million after completion of the employment reduction.

Other unusual charges of $8 million were for write-downs of two manufacturing buildings, one at our Decatur, Illinois, facility and one at our Kiel, Germany, facility.

LIQUIDITY & CAPITAL RESOURCES

Sources of funds

The company generates its capital resources primarily through operations. Consolidated operating cash flow was $2.37 billion for 2002, compared with $1.99 billion for 2001. The increase is primarily the result of concerted efforts to reduce inventory and other working capital in response to the current economic environment. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our "Outlook" in Item 7 of this Form 10-K.

Total debt as of December 31, 2002 was $17.7 billion, an increase of $1.08 billion from year-end 2001. Debt related to *Machinery and Engines* decreased $59 million, due to improved operating cash flow and lower capital expenditures. Debt related to *Financial Products* increased $1.14 billion due to portfolio growth at Cat Financial. We have a global credit facility of $4.55 billion available to both *Machinery and Engines* and Cat Financial to support commercial paper programs. Cat Financial may use up to 90 percent 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 percent 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 portion of the facility available to Cat Financial at December 31, 2002, was $3.95 billion. The facility is comprised of two components, $2,425 million expiring in September 2003 and $2,125 million expiring in September 2006. The facility expiring in September 2003 has a provision which allows Caterpillar to obtain a one-year loan in September 2003 that matures in September 2004. Our total credit commitments as of December 31, 2002 were:

(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$ 4,550	$ 4,550	$ 3,950
Other external	1,353	542	811
Intercompany	-	500	826
Total credit lines available	5,903	5,592	5,587
Utilized credit	238	64	174
Unused credit	$ 5,665	$ 5,528	$ 5,413

We also generate funding through the securitization of receivables. In 2002, we generated $1,696 million and $641 million of capital resources from the securitization of trade and finance receivables, respectively. As of December 31, 2002, we had trade and finance receivables of $2,904 million and $13,462 million, respectively.

We do not generate material funding through structured finance transactions.

Committed funds

The company has committed cash outflow related to long-term debt, operating lease agreements, unconditional purchase obligations and other contractual obligations. Minimum payments for these long-term obligations are:

(Millions of dollars)	2003	2004	2005	2006	2007	After 2007	Total
Long-Term Debt	$ 3,912	$ 2,781	$ 1,492	$ 1,212	$ 1,022	$ 5,089	$ 15,508
Operating Leases	185	154	102	72	53	300	866
Other Long-Term Obligations	64	66	56	53	52	115	406
Unconditional Purchase Obligations	62	64	64	52	24	103	369
Total Contractual Obligations	$ 4,223	$ 3,065	$ 1,714	$ 1,389	$ 1,151	$ 5,607	$ 17,149

We did not have contingent liabilities with more than a remote chance of occurrence at December 31, 2002.

Machinery and Engines

Operating cash flow was $1.70 billion for 2002, compared with $1.51 billion for 2001. The improvement came mainly from focused efforts to reduce inventory and working capital requirements during 2002. Capital expenditures, excluding equipment leased to others, during 2002 were $693 million, a decrease of $378 million from 2001 due to tight controls on spending. On April 23, 2002, $250 million of 40-year debt, priced at 6.95 percent, was sold. The proceeds from the offering were used for general corporate purposes.

Financial Products

Operating cash flow was $649 million for 2002, compared with $590 million for 2001. The increase was primarily due to improved cash from profit before depreciation and amortization for 2002. Cash used to purchase equipment leased to others was $1.04 billion during 2002 compared to $830 million for 2001. In addition, net cash used for finance receivables was $1.16 billion for 2002, compared to $.8 billion for 2001. At December 31, 2002, finance receivables past due over 30 days were 3.5 percent, compared with 3.9 percent at the end of 2001.

Financial Products debt was $13.96 billion at December 31, 2002, an increase of $1.14 billion from December 31, 2001, and primarily comprised $9.95 billion of medium-term notes, $174 million of short-term notes payable to banks, $32 million of long-term notes payable to banks, $38 million of loans from a company-owned partnership, $255 million of money market funds and $3.50 billion of commercial paper. During the second quarter of 2001, $500 million of five-year debt, priced at 5.95 percent, 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 7.8:1 at December 31, 2002, compared with 7.7:1 at December 31, 2001.

Dividends paid per common share

Quarter	2002	2001	2000
First	$ .350	$ .340	$ .325
Second	.350	.340	.325
Third	.350	.350	.340
Fourth	.350	.350	.340
	$ 1.400	$ 1.380	$ 1.330

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, fair market values for goodwill impairment tests, impairment of available for sale securities, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and certain unusual charges. We use the following methods and assumptions in determining our estimates:

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.

Fair market values for goodwill impairment tests—Determined for each reporting unit by discounting projected cash flow for the upcoming five years and adding a year-five residual value based upon a market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple.

Impairment of available-for-sale securities—Securities are reviewed monthly to identify market values below cost of 20 percent or more. If a decline for a debt security is in excess of 20 percent for 6 months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to SFAS 115. After the 6-month period, debt securities with declines from cost in excess of 20 percent are evaluated monthly for impairment. For equity securities, if a decline from cost of 20 percent or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

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 and insurance loss 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 11 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.

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.

Unusual charge reserve—Determined in accordance with the appropriate accounting guidance depending on the facts and circumstances surrounding the situation. 2001 unusual charges discussed in Note 24 on Page A-27 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 December 31, 2002, Caterpillar's worldwide employment was 68,990 compared with 72,004 one year ago. The company reduced employment by 3,457 or about 5 percent during 2002 before the impact of acquisitions, which added 443 people.

Full-Time Employees at Year End	2002	2001	2000
Inside U.S.	36,463	38,664	37,660
Outside U.S.	32,527	33,340	30,780
Total	68,990	72,004	68,440
By Region:			
North America	36,667	38,879	37,870
EAME	21,302	22,246	21,880
Latin America	7,143	7,012	6,186
Asia/Pacific	3,878	3,867	2,504
Total	68,990	72,004	68,440

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 in all our operations. 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 of the Consolidated Financial Statements on page A-6 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 cleanup. Currently, we have five sites in the very early stages of cleanup, 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 with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003. Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards – in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.
- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.
- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.
- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.
- If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was $40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax or about 5 cents per share) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). We recorded the $40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited $41.4 million (the recorded $40 million based on our estimates plus an additional $1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included $17 million for medium heavy-duty engine models and $24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released $8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining $9 million from the medium heavy-duty engine escrow account and paid an additional $900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

The following table reflects the 2002 impact of the emission standard changes:

2002 (millions of dollars)		
Price (Engines Sold x Price Increase)	$	20
Incremental Costs (Cost of Additional Materials)		(4)
NCPs (Engines Sold x Projected NCP per Engine)		(40)
Net Effect Pre-Tax	$	(24)
Tax		7
Net Effect After Tax	$	(17)

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $21 million, of which $10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately $93 million pre-tax), product cost increases and ramp-up production costs (approximately $76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately $153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be $5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately $93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

	2003 (millions of dollars)	
Price (Bridge or ACERT Price Increase x Projected Engine Sales)	$	153
Incremental Costs (Cost of Additional Materials)		(76)
NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits)	$	(93)
Net Effect Pre-Tax		(16)
Tax		4
Net Effect After Tax	$	(12)

As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the $3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

On August 30, 2002, a World Trade Organization (WTO) arbitration panel determined that the European Union (EU) may impose up to $4.04 billion per year in retaliatory tariffs if the U.S. tax code is not brought into compliance with an August 2001 WTO decision that found the extraterritorial tax (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. Since August 2002, the EU has been developing a proposed list of U.S. origin products on which the EU could impose tariffs as high as 100 percent of the value of the product. Negotiations among EU Member States, the European Commission, and the private sector over which products are listed have been intense. That list has not yet been finalized, the EU has not announced that they will impose a retaliatory tariff, and it is unclear the extent to which the Company's products will be subject to a retaliatory tariff but based on what we know today, we do not believe it will materially impact our financial results. Assuming the EU implemented a retaliatory tariff and certain company products were subject to 100 percent tariffs, the company's competitive position in the European market would not be significantly affected. The company has production facilities in the EU, Russia, Asia, and South America that would not be affected by a retaliatory tariff aimed at U.S. origin products. If the EU implemented its proposed retaliatory tariff, increased pressure would be placed on Congress to repeal ETI, possibly during the 108th Congress. Based on current information related to this matter, it is not possible to predict how the U.S. legislative process will affect the company's 2003 tax liability, but based on what we know today, we do not believe the impact, if any, will be material in 2003.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck and 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 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was $104 million. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

POSTRETIREMENT BENEFITS

In 2002 we recognized a net pension benefit of $73 million compared with a benefit of $163 million in 2001. The decrease was primarily a result of continued poor performance of the equity markets and lower than expected long-term returns on pension plan assets. SFAS 87, "Employers' Accounting for Pensions" requires companies to use an expected long-term rate of return for computing current year pension expense. Differences between the actual and expected returns are amortized into future earnings as actuarial gains and losses. At the end of 2002, unrecognized actuarial losses of $2.56 billion primarily reflect lower than expected returns on our pension plan assets.

Other postretirement benefit expense was $240 million in 2002, up $3 million from 2001. An increase resulting from several unfavorable items including inflation on health care costs and lower actual return on plan assets was almost entirely offset by changes to our U.S. benefit plans implemented during second quarter 2002. These changes include an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance. In total, these changes lowered our existing benefit obligation by approximately $475 million, which will be amortized into earnings over seven years (the average remaining service period of employees affected by the plan changes). In addition to this amortization, our ongoing annual expense will decrease approximately $45 million from the plan changes. A benefit of $75 million reflecting the partial year impact of the plan changes (representing both the amortization and ongoing impact of the changes) was recognized in 2002. Unrecognized actuarial losses for other postretirement plans were $976 million at the end of 2002. These losses reflect lower than expected plan asset returns, higher than expected benefit costs, a decrease in the assumed discount rate and an increase in expected health care inflation. These losses will be amortized into future earnings in accordance with SFAS 106, "Employer's Accounting for Postretirement Benefits Other than Pensions."

The unrecognized actuarial losses will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes and other factors that impact pension and other postretirement benefit expenses.

SFAS 87 requires the recognition of an Additional Minimum Liability if the market value of plan assets is less than the accumulated benefit obligation at the end of the plan year. Based on these values, the company increased the Additional Minimum Liability by $892 million in the fourth quarter of 2002. This resulted in a decrease in Accumulated Other Comprehensive Income (a component of Shareholder's Equity on the Statement of Financial Position) of $610 million after tax. During 2002, the company made cash contributions of $135 million to its U.S. defined benefit pension plans, which make up about 85 percent of the company's total pension liability. The company continues to have adequate liquidity resources to fund plans, as it deems necessary. Future changes to the Additional Minimum Liability will be dependent on several factors including actual returns on our pension plan assets, company contributions, benefit plan changes and our assumed discount rate.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effect of a one-percentage point change in our primary actuarial assumptions on 2002 benefit costs and year-end obligations is included in the table below.

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions on 2002 pension and other postretirement benefits costs and obligations:

	2002 Benefit Cost		**Year-end Benefit Obligation**	
(Millions of dollars)	One percentage-point increase	One percentage-point decrease	One percentage-point increase	One percentage-point decrease
Pension benefits:				
Assumed discount rate	$ (33)	$ 26	$ (991)	$ 1,146
Expected rate of compensation increase	29	(25)	222	(202)
Expected long-term rate of return on plan assets	(93)	93	-	-
Other postretirement benefits:				
Assumed discount rate	(17)	28	(434)	485
Expected rate of compensation increase	2	(2)	12	(12)
Expected long-term rate of return on plan assets	(12)	12	-	-
Assumed health care cost trend rate	49	(31)	272	(230)

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, November 30. A similar process is used to determine the assumed discount rate for our non-U.S. pension plans. The discount rates used to calculate 2002 benefit plan expense were 7.3 percent for U.S. plans and 5.8 percent for non-U.S. plans. The discount rates for 2003 will be 7.0 percent for U.S. plans and 5.4 percent for non-U.S. plans.

The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. The 2002 rate was 4.0 percent for U.S. benefit plans and 3.2 percent for non-U.S. pension plans.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we add 1 percent to the passive returns due to our active management. A similar process is used to determine this rate for our non-U.S. pension plans. The expected long-term rates of return used to calculate 2002 benefit plan expense were 9.8 percent for U.S. plans and 7.6 percent for non-U.S. plans. The expected long-term rates of return for 2003 will be 9.0 percent for U.S. plans and 7.1 percent for non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate 2002 benefit expense, we assumed an increase of 10.6 percent for 2002. This rate was assumed to decrease gradually to the ultimate health care trend rate of 4.5 percent in 2009. This rate represents 2.5 percent general inflation plus 2.0 percent additional health care inflation. Based on our recent expenses and our forecast of changes, we expect an increase of 9.0 percent during 2003 with no change to the ultimate trend rate.

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 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2003 cash flow for our *Machinery and Engines* operations by $39 million. Last year, similar assumptions and calculations yielded a potential $62 million adverse impact on 2002 cash flow. We determine our net exposures by calculating the difference in cash inflows and outflows by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

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 percent 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 percent 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 would probably 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 have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt. However, we currently do not have any interest rate swaps. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2003 pretax earnings of *Machinery and Engines* by $2 million. Last year, similar assumptions and calculations yielded a potential $3 million adverse impact on 2002 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt.

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 2003 pretax earnings of *Financial Products* by $15 million. Last year, similar assumptions and calculations yielded a potential $15 million adverse impact on 2002 pretax earnings. To estimate the impact of interest rate sensitivity on our income, we compute the difference in baseline and sensitized interest expense over the next 12 months. We determine the baseline interest expense by applying a market interest rate to the unmatched portion of our debt portfolio. The unmatched portion of our portfolio is an estimate of fixed-rate assets funded by floating rate liabilities. We incorporate the effects of interest rate swap agreements in the estimate of our unmatched portfolio. We determine the sensitized interest expense by adding 100 basis points to the market interest rate applied to baseline interest expense and apply this rate to the unmatched portfolio. Our analysis assumes no new fixed-rate assets were extended and no further action was taken to alter our current interest rate sensitivity.

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

Economic and Industry Summary

Worldwide economic and geopolitical uncertainties remained at relatively elevated levels in the early weeks of 2003. We expect this will dampen the economic recovery in the first half of 2003, but growth is expected to accelerate in the second half, leading to worldwide growth of about 3 percent for the year as a whole. In this environment, industry opportunity is expected to be about the same as 2002. Our outlook is based on and subject to the following economic and business condition assumptions: (1) the geopolitical tensions in the Middle East remain high, but do not degenerate into a major lengthy armed conflict, (2) the benefits from lower European interest rates offset fiscal tightening in several major European countries, (3) the U.S. Congress approves in early 2003 about $30 billion in current fiscal year transportation funding and additional fiscal stimulus measures are passed by the end of the second quarter and (4) investor confidence improves as corporate earnings grow and trust is restored in the reliability of corporate reporting and oversight.

North America

Geopolitical and federal policy uncertainties in early 2003 are expected to dampen the strength of the first-half economic recovery. We assume these uncertainties will diminish and become less of a drag on growth in the second half of 2003. For the year as a whole, we expect economic growth of about 3 percent, supported by low interest rates and fiscal stimulus policies. The U.S. Congress is expected to pass a large fiscal stimulus package in the first half of 2003. The package, combined with the positive impact of previously enacted federal stimulus measures, is expected to more than offset state budget cutbacks, with most of the positive impact in the second half of the year. In addition, improved corporate earnings and cash flows, more accommodating credit conditions and a return to more normal commercial insurance coverage are also expected to provide support for stronger business capital spending in the second half of 2003. Construction activity is expected to be about flat, while industrial and mining activity is expected to be up about 3 percent. Industry sales of construction, industrial and mining machinery are expected to be about flat. Industry demand for reciprocating and turbine engines is expected to be down about 5 percent.

EAME

In EAME, we expect economic growth in Europe of about 2 percent, and about 5 percent growth in the CIS, Africa and the Middle East. While a recovery in Europe is expected, it will be restrained by a stronger euro and ongoing fiscal restraint in several major industrial countries. In Africa and the Middle East, oil exporters and precious metal producers are expected to benefit from good price levels, whereas most other commodity prices are expected to remain weak. We expect the CIS to grow at a solid rate, driven mainly by continued strong expansion of the oil and gas industry. Machine industry sales in EAME are expected to be about flat, while engine industry sales are also expected to be about flat.

Latin America
Market conditions in Latin America are expected to be mixed. We expect overall economic growth rates in Mexico and Argentina to improve, leading to higher industry sales. Industry sales in Peru are expected to be about flat. Relatively slow growth in Brazil and Chile and continued political instability in Venezuela are expected to lead to lower industry machine sales in these markets. For Latin America in total, machine and engine industry sales are expected to be down about 10 percent.

Asia/Pacific
We expect good overall economic growth in the Asia/Pacific region (excluding Japan) based on moderate growth in Australia and continued good growth in the developing economies, particularly southeast Asia, China and India. In Japan, economic and business conditions are expected to continue to be difficult, and machine industry sales are projected to be about flat at cyclically depressed levels. Industry machine sales in the Asia/Pacific region are expected to be up about 10 percent, while engine and turbine industry sales are projected to be down about 5 percent.

Company Summary
Company sales and revenues are expected to be about the same as 2002. Company sales in EAME are projected to be up about 4 percent, while company sales into Asia/Pacific are expected to be up about 2 percent. In North America, company sales are expected to be down about 3 percent, while company sales in Latin America are expected to be down about 10 percent.

Financial Products revenues are expected to increase approximately 10 percent, primarily driven by Cat Financial's record portfolio additions in 2002.

We anticipate improved operational results will offset most of the $300 million or approximately 60 cents per share of higher retiree pension, health care and related benefit costs. Therefore, despite flat sales and revenues and these increased costs, profit should be down only about 5 percent compared to 2002.

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 moderate growth in the U.S. economy in 2003. Our outlook assumes that the events of September 11, 2001 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 shocks or sequence of shocks, financial, economic or acts of war and/or political terror, there could be a more protracted negative impact on consumer spending, housing starts, and capital spending which would negatively impact company results.

U.S. GDP growth is expected to continue at moderate rates in 2003. Should recent interest rate reductions and fiscal stimulus measures fail to boost growth in the U.S. economy as expected, leading to renewed economic weakness, then sales of machines and engines may be lower than expected. The outlook also projects that economic growth will continue in Asia/Pacific, Africa & Middle East and the CIS. Growth is expected to improve in Europe, Japan and Latin America. If, for any reason, these projected growth rates or improvements do not occur, sales would likely be lower than anticipated in the affected region. Persistent weakness in the construction sector in Japan is leading to lower machine sales in the Japanese market. 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 maintain economic stimulus policies and that the Japanese government remains committed to stimulating their economic recovery with appropriate monetary and fiscal policies. The outlook also assumes that the Brazilian government follows through with promised fiscal and structural reforms; and that the Venezuela crisis is confined to Venezuela and does not spill over to negatively impact growth prospects in neighboring countries. If political instability continues to deteriorate leading to negative spillover effects, this could result in greater regional economic and financial uncertainty and weaker regional growth.

Our outlook for 2003 also assumes that currency markets remain relatively stable, that average world oil prices fluctuate in a range of $22 to $29 a barrel, and equity markets recover. If commodity and/or currency markets experience a significant increase in volatility, and/or stock markets show further weakness, uncertainty would increase, both of which would result in slower economic growth, lower sales and potential impairment of investments. In addition, an eruption of political violence in the Middle East or a lengthy armed conflict with Iraq could lead to oil supply disruptions and persistent upward pressure on oil prices. In this case business and consumer confidence would fall and inflation pressures would move up 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. Industrial metal prices recovered in 2002, and further gains are projected in 2003. But production rates are depressed and machine sales to the industrial metals industry are expected to be about flat. Oil prices remained flat near $25 in 2002. We are expecting oil prices to be about flat - an average price of $22 to $29 a barrel in 2003. Based on this forecast, equipment sales into sectors that are sensitive to crude oil prices (oil, oil sands, coal and natural gas) are expected to be about flat. If, for whatever reason, average oil prices are significantly higher in 2003, our results would be negatively impacted.

Extended weakness in world economic growth could lead to sharp declines in commodity prices and production 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 reduced interest rates in 2002. These actions, together with projected federal tax cuts, and other fiscal stimulus measures are expected to lead to moderate U.S. growth in 2003, with some acceleration in momentum in the second half. In Europe, the European Central Bank reduced interest rates in 2002, further reductions are expected and growth in Europe is expected to improve in 2003. However, recent currency movements leading to a stronger euro may dampen European growth prospects in 2003 and this would cause machine sales to be lower than expected.

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 moderate U.S. growth in 2003 near 3%. This is expected to lead to about flat industry sales levels. If, for whatever reason, there was a setback leading to weak or negative growth in 2003, 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 is having and should continue to 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 political developments in Latin America, Asia, and Africa/Middle East which are expected to take place in 2003 that could affect U.S. trade policies and/or de-stabilize local market conditions leading to lower company sales. In particular, a recent escalation of political uncertainty in Venezuela and the Middle East is contributing to a decline in business confidence and reduced capital investment intentions.

In addition, significant political and economic instability persists in Argentina, Venezuela, the Middle East and Indonesia. Our outlook assumes that the effects of instability in Venezuela will be confined to Venezuela and not spread to other countries in the region. Our outlook also assumes that stability will ultimately be restored in Argentina, Indonesia and Venezuela 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, Indonesia, Venezuela and other countries in the region. In addition, our outlook assumes that the recent escalation of the conflict in the Middle East does not deteriorate further into a significant armed conflict. In addition, we assume that recent terrorist incidents in Indonesia do not lead to a major, persistent escalation of political and economic uncertainty in that country.

In recent months there has been a significant escalation in political tensions in North Korea. Caterpillar does not sell machine or engine products to North Korea and our outlook assumes there will not be a military conflict there. If, however, there is a significant escalation of political tensions in North Korea, leading to a significant military build-up or increase in hostilities between North and South Korea, it could have a negative impact on sales to South Korea and other neighboring countries in the Asia/Pacific region.

Our outlook also assumes that there will be no major, lengthy armed conflict in Iraq. If such a lengthy armed conflict does arise, it is likely business and consumer confidence will drop sharply, resulting in stagnant worldwide economic growth and declines in worldwide business demand. In this scenario, worldwide company sales would likely fall about 10 percent from 2002.

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 suddenly against foreign currencies, the conversion of net non-U.S. dollar proceeds to U.S. dollars would somewhat adversely impact the company's results. Since the company's largest manufacturing presence is in the U.S., any unexpected strengthening of the U.S. dollar versus key overseas currencies 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 2003 than at the end of 2002. 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 2000/2001 there was an increase in the volume of highway construction contracts, which had a positive impact on sales of certain types of equipment. Highway construction contracts in 2002 were up slightly, and heavy construction machine sales were also up slightly. However, an appropriations bill approving federal funding for highways, streets, bridges, airports, etc. for fiscal 2002/03 (the final year of the TEA 21 legislation) has been delayed. The baseline outlook assumes that a new transportation appropriations bill is passed in early 2003 that maintains funding levels in 2003 near 2002 levels. If funding is reduced, sales could be negatively impacted. Furthermore, if infrastructure spending plans are reduced by Federal and/or state governments due to budget constraints, machine sales will likely be lower in 2003.

Pursuant to a Consent Decree Caterpillar entered into with the United States Environmental Protection Agency (EPA), the company was 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 (NCPs) on those engines. The company began shipping lower emission engines in October 2002 as a "bridge" until the fully compliant ACERT engines are introduced in 2003. These "bridge" engines require the payment of NCPs. Emissions standard changes negatively impacted our financial results in 2002, by $17 million after tax (5 cents per share). We expect the net unfavorable impact in 2003 to be no more than the 2002 impact. We do not anticipate having to pay any NCPs on our medium-duty engines in 2003 due to credits we banked in 2001 and 2002. Early in 2003, Caterpillar will begin ramping up production of medium-duty and heavy-duty compliant ACERT engines. We do not anticipate paying NCPs beyond 2003. If these assumptions are not realized, company performance 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. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

The company operates in a highly competitive environment and our outlook depends on a forecast of the company's share of industry sales. An unexpected 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.

Inherent in the operation of the Financial Products Division is the credit risk associated with its customers. The creditworthiness of each customer, and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events, and the sustained value of the underlying collateral. Additionally, interest rate movements create a degree of risk to our operations by affecting the amount of our interest payments and the value of our fixed rate debt. While our policy is to use interest rate swap agreements to manage our exposure to interest rate changes and lower the costs of borrowed funds, if interest rates move upward more sharply than anticipated, it could negatively impact our results. With respect to our insurance operations, changes in the equity and bond markets could cause an impairment of the value of our investment portfolio, thus requiring a negative adjustment to earnings.

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 - Note 1 "Derivative financial instruments" on page A-9, Note 2 "Derivative financial instruments and risk management" on pages A-10 through A-11 of the Appendix, Note 17 "Fair values of financial instruments" on page A-20 and Note 18 "Concentration of credit risk" on pages A-20 through A-21 of the Appendix. Other information required by Item 7a appears in Item 7 of this Form 10-K under "Sensitivity".

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-4 through A-30 of the Appendix, as supplemented by Item 15 to this Form 10-K.

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 2006," "Directors Remaining in Office Until 2005," and "Directors Remaining in Office Until 2004" on pages 3 and 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 25 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 11, "Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation" on pages 12 through 18, and "Executive Compensation Tables" on pages 19 through 21 of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by Item 12 relating to securities authorized for issuance under equity compensation plans is included in the following table:

Equity Compensation Plan Information
(as of December 31, 2002)

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	38,927,275	$48.91	8,956,928
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	**38,927,275**	**$48.91**	**8,956,928**

Information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated by reference from "Caterpillar Stock Owned by Officers and Directors (as of December 31, 2002)" and "Persons Owning More than Five Percent of Caterpillar Stock (as of December 31, 2002)" on pages 9 through 11 of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

Information required by Item 13 is incorporated by reference from "Certain Related Transactions" on page 7 of the Proxy Statement.

PART IV

Item 14. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures within 90 days before the filing date of this annual report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of this evaluation, there have been no significant changes in the company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Item 15. 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-30) except Notes 1C and 21 are updated as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions except per share data)

1. Operations and summary of significant accounting policies

C. Sales and revenue recognition

Sales of *Machinery and Engines* are recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers.

Our standard invoice terms are established by marketing region. The dealer is responsible for payment even if the product is not sold to an end customer and must make payment within the standard terms to avoid interest costs. Interest at or above prevailing market rates is charged on any past due balance. Interest is not forgiven. In 2002, 2001 and 2000, terms were extended to not more than one year for $193, $224, and $144 of receivables, respectively. These amounts represent approximately 1% of consolidated sales for each year.

Sales with payment terms of more than one month were as follows:

	2002		2001		2000	
Payment Terms (months)	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales
2	$ 62	0.3%	$ 28	0.1%	$ 29	0.2%
3	118	0.6%	177	0.9%	92	0.5%
4	11	0.1%	6	0.0%	374	2.0%
5	447	2.4%	422	2.2%	28	0.1%
6	3,503	18.8%	4,056	21.3%	3,167	16.7%
7-12	465	2.5%	218	1.1%	1,159	6.1%
	$ 4,606	24.7%	$ 4,907	25.8%	$ 4,849	25.6%

Revenues of *Financial Products* represent primarily 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. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and collection doubts are removed.

21. 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 of the Consolidated Financial Statements on page A-6 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 cleanup. Currently, we have five sites in the very early stages of cleanup, 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 with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT) engines are introduced in 2003.

The consent decree also provided the ability to "bank" emissions credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NOx as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NOx deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard. Caterpillar has a legal right, as described in the consent decree, to use its banked credits as offsets against NCPs for non-compliant engines produced after December 31, 2002. The EPA has approved the process by which the credits are calculated.

We produced and sold 70,399 medium heavy-duty engines prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of medium heavy-duty banked credits. We expect to produce approximately 26,800 non-conforming medium heavy-duty engines after January 1, 2003, but we do not expect to pay any NCPs on these medium-duty engines in 2003 due to our banked credits. We produced and sold 958 heavy-duty engines in 2002 resulting in 1,230.2 Mg of heavy-duty banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we expect to build after January 1, 2003, these banked credits are expected to offset the NCPs on approximately 3,000 of these units.

We began production of medium heavy-duty ACERT engines complying with the EPA emissions standards in early 2003. Caterpillar received certification from the EPA in January 2003 for the C9 diesel engine, the first of our new engines equipped with ACERT Technology. We began shipping of the C9 -- which was certified to the more stringent Transit Bus standards – in March. We received certification for our second ACERT equipped model, the C7 in March and this engine will be in production in June of 2003.

We anticipate that our heavy heavy-duty models -- the C13 and C15 (the ACERT versions of the current C-12 and C-15, respectively) -- will be in full production by October and the C11 (the ACERT version of the current C-10) will be in full production by December after the EPA has certified each engine. As a result, we do not anticipate paying NCPs beyond 2003.

The certification process is described in the consent decree and the regulations, and includes the following:

- The durability of the engine is established through testing to determine if the engine emissions change with time. An emissions deterioration factor is determined that represents the amount of emission deterioration that would be expected over the useful life of the engine.

- An emission data engine is tested according to the regulations. Emission levels are determined on various steady state and transient tests.

- The results from the two tests are submitted to the EPA in a certification application as proof that the engine meets the requirements along with additional information and a request that a certificate be granted.

- The EPA reviews the application and if all the regulatory requirements are met, a certificate is issued.

- If the engine exceeds the standard, the EPA issues a certificate for either a banked or an NCP engine. The NCP engine certificate requires Production Compliance Auditing (PCA) testing.

After receipt of the EPA certificate manufacturing and shipment of the certified engines can begin. Each engine is labeled to indicate that it is certified.

Our expense for NCPs was $40 million in 2002. This amount was based on levels that we believed the engines would perform when tested. For 2002, we paid NCPs on 6,195 heavy-duty units and 7,198 medium heavy-duty units, and in 2003 we estimate we will pay NCPs on 22,858 heavy-duty units. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Our estimates of the NCP amounts are based on our knowledge of how each of the engine models is expected to perform in PCA testing. Caterpillar can make fairly accurate predictions of the emissions profiles of its engines due to its engineering knowledge, development process, and prior testing of its engines during development. PCA testing on medium heavy-duty engines has now been completed; PCA testing on heavy heavy-duty engines is on going. Therefore, while PCA testing has not been concluded, we are confident that our NCP and credit-consumption estimates will be fairly accurate.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax or about 5 cents per share) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). We recorded the $40 million for NCPs when the bridge engines were produced, and either have paid or will pay the EPA from an escrow account no later than 30 days after PCA testing on an engine class is complete. For example, on January 31, 2003, Caterpillar deposited $41.4 million (the recorded $40 million based on our estimates plus an additional $1.4 million following the completion of PCA testing) with an escrow agent for estimated NCPs related to fourth quarter 2002 bridge engine production. This included $17 million for medium heavy-duty engine models and $24.4 million for heavy-duty engine models. After completion of EPA testing of "high horsepower" medium heavy-duty engines, on March 11, 2003 Caterpillar released $8 million from the escrow account to the EPA. After completion of testing of the remaining medium heavy-duty engine models, on March 25, 2003 Caterpillar released the remaining $9 million from the medium heavy-duty engine escrow account and paid an additional $900,000 to the EPA because the tested level of NCPs for that engine family was slightly higher per engine than was anticipated at the time of the January 31 escrow deposit.

The following table reflects the 2002 impact of the emission standard changes:

2002 (millions of dollars)		
Price (Engines Sold x Price Increase)	$	20
Incremental Costs (Cost of Additional Materials)		(4)
NCPs (Engines Sold x Projected NCP per Engine)		(40)
Net Effect Pre-Tax	$	(24)
Tax		7
Net Effect After Tax	$	(17)

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $21 million, of which $10 million was made in 2002. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

As of December 31, 2002 we expect the net unfavorable impact of emission standard changes in 2003 to be no more than 2002 as we estimate that significantly higher NCPs (approximately $93 million pre-tax), product cost increases and ramp-up production costs (approximately $76 million pre-tax), will be partially offset by price increases for bridge and ACERT engines (approximately $153 million pre-tax). For example, we estimate that we will sell 8,728 C-12 engines in 2003 that will be subject to NCPs. We also estimate that the blended (there are multiple models of the C-12) NCP per engine will be $5,103. Caterpillar is not required to make any payment to the EPA for these engines until PCA testing for the engine model has been completed. However, Caterpillar is required to place an amount equal to its estimated NCPs for that engine model into an escrow account on a quarterly basis. As a result, we will record approximately $93 million for NCPs as the bridge engines are produced and once PCA testing is completed for an engine model, we will pay the EPA the NCPs on these engine sales out of the established escrow accounts on a quarterly basis.

The following table reflects the projected 2003 impact of the emission standard changes:

2003 (millions of dollars)		
Price (Bridge or ACERT Price Increase x Projected Engine Sales)	$	153
Incremental Costs (Cost of Additional Materials)		(76)
NCPs (Projected NCP per Engine x Projected Engine Sales - banked credits)	$	(93)
Net Effect Pre-Tax		(16)
Tax		4
Net Effect After Tax	$	(12)

As reflected in this table, our projections for 2003 are subject to assumptions regarding projected NCPs, price increases and volumes. For example, our estimate of NCPs per engine could change from the $3600 average per heavy-duty engine based on the results of on-going EPA testing; this testing could impact both the NCP level per engine and the utilization of banked credits. However, we are able to make fairly accurate predictions of the results of the EPA tests due to our engineering knowledge, development process and internal testing during development. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, there will be an additional price increase to truck manufacturers that purchase our engines. This increase has been communicated to the truck manufacturers and is based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control.

We will revise our disclosures in future filings accordingly if the actual NCP amount in 2003 vary materially from our projections, if the market unexpectedly will not bear the planned price increase or if our estimated volumes prove to have been materially too conservative or optimistic.

On January 16, 2002, Caterpillar commenced an action against Navistar International Transportation Corporation and International Truck and 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 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was $104 million. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

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 eight reports (dated October 10, October 11, October 15, October 16 (2), November 8 (2), and December 19, 2002) filed on Form 8-K pursuant to Item 5 during the last quarter of 2002 and five additional reports filed on Form 8-K (dated January 23 (2), February 7, February 10 and February 18, 2003). 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 quarter ended March 31, 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 as of February 10, 1999 (incorporated by reference from Exhibit 3.3 to the Form 10-K for the year ended December 31, 1998).
4	Second Amended and Restated Rights Agreement dated as of October 18, 2002, between Caterpillar Inc. and Mellon Investor Services LLC (incorporated by reference from Exhibit 4 to Form 10-Q filed for the quarter ended September 30, 2002).
10.1	Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of April 10, 2002.**
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 Form 10-K for the year ended December 31, 1999).
10.4	Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002.**
10.5	Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002**.
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 1, 2002.**
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 2003 Annual Meeting Proxy Statement.
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Accountants.
99.1	Certification of Glen A. Barton, Chairman and Chief Executive Officer of Caterpillar Inc. and F. Lynn McPheeters, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	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 31, 2003 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 31, 2003	/s/ Glen A. Barton (Glen A. Barton)	Chairman of the Board, Director and Chief Executive Officer
March 31, 2003	/s/ Vito H. Baumgartner (Vito H. Baumgartner)	Group President
March 31, 2003	/s/ Douglas R. Oberhelman (Douglas R. Oberhelman)	Group President
March 31, 2003	/s/ James W. Owens (James W. Owens)	Group President
March 31, 2003	/s/ Gerald L. Shaheen (Gerald L. Shaheen)	Group President
March 31, 2003	/s/ Richard L. Thompson (Richard L. Thompson)	Group President
March 31, 2003	/s/ F. Lynn McPheeters (F. Lynn McPheeters)	Vice President and Chief Financial Officer
March 31, 2003	/s/ David B. Burritt (David B. Burritt)	Controller and Chief Accounting Officer

March 31, 2003	/s/ Lilyan H. Affinito (Lilyan H. Affinito)	Director
March 31, 2003	/s/ W. Frank Blount (W. Frank Blount)	Director
March 31, 2003	/s John R. Brazil (John R. Brazil)	Director
March 31, 2003	/s/ John T. Dillon (John T. Dillon)	Director
March 31, 2003	/s/ Eugene V. Fife (Eugene V. Fife)	Director
March 31, 2003	/s/ Gail D. Fosler (Gail D. Fosler)	Director
March 31, 2003	/s/ Juan Gallardo (Juan Gallardo)	Director
March 31, 2003	/s/ David R. Goode (David R. Goode)	Director
March 31, 2003	/s/ Peter A. Magowan (Peter A. Magowan)	Director
March 31, 2003	/s/ William A. Osborn (William A. Osborn)	Director
March 31, 2003	/s/ Gordon R. Parker (Gordon R. Parker)	Director
March 31, 2003	/s/ Charles D. Powell (Lord Charles D. Powell)	Director
March 31, 2003	/s/ Joshua I. Smith (Joshua I. Smith)	Director

CERTIFICATIONS

I, Glen A. Barton, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 31, 2003	/s/ Glen A. Barton (Glen A. Barton)	Chairman of the Board and Chief Executive Officer

I, F. Lynn McPheeters, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 31, 2003	/s/ F. Lynn McPheeters (F. Lynn McPheeters)	Chief Financial Officer

CATERPILLAR INC.
1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN
(Amended and Restated as of 04/10/2002)

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*

Thirty-nine million 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 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; (vii) net earnings; and (viii) earnings per share relative to a peer group. The Committee may establish the peer group referenced above and amend the peer group as the Committee determines desirable. 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.

CATERPILLAR INC.
1987 STOCK OPTION PLAN

(Amended and Restated as of 12/31/2000)

1. Establishment of Plan

Caterpillar Inc. (hereafter referred to as the "Company") proposes to grant to selected key employees of the Company and its subsidiaries restricted stock awards, options to purchase common stock of the Company and stock appreciation rights in conjunction therewith for the purposes of (i) furnishing to such employees maximum incentive through ownership of Company shares to improve operations and increase profits and (ii) encouraging such persons to accept or continue employment with the Company and its subsidiaries. Such restricted stock awards, options and stock appreciation rights will be granted pursuant to the plan herein set forth, which shall be known as the Caterpillar Inc. 1987 Stock Option Plan (hereafter referred to as the "Plan").

The Company also proposes to grant to the members of the Company's Board of Directors who are not officers or employees of the Company at the time of a grant (hereinafter referred to as "Outside Directors") options to purchase common stock of the Company pursuant to the Plan. The Company also proposes to grant to Outside Directors restricted shares of Company common stock pursuant to the Plan. The purpose of such grants is to provide incentives for highly qualified individuals to stand for election to the Board and to continue service on the Board and to encourage increased stock ownership by Outside Directors in order to promote long-term stockholder value. Stock appreciation rights, and incentive stock options, as defined in Section 422A of the Internal Revenue Code, will not be granted to Outside Directors under the Plan.

2. Stock Reserved for Options and Restricted Stock Awards

Subject to adjustment as provided in Section 3, the maximum number of shares of the Company that may be issued upon the granting of restricted stock awards, performance awards or the exercise of options and Stock Appreciation Rights under the Plan or any Supplement hereto shall not exceed 7,500,000. The shares so issued may be authorized but unissued shares, Treasury shares, or previously issued shares purchased for purposes of the Plan. Any shares subject to options or awards may thereafter be subject to new stock options or awards under the Plan if there is a forfeiture of any such awards or lapse, expiration or termination of any such option but not if there is a surrender of an option or portion thereof pursuant to a stock appreciation right as provided hereafter in Section 7.

3. Adjustment Provisions

If there is any change in the outstanding shares of common stock without any consideration to the Company by stock dividend, stock split-up, change in par or no par value, or other similar event, the number and kind of shares then remaining available for issue under the Plan shall be correspondingly changed, and a similar adjustment shall be made in the unexercised portion of all options then outstanding without change in the aggregate purchase price to be paid.

Options and stock appreciation rights may also contain provisions for the continuation thereof, and for other equitable adjustments, after other changes in the Company's shares, including changes resulting from recapitalization, reorganization, sale, merger, consolidation, or other similar occurrence.

4. Administration of the Plan

The authority to grant restricted stock awards, options and stock appreciation rights to officers and employees under the Plan shall be vested in the Stock Option and Officers' Compensation Committee (hereafter referred to as the "Committee") consisting of not less than three members of the Board of Directors appointed from time to time by the Board. No member of the Board shall serve on the Committee at a time when such member is, or within one year prior thereto has been, eligible to receive restricted stock awards, options, or stock appreciation rights under the Plan, or restricted stock awards, options, or stock appreciation rights under any other stock option or stock bonus plan of the Company; provided, however, that Outside Directors who receive options and restricted stock under this Plan may serve on the Committee. The Committee shall have no authority regarding the granting of options and restricted stock to Outside Directors.

Subject to the provisions of the Plan, the Committee from time to time shall determine (except as to options and restricted stock granted to Outside Directors) the individuals to whom, and the time or times at which, restricted stock awards, options, or stock appreciation rights shall be granted; the number of shares to be subject to each restricted stock award, each option, and each stock appreciation right; the option price per share; the extent to which stock appreciation rights are exercisable for cash, or stock, or a combination of cash and stock; whether restricted shares [shares of common stock issued under restrictions which subject them to a "substantial risk of forfeiture" (as defined in Section 83 of the Internal Revenue Code of 1986, as amended) until the restrictions lapse] should be issued on the exercise of an option or stock appreciation right and, if so, the nature of the restrictions; the duration of each option; the specific restrictions applicable to restricted stock awards and the other terms and provisions of each restricted stock award, option, and stock appreciation right. In the case of officers to whom restricted stock awards, options, or stock appreciation rights may be granted, the selection of such officers and all of the foregoing determinations shall be made directly by the Committee in its sole discretion. In the case of key employees other than officers, the selection of such employees and all of the foregoing determinations may be delegated by the Committee to an administrative group of officers chosen by the Committee. Neither restricted stock awards, options, nor stock appreciation rights granted to one employee need be identical to those granted other employees.

Subject to share ownership requirements, commencing with the 1988 annual meeting of stockholders, options with a term of ten years and one day shall be granted to each Outside Director for 1,000 shares of the Company's common stock effective as of the close of each annual meeting of the stockholders (i) at which such individual is elected a director or (ii) following which such individual will continue to serve as a director as a member of a continuing class of directors. Any option so granted shall be a nonqualified stock option. In the event any change in the outstanding shares of the Company's common stock occurs and an adjustment is made in the unexercised portion of options outstanding, as provided in Section 3 above, a similar adjustment shall be made in the number of shares to be granted to Outside Directors thereafter under this paragraph.

On April 14, 1995, and each January 1 thereafter, 200 shares of restricted stock shall be granted to each Outside Director. The stock will be held in escrow for a period of three years from the award date. Stock issued as restricted stock shall be forfeited if the director ceases to serve as a director of the Company for any reason other than death, disability, or retirement under the Directors' Retirement Plan. In the event any change in the outstanding shares of the Company's common stock occurs as provided in Section 3 above, a similar adjustment shall be made in the number of restricted shares to be granted to Outside Directors thereafter under this paragraph.

Subject to the provisions of the Plan specifically governing options and restricted stock granted or to be granted to Outside Directors, the Committee may also interpret the Plan; prescribe, amend and rescind rules and regulations relating to the Plan; and make all other determinations necessary or advisable for the administration of the Plan. The determinations of the Committee shall be made in accordance with its judgment as to the best interests of the Company and its stockholders and in accordance with the purposes of the Plan. The Committee's determinations shall in all cases be conclusive.

A majority of the members of the Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee may be made, without notice or meeting, by the written consent of a majority of the Committee members.

5. Eligibility

Restricted stock awards, options, and stock appreciation rights may be granted to officers and other key employees of the Company or of its present or future subsidiaries. Options and restricted stock will be granted to Outside Directors as provided in Sections 4 and 14 hereof.

A director of the Company or a subsidiary who is not also an employee of the Company or a subsidiary shall not be eligible to receive a stock appreciation right or an alternative stock option. An employee or officer who has been granted a restricted stock award, option, or stock appreciation right under this or any other stock option plan may or may not be granted additional restricted stock awards, options, and stock appreciation rights at the direction of the Committee.

Options and Stock Appreciation Rights

6. Option Price

The per share option price shall not be less than 100% of the fair market value of the common stock at the time the option is granted. The per share option price of options granted to Outside Directors shall be 100% of the market value of the common stock at the time an option is granted.

7. Stock Appreciation Rights

Stock appreciation rights will permit the holder to elect to surrender any option or any portion thereof which is then exercisable and receive in exchange therefor shares of common stock, cash, or a combination thereof. Such stock, cash, or combination shall have an aggregate value equal to the excess of the fair market value of one share of common stock over the purchase price specified in such option multiplied by the number of shares of common stock covered by such option or portion thereof which is so surrendered. The fair market value of one share of common stock shall equal (a) in the case of such a holder who is not a Company officer, the mean of the highest and lowest quoted selling price of shares of the Company's common stock on the New York Stock Exchange on the date of surrender and (b) in the case of such a holder who is a Company officer, but subject to the provisions of the succeeding sentence, the highest of the means of the highest and lowest quoted selling price of shares of the Company's common stock on the New York Stock Exchange determined for each day occurring during the window period during which such election to surrender the option or portion thereof is made; and the window period is the applicable period for making such an election (currently ten business days) prescribed from time to time pursuant to Rule 16b-3 promulgated under the Securities Exchange Act of 1934. In the case of such a holder who is a Company officer, the fair market value of one share of common stock with respect to the surrender of an incentive stock option granted, shall equal the mean of the highest and lowest quoted selling price of shares of the Company's common stock on the New York Stock Exchange on the date of surrender unless it is specifically provided in the option form, or any amendment thereto, that the valuation described in item (b) above shall apply. In the case of any option holder who at the time of an election is an officer of the Company, each election to receive cash alone or in combination with stock shall be subject to the approval of the Committee in its sole discretion.

Stock appreciation rights may be granted as part of a stock option or as a separate right to any holder of any option theretofore or then being granted under this Plan. A stock appreciation right shall be exercisable upon any additional terms and conditions (including, without limitation, the issuance of restricted shares and the imposition of restrictions upon the timing of exercise) which may be determined as provided in Section 4 of the Plan.

In the event of the exercise of a stock appreciation right, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares of common stock covered by such option or portion thereof which is surrendered in connection with such exercise. No fractional shares shall be issued on the exercise of a stock appreciation right.

8. Exercise of Options and Stock Appreciation Rights

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 of the Plan shall not be exercisable after the expiration of ten years from the date of grant. Options granted to Outside Directors shall become exercisable as follows: one-third at the end of each of the three successive one-year periods commencing on the date of each option grant. Notwithstanding any other provision hereof, no option and no stock appreciation right shall be exercisable after the expiration of ten years and one day from the date such option or stock appreciation right is granted, provided that no incentive stock option (or related stock appreciation right) shall be exercisable after the expiration of ten years from the date such option is granted.

Payment of the purchase price shall be made upon exercise of all or a portion of any option. Such payment shall be made pursuant to rules adopted by the Committee and the Company in cash or by the tendering (through one transaction or in a series of consecutive transactions) of shares of common stock of the Company having a fair market value equal to 100% of such purchase price or by any combination thereof. The fair market value of a share of common stock so tendered shall be the mean of the highest and lowest quoted selling price of shares of the Company's common stock on the New York Stock Exchange on date of exercise. In addition, on the exercise of an option, surrender of a stock appreciation right, or upon the granting of any restricted stock award or performance award, any applicable taxes which the Company is required to withhold shall be paid to the Company and any information which the Company deems necessary shall be provided to the Company. In fulfilling its withholding obligation, the Company may withhold a portion of any shares to be issued to satisfy such withholding obligation in accordance with rules promulgated by the Committee, in its sole discretion.

9. Termination of Employment

Each option granted to an officer or employee shall, and each stock appreciation right granted to an officer or employee may, in the Committee's sole discretion require a period or periods of continued employment with the Company and/or its subsidiaries before it may be exercised in whole or in part. No such period shall be less than one year except that the Committee may permit a shorter period in the event of termination of employment by reason of retirement or death.

Termination of the employment with the Company and its subsidiaries of an officer or employee who holds an option shall terminate any remaining rights under options and stock appreciation rights then held by such holder except as hereinafter provided.

Each option and stock appreciation right granted to an officer or employee may provide that if employment of the holder with the Company and its subsidiaries terminates after completion of a period of employment so specified, the option or stock appreciation right may be exercised (to the extent then exercisable) by the holder (or, in the event of the holder's death, by whoever shall have received the holder's rights under the option or stock appreciation right) during a specified period of time after such termination of employment. Such a specified period of time may not exceed sixty months where termination of employment is caused by retirement or death and sixty days where it results from any other cause; provided that if death occurs after termination of employment but during the period of time so 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 that any such option or stock appreciation right granted under the Plan has a specified period for exercise after retirement or death which is less than the maximum period permitted under this section, the Committee may modify such option or right to extend such specified period up to such maximum period.

Such options and stock appreciation rights shall not be affected by authorized leaves of absence or by any change of employment so long as the holder continues to be an employee of the Company or a subsidiary.

Nothing in the Plan or in any such option or stock appreciation right shall interfere with or limit in any way the right of the Company or of any of its subsidiaries to terminate any employee's employment at any time, nor confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of an option or stock appreciation right provided that no such change shall extend the original maximum term of the option or stock appreciation right.

9A. Termination of Outside Directorship

No period of continued service as an Outside Director following the grant of an option shall be required to render exercisable an option granted to an Outside Director in the event an Outside Director holding an option which has not become exercisable or has not been fully exercised shall cease to be an Outside Director. In such event any such option may be exercised at any time within sixty months of the date such Director ceased to be a Director. In the event an Outside Director shall die holding an option which has not become exercisable or has not been fully exercised, his executors, administrators, heirs or distributees, as the case may be, may exercise such option at any time within sixty months of the date of such death provided that if death occurs after the date an Outside Director ceases to be a Director, such option shall be exercisable within sixty-six months of such date. In no event, however, shall an option which has expired by its terms be exercisable.

10. Incentive Stock Options

Notwithstanding anything contained herein to the contrary, there may be granted under the Plan, other than to Outside Directors, incentive stock options as defined in Section 422A of the Internal Revenue Code as it may be amended from time to time. The Committee from time to time shall determine whether any incentive stock options shall be granted. It shall also determine in its full discretion the individuals to whom, and the time or times at which, any such grants shall be made. Incentive stock options shall not by their terms be transferable by the holder other than by will or the laws of descent and distribution and shall be exercisable during the holder's lifetime only by the holder. The aggregate fair market value (determined at the time the option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by the holder during any calendar year (under all incentive stock option plans of the Company) shall not exceed $100,000; provided, however, that all or any portion of an option which cannot be exercised as an incentive stock option because of such limitation may be converted by the Committee to an option other than an incentive stock option. The Board of Directors of the Company may amend the Plan from time to time as may be necessary (1) to comply with Section 422A of the Internal Revenue Code, or other sections of the Code or other applicable laws or regulations, and (2) to permit any options granted as, or converted to, incentive stock options to have all of the features provided for incentive stock options in the applicable laws and regulations.

11A. Transferability of Options and Stock Appreciation Rights

Except as otherwise permitted in Section 11B, options and stock appreciation rights shall not be transferable otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the holder's lifetime, only by the holder except in the case of holder's incapacity or disability when such options and stock appreciation rights may be exercised by the holder's duly appointed guardian or representative.

A holder, however, may file with the Company a written designation of a beneficiary or beneficiaries (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries and such other limitations as the Committee from time to time may prescribe) to exercise, in the event of the death of the optionee, an option or stock appreciation right, subject to the provisions of the Plan. A holder may from time to time revoke or change any such designation of beneficiary and any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise; provided, however, that if the Committee shall be in doubt as to the right of any such beneficiary to exercise any option or stock appreciation right, the Committee may determine to recognize only an exercise by the legal representative of the optionee, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

11B. Permissible Transfers of Options

(a) Notwithstanding the provisions of Section 11A, and in addition to 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 vested and are not incentive stock options as defined above.

(b) For purposes of Section 11B(b), 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 individuals 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.

Restricted Stock Awards to Company Employees

12. Granting of Awards

The Committee from time to time may determine whether any restricted stock awards shall be granted to other than an Outside Director either alone or in combination with the granting of options under the Plan. The Committee will in so granting establish the time, conditions and restrictions in connection with the issuance or transfer of a restricted stock award, including the restriction period which may differ with respect to each grantee.

13. Shares and Restrictions

Restricted stock awards will be made from shares of Company common stock otherwise available for stock option grants under the Plan. During the restriction period the grantee shall have a beneficial interest in the restricted stock and all rights and privileges of a stockholder with respect thereto, including the right to vote and receive dividends, subject to the restrictions imposed by the Committee at the time of grant.

The following restrictions will be imposed on shares of common stock issued as a restricted stock award until the expiration of the restricted period:

(a) The grantee shall not be entitled to delivery of the stock certificate which certificate shall be held in escrow by the secretary of the Committee;

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

(c) Stock issued as a restricted stock award shall be forfeited and the stock certificate shall be returned to the Company if the grantee terminates employment with the Company and its subsidiaries except for termination due to retirement after a specified age, disability, death or other special circumstances approved by the Committee.

Shares awarded as a restricted stock award 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 the 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 may determine that such action is appropriate. Upon the expiration of the restriction period with respect to any shares of a restricted stock award, a stock certificate will be delivered out of escrow, subject to satisfaction by the grantee of the applicable withholding tax requirements, without charge to the grantee.

Restricted Stock Awards to Outside Directors

14. Terms of Grant and Restrictions

On April 14, 1995, and each January 1 thereafter, 200 shares of restricted stock shall be granted to each Outside Director who following such date continues to serve as a director. Restricted stock awards will be made from shares of Company common stock otherwise available for stock option grants under the Plan.

The stock will be subject to a restriction period of three years from the date of grant. During that restricted period, subject to the restrictions set forth in the next paragraph, the grantee shall have a beneficial interest in the restricted stock and all rights and privileges of a stockholder with respect thereto, including the right to vote and receive dividends.

The following restrictions will be imposed on shares of common stock issued as a restricted stock award until the expiration of the restricted period:

(a) The grantee shall not be entitled to delivery of the stock certificate which certificate shall be held in escrow by the secretary of the Committee;

(b) None of the stock issued pursuant to a restricted stock award may be transferred other than by will or by the laws of descent and distribution; and

(c) Stock issued pursuant to a restricted stock award shall be forfeited and the stock certificate returned to the Company if the grantee ceases to serve as a director of the Company, except for termination due to death, disability, or retirement under the Directors' Retirement Plan.

Upon expiration of the restricted period with respect to any shares of a restricted stock award, a stock certificate will be delivered out of escrow, subject to satisfaction by the grantee of applicable tax withholding requirements, without charge to the grantee.

General Provisions

15. Amendment and Termination

The Plan may be terminated at any time by the Board of Directors except with respect to any restricted stock awards, options, or stock appreciation rights then outstanding. Also, the Board may, from time to time, amend the Plan as it may deem proper and in the best interests of the Company or as may be necessary to comply with any applicable laws or regulations, provided that no such amendment shall (i) increase the total number of shares which may be issued under the Plan, (ii) reduce the minimum purchase price or otherwise materially increase the benefits under the Plan, (iii) change the basis for valuing stock appreciation rights, (iv) impair any outstanding option, stock appreciation right or restricted stock award without the consent of
the holder, (v) alter the class of employees eligible to receive options, stock appreciation rights or restricted stock awards, or (vi) amend any provision of the Plan insofar as it applies specifically to options and restricted stock granted or to be granted to Outside Directors, unless, in each case, such amendment is required in order to assure the Plan's continued compliance with applicable laws, including Rule 16b-3 under the Securities Exchange Act of 1934.

Plan provisions applicable to Outside Director option and restricted stock awards shall not be amended more than once every six months other than to comply with changes in the Internal Revenue Code, Employee Retirement Income Security Act, or rules thereunder.

16. Regulatory Compliance

Notwithstanding any other provision of the Plan, the issuance or delivery of any shares of common stock 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.

17. Miscellaneous

For purposes of this Plan:

(i) The term "subsidiary" means any corporation in which the Company owns, directly or indirectly, at least 35% of the total combined voting power of all classes of stock; except that for purposes of any option subject to the provisions of Section 425 of the Internal Revenue Code, as amended, the term "subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of the granting of an option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(ii) "Retirement" as used herein means retirement under any pension or retirement plan of the Company or of a subsidiary, or termination of employment with the Company or a subsidiary, by action of the employing company, because of disability.

CATERPILLAR INC.
LONG TERM INCENTIVE SUPPLEMENT

ARTICLE I - PURPOSE

The provisions of this Long Term Incentive Supplement (the "Supplement") shall supplement the provisions of the Caterpillar Inc. 1987 Stock Option Plan (the "Plan") and, unless otherwise expressly qualified by the context of the Supplement, the conditions contained in the Plan shall be applicable to the Supplement and terms used in the Supplement shall have the meanings defined in the Plan.

The purposes of the Supplement are to (i) strengthen the commonality of interest between management and Caterpillar Inc.'s stockholders, (ii) link effectively executive motivation and compensation with Caterpillar Inc.'s performance, (iii) provide incentives and rewards for key executives to accomplish Caterpillar Inc.'s goals and objectives over the long term, (iv) offer a comprehensive and competitive total compensation program, and (v) attract and retain executives of high caliber and ability.

ARTICLE II - DEFINITIONS

For purposes of the Supplement:

2.1 "AWARD" shall mean the sum of the cash amount and/or restricted stock awarded to a Participant following the conclusion of a Performance Period in which Performance Measures were met or exceeded.

2.2 "DISABILITY" shall mean the total and permanent disability of a Participant as defined by any Caterpillar Inc. long-term disability plan in effect for such Participant.

2.3 "PARTICIPANT" shall mean any employee of Caterpillar Inc. or any subsidiary of Caterpillar Inc. holding a position which the Committee has determined is eligible to participate in the Supplement.

2.4 "PERFORMANCE MEASURES" shall mean the criteria established by the Committee at the beginning of each Performance Period as the basis for making Awards.

2.5 "PERFORMANCE PERIOD" shall mean any period of time determined by the Committee for which the Performance Measures are established.

ARTICLE III - TERM OF PLAN

This Supplement shall be effective from the 1st day of January, 1993, and shall remain in effect until terminated by the Board of Directors of Caterpillar Inc.

ARTICLE IV - PAYMENT AND AMOUNT OF BENEFITS

4.1 Payment of Awards - Awards shall be paid in cash, shares of restricted stock, or a combination of cash and restricted stock as determined by the Committee in its sole discretion. A check for any cash Award or a certificate for shares of restricted stock awarded shall be delivered to each Participant not later than 90 days following the end of the relevant Performance Period. The number of Caterpillar Inc. shares of restricted stock awarded shall be determined by dividing the portion of the Award payable in restricted stock by the average of the high and low price of Caterpillar Inc. shares on the New York Stock Exchange on the last business day of the Performance Period for which payment is made. The terms of any such restricted stock shall be determined by the Committee in its sole discretion subject to the restrictions of Section 13 of the Plan. Federal, state and local taxes will be withheld as appropriate.

4.2 Amount of Award - Prior to the beginning of any Performance Period, the Committee in its sole discretion will determine the target award for each salary grade or position for all Participants. The Award amount will be calculated by multiplying such target award by the percentage of the Award payable based on attainment of the applicable Performance Measures.

4.3 Required Employment - An eligible Participant shall receive an Award under this Supplement for a Performance Period provided he is actively employed by Caterpillar Inc. on the last day of the Performance Period, except for a Participant whose employment terminates during a Performance Period by reason of death, disability, or retirement in which case a prorated Award shall be paid for the time during the Performance Period that he was actively employed. Participants who are employed on the last day of the Performance Period but were not Participants for the entire Performance Period shall receive an Award prorated for that part of the Performance Period for which they were Participants.

ARTICLE V - ADMINISTRATION

5.1 Authority - The Supplement shall be administered by the Committee which shall have full power and authority to administer and interpret the Supplement within its terms. The Committee's authority shall include, but not be limited to, (i) selecting participants, (ii) determining the timing, amounts and composition of Awards, (iii) setting the duration of Performance Periods, (iv) establishing performance goals for the Performance Periods, and (v) measuring such performance at the end of each Performance Period. All decisions made by the Committee shall be final and binding and shall be given the maximum deference provided by law.

5.2 Adjustments of Company Performance Measures - At any time during a Performance Period, the Committee may, in its discretion, increase or decrease previously set Performance Measures for such Performance Period to reflect changes in tax laws, regulations or rulings; changes in accounting principles or practices; mergers, acquisitions or divestitures; major technical innovations; or extraordinary, nonrecurring or unusual items.

5.3 Suspension and Termination - The Committee and/or the Board of Directors of Caterpillar Inc. may suspend or terminate this Supplement at any time. In such event, all Performance Periods then in effect shall be deemed to have ended on the effective date of such suspension or termination, the applicable Performance Measures shall be appropriately prorated and modified to apply to the shortened Performance Periods, and Awards shall be appropriately prorated and based upon results accomplished over the time intervals from the start of each respective Performance Period through the effective date of suspension or termination.

5.4 Rules and Regulations - The Committee may adopt from time to time such rules and regulations as it reasonably deems appropriate to assist in administration of this Supplement.

ARTICLE VI - MISCELLANEOUS

6.1 Other Benefit Plans - No Award amount shall be taken into account under the Retirement Income Plan, the Employees' Investment Plan, the Insurance Benefits Plan, or any other employee benefit plan or payroll practice of Caterpillar Inc. or its subsidiaries.

6.2 Beneficiaries - If an Employee is deceased at the time any benefit is payable to him, the amount of such benefit shall be payable to the same person or persons and in the same proportionate amount as shall be payable to the beneficiary or beneficiaries for his basic life insurance under the applicable insurance plan of Caterpillar Inc. or its subsidiaries, or if no beneficiary is so designated, to the executor of his estate.

6.3 Employment Rights - Participation in the Supplement will not give any Participant the right to be retained in the service of Caterpillar Inc., or its subsidiaries, nor shall such participation provide any right or claim to any benefit under the Supplement unless such right or claim has specifically accrued under the terms of the Supplement.

6.4 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.

6.5 Governing Law - The Supplement shall be construed in accordance with and governed by the laws of the State of Illinois.

CATERPILLAR INC.

SUPPLEMENTAL EMPLOYEES' INVESTMENT PLAN
(Amended and Restated as of 12/1/2002)

1. Purpose

The purpose of the Caterpillar Inc. ("Company") Supplemental Employees' Investment Plan (SEIP), as set forth in the succeeding sections of this document, is to provide additional investment opportunities for those employees whose participation in the Employees' Investment Plan (EIP) is restricted because of the limitations imposed by Section 401(a)(17) and 415(c)(1)(A) of the Internal Revenue Code of 1986, as amended, or any successor statute thereto (hereinafter referred to as the "Limitation"). The SEIP shall be effective October 14, 1987.

2. Eligibility

An employee shall be eligible for the SEIP if he is participating in the EIP and his contributions and related employer contributions to Part 1 after 1987 can reasonably be expected to be restricted by the Limitation. As used herein, "Part 1" refers to the EIP without the Special Investment Supplement thereto. In addition, effective December 1, 1994, an employee shall be eligible for the SEIP if he is participating in the EIP and contributions to his account in the Special Investment Supplement ("Part 2") are restricted because of the Limitation.

3. Participant Deferrals

An employee must make a valid election (to become a "Participant") on or before the last Company business day in November of any year to participate in the SEIP during the following calendar year. Such election shall defer all or a portion of his compensation that would otherwise qualify as participant contributions under Part 1, Part 2 or both were it not for the Limitation. Any such election must be made (on a form provided by the Company) and delivered to the Director, Compensation and Benefits before the end of normal office hours on such last Company business day in November and shall remain in effect until it is revised as provided herein.

If a Participant wants to change or terminate the amount of compensation deferred, he shall deliver a revised election form to the Director, Compensation and Benefits; provided, however, that

(i) such revised election shall become effective (when and so long as the Participant is eligible) for each calendar year following the year in which such form is delivered, and shall remain effective until such election is further revised as provided herein, and

(ii) any such election must be filed before the end of normal office hours on the last Company business day in November.

When an employee first becomes eligible to participate in the SEIP (including those employees who first become eligible on the effective date), he may elect to defer compensation (or file a revised election) in accordance with the foregoing, except that any such election with respect to compensation payable to him during the calendar year in which he becomes eligible for the SEIP

(i) must be filed within a 30-day period that begins on the date he becomes eligible, and

(ii) shall be applicable only to compensation paid for months that commence after the date of such election.

4. Employer Amounts

An employee will be credited with the same amount that would otherwise be contributed to his account as an employer contribution under Part 1 were it not for the Limitation.

5. Status of Accounts

All amounts in the SEIP shall be held in the general funds of the Company, but the Company will establish an individual bookkeeping account for each Participant. Amounts of compensation deferred by the Participant and employer amounts related to such compensation will be credited to the individual account of the Participant in accordance with his election(s).

Each Participant may elect to have all or a specified percentage of his deferred compensation allocated to:

(a) interest bearing account;

(b) share equivalency account and calculated as if invested in Company common stock ("Stock Election");

(c) mutual fund account or accounts and calculated as if invested in any of the following Preferred Group funds: Asset Allocation, International Value, Large Cap Growth, Large Cap Value, Small Cap Growth; or

(d) U.S. Equity Broad Index account and calculated as if invested in the Russell 3000 Index Fund.

Amounts allocated to the stock account of a Participant who is an officer of the Company subject to Section 16 of the Securities Exchange Act of 1934 ("Officer") may not be transferred to another of his accounts (nor may amounts allocated, respectively, to any such other account be transferred to his stock account) until at least six months after he ceases to be subject to such Section.

Under such a Stock Election, dividend equivalents will accrue to the account (when dividends are payable) and will be reinvested and a Participant's account will in all other respects reflect share ownership for events such as a stock split but no voting rights will exist. The number of shares of stock equivalents shall be determined by dividing the amount of deferred compensation (or dividend equivalents credited) by the closing price of Company common stock on the New York Stock Exchange on the date of such deferral or dividend credit (or the next succeeding trading day if there is no trading on that date). Stock equivalents will be valued based on the closing price of Company common stock on the New York Stock Exchange as of the effective date of a transfer into or out of the stock account ("Transfer"), the date on which the Participant terminates employment, the date of distribution elected by the Participant hereunder or the date as of which he is considered totally and permanently disabled under EIP, whichever date applies (or the next succeeding trading day if there is no trading on that date).

The Company will credit interest accounts on a monthly basis. The interest rate will be equal to the base corporate lending rate (sometimes referred to as the "prime rate") applicable to commercial lending customers of Citibank, N.A., New York, New York (or any successor thereto) on the last business day of each calendar month. The monthly interest rate will be compounded daily and applied effective the last day of each month.

Participants who are not Officers may Transfer or make changes to the investment allocation of future deferred compensation which shall be effective as of the first day of a calendar quarter, provided that such Participant shall have filed an appropriate form with the Director, Compensation and Benefits, by the twentieth (20th) day of the preceding month.

All amounts in the SEIP and the establishment of individual bookkeeping accounts shall not be deemed to have created a trust, and no Participant shall have any ownership interest in any such account. A Participant's rights to any amounts credited to his account shall not be transferable or assignable. Each Participant will receive an annual report showing the status of his account at the close of each calendar year.

6. Disbursement

Following his termination of employment with the Company (or total and permanent disability), the value of the Participant's SEIP account will be payable to him as soon as practicable in cash, in a lump sum (including interest up to the date of payment) unless such Participant has elected a later payment date in writing that is acceptable to and approved by the Director, Compensation and Benefits; provided, however, that no such election shall be effective unless it shall have been filed on or before the last Company business day in November of the calendar year preceding the calendar year of such termination. A Participant may elect, either before or after termination of employment, an installment distribution for a period of up to 15 years; provided, however, that an election of installment distribution shall be effective only if it shall have been filed with the Director, Compensation and Benefits, before November 30 of the second year that precedes the year in which the distribution would otherwise occur.

Notwithstanding the foregoing, effective for amounts deferred after December 31, 1996 (and any earnings thereon):

(a) a Participant may elect one original scheduled withdrawal date as of which disbursement of elected amounts (and any earnings thereon) shall occur; provided that (i) such original date shall be the first day of any calendar **quarter** that is at least four years later than the year in which such an amount is deferred, and (ii) the Participant may change such original date to a later date; provided, however, that such change shall be effective only if it shall have been filed with the Director, Compensation and Benefits, before November 30 of the second year that precedes the year that includes such original date;

(b) a Participant may elect unscheduled withdrawals of between 5% and 100% of account assets attributable to such amounts deferred after December 31, 1996 (and any earnings thereon); provided that (i) the amount withdrawn shall be subject to a forfeiture equal to 10%, and the Participant shall discontinue participation in the plan for the remainder of the year (in which such withdrawal occurs) and for the following year and (ii) the minimum withdrawal amount (before forfeiture) shall be $10,000; and

(c) such withdrawals under (a) or (b) shall be applied against the assets of the Deferred Employees' Investment Plan as well as this plan, and shall be subject to such other rules of convenience and administration as shall be determined by the Director, Compensation and Benefits.

7. Death of a Participant

Upon the death of a Participant prior to payment of his SEIP account, the balance in the Participant's account (including interest for the elapsed portion of the year of death) shall be determined as of the date of death. Such balance shall be paid as soon as reasonably possible thereafter in a lump sum payment to (i) the same beneficiary or beneficiaries and in the same proportionate amount as he shall have designated under the EIP, in the absence of any designation to the contrary, or (ii) the beneficiary or beneficiaries for purposes of the SEIP as such Participant shall have designated in writing (in a form acceptable to, and filed with, the Director, Compensation and Benefits).

Notwithstanding the above, if the Participant has elected on a form that has been filed with and approved by the Director, Compensation and Benefits, amounts payable to the beneficiary may be paid at the payment date selected by the Participant and with an installment distribution for a period to 15 years, or under the remaining installment schedule in place for the Participant.

8. Amendment or Termination

The Compensation Committee of the Board of Directors or the Investment Plan Committee (for EIP) may at any time amend, merge, consolidate or terminate the SEIP, but no amendment, merger, consolidation or termination will have the effect of reducing the amount that any Participant is entitled to receive prior to such amendment, merger, consolidation or termination nor of changing the time of payment of any amount credited to a Participant's account.

9. Administration

Except as otherwise expressly provided herein, the SEIP shall be administered under the direction of the Director, Compensation and Benefits, of the Company.

CATERPILLAR INC.
EXECUTIVE INCENTIVE COMPENSATION PLAN
(Effective as of 01/01/2002)

Section 1. Purpose

The purpose of the Caterpillar Inc. Executive Incentive Compensation Plan ("Plan") is to advance the interests of Caterpillar Inc. and its subsidiaries (collectively, the "Company") by providing an annual incentive bonus to be paid to certain executive officers of the Company based on the achievement of pre-established quantitative performance goals. The Plan is a performance-based compensation plan as defined in Internal Revenue Code Section 162(m) of the Internal Revenue Service of 1986 as amended ("Code") and payments under the Plan are intended to qualify for tax deductibility under Section 162(m).

Section 2. Administration

The Plan shall be administered by the Compensation Committee ("Committee") of the Board of Directors of the Company ("Board"), which is composed solely of members of the Board that are outside directors, as that term is defined in Section 162(m) of the Code. The Committee shall have the authority to grant awards under the Plan to executive officers 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.

Section 3. Performance Awards

3.1 Eligible Participants

This Plan is applicable to the Chief Executive Officer, the Group Presidents and any other officers of the Company designated by the Committee ("Eligible Participants"). Absent a specific designation, the participants will be limited to the CEO and Group Presidents.

3.2 Award Criteria

Prior to March 31 of each year for which an award ("Performance Award") is payable hereunder, the Committee shall establish the performance factors (“Performance Measures”) applicable to the award for that year and the objective criteria pursuant to which the bonus for that year is to be payable. The Committee shall have sole discretion to determine the Company Performance Measures applicable to the Performance Award, and the method of Performance Award calculation. 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; (vii) net earnings; (viii) earnings per share; and (ix) realized 6 Sigma benefits. 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 Plan year defined as the fiscal year of the Company ("Performance Period"); provided, however, that the Committee may eliminate or decrease the amount of a Performance Award otherwise payable to a participant. The maximum dollar amount that any Participant may be paid in any single year under the Plan may not exceed $3 million.

3.3 Payment of Awards

As soon as practicable after the Company's audited financial statements are available for the Performance Period in which the incentive compensation will be paid, the Committee shall determine the Company’s performance in relation to the Performance Targets for that Performance Period. In performing such evaluation, the Committee is authorized to make adjustments in the method of calculating attainment of performance objectives as follows (i) to exclude the dilutive effects of acquisitions or joint ventures; (ii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (iii) to exclude restructuring and/or other nonrecurring charges; (iv) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (v) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (vi) to exclude the effects to any statutory adjustments to corporate tax; (vii) to exclude the impact of any "extraordinary items" as determined under generally accepted accounting principles; (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; and (ix) to exclude any other unusual, non-recurring gain or loss or other extraordinary item. The Committee shall certify in writing the extent to which Performance Targets were satisfied.

Performance Awards shall be paid in cash within three months of the fiscal year or as soon as practicable thereafter. Federal, state and local taxes will be withheld as appropriate.

3.4 Termination of Employment

To receive a Performance Award, the participant must be employed by the Company on the last day of the fiscal year. If a participant terminates employment before such date by reason of death, disability or retirement, a payout based on the time of employment during the year shall be distributed. Participants employed on the last day of the year, but not for the entire year, shall receive a payout prorated for that part of the year 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 4. Change of Control

4.1 Effect on Awards

Unless the Committee shall otherwise expressly provide in the agreement relating to an award under the Plan, upon the occurrence of a Change of Control as defined below: (i) all Performance Awards for a year 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 year 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 twelve.

4.2 *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 Securities Exchange Act of 1934 ("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 5. Amendment and Termination

The Committee may amend, suspend or terminate the Plan at any time in its sole and absolute discretion. Any amendment or termination of the Plan, however shall not affect the right of a participant to receive any earned but unpaid Performance Award. The Committee may amend the Plan without shareholder approval, unless such approval is necessary to comply with applicable laws, including provisions of the Exchange Act or the Code. However, termination shall not affect any awards previously granted under the Plan.

Section 6. Section 162(m) Compliance

It is the intent of the Company that awards made pursuant to the Plan constitute "qualified performance-based compensation" satisfying the requirements of Section 162(m) of the Code. Accordingly, the Plan shall be interpreted in a manner consistent with 162(m) of the Code. If any provision of the Plan is intended to but does not comply with, or is inconsistent with, the requirements of section 162(m) of the Code, such provision shall be construed or deemed amended to the extent necessary to conform to and comply with, Section 162(m) of the Code.

Nothing in this Plan precludes the Company from making additional payments or special awards to Eligible Participants outside of the Plan that may or may not qualify as "performance-based" compensation under Section 162(m), provided that such payment or award does not affect the qualification of any incentive compensation payable under the Plan as "performance-based" compensation.

Section 7. Employment Rights

No provision of the Plan nor any action taken by the Committee or the Company pursuant to the Plan shall give or be construed as giving any Eligible Participant any right to be retained in the employ of the Company or affect or limit the right of the Company to terminate such employment.

Section 8. Term

The Plan applies to each of the five calendar years during the period beginning January 1, 2002 and ending December 31, 2006. The Plan shall be effective as of January 1, 2002, subject to the approval of the Plan by the Company's stockholders. Any Performance Awards made under the Plan prior to shareholder approval shall be effective when made, but shall be conditioned on, and subject to, such approval of the Plan by stockholders.

CATERPILLAR INC.

DEFERRED EMPLOYEES'
INVESTMENT PLAN
(Amended and Restated as of 12/1/2002)

1. Purpose

The purpose of the Caterpillar Inc. ("Company") Deferred Employees' Investment Plan (DEIP), as set forth in the succeeding sections of this document, is to provide additional investment opportunities for those employees whose participation in Part 2 of the Employees' Investment Plan (EIP) is restricted because of limitations imposed by the Internal Revenue Code of 1986, as amended. The DEIP shall be effective June 30, 1995.

2. Eligibility

An employee shall be eligible to participate in the DEIP if he is in salary grade 30 or higher and currently defers compensation into Part 2 of EIP (to the maximum allowed by EIP).

3. Participant Deferrals

An employee must make a valid election (to become a "Participant") on or before the last Company business day in November of any year to participate in the DEIP during the following calendar year. Such election shall defer a portion of his compensation not to exceed the excess of (a) 6% of his base salary over (b) the total amount deferred by him into Part 2 of EIP and into the Supplemental Employees' Investment Plan (SEIP) because of any limitation on the amount that can be deferred under Part 2 of EIP. Any such election must be made (on a form provided by the Company) and delivered to the Director, Compensation and Benefits before the end of normal office hours on such last Company business day in November and shall remain in effect until it is revised as provided herein.

Effective January 1, 1996, an employee may also elect to defer all or part of the incentive compensation payable to him for a calendar year; provided, however, that such Participant's election must be filed with such Director on or before the last Company business day in November of the year in which such compensation shall have been accruing (except that in reference to such compensation accrued in 1995 such an election must be filed with such Director before the amount of such compensation is known). A Participant may elect to defer up to seventy percent (70%) of the base salary payable to him for a calendar year; provided, however, that such Participant's election must be filed with such Director on or before the last Company business day in November of the preceding calendar year.

If a Participant wants to change or terminate the amount of compensation deferred, he shall deliver a revised election form to the Director, Compensation and Benefits; provided, however, that:

(i) such revised election shall become effective (when and so long as the Participant is eligible) for each calendar year following the year in which such form is delivered, and shall remain effective until such election is further revised as provided herein, and

(ii) any such election must be filed before the end of normal office hours on the last Company business day in November.

When an employee first becomes eligible to participate in the DEIP (including those employees who first become eligible on the effective date), he may elect to defer compensation (or file a revised election) in accordance with the foregoing, except that any such election with respect to compensation payable to him during the calendar year in which he becomes eligible for the DEIP

(i) must be filed within a 30-day period that begins on the date he becomes eligible, and

(ii) shall be applicable only to compensation paid for months that commence after the date of such election.

4. <u>Status of Accounts</u>

All amounts in the DEIP shall be held in the general funds of the Company, but the Company will establish an individual bookkeeping account for each Participant. Amounts of compensation deferred by the Participant will be credited to the individual account of the Participant in accordance with his election(s).

Each Participant may elect to have all or a specified percentage if his deferred compensation allocated to:

(a) interest bearing account;

(b) share equivalency account and calculated as if invested in Company common stock ("Stock Election");

(c) mutual fund account or accounts and calculated as if invested in any of the following Preferred Group funds: Asset Allocation, International Value, Large Cap Growth, Large Cap Value, Small Cap Growth; or

(d) U.S. Equity Broad Index account and calculated as if invested in the Russell 3000 Index Fund.

Amounts allocated to the stock account of a Participant who is an officer of the Company subject to Section 16 of the Securities Exchange Act of 1934 ("Officer") may not be transferred to another of his accounts (nor may amounts allocated, respectively, to any such other account be transferred to his stock account) until at least six months after he ceases to be subject to such Section.

Under such a Stock Election, dividend equivalents will accrue to the account (when dividends are payable) and will be reinvested and a Participant's account will in all other respects reflect share ownership for events such as a stock split but no voting rights will exist. The number of shares of stock equivalents shall be determined by dividing the amount of deferred compensation (or dividend equivalents credited) by the closing price of Company common stock on the New York Stock Exchange on the date of such deferral or dividend credit (or the next succeeding trading day if there is no trading on that date). Stock equivalents will be valued based on the closing price of Company common stock on the New York Stock Exchange as of the effective date of a transfer into or out of the stock account ("Transfer"), the date on which the Participant terminates employment, the date of distribution elected by the Participant hereunder or the date as of which he is considered totally and permanently disabled under EIP, whichever date applies (or the next succeeding trading day if there is no trading on that date).

The Company will credit interest accounts on a monthly basis. The interest rate will be equal to the base corporate lending rate (sometimes referred to as the "prime rate") applicable to commercial lending customers of Citibank, N.A., New York, New York (or any successor thereto) on the last business day of each calendar month. The monthly interest rate will be compounded daily and applied effective the last day of each month.

Participants who are not Officers may Transfer or make changes to the investment allocation of future deferred compensation which shall be effective as of the first day of a calendar quarter, provided that such Participant shall have filed an appropriate form with the Director, Compensation and Benefits, by the twentieth (20th) day of the preceding month.

All amounts in the DEIP and the establishment of individual bookkeeping accounts shall not be deemed to have created a trust, and no Participant shall have any ownership interest in any such account. A Participant's rights to any amounts credited to his account shall not be transferable or assignable. Each Participant will receive an annual report showing the status of his account at the close of each calendar year.

5. Disbursement

Following his termination of employment with the Company (or total and permanent disability), the value of the Participant's DEIP account will be payable to him as soon as practicable in cash, in a lump sum (including interest up to the date of payment) unless such Participant has elected a later payment date in writing that is acceptable to and approved by the Director, Compensation and Benefits; provided, however, that no such election shall be effective unless it shall have been filed on or before the last Company business day in November of the calendar year preceding the calendar year of such termination.

For Participants who are officers of the Company subject to Section 16 of the Securities Exchange Act of 1934, the payment date under DEIP, with respect to amounts in the stock account, must be at least six months after the date on which the Participant's final deferral into DEIP became irrevocable.

A Participant may elect, either before or after termination of employment, an installment distribution for a period of up to 15 years; provided, however, that an election of installment distribution shall be effective only if it shall have been filed with the Director, Compensation and Benefits, before November 30 of the second year that precedes the year in which the distribution would otherwise occur.

Notwithstanding the foregoing, effective for amounts deferred after December 31, 1996 (and any earnings thereon):

(a) a Participant may elect one original scheduled withdrawal date as of which disbursement of elected amounts (and any earnings thereon) shall occur; provided that (i) such original date shall be the first day of any calendar **quarter** that is at least four years later than the year in which such an amount is deferred, and (ii) the Participant may change such original date to a later date, provided, however, that such change shall be effective only if it shall have been filed with the Director, Compensation and Benefits, before November 30 of the second year that precedes the year that includes such original date;

(b) a Participant may elect unscheduled withdrawals of between 5% and 100% of account assets attributable to such amounts deferred after December 31, 1996 (and any earnings thereon); provided that (i) the amount withdrawn shall be subject to a forfeiture equal to 10%, and the Participant shall discontinue participation in the plan for the remainder of the year (in which such withdrawal occurs) and for the following year and (ii) the minimum withdrawal amount (before forfeiture) shall be $10,000; and

(c) such withdrawals under (a) or (b) shall be applied against the assets of the Deferred Employees' Investment Plan as well as this plan, and shall be subject to such other rules of convenience and administration as shall be determined by the Director, Compensation and Benefits.

6. Death of a Participant

Upon the death of a Participant prior to payment of his DEIP account, the balance in the Participant's account (including interest for the elapsed portion of the year of death) shall be determined as of the date of death. Such balance shall be paid as soon as reasonably possible thereafter in a lump sum payment to (i) the same beneficiary or beneficiaries and in the same proportionate amount as he shall have designated under the EIP, in the absence of any designation to the contrary, or (ii) the beneficiary or beneficiaries for purposes of the DEIP as such Participant shall have designated in writing (in a form acceptable to, and filed with, the Director, Compensation and Benefits).

Notwithstanding the above, if the Participant has elected on a form that has been filed with and approved by the Director, Compensation and Benefits, amounts payable to the beneficiary may be paid at the payment date selected by the Participant and with an installment distribution for a period to 15 years, or under the remaining installment schedule in place for the Participant.

7. Amendment or Termination

The Compensation Committee of the Board of Directors or the Investment Plan Committee (for EIP) may at any time amend, merge, consolidate or terminate the DEIP, but no amendment, merger, consolidation or termination will have the effect of reducing the amount that any Participant is entitled to receive prior to such amendment, merger, consolidation or termination nor of changing the time of payment of any amount credited to a Participant's account.

8. Administration

Except as otherwise expressly provided herein, the DEIP shall be administered under the direction of the Director, Compensation and Benefits, of the Company.

EXHIBIT 11

CATERPILLAR INC.
AND ITS SUBSIDIARIES

COMPUTATIONS OF EARNINGS PER SHARE

FOR THE YEARS ENDED DECEMBER 31,

		2002	2001	2000
I.	Net profit for year (millions of dollars) (A):	$ 798	$ 805	$ 1,053
II.	Determination of shares (millions):			
	Weighted average number of common shares outstanding (B)	344.0	343.3	346.8
	Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds at average market price	2.9	3.8	2.1
	Average common shares outstanding for fully diluted computation (C)	346.9	347.1	348.9
III.	Profit per share of common stock:			
	Assuming no dilution (A÷B)	$ 2.32	$ 2.35	$ 3.04
	Assuming full dilution (A÷C)	$ 2.30	$ 2.32	$ 3.02

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,

	2002	2001	2000
Profit	$ 798	$ 805	$ 1,053
Add:			
Provision for income taxes	$ 314	$ 359	439
Profit before taxes	$ 1,112	$ 1,164	$ 1,492
Fixed charges:			
Interest and other costs related to borrowed funds(1)	$ 805	$ 948	$ 988
Rentals at computed interest factors(2)	81	86	90
Total fixed charges	$ 886	$ 1,034	$ 1,078
Profit before provision for income taxes and fixed charges	$ 1,998	$ 2,198	$ 2,570
Ratio of profit to fixed charges	2.3	2.1	2.4

(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.

APPENDIX

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2002

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The management of Caterpillar Inc. has prepared the accompanying financial statements for the years ended December 31, 2002, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. 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, 2003

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying statements of consolidated financial position and the related statements of consolidated results of operations, changes in consolidated stockholders' equity and consolidated cash flows present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 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.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 2002 the Company changed the manner in which it accounts for goodwill and other intangible assets upon the adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

PricewaterhouseCoopers LLP

Peoria, Illinois

January 23, 2003

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

	2002	2001	2000
Sales and revenues:			
Sales of Machinery and Engines	**$18,648**	$19,027	$18,913
Revenues of Financial Products	**1,504**	1,423	1,262
Total sales and revenues	**20,152**	20,450	20,175
Operating costs:			
Cost of goods sold	**14,709**	14,752	14,497
Selling, general and administrative expenses	**2,531**	2,567	2,367
Research and development expenses	**656**	696	649
Interest expense of Financial Products	**521**	657	688
Other operating expenses	**416**	467	237
Total operating costs	**18,833**	19,139	18,438
Operating profit	**1,319**	1,311	1,737
Interest expense excluding Financial Products	**279**	285	292
Other income (expense)	**74**	143	83
Consolidated profit before taxes	**1,114**	1,169	1,528
Provision for income taxes	**312**	367	447
Profit of consolidated companies	**802**	802	1,081
Equity in profit (loss) of unconsolidated affiliated companies	**(4)**	3	(28)
Profit	**$ 798**	$ 805	$ 1,053
Profit per common share	**$ 2.32**	$ 2.35	$ 3.04
Profit per common share — diluted[1]	**$ 2.30**	$ 2.32	$ 3.02
Weighted-average common shares (millions)	**344.0**	343.3	346.8
Weighted-average common shares — diluted (millions)[1]	**346.9**	347.1	348.9
Cash dividends declared per common share	**$ 1.400**	$ 1.390	$ 1.345

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

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 2 — Caterpillar Inc.

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

(Dollars in millions)

	2002		2001		2000	
Common stock:						
Balance at beginning of year	**$ 1,043**		$ 1,048		$ 1,045	
Shares issued from treasury stock	**(9)**		(5)		3	
Balance at year-end	**1,034**		1,043		1,048	
Treasury stock:						
Balance at beginning of year	**$(2,696)**		$(2,676)		$(2,275)	
Shares issued: 2002 — 878,623; 2001 — 916,634; 2000 — 408,629	**27**		23		11	
Treasury shares purchased: 2001 — 937,000; 2000 — 10,789,700	**—**		(43)		(412)	
Balance at year-end	**(2,669)**		(2,696)		(2,676)	
Profit employed in the business:						
Balance at beginning of year	**7,533**		7,205		6,617	
Profit	**798**	**$ 798**	805	$ 805	1,053	$ 1,053
Dividends declared	**(482)**		(477)		(465)	
Balance at year-end	**7,849**		7,533		7,205	
Accumulated other comprehensive income:						
Foreign currency translation adjustment:						
Balance at beginning of year	**(17)**		55		125	
Aggregate adjustment for year	**103**	**103**	(72)	(72)	(70)	(70)
Balance at year-end	**86**		(17)		55	
Minimum pension liability adjustment — consolidated companies:						
Balance at beginning of year (net of tax of: 2002 — $82; 2001 — $1; 2000 — $1)	**(161)**		(1)		(2)	
Aggregate adjustment for year (net of tax of: 2002 — $301; 2001 — $81; 2000 — $0)	**(610)**	**(610)**	(160)	(160)	1	1
Balance at year-end (net of tax of: 2002 — $383; 2001 — $82; 2000 — $1)	**(771)**		(161)		(1)	
Minimum pension liability adjustment — unconsolidated affiliates:						
Balance at beginning of year	**(41)**		(31)		(45)	
Aggregate adjustment for year	**4**	**4**	(10)	(10)	14	14
Balance at year-end	**(37)**		(41)		(31)	
Derivative financial instruments:						
Balance at beginning of year (net of tax of: 2002 — $17)	**(26)**		—		—	
Gains/(losses) deferred during year (net of tax of: 2002 — $10; 2001 — $24)	**15**	**15**	(39)	(39)	—	—
(Gains)/losses reclassified to earnings during year (net of tax of: 2002 — $11; 2001 — $7)	**22**	**22**	13	13	—	—
Balance at year-end (net of tax of: 2002 — $4; 2001 — $17)	**11**		(26)		—	
Available-for-sale securities:						
Balance at beginning of year (net of tax of: 2002 — $13)	**(24)**		—		—	
Gains/(losses) deferred during year (net of tax of: 2002 — $16; 2001 — $14)	**(29)**	**(29)**	(26)	(26)	—	—
(Gains)/losses reclassified to earnings during year (net of tax of: 2002 — $12; 2001 — $1)	**22**	**22**	2	2	—	—
Balance at year-end (net of tax of: 2002 — $17; 2001 — $13)	**(31)**		(24)		—	
Total accumulated other comprehensive income	**(742)**		(269)		23	
Comprehensive income		**$ 325**		$ 513		$ 998
Stockholders' equity at year-end	**$ 5,472**		$ 5,611		$ 5,600	

See accompanying Notes to Consolidated Financial Statements.

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

	2002	2001	2000
Assets			
Current assets:			
Cash and short-term investments	**$ 309**	$ 400	$ 334
Receivables — trade and other	**2,838**	2,592	2,608
Receivables — finance	**6,748**	5,849	5,471
Deferred and refundable income taxes	**642**	423	397
Prepaid expenses	**1,328**	1,211	1,019
Inventories	**2,763**	2,925	2,692
Total current assets	**14,628**	13,400	12,521
Property, plant and equipment — net	**7,046**	6,603	5,951
Long-term receivables — trade and other	**66**	55	76
Long-term receivables — finance	**6,714**	6,267	6,095
Investments in unconsolidated affiliated companies	**747**	787	551
Deferred income taxes	**850**	938	907
Intangible assets	**281**	274	61
Goodwill	**1,402**	1,397	1,446
Other assets	**1,117**	936	856
Total assets	**$32,851**	$30,657	$28,464
Liabilities			
Current liabilities:			
Short-term borrowings:			
— Machinery and Engines	**$ 64**	$ 219	$ 369
— Financial Products	**2,111**	1,961	602
Accounts payable	**2,269**	2,123	2,339
Accrued expenses	**1,620**	1,419	1,148
Accrued wages, salaries and employee benefits	**1,178**	1,292	1,274
Dividends payable	**120**	120	117
Deferred and current income taxes payable	**70**	11	57
Long-term debt due within one year:			
— Machinery and Engines	**258**	73	204
— Financial Products	**3,654**	3,058	2,558
Total current liabilities	**11,344**	10,276	8,668
Long-term debt due after one year:			
— Machinery and Engines	**3,403**	3,492	2,854
— Financial Products	**8,193**	7,799	8,480
Liability for postemployment benefits	**4,038**	3,103	2,514
Deferred income taxes and other liabilities	**401**	376	348
Total liabilities	**27,379**	25,046	22,864
Contingencies (Note 21)			
Stockholders' equity			
Common stock of $1.00 par value:			
Authorized shares: 900,000,000			
Issued shares (2002, 2001 and 2000 — 407,447,312) at paid-in amount	**1,034**	1,043	1,048
Treasury stock (2002 — 63,192,245 shares; 2001 — 64,070,868 shares; and 2000 — 64,050,502 shares) at cost	**(2,669)**	(2,696)	(2,676)
Profit employed in the business	**7,849**	7,533	7,205
Accumulated other comprehensive income	**(742)**	(269)	23
Total stockholders' equity	**5,472**	5,611	5,600
Total liabilities and stockholders' equity	**$32,851**	$30,657	$28,464

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	2002	2001	2000
Cash flow from operating activities:			
Profit	**$ 798**	$ 805	$ 1,053
Adjustments for non-cash items:			
Depreciation and amortization	**1,220**	1,169	1,063
Unusual charges	**—**	153	—
Other	**306**	344	79
Changes in assets and liabilities:			
Receivables — trade and other	**(50)**	99	(327)
Inventories	**162**	(211)	(54)
Accounts payable and accrued expenses	**164**	(160)	335
Other — net	**(234)**	(212)	(90)
Net cash provided by operating activities	**2,366**	1,987	2,059
Cash flow from investing activities:			
Capital expenditures — excluding equipment leased to others	**(728)**	(1,100)	(928)
Expenditures for equipment leased to others	**(1,045)**	(868)	(665)
Proceeds from disposals of property, plant and equipment	**561**	356	263
Additions to finance receivables	**(15,338)**	(16,284)	(14,879)
Collections of finance receivables	**11,866**	12,367	10,336
Proceeds from sale of finance receivables	**2,310**	3,079	3,346
Investments and acquisitions	**(294)**	(405)	(115)
Other — net	**(40)**	(72)	(111)
Net cash used for investing activities	**(2,708)**	(2,927)	(2,753)
Cash flow from financing activities:			
Dividends paid	**(481)**	(474)	(462)
Common stock issued, including treasury shares reissued	**10**	6	4
Treasury shares purchased	**—**	(43)	(412)
Proceeds from long-term debt issued:			
— Machinery and Engines	**248**	681	12
— Financial Products	**3,889**	3,381	3,748
Payments on long-term debt:			
— Machinery and Engines	**(225)**	(354)	(198)
— Financial Products	**(3,114)**	(2,599)	(2,949)
Short-term borrowings — net	**(102)**	420	800
Net cash provided by financing activities	**225**	1,018	543
Effect of exchange rate changes on cash	**26**	(12)	(63)
Increase (decrease) in cash and short-term investments	**(91)**	66	(214)
Cash and short-term investments at beginning of period	**400**	334	548
Cash and short-term investments at end of period	**$ 309**	$ 400	$ 334

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.

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 (1 000 to 14 500 kilowatts).

(3) ***Financial Products*** — financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division 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 Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries.

Our *Machinery* and *Engines* operations are highly integrated. Throughout the Notes, *Machinery and Engines* represents the aggregate total of these principal lines of business.

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 (dealer network), 59 located in the United States and 156 located outside the United States. Worldwide, these dealers serve 180 countries and operate 2,888 places of business, including 1,276 dealer rental outlets. 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 164 distributors located in 140 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.

Manufacturing activities of the *Machinery and Engines* lines of business are conducted in 45 plants in the United States; nine in the United Kingdom; eight in Italy; five in Mexico; four each in China and India; three each in France and Northern Ireland; two each in Australia, Canada, Germany and Japan; and one each in Belgium, Brazil, Hungary, Indonesia, The Netherlands, Poland, Russia, South Africa and Sweden. 14 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 conducted primarily 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% or are less than 20% owned and for which we have significant influence are accounted for by the equity method (see Note 8 on Page A-14).

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

C. Sales and revenue recognition

Sales of *Machinery and Engines* are recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers.

Revenues of *Financial Products* represent primarily 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. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and collection doubts are removed.

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, 2002, 2001 and 2000.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $1,977, $1,923 and $2,065 higher than reported at December 31, 2002, 2001 and 2000, respectively.

E. Securitized receivables

When finance receivables are securitized, we retain interest in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinate certificates. Gains or losses on the securitization are dependent on the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based on 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-12 – A-14).

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 15 years or less. Accumulated amortization was $47, $32 and $21 at December 31, 2002, 2001 and 2000, 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 Statement 1. These amounts were $244, $241 and $235 for the years ended December 31, 2002, 2001 and 2000, 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 "Other income (expense)" in Statement 1. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in "Accumulated other comprehensive income."

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 prudently 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. Our 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, we designate 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 on Pages A-10 and A-11 for more information on derivatives.

J. Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, impairment of available-for-sale securities, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and certain unusual charges.

K. Accounting changes

In June 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 June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 (SFAS 146), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 nullifies the guidance of the Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also establishes that fair value is the objective for the initial measurement of the liability. The provisions of SFAS 146 are required for exit or disposal activities that are initiated after December 31, 2002. We adopted SFAS 146 on

(Dollars in millions except per share data)

October 1, 2002. Its adoption did not have any impact on our financial statements.

In October 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 147 (SFAS 147), "Acquisitions of Certain Financial Institutions." SFAS 147 requires that the guidance provided by SFAS 141 "Business Combinations," SFAS 142 "Goodwill and Other Intangible Assets" and SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" will apply to acquisitions of financial institutions (previously covered under special industry guidance). The transition provisions of SFAS 147 were effective on October 1, 2002. The adoption of SFAS 147 did not have any impact on our financial statements.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by FIN 45, we adopted the disclosure requirements on December 31, 2002 (refer to Note 20 on Page A-21), and we will adopt the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. We believe the adoption of the recognition/measurement provisions will not have a material impact on our financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation — Transition and Disclosure." This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We account for stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense is recognized in association with our options. We adopted the disclosure requirements of SFAS 148 in December 2002.

Pro forma net income and earnings per share were:

	Years ended December 31,		
	2002	2001	2000
Net income, as reported	**$ 798**	$ 805	$1,053
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(65)**	(57)	(45)
Pro forma net income	**$ 733**	$ 748	$1,008
Profit per share of common stock:			
As reported:			
Basic	**$ 2.32**	$ 2.35	$ 3.04
Assuming dilution	**$ 2.30**	$ 2.32	$ 3.02
Pro forma:			
Basic	**$ 2.13**	$ 2.18	$ 2.91
Assuming dilution	**$ 2.13**	$ 2.17	$ 2.90

2. Derivative financial instruments and risk management

A. Adoption of SFAS 133

We adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and Financial Accounting Standards No. 138 effective January 1, 2001. Adoption of these new accounting standards resulted in cumulative after-tax reductions to profit 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 2002 and 2001, we reclassified $1 and $5 of the transition adjustment from accumulated other comprehensive income to current earnings, respectively.

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 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 $.4 and $2 on the undesignated contracts were recorded in current earnings ["Other income (expense)" in Statement 1] for 2002 and 2001, respectively. Gains/(losses) of $(.5) and $.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 2002 and 2001, respectively. As of December 31, 2002, $11 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. Last year, $5 of deferred net gains was expected to be reclassified to current earnings. There were no circumstances where hedge treatment was discontinued during 2002 or 2001.

In managing foreign currency risk for our *Financial Products* operations, our objective is to minimize 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/(losses) of $(96) and $43 on the undesignated contracts for 2002 and 2001, respectively, substantially offset by balance sheet remeasurement and conversion gains and 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. In 2001 gains on undesignated contracts of $.3 were recorded in current earnings ["Other income (expense)"] for the year. In 2001 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. During 2001, our *Machinery and Engines* operations liquidated all fixed-to-floating interest rate swaps. 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 $8 and $6 on the liquidated swaps were amortized to current earnings ["Other income (expense)"] for 2002 and 2001, respectively. 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, 2002, $.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. Last year, $.3 of deferred net gains was expected to be reclassified to current earnings. 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 2002 or 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 a 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 $17 and $44 were offset completely by losses on hedged debt of $17 and $44 in current earnings ["Other income (expense)"] for 2002 and 2001, respectively. *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. Gains/(losses) of $.4 and $(1) due to ineffectiveness on floating-to-fixed interest rate swaps were included in current earnings ["Other income (expense)"] for 2002 and 2001, respectively. During the second quarter of 2002, we liquidated four fixed-to-floating interest rate swaps. Deferred gains on these 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 $1 were amortized to Interest expense for the year ended December 31, 2002. As of December 31, 2002, $26 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. Last year, $30 of deferred net losses was expected to be reclassified to current earnings. There were no circumstances where hedge treatment was discontinued during 2002 or 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 manage the commodity risk and reduce the cost of purchased materials.

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 reduce the cost of purchased materials. 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. Gains/(losses) on the undesignated contracts of $.9 and $(8) were recorded in current earnings ["Other income (expense)"] for 2002 and 2001, respectively.

3. Other income (expense)

	Years ended December 31, 2002	2001	2000
Investment and interest income	**$ 31**	$ 96	$ 96
Foreign exchange (losses) gains	**13**	(29)	(78)
Miscellaneous income	**30**	76	65
	$ 74	$ 143	$ 83

4. Income taxes

The components of profit before taxes were:

	Years ended December 31, 2002	2001	2000
U.S.	**$ 343**	$ 741	$1,083
Non-U.S.	**771**	428	445
	$1,114	$1,169	$1,528

(Dollars in millions except per share data)

The components of the provision for income taxes were:

	Years ended December 31, 2002	2001	2000
Current tax provision:			
U.S. Federal	**$ (62)**	$ 150	$ 177
Non-U.S.	**210**	174	196
State (U.S.)	**1**	11	14
	$ 149	$ 335	$ 387
Deferred tax provision (credit):			
U.S. Federal	**172**	65	83
Non-U.S.	**(20)**	(34)	(35)
State (U.S.)	**11**	1	12
	163	32	60
Total provision for income taxes	**$ 312**	$ 367	$ 447

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

	Years ended December 31, 2002	2001	2000
U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Benefit of foreign sales corporation/ extraterritorial income exclusion	**(4.4)%**	(4.9)%	(3.8)%
Release valuation allowance	**—**	—	(2.6)%
Non-U.S. subsidiaries taxed at other than 35%	**(3.4)%**	(0.1)%	1.6 %
Other — net	**0.8 %**	1.4 %	(0.8)%
Provision for income taxes	**28.0 %**	31.4 %	29.4 %

We paid income taxes of $124, $379 and $359 in 2002, 2001 and 2000, 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 income tax assets and liabilities:

	December 31, 2002	2001	2000
Deferred income tax assets:			
Postemployment benefits other than pensions	**$1,130**	$ 1,112	$ 1,052
Warranty reserves	**204**	186	191
Unrealized profit excluded from inventories	**219**	212	176
Net operating loss carryforwards	**224**	207	183
Inventory valuation method	**60**	50	67
Pension	**39**	—	—
Other	**205**	279	247
	2,081	2,046	1,916
Deferred income tax liabilities:			
Capital assets	**(625)**	(523)	(426)
Pension	**—**	(182)	(202)
	(625)	(705)	(628)
Valuation allowance for deferred tax assets	**(18)**	(22)	(25)
Deferred income taxes — net	**$1,438**	$ 1,319	$ 1,263

SFAS 109 requires that individual tax-paying entities of the company offset all current deferred tax liabilities and assets within each particular tax jurisdiction and present them as a single amount in the Statement of Financial Position. A similar procedure is followed for all noncurrent deferred tax liabilities and assets. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes at December 31, included on the following lines in Statement 3, are as follows:

	2002	2001	2000
Assets:			
Deferred and refundable income taxes	**$ 638**	$ 423	$ 397
Deferred income taxes	**850**	938	907
	$1,488	$ 1,361	$ 1,304
Liabilities:			
Deferred and current income taxes payable	**$ 8**	$ 6	$ 6
Deferred income taxes and other liabilities	**42**	36	35
Deferred income taxes — net	**$1,438**	$ 1,319	$ 1,263

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.

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

As of December 31, 2002, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

2003	2004	2005	2006	2007	2008	2009	Unlimited	Total
$4	$8	$12	$16	$11	$1	$51	$705	$808

As of December 31, 2002, $89 of regular foreign tax credit carryforwards were available in the United States. They will expire in 2007.

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 7.1%.

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 and receives an annual servicing fee of 1% of the average outstanding principle balance. Securitization of receivables is a cost-effective means of financing the business. Consolidated net discounts of $10, $24 and $38 were recognized on securitization of dealer receivables during 2002, 2001 and 2000, respectively, and are included in "Other income (expense)" in Statement 1. Significant assumptions used to estimate the fair value of dealer receivables securitized during 2002, 2001 and 2000 include a discount rate of 4.8%, 7.2% and 9.2%, respectively. These rates reflect declining market interest rates. Other assumptions include a one-month weighted-average maturity, a weighted-average prepayment rate of 0% and expected credit losses of 0% for 2002, 2001 and 2000. Expected credit losses are assumed to be 0% because dealer receivables have historically had no losses and none are expected in the future. The net dealer receivables retained were $1,145, $772 and $814 as of December 31, 2002, 2001 and 2000, respectively, and are included in "Receivables — finance" in Statement 3 and "Wholesale Notes" in Table I.

During 2002 and 2001, Cat Financial securitized retail installment sale contracts and finance leases into public asset-backed securitization facilities. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2002, subordinated interests included $8 in subordinated certificates, an interest in certain future cash flows (excess) with an initial fair value of $11 and a reserve account with an initial fair value of $10. For 2001, subordinated interests included $10 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 generally are subordinate to the investors' interests. Net gains of $18 and $21 were recognized on these transactions in 2002 and 2001, respectively.

Significant assumptions used to estimate the fair value of the subordinated certificates were:

	2002	2001
Discount rate	**4.8%**	6.3%
Weighted-average prepayment rate	**14.0%**	14.0%
Expected credit losses	**1.0%**	0.6%

Significant assumptions used to estimate the fair value of the excess and the reserve accounts were:

	2002	2001
Discount rate	**14.0%**	13.6%
Weighted-average prepayment rate	**14.0%**	14.0%
Expected credit losses	**1.0%**	0.6%

The company receives annual servicing fees of approximately 1% of the unpaid note value.

During 2002, 2001 and 2000, 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, 2002, 2001 and 2000, the subordinated retained interests in the public securitizations totaled $47, $51 and $61, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2002	2001	2000
Cash flow discount rates on subordinated tranches	**4.8-6.3%**	6.3-6.9%	6.3-6.9%
Cash flow discount rates on other retained interests	**13.6-14.0%**	13.6%	13.6%
Weighted-average maturity	**29 months**	27 months	16 months
Average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	0.5%	0.5%

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

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.

The securitization facilities involved in Cat Financial's securitizations are qualifying special purpose entities and thus, in accordance with the Statement of Financial Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are not consolidated.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days

TABLE I — Finance Receivables Information

Contractual maturities of outstanding receivables:

Amounts Due In	Installment Contracts	Wholesale and Retail Finance Leases	Wholesale and Retail Notes	Total
	December 31, 2002			
2003	$ 1,642	$ 1,505	$ 3,181	$ 6,328
2004	1,063	1,051	973	3,087
2005	629	644	571	1,844
2006	274	303	361	938
2007	84	134	194	412
Thereafter	25	157	717	899
	3,717	3,794	5,997	13,508
Residual value	—	910	—	910
Less: Unearned income	240	479	30	749
Total	$ 3,477	$ 4,225	$ 5,967	$ 13,669

Impaired loans and leases:

	2002	2001	2000
Average recorded investment	**$ 292**	$ 323	$ 144
At December 31:			
Recorded investment	**$ 366**	$ 259	$ 265
Less: Fair value of underlying collateral	**233**	167	198
Potential loss	**$ 133**	$ 92	$ 67

Allowance for credit loss activity:

	2002	2001	2000
Balance at beginning of year	**$ 177**	$ 163	$ 134
Provision for credit losses	**109**	97	62
Receivables written off	**(103)**	(82)	(43)
Recoveries on receivables previously written off	**18**	10	15
Other — net	**6**	(11)	(5)
Balance at end of year	**$ 207**	$ 177	$ 163

In estimating the allowance for credit losses, we review accounts that are past due, non-performing or in bankruptcy.

Cat Financial's net investment in financing leases:

	December 31,		
	2002	2001	2000
Total minimum lease payments receivable	**$3,794**	$ 3,606	$ 3,477
Estimated residual value of leased assets:			
Guaranteed	**306**	272	283
Unguaranteed	**604**	682	713
	4,704	4,560	4,473
Less: Unearned income	**479**	514	517
Net investment in financing leases	**$4,225**	$ 4,046	$ 3,956

Continued on Page A-14

(Dollars in millions except per share data)

TABLE I Continued — Finance Receivables Information

	2002		2001		2000	
	Dealer Receivables	Finance Receivables	Dealer Receivables	Finance Receivables	Dealer Receivables	Finance Receivables
Cash flow from securitizations:						
Proceeds from initial sales of receivables	**$ —**	**$ 614**	$ —	$ 600	$ 660	$ —
Proceeds from subsequent sales of receivables into revolving facility	**1,696**	**—**	2,479	—	2,686	—
Servicing fees received	**3**	**7**	5	6	4	8
Other cash flows	**—**	**—**	—	—	—	7
Characteristics of securitized receivables:						
At December 31:						
Total securitized principal balance	**$ 240**	**$ 726**	$ 500	$ 616	$ 710	$ 452
Loans more than 30 days past due	**—**	**32**	—	31	—	22
Weighted average maturity (in months)	**1**	**28**	1	26	1	16
For the year ended December 31:						
Average securitized principal balance	**324**	**619**	504	836	537	631
Net credit losses	**—**	**5**	—	3	—	3

past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and collection doubts are removed. Investment in loans/finance leases on non-accrual status were $370 and past due over 90 days and still accruing were $72 as of December 31, 2002.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength and intended use of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

Please refer to Table I on Pages A-13 and A-14 for additional finance receivables information and Note 17 and Table V on Pages A-20 and A-21 for fair value information.

6. Inventories

	December 31, 2002	2001	2000
Raw materials	**$ 806**	$ 846	$ 766
Work-in-process	**316**	239	256
Finished goods	**1,454**	1,658	1,485
Supplies	**187**	182	185
	$2,763	$ 2,925	$ 2,692

We had long-term material purchase obligations of approximately $369 at December 31, 2002.

7. Property, plant and equipment

	Useful Lives (Years)	December 31, 2002	2001	2000
Land	—	**$ 149**	$ 149	$ 143
Buildings and land improvements	20-45	**3,039**	3,077	3,016
Machinery, equipment and other	3-10	**7,015**	6,658	6,674
Equipment leased to others	—	**3,033**	2,270	1,771
Construction-in-process	—	**305**	636	312
Total property, plant and equipment, at cost		**13,541**	12,790	11,916
Less: Accumulated depreciation		**6,495**	6,187	5,965
Property, plant and equipment — net		**$7,046**	$ 6,603	$ 5,951

We had commitments for the purchase or construction of capital assets of approximately $202 at December 31, 2002.

Assets recorded under capital leases[1]:

	December 31, 2002	2001	2000
Gross capital leases[2]	**$ 259**	$ 444	$ 622
Less: Accumulated depreciation	**170**	318	483
Net capital leases	**$ 89**	$ 126	$ 139

[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, 2002	2001	2000
Equipment leased to others — at original cost	**$3,033**	$ 2,270	$ 1,771
Less: Accumulated depreciation	**809**	629	479
Equipment leased to others — net	**$2,224**	$ 1,641	$ 1,292

At December 31, 2002, scheduled minimum rental payments to be received for equipment leased to others were:

2003	2004	2005	2006	2007	After 2007
$482	$322	$190	$88	$33	$15

8. Investment in 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. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three month lag, e.g., SCM results reflect the periods ending September 30) was as follows:

	Years ended December 31, 2002	2001	2000
Results of Operations:			
Sales	**$2,734**	$ 2,493	$ 2,773
Cost of sales	**2,168**	1,971	2,220
Gross profit	**566**	522	553
Profit (loss)	**$ (1)**	$ 9	$ (56)
Caterpillar's profit (loss)	**$ (4)**	$ 3	$ (28)

	December 31, 2002	2001	2000
Financial Position:			
Assets:			
Current assets	**$1,389**	$ 1,451	$1,583
Property, plant and equipment — net	**1,209**	986	1,000
Other assets	**493**	290	352
	3,091	2,727	2,935
Liabilities:			
Current liabilities	**$1,117**	$ 1,257	$1,284
Long-term debt due after one year	**808**	414	557
Other liabilities	**249**	281	253
	2,174	1,952	2,094
Ownership	**$ 917**	$ 775	$ 841
Caterpillar's investment in unconsolidated affiliated companies:			
Investment in equity method companies	**$ 437**	$ 437	$ 429
Plus: Investment in cost method companies	**310**	350	122
Investment in unconsolidated affiliated companies	**$ 747**	$ 787	$ 551

At December 31, 2002, consolidated "Profit employed in the business" in Statement 2 included $73 representing undistributed profit of the unconsolidated affiliated companies. In 2002, 2001 and 2000, we received $4, $4 and $4, respectively, in dividends from unconsolidated affiliated companies.

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

9. Intangible assets and goodwill

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, but 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 adopted this new accounting standard on January 1, 2002. Upon adoption, we performed the required transitional impairment tests of goodwill and indefinite-lived intangible assets. Application of the transitional impairment provisions of SFAS 142 did not result in an impairment loss.

As of December 31, 2002, total intangible assets were $281. This included $191 of pension-related intangible assets. The remaining $90 represents the net carrying value of intellectual property. The gross carrying amount of the intellectual property was $137 with accumulated amortization of $47. Amortization expense for the year was $13. Amortization expense related to intangible assets is expected to be:

2003	2004	2005	2006	2007	Thereafter
$16	$14	$14	$12	$8	$26

During the year ended December 31, 2002, no goodwill was acquired, impaired or disposed. Goodwill amortization expense was $85 and $81 for 2001 and 2000, respectively. Excluding goodwill amortization expense, profit for 2001 and 2000 was $863 ($2.51 per share-basic, $2.49 per share-diluted) and $1,108 ($3.19 per share-basic, $3.18 per share-diluted), respectively.

10. Available-for-sale securities

Cat Insurance and Caterpillar Investment Management Ltd. had investments in certain debt and equity securities at December 31, 2002 and 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. These fair values are included in "Other assets" in Statement 3. 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, 2002	Cost Basis	Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 89	$ —	$ 89
Corporate bonds	208	1	209
Equity securities	220	(51)	169
	$517	$ (50)	$467

December 31, 2001	Cost Basis	Pre-Tax 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 at December 31, 2002, 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	$ 14
Due after one year through five years	$128
Due after five years through ten years	$ 28
Due after ten years	$128

Proceeds from sales of investments in debt and equity securities during 2002 and 2001 were $288 and $246, respectively. Gross gains of $9 and $2 and gross losses of $2 and $5 have been included in current earnings as a result of these sales for 2002 and 2001, respectively.

During 2002, we recognized a $41 pretax charge in accordance with the application of SFAS 115 for "other than temporary" declines in the market value of securities in the Cat Insurance investment portfolio.

11. 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-16 for additional financial information.

(Dollars in millions except per share data)

TABLE II — Financial Information Related to Pension Plans

	U.S. Pension Benefits			Non-U.S. Pension Benefits		
	2002	2001	2000	**2002**	2001	2000
Change in benefit obligation:						
Benefit obligation, January 1	**$ 7,382**	$ 6,921	$ 6,536	**$ 1,229**	$ 1,168	$ 1,200
Service cost	**115**	99	98	**38**	35	33
Interest cost	**529**	516	486	**70**	65	66
Business combinations	**—**	—	—	**—**	2	—
Plan amendments	**—**	2	1	**—**	2	1
Actuarial losses (gains)	**395**	389	329	**135**	(17)	58
Foreign currency exchange rates	**—**	—	—	**100**	21	(145)
Participant contributions	**—**	—	—	**10**	9	11
Benefits paid	**(611)**	(545)	(529)	**(65)**	(56)	(56)
Special termination benefits[1]	**34**	—	—	**—**	—	—
Benefit obligation, December 31	**$ 7,844**	$ 7,382	$ 6,921	**$ 1,517**	$ 1,229	$ 1,168
Change in plan assets:						
Fair value of plan assets, January 1	**$ 7,431**	$ 8,203	$ 8,411	**$ 1,050**	$ 1,287	$ 1,289
Actual return on plan assets	**(512)**	(230)	316	**(87)**	(217)	161
Business combinations	**—**	—	—	**—**	2	—
Foreign currency exchange rate changes	**—**	—	—	**72**	12	(160)
Company contributions	**135**	3	5	**44**	13	42
Participant contributions	**—**	—	—	**10**	9	11
Benefits paid	**(611)**	(545)	(529)	**(65)**	(56)	(56)
Fair value of plan assets, December 31	**$ 6,443**	$ 7,431	$ 8,203	**$ 1,024**	$ 1,050	$ 1,287
Over (under) funded, December 31	**$ (1,401)**	$ 49	$ 1,282	**$ (493)**	$ (179)	$ 119
Unrecognized prior service cost	**278**	327	375	**33**	36	37
Unrecognized net actuarial (gain) loss	**2,009**	318	(1,142)	**547**	198	(99)
Unrecognized net obligation existing at adoption of SFAS 87	**—**	—	1	**9**	7	4
Contributions made after measurement date	**—**	—	—	**22**	4	—
Net amount recognized in financial position	**$ 886**	$ 694	$ 516	**$ 118**	$ 66	$ 61
Components of net amount recognized in financial position:						
Prepaid benefit costs	**$ 1,071**	$ 953	$ 795	**$ 154**	$ 99	$ 106
Accrued benefit liabilities	**(185)**	(259)	(279)	**(36)**	(33)	(45)
Intangible assets	**156**	185	—	**35**	25	1
Adjustment for minimum pension liability	**(911)**	(323)	—	**(434)**	(130)	(3)
Accumulated other comprehensive income	**755**	138	—	**399**	105	2
Net asset (liability) recognized	**$ 886**	$ 694	$ 516	**$ 118**	$ 66	$ 61
Components of net periodic benefit cost:						
Service cost	**$ 115**	$ 99	$ 98	**$ 38**	$ 35	$ 33
Interest cost	**529**	516	486	**70**	65	66
Expected return on plan assets	**(783)**	(806)	(768)	**(94)**	(90)	(86)
Amortization of:						
Net asset existing at adoption of SFAS 87	**—**	—	(19)	**(2)**	(1)	(4)
Prior service cost[2]	**50**	49	71	**5**	5	5
Net actuarial (gain) loss	**(1)**	(34)	(59)	**—**	(1)	(3)
Total (benefit) cost included in results of operations	**$ (90)**	$ (176)	$ (191)	**$ 17**	$ 13	$ 11
Rate assumptions:						
Assumed discount rate[3]	**7.0%**	7.3%	7.8%	**5.4%**	5.8%	6.0%
Expected rate of compensation increase[3]	**4.0%**	4.0%	4.0%	**3.2%**	3.5%	4.0%
Expected long-term rate of return on plan assets[4]	**9.8%**	10.0%	10.0%	**7.6%**	7.8%	7.8%

[1] Amount recognized as expense in 2001 in conjunction with the U.S. salaried and management employee reduction. Please refer to Note 24 on Page A-27 for additional information.
[2] Prior service costs are amortized using the straight-line method over the average remaining service period of employees expected to receive benefits from the plan amendment.
[3] Weighted-average rates as of December 31.
[4] Weighted-average rates used in determining consolidated expense. The weighted-average rates for 2003 are 9.0% and 7.1% for U.S. and non-U.S. plans, respectively.

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

	U.S. Pension Benefits			Non-U.S. Pension Benefits		
	At December 31,			At December 31,		
	2002	2001	2000	**2002**	2001	2000
Accumulated benefit obligation	**$ (3,416)**	$ (3,010)	$ (2,901)	**$ (1,334)**	$ (1,088)	$ (36)
Projected benefit obligation	**$ (3,439)**	$ (3,011)	$ (2,902)	**$ (1,490)**	$ (1,203)	$ (41)
Fair value of plan assets	**$ 2,345**	$ 2,462	$ 2,813	**$ 990**	$ 1,015	$ 20

B. Other postretirement benefit plans

We have defined-benefit retirement health care and life insurance plans for substantially all of our U.S. employees. Plan amendments made in 2002 included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

Please refer to Table III below for additional financial information.

TABLE III — Financial Information Related to Other Postretirement Benefit Plans

	Other Postretirement Benefits		
	2002	2001	2000
Change in benefit obligation:			
Benefit obligation, January 1	**$ 4,514**	$ 3,869	$ 3,821
Service cost	**80**	72	71
Interest cost	**292**	289	292
Plan amendments	**(474)**	16	—
Actuarial losses (gains)	**340**	528	(65)
Foreign currency exchange rates	**2**	2	—
Participant contributions	**5**	4	3
Benefits paid	**(294)**	(266)	(253)
Benefit obligation, December 31	**$ 4,465**	$ 4,514	$ 3,869
Change in plan assets:			
Fair value of plan assets, January 1	**$ 1,109**	$ 1,324	$ 1,291
Actual return on plan assets	**(113)**	(71)	22
Participant contributions	**5**	4	3
Benefits paid	**(294)**	(266)	(247)
Employer funding of benefits paid	**142**	118	255
Fair value of plan assets, December 31	**$ 849**	$ 1,109	$ 1,324
Over (under) funded, December 31	**$ (3,616)**	$ (3,405)	$ (2,545)
Unrecognized prior service cost	**(283)**	167	171
Unrecognized net actuarial (gain) loss	**976**	413	(317)
Contributions made after measurement date	**20**	17	—
Net amount recognized in financial position	**$ (2,903)**	$ (2,808)	$ (2,691)
Components of net amount recognized in financial position:			
Accrued benefit liabilities	**$ (2,903)**	$ (2,808)	$ (2,691)
Net asset (liability) recognized	**$ (2,903)**	$ (2,808)	$ (2,691)
Components of net periodic benefit cost:			
Service cost	**$ 80**	$ 72	$ 71
Interest cost	**292**	289	292
Expected return on plan assets	**(115)**	(136)	(123)
Amortization of:			
Prior service cost[1]	**(22)**	21	19
Net actuarial (gain) loss	**5**	(9)	—
Total (benefit) cost included in results of operations	**$ 240**	$ 237	$ 259
Rate assumptions:			
Assumed discount rate[2]	**7.0%**	7.3%	7.8%
Expected rate of compensation increase[2]	**4.0%**	4.0%	4.0%
Expected long-term rate of return on plan assets[3]	**9.8%**	10.0%	10.0%

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. This rate was assumed to decrease gradually to 4.5% for 2009.

[1] Prior service costs are amortized using the straight-line method 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 rate for 2003 is 9.0%.

Effects of a one-percentage-point change in the assumed health care cost trend rates for 2002:

	One-percentage-point increase	One-percentage-point decrease
Approximate effect on the total of service and interest cost components of other postretirement benefit cost	**$ 31**	**$ (26)**
Approximate effect on accumulated postretirement benefit obligation	**$272**	**$(230)**

(Dollars in millions except per share data)

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, 2002	2001	2000
Pensions:			
U.S. pensions	**$ 911**	$ 323	$ —
Non-U.S. pensions	**434**	130	3
Total pensions	**1,345**	453	3
Postretirement benefits other than pensions	**2,614**	2,578	2,441
Other postemployment benefits	**79**	72	70
	$4,038	$ 3,103	$2,514

12. Short-term borrowings

	December 31, 2002	2001	2000
Machinery and Engines:			
Notes payable to banks	**$ 64**	$ 219	$ 104
Commercial paper	**—**	—	237
Other	**—**	—	28
	64	219	369
Financial Products:			
Notes payable to banks	**174**	126	92
Commercial paper	**1,682**	1,715	400
Other	**255**	120	110
	2,111	1,961	602
Total short-term borrowings	**$2,175**	$ 2,180	$ 971

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

	December 31, 2002	2001	2000
Notes payable to banks	**5.7%**	5.6%	6.9%
Commercial paper	**2.5%**	2.5%	5.9%
Other	**2.8%**	3.4%	6.8%

Please refer to Note 17 on Page A-20 and Table V on Page A-21 for fair value information on short-term borrowings.

13. Long-term debt

	December 31, 2002	2001	2000
Machinery and Engines:			
Notes — 6.000% due 2003	**$ —**	$ 253	$ 252
Notes — 6.550% due 2011	**249**	249	—
Debentures — 9.000% due 2006	**209**	211	203
Debentures — 6.000% due 2007	**189**	180	162
Debentures — 7.250% due 2009	**318**	321	300
Debentures — 9.375% due 2011	**123**	123	123
Debentures — 9.750% due 2000-2019	**—**	—	139
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**	348	—
Debentures — 6.950% due 2042	**249**	—	—
Debentures — 7.375% due 2097	**297**	297	297
Medium-term notes	**25**	26	96
Capital lease obligations	**538**	467	474
Commercial paper supported by revolving credit agreements (Note 14)	**—**	130	—
Other	**124**	153	74
Total Machinery and Engines	**3,403**	3,492	2,854
Financial Products:			
Commercial paper supported by revolving credit agreements (Note 14)	**$ 1,825**	$ 1,755	$ 2,732
Medium-term notes	**6,298**	5,972	5,687
Other	**70**	72	61
Total Financial Products	**8,193**	7,799	8,480
Total long-term debt due after one year	**$11,596**	$ 11,291	$11,334

All outstanding notes and debentures are unsecured. The capital lease obligations are collateralized by leased manufacturing equipment and/or security deposits.

The 6% notes due in 2003, classified as debt due within one year, 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 also may purchase the 6% notes at any time in the open market.

The 6% debentures due in 2007, 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%, 6.95% 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. At December 31, 2002, *Machinery and Engines* medium-term notes had a weighted average interest rate of 8.1% with one to two years remaining to maturity. *Financial Products* medium-term notes have a weighted average interest rate of 3.7% with remaining maturities up to 13 years at December 31, 2002.

The aggregate amounts of maturities of long-term debt during each of the years 2003 through 2007, including amounts due within one year and classified as current, are:

	December 31, 2003	2004	2005	2006	2007
Machinery and Engines	$ 258	$ 67	$ 18	$ 231	$ 204
Financial Products	3,654	2,714	1,474	981	818
	$ 3,912	$ 2,781	$ 1,492	$ 1,212	$ 1,022

Interest paid on short-term and long-term borrowings for 2002, 2001 and 2000 was $815, $1,009 and $930, respectively.

Please refer to Note 17 on Page A-20 and Table V on Page A-21 for fair value information on long-term debt.

14. Credit commitments

	December 31, 2002		
	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,550 (1)	$4,550 (1)	$3,950 (1)
Other external	1,353	542	811
Intercompany	—	500 (2)	826 (2)
Total credit lines available	5,903	5,592	5,587
Utilized credit	238	64	174
Unused credit	$5,665	$5,528	$5,413

(1) A global credit facility of $4,550 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 portion of the facility available to Cat Financial at December 31, 2002, was $3,950. The facility is comprised of two components; $2,425 expiring in September 2003 and $2,125 expiring in September 2006. The facility expiring in September 2003 has a provision which allows Caterpillar to obtain a one-year term loan in September 2003 that matures in September 2004.

(2) Represents variable lending agreements between Caterpillar Inc. and Cat Financial.

Based on long-term credit agreements, $1,825, $1,885 and $2,732 of commercial paper outstanding at December 31, 2002, 2001 and 2000, respectively, was classified as long-term debt due after one year.

15. Capital stock

A. Stock options

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the Plan) providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. The Plan reserves 47 million shares of common stock for issuance (39 million under the Plan and 8 million under prior stock option plans). 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 882,580, 693,444 and 346,333, in 2002, 2001 and 2000, respectively.

The Plan grants options which have exercise prices equal to the average market price on the date of grant. As required by SFAS 148, a summary of the pro forma net income and profit per share amounts is shown in Note 1K on Page A-9. 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 IV below and on Page A-20 for additional financial information on our stock options.

TABLE IV — Financial Information Related to Capital Stock

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

	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options:						
Outstanding at beginning of year	**32,295,230**	**$ 47.34**	26,336,074	$ 44.49	20,404,176	$ 45.90
Granted to officers and key employees	**8,050,864**	**$ 50.72**	7,512,206	$ 53.53	6,621,858	$ 38.41
Granted to outside directors	**52,000**	**$ 58.87**	52,000	$ 45.51	44,000	$ 43.75
Exercised	**(1,580,754)**	**$ 26.41**	(1,273,361)	$ 23.64	(543,090)	$ 19.49
Lapsed	**(95,976)**	**$ 50.28**	(331,689)	$ 47.13	(190,870)	$ 55.17
Outstanding at end of year	**38,721,364**	**$ 48.91**	32,295,230	$ 47.34	26,336,074	$ 44.49
Options exercisable at year-end	**23,909,130**	**$ 48.23**	19,062,802	$ 45.74	15,214,347	$ 42.47
Weighted-average fair value of options granted during the year	**$ 14.85**		$ 14.56		$ 10.92	

Stock options outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Exercise Prices	# Outstanding at 12/31/02	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	# Outstanding at 12/31/02	Weighted-Average Exercise Price
$15.19-$18.77	264,617	0.4	$18.66	264,617	$18.66
$26.77-$39.19	10,479,468	5.5	$35.26	8,535,350	$34.55
$43.75-$62.34	27,977,279	7.5	$54.30	15,109,163	$56.47
	38,721,364	6.9	$48.91	23,909,130	$48.23

Continued on Page A-20

(Dollars in millions except per share data)

TABLE IV Continued — Financial Information Related to Capital Stock

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

	Grant Year		
	2002	2001	2000
Dividend yield	**2.55%**	2.49%	2.11%
Expected volatility	**35.0%**	30.1%	26.4%
Risk-free interest rates	**4.13%**	4.88%	6.20%
Expected lives	**5 years**	5 years	5 years

B. Restricted stock

The Plan permits the award of restricted stock to officers and other key employees, as well as non-employee directors. During 2002, 2001 and 2000, officers and other key employees were awarded 52,475 shares, 143,686 shares and 52,032 shares, respectively, of restricted stock. During 2002, 8,450 restricted shares (in phantom form) were awarded to officers and other key employees. During 2001 and 2000, non-employee directors were granted 9,750 shares and 9,050 shares, respectively, of restricted stock.

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.

16. Profit per share

Stock options to purchase 27,881,279, 19,886,054 and 12,636,262 shares of common stock at a weighted-average price of $54.34, $55.79 and $57.14 were outstanding during 2002, 2001 and 2000, 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.

17. 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 also was 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 V on Page A-21 for the fair values of our financial instruments.

18. 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.

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, 2002, 2001 and 2000. We generally maintain a secured interest in the equipment financed. No single customer or region represents a significant concentration of credit risk.

TABLE V — Fair Values of Financial Instruments

Asset (Liability) At December 31	2002 Carrying Amount	2002 Fair Value	2001 Carrying Amount	2001 Fair Value	2000 Carrying Amount	2000 Fair Value	Reference #
Cash and short-term investments	**$ 309**	**$ 309**	$ 400	$ 400	$ 334	$ 334	Statement 3, Note 18
Long-term investments	**874**	**874**	791	791	741	741	Note 18
Foreign currency contracts	**47**	**47**	2	2	(30)	(34)	Note 2
Finance receivables — net (excluding finance type leases[1])	**12,093**	**12,177**	10,931	10,957	10,479	10,582	Note 5
Short-term borrowings	**2,175**	**2,175**	(2,180)	(2,180)	(971)	(971)	Note 12
Long-term debt (including amounts due within one year)							
Machinery and Engines	**3,661**	**4,185**	(3,565)	(3,749)	(3,058)	(3,198)	Note 13
Financial Products	**11,847**	**12,118**	(10,857)	(11,048)	(11,038)	(11,154)	Note 13
Interest rate swaps							
Machinery and Engines —							
in a net receivable position	**—**	**—**	—	—	—	25	Note 2
in a net payable position	**—**	**—**	—	—	(1)	—	Note 2
Financial Products —							
in a net receivable position	**84**	**84**	58	58	8	27	Note 2
in a net payable position	**(85)**	**(85)**	(71)	(71)	—	(25)	Note 2

[1] Excluded items have a net carrying value at December 31, 2002, 2001 and 2000 of $1,369, $1,185 and $1,087, respectively.

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-18) and investments of Cat Insurance supporting insurance reserve requirements.

Outstanding derivative instruments, with notional amounts totaling $6,983, $5,872 and $6,794, and terms generally ranging up to five years, were held at December 31, 2002, 2001 and 2000, respectively. Collateral is not required of the counterparties or of our company. We do not anticipate nonperformance by any of the counterparties. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but have not yet received, cash payment. At December 31, 2002, 2001 and 2000, the exposure to credit loss was $176, $80 and $30, respectively.

Please refer to Note 17 on Page A-20 and Table V above for fair value information.

19. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $240, $256 and $267 for 2002, 2001 and 2000, respectively.

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

Years ended December 31,

2003	2004	2005	2006	2007	After 2007	Total
$185	$154	$102	$72	$53	$300	$866

20. Guarantees and product warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from the Dealer Capital Asset Trust (DCAT) in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third party dealers who sell Caterpillar equipment. These guarantees have terms ranging from one to four years and are secured primarily by dealer assets. At December 31, 2002, the total amount outstanding under these guarantees was $290 and the related book value was zero. For guarantees entered into after December 31, 2002, we will record a liability in accordance with FIN 45.

Our product warranty liability is 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 payments. These rates are applied to the field population and dealer inventory to determine the liability.

	2002	2001	2000
Warranty liability, January 1	**$ 652**	$ 615	$ 578
Payments	**(494)**	(478)	(471)
Provision for warranty	**535**	515	508
Warranty liability, December 31	**$ 693**	$ 652	$ 615

21. Environmental and legal matters

The company is regulated by federal, state and international environmental laws governing our use of substances and control of emissions in all our operations. 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 cleanup 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 sites in the very early stages of cleanup, 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 with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came — the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT™) engines are introduced in 2003.

Our expense for NCPs was $40 in 2002. This amount was based on levels we believe the engines will perform when tested. The actual NCP amount will not be known until final testing with the EPA is completed with all models during 2003. Aside from customary research and development expenses, the net impact of producing and selling bridge engines negatively impacted 2002 financial results by $24 ($17 after tax or about 5 cents per share) as NCPs, product cost increases and ramp-up production costs were partially offset by price increases for these engines. Because of increased volumes in 2003, NCP expense will be significantly higher than in 2002, however, we expect the net unfavorable impact of producing and selling bridge engines to be no more than 2002. We do not anticipate paying NCPs beyond 2003.

The consent decree also provided the ability to "bank" credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NO_x as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NO_x deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard.

We produced and sold 70,399 mid-range engines and 958 heavy-duty engines prior to October 2002 which yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of mid-range banked credits and 1,230.2 Mg of heavy-duty banked credits. We do not expect to pay any NCPs on our medium-duty engines in 2003 due to these banked credits. Of the approximately 25,800 non-conforming heavy-duty engines we anticipate building after January 1, 2003, credits are expected to offset the NCPs on approximately 3,000 of these units.

In addition to the above, the consent decree required Caterpillar to pay a fine of $25, which was expensed in 1998, and to make investments totaling $35 in environmental-related projects by July 2007. Qualifying investments totaling approximately $10 were made in 2002. Total qualifying investments to date for these projects is approximately $21.

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 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was $104. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

22. 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 focused primarily 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 financial results for our three lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on Page A-32.

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 also are 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 other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans.The division 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 also are 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; and the remanufacture of Caterpillar engines and components.

C. Segment measurement and reconciliations

Please refer to Table VI on Pages A-24 – A-26 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.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior services costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

(Dollars in millions except per share data)

TABLE VI — Segment Information

Business Segments:

	Machinery and Engines									
	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Latin America Marketing	Power Products	North America Marketing	All Other	Total	Financing & Insurance Services	Consoli- dated Total
2002										
External sales and revenues	**$ 1,660**	**237**	**2,828**	**1,313**	**5,736**	**5,575**	**1,253**	**18,602**	**1,779**	**$ 20,381**
Intersegment sales and revenues	**$ 4**	**6,728**	**1,784**	**181**	**3,996**	**152**	**1,926**	**14,771**	**—**	**$ 14,771**
Total sales and revenues	**$ 1,664**	**6,965**	**4,612**	**1,494**	**9,732**	**5,727**	**3,179**	**33,373**	**1,779**	**$ 35,152**
Depreciation and amortization	**$ 12**	**209**	**49**	**25**	**293**	**—**	**69**	**657**	**417**	**$ 1,074**
Imputed interest expense	**$ 12**	**67**	**30**	**6**	**124**	**36**	**66**	**341**	**540**	**$ 881**
Accountable profit (loss)	**$ 113**	**431**	**135**	**72**	**34**	**64**	**323**	**1,172**	**268**	**$ 1,440**
Accountable assets at Dec. 31	**$ 436**	**2,184**	**912**	**485**	**4,025**	**1,574**	**2,371**	**11,987**	**17,417**	**$ 29,404**
Capital Expenditures	**$ 13**	**179**	**63**	**13**	**238**	**2**	**81**	**589**	**1,177**	**$ 1,766**
2001										
External sales and revenues	$ 1,408	230	2,847	1,501	5,844	5,878	1,263	18,971	1,717	$ 20,688
Intersegment sales and revenues	$ 12	7,167	1,814	145	4,684	219	1,859	15,900	1	$ 15,901
Total sales and revenues	$ 1,420	7,397	4,661	1,646	10,528	6,097	3,122	34,871	1,718	$ 36,589
Depreciation and amortization	$ 12	211	58	26	380	—	71	758	315	$ 1,073
Imputed interest expense	$ 13	70	27	8	117	61	67	363	673	$ 1,036
Accountable profit (loss)	$ 25	507	147	61	220	56	245	1,261	346	$ 1,607
Accountable assets at Dec. 31	$ 441	2,450	826	587	3,946	1,369	2,463	12,082	15,437	$ 27,519
Capital Expenditures	$ 10	270	59	21	335	—	140	835	858	$ 1,693
2000										
External sales and revenues	$ 1,377	222	2,768	1,303	6,247	5,861	1,062	18,840	1,527	$ 20,367
Intersegment sales and revenues	$ 7	7,070	1,885	123	4,711	173	1,907	15,876	—	$ 15,876
Total sales and revenues	$ 1,384	7,292	4,653	1,426	10,958	6,034	2,969	34,716	1,527	$ 36,243
Depreciation and amortization	$ 11	211	60	27	345	—	63	717	237	$ 954
Imputed interest expense	$ 9	60	27	10	101	88	65	360	703	$ 1,063
Accountable profit (loss)	$ 64	581	194	33	489	85	197	1,643	253	$ 1,896
Accountable assets at Dec. 31	$ 405	2,267	906	592	3,867	1,739	2,377	12,153	14,185	$ 26,338
Capital Expenditures	$ 8	204	67	24	254	1	94	652	659	$ 1,311

Reconciliations:

	(Unaudited)			
	Machinery and Engines	Financial & Insurance Services	Consolidating Adjustments	Consolidated Total
Sales & Revenues				
2002				
Total external sales and revenues from business segments	**$ 18,602**	**$ 1,779**	**$ —**	**$ 20,381**
Other	**46**	**(101)**	**(174)**	**(229)**
Total sales and revenues	**$ 18,648**	**$ 1,678**	**$ (174)**	**$ 20,152**
2001				
Total external sales and revenues from business segments	$ 18,971	$ 1,717	$ —	$ 20,688
Other	56	(72)	(222)	(238)
Total sales and revenues	$ 19,027	$ 1,645	$ (222)	$ 20,450
2000				
Total external sales and revenues from business segments	$ 18,840	$ 1,527	$ —	$ 20,367
Other	73	(62)	(203)	(192)
Total sales and revenues	$ 18,913	$ 1,465	$ (203)	$ 20,175

Continued on Page A-25

TABLE VI Continued — Segment Information

Reconciliations:

	(Unaudited) Machinery and Engines	(Unaudited) Financial & Insurance Services	Consolidated Total
Profit before taxes			
2002			
Total accountable profit from business segments	**$ 1,172**	**$ 268**	**$ 1,440**
Corporate costs	**(242)**	**—**	**(242)**
Methodology differences:			
Inventory/cost of sales	**(313)**	**—**	**(313)**
Postretirement benefit expense	**125**	**—**	**125**
Financing costs	**(32)**	**—**	**(32)**
Other methodology differences	**74**	**19**	**93**
Other	**43**	**—**	**43**
Total profit before taxes	**$ 827**	**$ 287**	**$ 1,114**
2001			
Total accountable profit from business segments	$ 1,261	$ 346	$ 1,607
Corporate costs	(291)	—	(291)
Unusual charges not allocated to business segments	(153)	—	(153)
Methodology differences:			
Inventory/cost of sales	(107)	—	(107)
Postretirement benefit expense	185	—	185
Financing costs	(114)	—	(114)
Other methodology differences	(23)	11	(12)
Methodology changes in segment reporting	3	(12)	(9)
Other	63	—	63
Total profit before taxes	$ 824	$ 345	$ 1,169
2000			
Total accountable profit from business segments	$ 1,643	$ 253	$ 1,896
Corporate costs	(232)	—	(232)
Methodology differences:			
Inventory/cost of sales	(399)	—	(399)
Postretirement benefit expense	195	—	195
Financing costs	(138)	—	(138)
Other methodology differences	32	25	57
Methodology changes in segment reporting	72	—	72
Other	77	—	77
Total profit before taxes	$ 1,250	$ 278	$ 1,528

	Machinery and Engines	(Unaudited) Financial & Insurance Services	(Unaudited) Consolidating Adjustments	Consolidated Total
Assets				
2002				
Total accountable assets from business segments	**$ 11,987**	**$ 17,417**	**$ —**	**$ 29,404**
Items not included in segment assets:				
Cash and short-term investments	**146**	**163**	**—**	**309**
Intercompany trade receivables	**917**	**343**	**(1,260)**	**—**
Investment in affiliated companies	**283**	**—**	**—**	**283**
Investment in Financial Products	**1,961**	**—**	**(1,961)**	**—**
Deferred income taxes and prepaids	**2,802**	**75**	**(133)**	**2,744**
Intangible assets and other assets	**1,541**	**—**	**—**	**1,541**
Service center assets	**810**	**—**	**—**	**810**
Dealer receivables double counted in segment assets	**(1,857)**	**—**	**—**	**(1,857)**
Liabilities included in segment assets	**848**	**—**	**—**	**848**
Inventory methodology differences	**(1,590)**	**—**	**—**	**(1,590)**
Other	**245**	**149**	**(35)**	**359**
Total assets	**$ 18,093**	**$ 18,147**	**$ (3,389)**	**$ 32,851**

Continued on Page A-26

(Dollars in millions except per share data)

TABLE VI Continued — Segment Information

Reconciliations:

	Machinery and Engines	(Unaudited) Financial & Insurance Services	Consolidating Adjustments	Consolidated Total
Assets				
2001				
Total accountable assets from business segments	$ 12,082	$ 15,437	$ —	$ 27,519
Items not included in segment assets:				
Cash and short-term investments	251	149	—	400
Intercompany trade receivables	405	355	(760)	—
Investment in affiliated companies	345	—	—	345
Investment in Financial Products	1,662	—	(1,662)	—
Deferred income taxes and prepaids	2,472	55	(74)	2,453
Intangible assets and other assets	1,445	—	—	1,445
Service center assets	844	—	—	844
Dealer receivables double counted in segment assets	(1,757)	—	—	(1,757)
Liabilities included in segment assets	853	—	—	853
Inventory methodology differences	(1,571)	—	—	(1,571)
Other	244	(101)	(17)	126
Total assets	$ 17,275	$ 15,895	$ (2,513)	$ 30,657
2000				
Total accountable assets from business segments	$ 12,153	$ 14,185	$ —	$ 26,338
Items not included in segment assets:				
Cash and short-term investments	206	128	—	334
Intercompany trade receivables	559	445	(1,004)	—
Investment in affiliated companies	450	—	—	450
Investment in Financial Products	1,620	—	(1,620)	—
Deferred income taxes and prepaids	2,356	30	(63)	2,323
Intangible assets and other assets	1,549	—	—	1,549
Service center assets	453	—	—	453
Dealer receivables double counted in segment assets	(1,790)	—	—	(1,790)
Liabilities included in segment assets	696	—	—	696
Inventory methodology differences	(1,653)	—	—	(1,653)
Other	(45)	(170)	(21)	(236)
Total assets	$ 16,554	$ 14,618	$ (2,708)	$ 28,464

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2002	2001	2000
Machinery	**$11,975**	$12,158	$11,857
Engines	**6,673**	6,869	7,056
Financial Products	**1,504**	1,423	1,262
Total consolidated	**$20,152**	$20,450	$20,175

Information about Geographic Areas:

	Sales & Revenues[1]			Net property, plant and equipment December 31,		
	2002	2001	2000	**2002**	2001	2000
Inside United States	**$ 9,291**	$ 10,033	$ 10,076	**$ 4,524**	$ 4,351	$ 3,854
Outside United States	**10,861**	10,417	10,099	**2,522[2]**	2,252[2]	2,097[2]
Total	**$ 20,152**	$ 20,450	$ 20,175	**$ 7,046**	$ 6,603	$ 5,951

[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 $680, $681 and $628 of net property, plant and equipment located in the United Kingdom as of December 31, 2002, 2001 and 2000, respectively.

- 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 Page A-21 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.

23. Alliances and acquisitions

In fourth quarter 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.

24. Unusual charges

	2001 Charge	Asset Impair-ments	2002 Activity*	**12/31/02 Balance**
Challenger:				
Asset impairments	$ 32	$ (32)	$ —	**$ —**
Exit costs	49	—	(38)	**11**
	81	(32)	(38)	**11**
Shrewsbury:				
Asset impairments	16	(16)	—	**—**
Redundancy	10	—	(6)	**4**
Exit costs	4	—	(2)	**2**
	30	(16)	(8)	**6**
U.S. employment reduction	34	—	(34)	**—**
Other asset impairments	8	(8)	—	**—**
Total	$ 153	$ (56)	$ (80)	**$ 17**

*All amounts were paid in cash except for the U.S. employment reduction of $34 which was reclassified to our pension accounts. Please refer to Table II on Page A-16.

During the fourth quarter of 2001, we recorded pretax unusual charges of $153 related to the sale of the Challenger® agricultural tractor line to AGCO, charges related to ceasing engine production at our Shrewsbury, England plant, planned U.S. salaried and management employment reductions and other asset impairment charges. These charges were recorded in the "Other Operating Expenses" line in Statement 1. Planned employee reductions were 495 for Shrewsbury and 433 for the U.S. employment reduction. Challenger assets were held in our *All Other* segment and Shrewsbury assets are held in our *Power Products* segment.

During 2002, we reduced the Challenger exit cost reserve by $38, primarily for cash outlays for research and development expenses and manufacturing equipment in accordance with the contract with AGCO. We reduced the Shrewsbury redundancy reserve by $6 for separation benefits for 225 employees. As planned, the U.S. employment reduction was achieved entirely through voluntary retirements. As a result, the reserve of $34 was reclassified to our pension accounts upon completion of the retirement program.

Future cash outlays for contractual commitments for the Challenger of approximately $2 per year will continue through 2008. Most of the diesel engine production at our Shrewsbury, England plant ceased in 2002; however, it has taken longer than anticipated to finalize the design of one replacement engine. As a result, some diesel engine production at Shrewsbury will continue through 2003. The reserve will be reduced as redundancy and exit costs are incurred through 2003.

25. Selected quarterly financial results (unaudited)

	2002 Quarter			
	1st	2nd	3rd	4th
Sales and revenues	**$ 4,409**	**$ 5,291**	**$ 5,075**	**$ 5,377**
Less: Revenues	**365**	**376**	**375**	**388**
Sales	**4,044**	**4,915**	**4,700**	**4,989**
Cost of goods sold	**3,205**	**3,856**	**3,690**	**3,958**
Gross margin	**839**	**1,059**	**1,010**	**1,031**
Profit	**80**	**200**	**213**	**305**
Profit per common share	**$ .23**	**$ .58**	**$ .62**	**$ .89**
Profit per common share — diluted	**$ .23**	**$ .58**	**$ .61**	**$ .88**

	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

(Dollars in millions except per share data)

26. Supplemental consolidating data

We are providing supplemental consolidating data for the purpose of additional analysis. The data has been grouped as follows:

Consolidated — Caterpillar Inc. and its subsidiaries.

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

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

Consolidating Adjustments — eliminations of transactions between *Machinery and Engines* and *Financial Products*.

Because the nature of operations of *Machinery and Engines* and *Financial Products* is different, especially with regard to the impact on financial position and cash flow items, this data allows readers to better understand our company.

Supplemental Data for Results of Operations For The Years Ended December 31

(Millions of dollars)

	Consolidated			Supplemental consolidating data (unaudited)								
				Machinery and Engines[1]			Financial Products			Consolidating Adjustments		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Sales and revenues:												
Sales of Machinery and Engines	**$ 18,648**	$ 19,027	$ 18,913	**$ 18,648**	$ 19,027	$ 18,913	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Revenues of Financial Products	**1,504**	1,423	1,262	**—**	—	—	**1,678**	1,645	1,465	**(174)[2]**	(222)[2]	(203)[2]
Total sales and revenues	**20,152**	20,450	20,175	**18,648**	19,027	18,913	**1,678**	1,645	1,465	**(174)**	(222)	(203)
Operating costs:												
Cost of goods sold	**14,709**	14,752	14,497	**14,709**	14,752	14,497	**—**	—	—	**—**	—	—
Selling, general and administrative expenses	**2,531**	2,567	2,367	**2,176**	2,229	2,099	**430**	389	307	**(75)[3]**	(51)[3]	(39)[3]
Research and development expenses	**656**	696	649	**656**	696	649	**—**	—	—	**—**	—	—
Interest expense of Financial Products	**521**	657	688	**—**	—	—	**538**	685	739	**(17)[4]**	(28)[4]	(51)[4]
Other operating expenses	**416**	467	237	**—**	153	—	**416**	314	237	**—**	—	—
Total operating costs	**18,833**	19,139	18,438	**17,541**	17,830	17,245	**1,384**	1,388	1,283	**(92)**	(79)	(90)
Operating profit	**1,319**	1,311	1,737	**1,107**	1,197	1,668	**294**	257	182	**(82)**	(143)	(113)
Interest expense excluding Financial Products	**279**	285	292	**279**	285	292	**—**	—	—	**—**	—	—
Other income (expense)	**74**	143	83	**(1)**	(88)	(126)	**(7)**	88	96	**82[5]**	143[5]	113[5]
Consolidated profit before taxes	**1,114**	1,169	1,528	**827**	824	1,250	**287**	345	278	**—**	—	—
Provision for income taxes	**312**	367	447	**204**	239	350	**108**	128	97	**—**	—	—
Profit of consolidated companies	**802**	802	1,081	**623**	585	900	**179**	217	181	**—**	—	—
Equity in profit (loss) of unconsolidated affiliated companies	**(4)**	3	(28)	**(12)**	(4)	(31)	**8**	7	3	**—**	—	—
Equity in profit of Financial Products' subsidiaries	**—**	—	—	**187**	224	184	**—**	—	—	**(187)[6]**	(224)[6]	(184)[6]
Profit	**$ 798**	$ 805	$ 1,053	**$ 798**	$ 805	$ 1,053	**$ 187**	$ 224	$ 184	**$ (187)**	$ (224)	$ (184)

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

[2] Elimination of *Financial Products* revenues earned from *Machinery and Engines*.

[3] Elimination of expenses recorded by *Machinery and Engines* paid to *Financial Products*.

[4] Elimination of interest expense recorded by *Financial Products* paid to *Machinery and Engines*.

[5] Elimination of discount recorded by *Machinery and Engines* on receivables sold to *Financial Products*, and of interest earned by *Machinery and Engines* from *Financial Products*.

[6] Elimination of *Financial Products* profit for the period reported on *Machinery and Engines* statement on the equity basis.

Supplemental Data for Financial Position
At December 31
(Millions of dollars)

	Consolidated		Supplemental consolidating data (unaudited)					
			Machinery and Engines[1]		Financial Products		Consolidating Adjustments	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Assets								
Current assets:								
Cash and short-term investments	**$ 309**	$ 400	**$ 146**	$ 251	**$ 163**	$ 149	**$ —**	$ —
Receivables — trade and other	**2,838**	2,592	**2,712**	2,170	**1,386**	1,182	**(1,260)[2]**	(760)[2]
Receivables — finance	**6,748**	5,849	**—**	—	**6,748**	5,849	**—**	—
Deferred and refundable income taxes	**642**	423	**579**	381	**63**	42	**—**	—
Prepaid expenses	**1,328**	1,211	**1,356**	1,220	**7**	8	**(35)[3]**	(17)[3]
Inventories	**2,763**	2,925	**2,763**	2,925	**—**	—	**—**	—
Total current assets	**14,628**	13,400	**7,556**	6,947	**8,367**	7,230	**(1,295)**	(777)
Property, plant and equipment — net	**7,046**	6,603	**4,848**	5,019	**2,198**	1,584	**—**	—
Long-term receivables — trade and other	**66**	55	**66**	55	**—**	—	**—**	—
Long-term receivables — finance	**6,714**	6,267	**—**	—	**6,714**	6,267	**—**	—
Investments in unconsolidated affiliated companies	**747**	787	**398**	460	**349**	327	**—**	—
Investments in Financial Products subsidiaries	**—**	—	**1,961**	1,662	**—**	—	**(1,961)[4]**	(1,662)[4]
Deferred income taxes	**850**	938	**971**	999	**12**	13	**(133)[5]**	(74)[5]
Intangible assets	**281**	274	**277**	271	**4**	3	**—**	—
Goodwill	**1,402**	1,397	**1,402**	1,397	**—**	—	**—**	—
Other assets	**1,117**	936	**614**	465	**503**	471	**—**	—
Total assets	**$ 32,851**	$ 30,657	**$ 18,093**	$ 17,275	**$ 18,147**	$ 15,895	**$ (3,389)**	$ (2,513)
Liabilities								
Current liabilities:								
Short-term borrowings	**$ 2,175**	$ 2,180	**$ 64**	$ 219	**$ 2,906**	$ 2,164	**$ (795)[6]**	$ (203)[6]
Accounts payable	**2,269**	2,123	**2,334**	2,210	**151**	166	**(216)[7]**	(253)[7]
Accrued expenses	**1,620**	1,419	**840**	854	**806**	593	**(26)[8]**	(28)[8]
Accrued wages, salaries and employee benefits	**1,178**	1,292	**1,161**	1,276	**17**	16	**—**	—
Dividends payable	**120**	120	**120**	120	**—**	—	**—**	—
Deferred and current income taxes payable	**70**	11	**35**	(29)	**35**	40	**—**	—
Deferred liability	**—**	—	**—**	—	**259**	298	**(259)[9]**	(298)[9]
Long-term debt due within one year	**3,912**	3,131	**258**	73	**3,654**	3,058	**—**	—
Total current liabilities	**11,344**	10,276	**4,812**	4,723	**7,828**	6,335	**(1,296)**	(782)
Long-term debt due after one year	**11,596**	11,291	**3,403**	3,492	**8,193**	7,799	**—**	—
Liability for postemployment benefits	**4,038**	3,103	**4,038**	3,103	**—**	—	**—**	—
Deferred income taxes and other liabilities	**401**	376	**368**	346	**165**	99	**(132)[5]**	(69)[5]
Total liabilities	**27,379**	25,046	**12,621**	11,664	**16,186**	14,233	**(1,428)**	(851)
Contingencies								
Stockholders' equity								
Common stock	**1,034**	1,043	**1,034**	1,043	**837**	801	**(837)[4]**	(801)[4]
Treasury stock	**(2,669)**	(2,696)	**(2,669)**	(2,696)	**—**	—	**—**	—
Profit employed in the business	**7,849**	7,533	**7,849**	7,533	**1,232**	1,046	**(1,232)[4]**	(1,046)[4]
Accumulated other comprehensive income	**(742)**	(269)	**(742)**	(269)	**(108)**	(185)	**108[4]**	185[4]
Total stockholders' equity	**5,472**	5,611	**5,472**	5,611	**1,961**	1,662	**(1,961)**	(1,662)
Total liabilities and stockholders' equity	**$ 32,851**	$ 30,657	**$ 18,093**	$ 17,275	**$ 18,147**	$ 15,895	**$ (3,389)**	$ (2,513)

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

[2] Elimination of receivables between *Machinery and Engines* and *Financial Products*.

[3] Elimination of *Machinery and Engines* insurance premiums which are prepaid to *Financial Products*.

[4] Elimination of *Financial Products* equity which is accounted for on *Machinery and Engines* on the equity basis.

[5] Reclassification of *Financial Products* deferred tax liability to a deferred tax asset on a consolidated basis.

[6] Elimination of *Financial Products* short-term borrowings from *Machinery and Engines*.

[7] Elimination of payables between *Machinery and Engines* and *Financial Products*.

[8] Elimination of prepaid insurance in *Financial Products'* accrued expenses.

[9] Elimination of *Financial Products* deferred liabilities with *Machinery and Engines*.

(Dollars in millions except per share data)

Supplemental Data for Statement of Cash Flows
For The Years Ended December 31
(Millions of dollars)

	Consolidated		Supplemental consolidating data (unaudited): Machinery and Engines[1]		Financial Products		Consolidating Adjustments	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Cash flow from operating activities:								
Profit	**$ 798**	$ 805	**$ 798**	$ 805	**$ 187**	$ 224	**$ (187)[2]**	$ (224)[2]
Adjustments for non-cash items:								
Depreciation and amortization	**1,220**	1,169	**785**	835	**435**	334	**—**	—
Undistributed profit of Financial Products	**—**	—	**(187)**	(124)	**—**	—	**187[3]**	124[3]
Unusual charges	**—**	153	**—**	153	**—**	—	**—**	—
Other	**306**	344	**148**	308	**144**	25	**14[4]**	11[4]
Changes in assets and liabilities:								
Receivables — trade and other	**(50)**	99	**125**	166	**(138)**	(49)	**(37)[4]**	(18)[4]
Inventories	**162**	(211)	**162**	(211)	**—**	—	**—**	—
Accounts payable and accrued expenses	**164**	(160)	**114**	(203)	**25**	40	**25[4]**	3[4]
Other — net	**(234)**	(212)	**(249)**	(218)	**(4)**	16	**19[4]**	(10)[4]
Net cash provided by operating activities	**2,366**	1,987	**1,696**	1,511	**649**	590	**21**	(114)
Cash flow from investing activities:								
Capital expenditures — excluding equipment leased to others	**(728)**	(1,100)	**(693)**	(1,071)	**(35)**	(29)	**—**	—
Expenditures for equipment leased to others	**(1,045)**	(868)	**(5)**	(38)	**(1,040)**	(830)	**—**	—
Proceeds from disposals of property, plant and equipment	**561**	356	**88**	32	**473**	324	**—**	—
Additions to finance receivables	**(15,338)**	(16,284)	**—**	—	**(15,338)**	(16,284)	**—**	—
Collections of finance receivables	**11,866**	12,367	**—**	—	**11,866**	12,367	**—**	—
Proceeds from sale of finance receivables	**2,310**	3,079	**—**	—	**2,310**	3,079	**—**	—
Net intercompany borrowings	**—**	—	**(571)**	105	**14**	103	**557[5]**	(208)[5]
Investments and acquisitions	**(294)**	(405)	**(24)**	(110)	**(270)**	(295)	**—**	—
Other — net	**(40)**	(72)	**(14)**	(41)	**(62)**	(45)	**36[6]**	14[6]
Net cash used for investing activities	**(2,708)**	(2,927)	**(1,219)**	(1,123)	**(2,082)**	(1,610)	**593**	(194)
Cash flow from financing activities:								
Dividends paid	**(481)**	(474)	**(481)**	(474)	**—**	(105)	**—**	105[7]
Common stock issued, including treasury shares reissued	**10**	6	**10**	6	**36**	14	**(36)[6]**	(14)[6]
Treasury shares purchased	**—**	(43)	**—**	(43)	**—**	—	**—**	—
Net intercompany borrowings	**—**	—	**(14)**	(103)	**571**	(105)	**(557)[5]**	208[5]
Proceeds from long-term debt issued	**4,137**	4,062	**248**	681	**3,889**	3,381	**—**	—
Payments on long-term debt	**(3,339)**	(2,953)	**(225)**	(354)	**(3,114)**	(2,599)	**—**	—
Short-term borrowings — net	**(102)**	420	**(155)**	(38)	**53**	458	**—**	—
Net cash provided by (used for) financing activities	**225**	1,018	**(617)**	(325)	**1,435**	1,044	**(593)**	299
Effect of exchange rate changes on cash	**26**	(12)	**35**	(18)	**12**	(3)	**(21)[8]**	9[8]
Increase (decrease) in cash and short-term investments	**(91)**	66	**(105)**	45	**14**	21	**—**	—
Cash and short-term investments at beginning of period	**400**	334	**251**	206	**149**	128	**—**	—
Cash and short-term investments at end of period	**$ 309**	$ 400	**$ 146**	$ 251	**$ 163**	$ 149	**$ —**	$ —

[1] Represents Caterpillar Inc. and its subsidiaries with *Financial Products* accounted for on the equity basis.
[2] Elimination of *Financial Products* profit after tax due to equity method of consolidation.
[3] Non-cash adjustment for the undistributed earnings from *Financial Products*.
[4] Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.
[5] Net proceeds and payments to/from *Machinery and Engines* and *Financial Products*.
[6] Change in investment and common stock related to *Financial Products*.
[7] Elimination of dividends paid to/from *Machinery and Engines* and *Financial Products*.
[8] Elimination of the effect of exchange on intercompany balances.

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

Years ended December 31,	2002	2001	2000	1999	1998
Sales and revenues	**$20,152**	20,450	20,175	19,702	20,977
Sales	**$18,648**	19,027	18,913	18,559	19,972
Percent inside the United States	**45%**	49%	50%	50%	51%
Percent outside the United States	**55%**	51%	50%	50%	49%
Revenues	**$ 1,504**	1,423	1,262	1,143	1,005
Profit(1)	**$ 798**	805	1,053	946	1,513
Profit per common share(1)(2)	**$ 2.32**	2.35	3.04	2.66	4.17
Profit per common share — diluted(1)(2)	**$ 2.30**	2.32	3.02	2.63	4.11
Dividends declared per share of common stock	**$ 1.400**	1.390	1.345	1.275	1.150
Return on average common stock equity	**14.4%**	14.4%	19.0%	17.9%	30.9%
Capital expenditures:					
Property, plant and equipment	**$ 728**	1,100	928	913	982
Equipment leased to others	**$ 1,045**	868	665	490	344
Depreciation and amortization	**$ 1,220**	1,169	1,063	977	893
Research and engineering expenses(3)	**$ 854**	898	854	814	838
As a percent of sales and revenues	**4.2%**	4.4%	4.2%	4.1%	4.0%
Wages, salaries and employee benefits	**$ 4,360**	4,272	4,029	4,044	4,146
Average number of employees	**70,973**	70,678	67,200	66,225	64,441
December 31,					
Total assets:					
Consolidated	**$32,851**	30,657	28,464	26,711	25,128
Machinery and Engines(4)	**$18,093**	17,275	16,554	16,158	15,619
Financial Products	**$18,147**	15,895	14,618	12,951	11,648
Long-term debt due after one year:					
Consolidated	**$11,596**	11,291	11,334	9,928	9,404
Machinery and Engines(4)	**$ 3,403**	3,492	2,854	3,099	2,993
Financial Products	**$ 8,193**	7,799	8,480	6,829	6,411
Total debt:					
Consolidated	**$17,683**	16,602	15,067	13,802	12,452
Machinery and Engines(4)	**$ 3,725**	3,784	3,427	3,317	3,102
Financial Products	**$14,753**	13,021	11,957	10,796	9,562
Percent of total debt to total debt and stockholders' equity (Machinery and Engines)	**41%**	40%	38%	38%	38%

(1) As discussed in Note 9, in 2002 we changed the manner in which we account for goodwill and other intangible assets upon the adoption of SFAS 142.
(2) Computed on weighted-average number of shares outstanding.
(3) Research and development expenses plus engineering expense incurred during the early production phase and ongoing efforts to improve existing products.
(4) 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 22A, "Basis for segment information" on Page A-22, 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 VI on Pages A-24 – A-26 (see Reconciliation of *Machinery and Engine* Sales by Geographic Region to External Sales by Marketing Segment on Page A-33). 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*, 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 (1 000 to 14 500 kilowatts).

Financial Products — financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division 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 Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries.

Machinery and Engines Sales Table

(Millions of dollars)	Total	North America	EAME*	Latin America**	Asia/Pacific
Fourth Quarter 2002					
Machinery	$ 3,151	$ 1,643	$ 878	$ 186	$ 444
Engines***	1,838	728	589	270	251
	$ 4,989	$ 2,371	$ 1,467	$ 456	$ 695
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

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

** Latin America includes Mexico

*** Does not include internal engine transfers of $316 million and $296 million in fourth quarter 2002 and fourth quarter 2001, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

FOURTH QUARTER 2002 COMPARED WITH FOURTH QUARTER 2001

Fourth-quarter 2002 sales and revenues were $5.38 billion compared to $5.10 billion in 2001. The increase of more than 5 percent was due to a $180 million improvement in price realization, about half of which was due to the favorable impact of currency and higher sales volume. Price realization is defined as the net impact of price changes, sales variances and currency fluctuations on sales. Sales variances include items such as warranty, special retail and wholesale incentive programs and manufacturer and cash discounts. Profit for the fourth quarter 2002 was $305 million or 88 cents per share compared to $167 million or 48 cents per share in the fourth quarter 2001. Excluding the $97 million after-tax impact of unusual charges recorded in 2001 for sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions, earnings per share increased 16 percent. The $90 million favorable impact of improved price realization (excluding currency) plus the impact of lower SG&A and R&D expenses were partially offset by continuing manufacturing inefficiencies related to volume shifts at most U.S. engine manufacturing facilities.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable pretax impact on earnings of $22 million for the fourth quarter. This was partially offset by a $14 million pretax increase in pension and other postretirement benefit expense. The increase was a result of lower plan asset returns in recent years and assumed discount rates used in 2002 compared to 2001, partially offset by the favorable pretax impact of other postretirement benefit plan changes made in the second quarter. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were $3.15 billion, an increase of $352 million or 13 percent from fourth quarter 2001. Sales volume for the quarter increased 9 percent from a year ago, mainly due to year-over-year changes in dealer inventories. In the fourth quarter of 2001, dealers decreased machine inventories about 12 percent. In the fourth quarter of 2002, dealer inventories increased 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine sales were $1.84 billion, a decrease of $98 million or 5 percent from fourth quarter 2001. Sales volume for the quarter decreased 9 percent from a year ago. While on-highway truck and bus engine sales were flat, engine sales into the electric power, petroleum and marine sectors decreased about 10 percent due to reduced corporate profits and continued business investment uncertainties in these industries.

Operating Profit Table

(Millions of dollars)	Fourth Quarter 2002	Fourth Quarter 2001
Machinery	**$ 351**	$ 137
Engines	**26**	39
	$ 377	$ 176*

*Includes $153 million of unusual charges for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. The unusual charges were split $98 million and $55 million to machinery and engines, respectively.

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

Machinery operating profit increased $214 million from fourth quarter 2001. Excluding the $98 million impact of unusual charges, operating profit increased $116 million or 49 percent. Higher sales volume contributed about $60 million of the improvement, with the remainder due to improved price realization (excluding the impact of currency) and cost reduction.

Engine operating profit decreased $13 million from fourth quarter 2001. Excluding the $55 million impact of unusual charges, operating profit decreased $68 million or 72 percent. Lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and non-conformance penalties for on-highway truck and bus engines reduced operating profit by approximately $110 million. This was partially offset by improved price realization (excluding currency) and cost reduction.

Interest expense was $10 million higher than a year ago primarily due to increased long-term borrowings and less capitalized interest year-over-year.

Other income/expense was income of $43 million compared to income of $42 million last year.

FINANCIAL PRODUCTS

Financial Products revenues for the fourth quarter were $431 million, up $16 million or 4 percent compared with fourth quarter 2001. The favorable impact of approximately $60 million due to the continued portfolio growth of finance receivables and leases at Cat Financial was partially offset by the approximately $44 million unfavorable impact of generally lower interest rates on finance receivables.

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

(Millions of dollars)	2002	2001	2000
North America Geographic Region	**$ 9,480**	$ 10,260	$ 10,492
Engine sales included in the Power Products segment	**(2,962)**	(3,463)	(3,880)
Company owned dealer sales included in the All Other segment	**(350)**	(438)	(350)
North America Geographic Region sales which are included in the All Other segment	**(339)**	(263)	(197)
Other*	**(254)**	(218)	(204)
North America Marketing external sales	**$ 5,575**	$ 5,878	$ 5,861
EAME	**$ 5,178**	$ 5,114	$ 5,041
Power Products sales not included in the EAME Marketing segment	**(1,611)**	(1,750)	(1,817)
Other*	**(739)**	(517)	(456)
EAME Marketing external sales	**$ 2,828**	$ 2,847	$ 2,768
Latin America Geographic Region	**$ 1,598**	$ 1,639	$ 1,431
Power Products sales not included in the Latin America Marketing segment	**(639)**	(280)	(247)
Other*	**354**	142	119
Latin America Marketing external sales	**$ 1,313**	$ 1,501	$ 1,303
Asia/Pacific Geographic Region	**$ 2,392**	$ 2,014	$ 1,949
Power Products sales not included in the Asia/Pacific Marketing segment	**(524)**	(351)	(303)
Other*	**(208)**	(255)	(269)
Asia/Pacific Marketing external sales	**$ 1,660**	$ 1,408	$ 1,377

*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
2002					
Machinery	$11,975	$ 6,517	$ 3,156	$ 818	$ 1,484
Engines***	6,673	2,963	2,022	780	908
	$18,648	$ 9,480	$ 5,178	$ 1,598	$ 2,392
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

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

**Latin America includes Mexico

***Does not include internal engine transfers of $1,286 million, $1,231 million and $1,356 million in 2002, 2001 and 2000, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

Before-tax profit for *Financial Products* was $68 million, down $14 million or 17 percent from fourth quarter 2001, primarily due to lower gains on the securitization of receivables of $9 million before tax at Cat Financial and lower income (mostly investment income) of $9 million before tax at Cat Insurance.

INCOME TAXES

Fourth-quarter tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits increased $6 million from fourth quarter a year ago, primarily due to improved profitability of Shin Caterpillar Mitsubishi Ltd.

2002 COMPARED WITH 2001

For the full year, the company achieved sales and revenues of $20.15 billion compared to $20.45 billion in 2001. This decline of about 1 percent was due to lower sales volume of about $680 million, partially offset by improved price realization of approximately $300 million. About half of the price realization improvement was due to the favorable impact of the weaker U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit for the full year was $798 million or $2.30 per share, compared to $805 million or $2.32 per share, down less than 1 percent from 2001. Excluding the $97 million after-tax impact of the unusual charges recorded in the fourth quarter of 2001, profit declined 12 percent. The combined effect of favorable price realization and net favorable currency of approximately $250 million was more than offset by lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable before-tax impact on 2002 earnings of $85 million. This was more than offset by a $93 million before-tax increase in pension and other postretirement benefit expense. This increase was a result of lower plan asset returns in recent years, partially offset by the favorable before-tax impact of other postretirement benefit plan changes made in the second quarter of 2002. These changes impacted U.S. employees only and included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance.

MACHINERY AND ENGINES

Machinery sales were $11.98 billion, a decrease of $183 million or 2 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Higher sales in Asia/Pacific were due to higher retail demand. Sales in North America, EAME and Latin America declined due to lower retail demand. Sales were also affected by changes in dealer inventories. In 2001, dealers decreased machine inventories about 7 percent. In 2002, dealer inventories increased by about 3 percent; however, year-end 2002 inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine sales were $ 6.67 billion, a decrease of $196 million or 3 percent from 2001. Sales volume for the year decreased 4 percent from 2001. Caterpillar truck engine sales rose 36 percent due to a surge in demand from North American truck OEMs for heavy-duty truck engines prior to the October 2002 emissions deadline and improved truck fleet operating profits. Sales into the petroleum sector increased 4 percent as higher sales of turbine engines more than offset a decline in sales of reciprocating engines. These increases were more than offset by 30 percent lower sales to the electric power sector, where financial uncertainties and depressed operating profits within the electric utility, technology and telecommunications industries impacted demand.

Operating Profit Table

(Millions of dollars)	**2002**	2001	2000
Machinery	**$ 932**	$ 849	$1,001
Engines	**175**	348	667
	$1,107	$1,197*	$1,668

*Includes $153 million of unusual charges for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. The unusual charges were split $98 million and $55 million to machinery and engines, respectively.

Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit.

Machinery operating profit increased $83 million, or 10 percent from 2001. Excluding the $98 million impact of unusual charges, operating profit decreased $15 million or 2 percent. The favorable profit impact of price realization, net impact of currency and lower SG&A expenses were more than offset by the profit impact of lower sales volume and related manufacturing inefficiencies.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 machinery operating profit of approximately $10 million. This was more than offset by a $62 million before-tax increase in pension and other postretirement benefit expense.

Engine operating profit decreased $173 million, or 50 percent from 2001. Excluding the $55 million impact of unusual charges, operating profit decreased $228 million or 57 percent. Increased turbine and on-highway truck and bus engine volumes and improved price realization improved operating profit by approximately $140 million. These favorable items were more than offset by the profit impact of lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and nonconformance penalties for on-highway truck and bus engines.

Application of the goodwill non-amortization provisions of SFAS 142 resulted in a favorable impact on 2002 engine operating profit of approximately $75 million. This was partially offset by a $31 million before-tax increase in pension and other postretirement benefit expense.

Interest expense was $6 million lower in 2002 compared to 2001 primarily due to lower interest rates on short-term borrowings.

Other income/expense improved by $87 million year-over-year primarily due to the absence of foreign currency losses and lower expenses related to the sales of receivables to Cat Financial.

Table of Supplemental Information

(Millions of dollars)	**2002**	2001	2000
Identifiable Assets:			
Machinery	**$ 10,793**	$ 10,121	$ 9,602
Engines	**7,300**	7,154	6,952
Total	**$ 18,093**	$ 17,275	$ 16,554
Capital Expenditures:			
Machinery	**$ 393**	$ 616	$ 573
Engines	**305**	493	327
Total	**$ 698**	$ 1,109	$ 900
Depreciation and Amortization:			
Machinery	**$ 437**	$ 424	$ 419
Engines	**348**	411	394
Total	**$ 785**	$ 835	$ 813

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

FINANCIAL PRODUCTS

Financial Products revenues for 2002 were $1.68 billion, up $33 million or 2 percent compared with 2001. A favorable impact of approximately $205 million due to a $2.1 billion increase in the portfolio at Cat Financial and an increase in third party insurance premiums and fees earned of approximately $21 million at Cat Insurance was mostly offset by the impact of generally lower interest rates on finance receivables at Cat Financial.

Before-tax profit was $287 million, down $58 million or 17 percent from 2001. A $41 million before-tax charge of "other than temporary" declines in the market value of securities in the investment portfolio at Cat Insurance resulted from poor overall market performance. Also, there was less securitization-related income of approximately $28 million before tax and higher operating expenses of $17 million before tax at Cat Financial. These items were partially offset by higher rental income, net of depreciation, of $30 million before tax at Cat Financial and higher underwriting income of $7 million before tax at Cat Insurance.

INCOME TAXES

Tax expense reflects an estimated annual tax rate of 28 percent for 2002 and 32 percent for 2001 resulting from a change in the geographic mix of profits.

UNCONSOLIDATED AFFILIATED COMPANIES

The company's share of unconsolidated affiliated companies' profits decreased $7 million from a year ago, primarily due to losses at Shin Caterpillar Mitsubishi Ltd. resulting from depressed construction equipment demand in Japan.

UPDATE — 2001 UNUSUAL CHARGES

In 2001, we recorded unusual charges of $153 million ($97 million after tax). These charges were for the sale of the Challenger® agricultural tractor line, plant closing and consolidations and costs for planned employment reductions.

During 2002, we reduced the Challenger exit cost reserve by $38 million, primarily for cash outlays for research and development expenses and manufacturing equipment in accordance with the contract with AGCO. We reduced the Shrewsbury redundancy reserve by $6 million for separation benefits for 225 employees. As planned, the U.S. employment reduction was achieved entirely through voluntary retirements. As a result, the reserve of $34 million was reclassified to our pension accounts upon completion of the retirement program.

Future cash outlays for contractual commitments for the Challenger of approximately $2 million per year will continue through 2008. Most of the diesel engine production at our Shrewsbury, England plant ceased in 2002; however, it has taken longer than anticipated to finalize the design of one replacement engine. As a result, some diesel engine production at Shrewsbury will continue through 2003. The reserve will be reduced as redundancy and exit costs are incurred through 2003.

Unusual Charges

(Millions of dollars)	2001 Charge	Asset Impair-ments	2002 Activity*	**12/31/02 Balance**
Challenger:				
Asset impairments	$ 32	$ (32)	$ —	**$ —**
Exit costs	49	—	(38)	**11**
	81	(32)	(38)	**11**
Shrewsbury:				
Asset impairments	16	(16)	—	**—**
Redundancy	10	—	(6)	**4**
Exit costs	4	—	(2)	**2**
	30	(16)	(8)	**6**
U.S. employment reduction	34	—	(34)	**—**
Other asset impairments	8	(8)	—	**—**
Total	$ 153	$ (56)	$ (80)	**$ 17**

*All amounts were paid in cash except for the U.S. employment reduction of $34 million, which was reclassified to our pension accounts.

SUPPLEMENTAL INFORMATION

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

Dealer sales (including both sales to end users and deliveries to dealer rental operations) in North America declined 10 percent from 2001, the same as industry demand. Caterpillar's share of industry sales remained at year earlier levels. Dealer sales declined in both the United States, down 11 percent, and Canada, down 5 percent. For the region, sales increased 2 percent in the heavy construction sector due to higher sales to the U.S. military and for airport construction. In addition, sales to highway construction remained strong. Sales to the quarry and aggregates sector were up 10 percent, due primarily to an increase in Caterpillar's share of industry sales. Sales growth in these two sectors was more than offset by a 37 percent reduction in sales to mining, especially coal. Sales to the general construction sector declined 9 percent due to reductions in dealer rental deliveries as well as reduced purchases by residential and non-residential builders.

Dealer sales in EAME declined 9 percent due to 14 percent lower sales in Europe. Sales increased in the Commonwealth of Independent States, up 7 percent, and Africa and Middle East, up 1 percent. For the region, sales to the heavy construction sector increased about 5 percent due mostly to increased purchases by highway contractors. Sales to quarry and aggregate producers were up 6 percent as well. These increases were more than offset by 21 percent lower sales to the general construction sector. Sales were also lower to industrial, down 22 percent; and mining, down 13 percent.

In Asia/Pacific, dealer sales increased 7 percent, led by a strong 45 percent gain in China. For the region, sales were 28 percent higher in the heavy construction sector and industrial sector sales grew 43 percent. Sales also increased to the general construction sector, up 7 percent; and the quarry and aggregates sector, up 14 percent. These gains more than offset 13 percent lower sales to the mining sector, resulting from sharp cutbacks in purchases by coal mining companies.

Dealer sales in Latin America declined 5 percent. Higher sales in Brazil, up 14 percent and Mexico, up 20 percent, were more than offset by declines in Argentina, down 88 percent, Peru, down 34 percent and Chile, down 19 percent. For the region, sales were up 8 percent in the heavy construction sector, mostly due to increased pipeline and highway construction. This gain was more than offset by 25 percent lower sales to the mining sector, especially metals, as well as a 6 percent decline in sales to the general construction sector.

Dealer Inventories of New Machines

Worldwide dealer new machine inventories at year-end 2002 were about 3 percent higher than 2001 levels. Inventories increased in North America, up 6 percent; Asia/Pacific, up 9 percent; and EAME, up 4 percent. Dealer inventory declined 20 percent in Latin America. Despite the overall increase in dealer inventories, inventories compared to current selling rates were lower than year-earlier levels in all regions.

Engine Sales to End Users and OEMs

Worldwide engine sales to end users and OEMs were up 1 percent in 2002. Sales to the on-highway truck and bus sector rose 38 percent and sales to the petroleum sector rose 5 percent, more than offsetting 21 percent lower sales to the electric power sector and 6 percent lower sales to the marine sector. In North America, Caterpillar sales of on-highway truck and bus engines rose 38 percent but were more than offset by lower sales in electric power, 36 percent; petroleum, 32 percent; and marine, 42 percent. Sales were impacted by weak corporate profits, continuing economic uncertainties and delayed new investments. Caterpillar widened its leadership position in the North American on-highway truck and bus industry. The heavy-duty truck industry and Caterpillar heavy-duty truck engine demand was substantially higher than we originally expected for 2002. We estimate about 40,000 extra heavy-duty trucks were built in 2002 to accommodate an artificial surge in customer demand for trucks with engines built before the October 2002 emissions deadline. This artificial demand added an estimated $200 million to Caterpillar's 2002 truck engine sales, representing about 50 percent of the total year-over-year sales increase to the on-highway truck and bus sector.

In EAME, overall sales declined 3 percent, with a 30 percent increase in demand for larger engines used in the petroleum sector more than offset by 16 and 14 percent lower sales into the electric power and marine sectors, respectively. Electric power and marine engine sales were impacted by weakening economic trends in Western Europe and increased business uncertainty which delayed new business investment decisions.

Sales in Asia/Pacific rose 20 percent with sales gains in all sectors except electric power where sales declined 17 percent. Sales of large engines used in the petroleum sector surged 62 percent, as developing countries in Asia/Pacific and Latin America increased oil and gas exploration and development to raise local energy production and offset higher costs of imported fuels. Sales in Latin America increased 60 percent with sales gains in all sectors and pronounced strength in large engine sales into the petroleum and marine sectors, which rose 48 and 242 percent, respectively.

2001 COMPARED WITH 2000

Sales and revenues for 2001 were $20.45 billion, 1 percent more than 2000. The increase was due to higher sales volume of about $390 million and increased *Financial Products* revenues of approximately $160 million, which were partially offset by approximately $275 million of lower price realization. More than 90 percent of the price realization detriment was due to the unfavorable impact of the stronger U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit of $805 million, including unusual 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 unusual charges, profit was $902 million, down $151 million or 14 percent. The combined effect of higher sales volume and a net favorable currency impact of approximately $225 million was more than offset by cost inefficiencies resulting from sharp volume shifts at some manufacturing facilities and higher SG&A expenses related to spending for future growth and improving long-term cost structure. The net favorable currency impact occurred as 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 sales volume. Sales were higher in all regions except Latin America, which was about flat. In North America, sales increases due to higher share of industry sales and a slower rate of dealer inventory reduction more than offset reduced industry demand. In EAME and Asia/Pacific, improved retail demand more than offset the impact of reductions in dealer inventory. Sales in Latin America remained near 2000 levels as higher retail demand offset reductions in dealer inventory.

Engine sales were $6.87 billion, a decrease of $187 million or 3 percent from 2000 even though sales 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 in other currencies caused the sales decline. Higher sales in the electric power, petroleum and marine sectors were offset by a substantial drop in truck engine sales.

Machinery operating profit decreased $152 million from 2000. The favorable impact of higher sales volume and the net favorable impact of currency were more than offset by higher costs, including unusual charges of $98 million, employment-related cost increases and higher energy costs.

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

Interest expense was $7 million lower than a year ago as lower effective borrowing rates more than offset the impact of higher borrowings.

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

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 a $1.1 billion increase in the portfolio at Cat Financial.

Before-tax profit increased $67 million or 24 percent from 2000. Record profit at Cat Financial resulted from an approximate one-percentage point increase in the spread on the receivables portfolio and increased gains of $31 million on sales of receivables.

INCOME TAXES

Excluding the tax effect of the unusual 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.

2001 UNUSUAL CHARGES

In December 2001, we 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. By selling the Challenger we will avoid the substantial new investment in distribution that would be required to make this product profitable. The sale will also provide our distribution network the expanded line of agricultural products it needs to be successful. A total charge of $81 million was recognized for the Challenger sale. These charges reflect the provisions of the agreement with AGCO and are comprised of the following:

- $32 million for write-downs of land, buildings and equipment at our DeKalb, Illinois, facility to fair market value based on the negotiated contract price with AGCO.
- $49 million for exit costs. The contract with AGCO requires that we complete the design of the new Challenger tractor, ensure a successful market launch and pay for the remaining capital assets required for the production of the tractor. These amounts reflect our estimate of costs to fulfill our contract obligations and will be incurred in 2002. Also included in exit costs are contractual obligations that will remain after the sale to AGCO but will provide no benefit to Caterpillar. These obligations range from one to seven years.

In December 2001, we 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. Upon closure of the plant, we expect an annual benefit to cost of goods sold of approximately $16 million. This represents lower overhead and other fixed manufacturing expenses as the production moves to other existing Caterpillar locations. A total charge of $30 million was recognized for the closing and comprised the following:

- $16 million for write-downs of land, buildings and equipment to fair market value as determined by third-party appraisers.
- $10 million of separation costs for termination of 495 employees at the Shrewsbury plant. These benefits were communicated to impacted employees in December.
- Exit costs of $4 million associated with closing the facility.

In December 2001, we announced plans to reduce U.S. salaried and management employment by 433 people at selected business units during the first half of 2002. These reductions are being made to reduce costs and improve efficiencies in support of our long-term growth and profitability goals. We expect this reduction to be achieved through voluntary early retirements but if the reduction goal is not met, we will use involuntary separations. The charge of $34 million for this program reflects the cost of retirement incentives. We expect lower annual labor costs of approximately $35 million after completion of the employment reduction.

Other unusual charges of $8 million were for write-downs of two manufacturing buildings, one at our Decatur, Illinois, facility and one at our Kiel, Germany, facility.

LIQUIDITY & CAPITAL RESOURCES

Sources of funds

The company generates its capital resources primarily through operations. Consolidated operating cash flow was $2.37 billion for 2002, compared with $1.99 billion for 2001. The increase is primarily the result of concerted efforts to reduce inventory and other working capital in response to the current economic environment. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our Outlook beginning on Page A-42.

Total debt as of December 31, 2002 was $17.7 billion, an increase of $1.08 billion from year-end 2001. Debt related to *Machinery and Engines* decreased $59 million, due to improved operating cash flow and lower capital expenditures. Debt related to *Financial Products* increased $1.14 billion due to portfolio growth at Cat Financial. We have a global credit facility of $4.55 billion available to both *Machinery and Engines* and Cat Financial to support commercial paper programs. Cat Financial may use up to 90 percent 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 percent 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 portion of the facility available to Cat Financial at December 31, 2002, was $3.95 billion. The facility is comprised of two components, $2,425 million expiring in September 2003 and $2,125 million expiring in September 2006. The facility expiring in September 2003 has a provision which allows Caterpillar to obtain a one-year loan in September 2003 that matures in September 2004. Our total credit commitments as of December 31, 2002 were:

(Millions of dollars)

	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,550	$4,550	$3,950
Other external	1,353	542	811
Intercompany	—	500	826
Total credit lines available	5,903	5,592	5,587
Utilized credit	238	64	174
Unused credit	$5,665	$5,528	$5,413

We also generate funding through the securitization of receivables. In 2002, we generated $1,696 million and $641 million of capital resources from the securitization of trade and finance receivables, respectively. As of December 31, 2002, we had trade and finance receivables of $2,904 million and $13,462 million, respectively.

We do not generate material funding through structured finance transactions.

Committed funds

The company has committed cash outflow related to long-term debt, operating lease agreements, unconditional purchase obligations and other contractual obligations. Minimum payments for these long-term obligations are:

(Millions of dollars)

	2003	2004	2005	2006	2007	After 2007	Total
Long-Term Debt	$ 3,912	$ 2,781	$1,492	$ 1,212	$ 1,022	$ 5,089	$15,508
Operating Leases	185	154	102	72	53	300	866
Other Long-Term Obligations	64	66	56	53	52	115	406
Unconditional Purchase Obligations	62	64	64	52	24	103	369
Total Contractual Obligations	$ 4,223	$ 3,065	$1,714	$ 1,389	$ 1,151	$ 5,607	$17,149

We did not have contingent liabilities with more than a remote chance of occurrence at December 31, 2002.

Machinery and Engines

Operating cash flow was $1.70 billion for 2002, compared with $1.51 billion for 2001. The improvement came mainly from focused efforts to reduce inventory and working capital requirements during 2002. Capital expenditures, excluding equipment leased to others, during 2002 were $693 million, a decrease of $378 million from 2001 due to tight controls on spending. On April 23, 2002, $250 million of 40-year debt, priced at 6.95 percent, was sold. The proceeds from the offering were used for general corporate purposes.

Financial Products

Operating cash flow was $649 million for 2002, compared with $590 million for 2001. The increase was primarily due to improved cash from profit before depreciation and amortization for 2002. Cash used to purchase equipment leased to others was $1.04 billion during 2002 compared to $830 million for 2001. In addition, net cash used for finance receivables was $1.16 billion for 2002, compared to $.8 billion for 2001. At December 31, 2002, finance receivables past due over 30 days were 3.5 percent, compared with 3.9 percent at the end of 2001.

Financial Products debt was $13.96 billion at December 31, 2002, an increase of $1.14 billion from December 31, 2001, and primarily comprised $9.95 billion of medium-term notes, $174 million of short-term notes payable to banks, $32 million of long-term notes payable to banks, $38 million of loans from a company-owned partnership, $255 million of money market funds and $3.50 billion of commercial paper. During the second quarter of 2001, $500 million of five-year debt, priced at 5.95 percent, 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 7.8:1 at December 31, 2002, compared with 7.7:1 at December 31, 2001.

Dividends paid per common share

Quarter	**2002**	2001	2000
First	**$ .350**	$ .340	$ .325
Second	**.350**	.340	.325
Third	**.350**	.350	.340
Fourth	**.350**	.350	.340
	$1.400	$1.380	$1.330

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, fair market values for goodwill impairment tests, impairment of available for sale securities, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and certain unusual charges. We use the following methods and assumptions in determining our estimates:

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.

Fair market values for goodwill impairment tests — Determined for each reporting unit by discounting projected cash flow for the upcoming five years and adding a year-five residual value based upon a market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple.

Impairment of available-for-sale securities — Securities are reviewed monthly to identify market values below cost of 20 percent or more. If a decline for a debt security is in excess of 20 percent for 6 months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to SFAS 115. After the 6-month period, debt securities with declines from cost in excess of 20 percent are evaluated monthly for impairment. For equity securities, if a decline from cost of 20 percent or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

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 and insurance loss 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 11 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.

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.

Unusual charge reserve — Determined in accordance with the appropriate accounting guidance depending on the facts and circumstances surrounding the situation. 2001 unusual charges discussed in Note 24 on Page A-27 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 December 31, 2002, Caterpillar's worldwide employment was 68,990 compared with 72,004 one year ago. The company reduced employment by 3,457 or about 5 percent during 2002 before the impact of acquisitions, which added 443 people.

Full-Time Employees at Year End

	2002	2001	2000
Inside U.S.	**36,463**	38,664	37,660
Outside U.S.	**32,527**	33,340	30,780
Total	**68,990**	72,004	68,440
By Region:			
North America	**36,667**	38,879	37,870
EAME	**21,302**	22,246	21,880
Latin America	**7,143**	7,012	6,186
Asia/Pacific	**3,878**	3,867	2,504
Total	**68,990**	72,004	68,440

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 in all our operations. 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 sites in the very early stages of cleanup, 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 with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002. The decree provides that if the manufacturers were unable to meet the standards at that time they would be required to pay a non-conformance penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came — the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant Advanced Combustion Emission Reduction Technology (ACERT™) engines are introduced in 2003.

Our expense for NCPs was $40 million in 2002. This amount was based on levels we believe the engines will perform when tested. The actual NCP amount will not be known until final testing with the EPA is completed for all models during 2003. Aside from customary research and development expenses, the net impact of producing and selling bridge engines negatively impacted 2002 financial results by $24 million ($17 million after tax or about 5 cents per share) as NCPs, product cost increases and ramp-up production costs were partially offset by price increases for these engines. Because of increased volumes in 2003, NCP expense will be significantly higher than in 2002, however, we expect the net unfavorable impact of producing and selling bridge engines to be no more than 2002. We do not anticipate paying NCPs beyond 2003.

The consent decree also provided the ability to "bank" credits prior to October 2002 that could be used to offset non-conforming engines produced after January 1, 2003. That is, if a company was able to produce and sell engines that were below the applicable standard prior to October 2002, then the company could apply the emission credits created by those engines to engines produced after January 1, 2003 that do not meet the consent decree standard. For example, an engine produced and sold prior to October 2002 that produced 3.5 grams of NO_x as compared to 4.0 gram standard would create a 0.5 gram credit. This credit would be "banked" to be used to offset the NO_x deficiency of an engine produced after January 1, 2003 that did not meet the consent decree standard. Given this scenario, a company could produce and sell a 3.0 gram engine in 2003 without paying an NCP even though the engine exceeds the 2.5 gram standard.

We produced and sold 70,399 mid-range engines and 958 heavy-duty engines prior to October 2002 which yielded emissions below the applicable standard for that period, resulting in 20,987.8 Mg of mid-range banked credits and 1,230.2 Mg of heavy-duty banked credits. We do not expect to pay any NCPs on our medium-duty engines in 2003 due to these banked credits. Of the approximately 25,800, non-conforming heavy-duty engines we anticipate building after January 1, 2003, credits are expected to offset the NCPs on approximately 3,000 of these units.

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998, and to make investments totaling $35 million in environmental-related projects by July 2007. Qualifying investments totaling approximately $10 million were made in 2002. Total qualifying investments to date for these projects is approximately $21 million.

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 22, 2003, Caterpillar filed its First Amended Complaint to add four additional defendants and to add claims alleging that two of the new defendants colluded with Navistar to utilize technology misappropriated from Caterpillar. At December 31, 2002, the past due receivable from Navistar related to this case was $104 million. On January 17, 2002, Navistar commenced an action against Caterpillar that alleges we breached various aspects of the long-term purchase contract. On April 2, 2002, the Court granted Caterpillar's Motion for Involuntary Dismissal of this action; Navistar subsequently asserted its claims as counterclaims in the action Caterpillar filed in Peoria. We believe Navistar's claims are without merit, and resolution of these matters will not have a material impact on our financial statements.

On May 7, 2002, International Truck and Engine Corporation commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its third amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002. International seeks damages and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has effectively been terminated. Caterpillar denies International's claims and will vigorously contest them. The company further believes that final resolution of this matter will not have a material impact on our financial statements. This matter is not related to the breach of contract action brought by Caterpillar against International currently pending in the Circuit Court of Peoria County, Illinois.

POSTRETIREMENT BENEFITS

In 2002 we recognized a net pension benefit of $73 million compared with a benefit of $163 million in 2001. The decrease was primarily a result of continued poor performance of the equity markets and lower than expected long-term returns on pension plan assets. SFAS 87, "Employers' Accounting for Pensions" requires companies to use an expected long-term rate of return for computing current year pension expense. Differences between the actual and expected returns are amortized into future earnings as actuarial gains and losses. At the end of 2002, unrecognized actuarial losses of $2.56 billion primarily reflect lower than expected returns on our pension plan assets.

Other postretirement benefit expense was $240 million in 2002, up $3 million from 2001. An increase resulting from several unfavorable items including inflation on health care costs and lower actual return on plan assets was almost entirely offset by changes to our U.S. benefit plans implemented during second quarter 2002. These changes include an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance. In total, these changes lowered our existing benefit obligation by approximately $475 million, which will be amortized into earnings over seven years (the average remaining service period of employees affected by the plan changes). In addition to this amortization, our ongoing annual expense will decrease approximately $45 million from the plan changes. A benefit of $75 million reflecting the partial year impact of the plan changes (representing both the amortization and ongoing impact of the changes) was recognized in 2002. Unrecognized actuarial losses for other postretirement plans were $976 million at the end of 2002. These losses reflect lower than expected plan asset returns, higher than expected benefit costs, a decrease in the assumed discount rate and an increase in expected health care inflation. These losses will be amortized into future earnings in accordance with SFAS 106, "Employer's Accounting for Postretirement Benefits Other than Pensions."

The unrecognized actuarial losses will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes and other factors that impact pension and other postretirement benefit expenses.

SFAS 87 requires the recognition of an Additional Minimum Liability if the market value of plan assets is less than the accumulated benefit obligation at the end of the plan year. Based on these values, the company increased the Additional Minimum Liability by $892 million in the fourth quarter of 2002. This resulted in a decrease in Accumulated Other Comprehensive Income (a component of Shareholder's Equity on the Statement of Financial Position) of $610 million after tax. During 2002, the company made cash contributions of $135 million to its U.S. defined benefit pension plans, which make up about 85 percent of the company's total pension liability. The company continues to have adequate liquidity resources to fund plans, as it deems necessary. Future changes to the Additional Minimum Liability will be dependent on several factors including actual returns on our pension plan assets, company contributions, benefit plan changes and our assumed discount rate.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effect of a one-percentage point change in our primary actuarial assumptions on 2002 benefit costs and year-end obligations is included in the table below.

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions on 2002 pension and other postretirement benefits costs and obligations:

(Millions of dollars)	2002 Benefit Cost: One percentage-point increase	2002 Benefit Cost: One percentage-point decrease	Year-end Benefit Obligation: One percentage-point increase	Year-end Benefit Obligation: One percentage-point decrease
Pension benefits:				
Assumed discount rate	$ (33)	$ 26	$ (991)	$1,146
Expected rate of compensation increase	29	(25)	222	(202)
Expected long-term rate of return on plan assets	(93)	93	—	—
Other postretirement benefits:				
Assumed discount rate	(17)	28	(434)	485
Expected rate of compensation increase	2	(2)	12	(12)
Expected long-term rate of return on plan assets	(12)	12	—	—
Assumed health care cost trend rate	49	(31)	272	(230)

The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, November 30. A similar process is used to determine the assumed discount rate for our non-U.S. pension plans. The discount rates used to calculate 2002 benefit plan expense were 7.3 percent for U.S. plans and 5.8 percent for non-U.S. plans. The discount rates for 2003 will be 7.0 percent for U.S. plans and 5.4 percent for non-U.S. plans.

The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. The 2002 rate was 4.0 percent for U.S. benefit plans and 3.2 percent for non-U.S. pension plans.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we add 1 percent to the passive returns due to our active management. A similar process is used to determine this rate for our non-U.S. pension plans. The expected long-term rates of return used to calculate 2002 benefit plan expense were 9.8 percent for U.S. plans and 7.6 percent for non-U.S. plans. The expected long-term rates of return for 2003 will be 9.0 percent for U.S. plans and 7.1 percent for non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate 2002 benefit expense, we assumed an increase of 10.6 percent for 2002. This rate was assumed to decrease gradually to the ultimate health care trend rate of 4.5 percent in 2009. This rate represents 2.5 percent general inflation plus 2.0 percent additional health care inflation. Based on our recent expenses and our forecast of changes, we expect an increase of 9.0 percent during 2003 with no change to the ultimate trend rate.

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 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2003 cash flow for our *Machinery and Engines* operations by $39 million. Last year, similar assumptions and calculations yielded a potential $62 million adverse impact on 2002 cash flow. We determine our net exposures by calculating the difference in cash inflows and outflows by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

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 percent 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 percent 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 would probably 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 have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt. However, we currently do not have any interest rate swaps. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2003 pretax earnings of *Machinery and Engines* by $2 million. Last year, similar assumptions and calculations yielded a potential $3 million adverse impact on 2002 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt.

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 2003 pretax earnings of *Financial Products* by $15 million. Last year, similar assumptions and calculations yielded a potential $15 million adverse impact on 2002 pretax earnings. To estimate the impact of interest rate sensitivity on our income, we compute the difference in baseline and sensitized interest expense over the next 12 months. We determine the baseline interest expense by applying a market interest rate to the unmatched portion of our debt portfolio. The unmatched portion of our portfolio is an estimate of fixed-rate assets funded by floating rate liabilities. We incorporate the effects of interest rate swap agreements in the estimate of our unmatched portfolio. We determine the sensitized interest expense by adding 100 basis points to the market interest rate applied to baseline interest expense and apply this rate to the unmatched portfolio. Our analysis assumes no new fixed-rate assets were extended and no further action was taken to alter our current interest rate sensitivity.

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

Economic and Industry Summary

Worldwide economic and geopolitical uncertainties remained at relatively elevated levels in the early weeks of 2003. We expect this will dampen the economic recovery in the first half of 2003, but growth is expected to accelerate in the second half, leading to worldwide growth of about 3 percent for the year as a whole. In this environment, industry opportunity is expected to be about the same as 2002. Our outlook is based on and subject to the following economic and business condition assumptions: (1) the geopolitical tensions in the Middle East remain high, but do not degenerate into a major lengthy armed conflict, (2) the benefits from lower European interest rates offset fiscal tightening in several major European countries, (3) the U.S. Congress approves in early 2003 about $30 billion in current fiscal year transportation funding and additional fiscal stimulus measures are passed by the end of the second quarter and (4) investor confidence improves as corporate earnings grow and trust is restored in the reliability of corporate reporting and oversight.

North America

Geopolitical and federal policy uncertainties in early 2003 are expected to dampen the strength of the first-half economic recovery. We assume these uncertainties will diminish and become less of a drag on growth in the second half of 2003. For the year as a whole, we expect economic growth of about 3 percent, supported by low interest rates and fiscal stimulus policies. The U.S. Congress is expected to pass a large fiscal stimulus package in the first half of 2003. The package, combined with the positive impact of previously enacted federal stimulus measures, is expected to more than offset state budget cutbacks, with most of the positive impact in the second half of the year. In addition, improved corporate earnings and cash flows, more accommodating credit conditions and a return to more normal commercial insurance coverage are also expected to provide support for stronger business capital spending in the second half of 2003. Construction activity is expected to be about flat, while industrial and mining activity is expected to be up about 3 percent. Industry sales of construction, industrial and mining machinery are expected to be about flat. Industry demand for reciprocating and turbine engines is expected to be down about 5 percent.

EAME

In EAME, we expect economic growth in Europe of about 2 percent, and about 5 percent growth in the CIS, Africa and the Middle East. While a recovery in Europe is expected, it will be restrained by a stronger euro and ongoing fiscal restraint in several major industrial countries. In Africa and the Middle East, oil exporters and precious metal producers are expected to benefit from good price levels, whereas most other commodity prices are expected to remain weak. We expect the CIS to grow at a solid rate, driven mainly by continued strong expansion of the oil and gas industry. Machine industry sales in EAME are expected to be about flat, while engine industry sales are also expected to be about flat.

Latin America

Market conditions in Latin America are expected to be mixed. We expect overall economic growth rates in Mexico and Argentina to improve, leading to higher industry sales. Industry sales in Peru are expected to be about flat. Relatively slow growth in Brazil and Chile and continued political instability in Venezuela are expected to lead to lower industry machine sales in these markets. For Latin America in total, machine and engine industry sales are expected to be down about 10 percent.

Asia/Pacific

We expect good overall economic growth in the Asia/Pacific region (excluding Japan) based on moderate growth in Australia and continued good growth in the developing economies, particularly southeast Asia, China and India. In Japan, economic and business conditions are expected to continue to be difficult, and machine industry sales are projected to be about flat at cyclically depressed levels. Industry machine sales in the Asia/Pacific region are expected to be up about 10 percent, while engine and turbine industry sales are projected to be down about 5 percent.

Company Summary

Company sales and revenues are expected to be about the same as 2002. Company sales in EAME are projected to be up about 4 percent, while company sales into Asia/Pacific are expected to be up about 2 percent. In North America, company sales are expected to be down about 3 percent, while company sales in Latin America are expected to be down about 10 percent.

Financial Products revenues are expected to increase approximately 10 percent, primarily driven by Cat Financial's record portfolio additions in 2002.

We anticipate improved operational results will offset most of the $300 million or approximately 60 cents per share of higher retiree pension, health care and related benefit costs. Therefore, despite flat sales and revenues and these increased costs, profit should be down only about 5 percent compared to 2002.

* * *

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, 2003.

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 (United States and Canada)
(201) 329-8660 (Outside United States and Canada)
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Internet home page: www.melloninvestor.com

Caterpillar Assistant Secretary
Laurie J. Huxtable
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-stockholders can request program materials by calling: (800) 842-7629 (United States and Canada) or (201) 329-8660 (outside United States 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
Nancy L. Snowden
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:

	2002		2001	
Quarter	**High**	**Low**	High	Low
First	**59.99**	**46.75**	49.63	39.75
Second	**59.62**	**45.90**	56.81	41.50
Third	**49.40**	**36.33**	55.72	40.35
Fourth	**50.84**	**33.75**	53.21	43.35

Number of Stockholders: Stockholders of record at year-end totaled 38,200, compared with 36,339 at the end of 2001. Approximately 67% of our issued shares are held by institutions and banks, 25% by individuals and 8% by Caterpillar benefit plans.

Employees' investment and profit-sharing plans acquired 5,991,908 shares of Caterpillar stock in 2002. Investment plans, for which membership is voluntary, held 29,601,547 shares for employee accounts at 2002 year end. Profit-sharing plans, in which membership is automatic for most U.S. and Canadian employees in eligible categories, held 445,467 shares at 2002 year end.

Company Publications:

Current information:

- phone our Information Hotline — (800) 228-7717 (United States and Canada) or (858) 244-2080 (outside United States 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 online 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 9, 2003, at 1:30 p.m. Central Time, the annual meeting of stockholders will be held at the Northern Trust Corporation, Chicago, Illinois. Requests for proxies are being mailed to stockholders with this report on or about March 3, 2003.

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, JI Ventures, Inc.
John R. Brazil[2,4]	President, Trinity University
John T. Dillon[1,3]	Chairman and CEO, International Paper
Eugene V. Fife[1,2]	Managing Principal, Vawter Capital LLC
Gail D. Fosler[5]	Senior Vice President and Chief Economist, The Conference Board
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
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[3,4,6]	Of Counsel to Hogan & Hartson, Washington, D.C.

OFFICERS

Glen A. Barton	Chairman and CEO
Vito H. Baumgartner	Group President
Douglas R. Oberhelman	Group President
James W. Owens	Group President
Gerald L. Shaheen	Group President
Richard L. Thompson	Group President
Ali M. Bahaj[7]	Vice President
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
Thomas A. Gales	Vice President
Stephen A. Gosselin[7]	Vice President
Donald M. Ings	Vice President
Richard P. Lavin	Vice President
Stuart L. Levenick	Vice President
Robert R. Macier	Vice President
David A. McKie[6]	Vice President
F. Lynn McPheeters	Vice President, Chief Financial Officer
Daniel M. Murphy	Vice President
Gerald Palmer	Vice President
James J. Parker	Vice President
Edward J. Rapp	Vice President
Alan J. Rassi[6]	Vice President
Christiano V. Schena[8]	Vice President
William F. Springer[7]	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
David B. Burritt[8]	Controller
Kenneth J. Zika[6]	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, 2002, except as noted.

[1]*Member of Audit Committee (David R. Goode, chairman)*
[2]*Member of Compensation Committee (William A. Osborn, chairman)*
[3]*Member of Nominating & Governance Committee (John T. Dillon, chairman)*
[4]*Member of Public Policy Committee (John R. Brazil, chairman)*
[5]*Effective January 1, 2003.*
[6]*Retired effective December 31, 2002.*
[7]*Effective May 1, 2002.*
[8]*Effective December 1, 2002.*

EXHIBIT 21

CATERPILLAR INC.
SUBSIDIARIES AND AFFILIATES
(as of December 31, 2002)

Name of Company	Where Organized
10G LLC	Delaware
A.S.V., Inc.	Minnesota
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
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
Arch Development Fund I L.P.	Delaware
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
Carter Rental, Inc.	Virginia
Cat Redistribution Services Corporation	Japan
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 Centro de Demostraciones y Desarrollo, S.L.	Spain
Caterpillar China Limited	Hong Kong
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 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 Mexico S.R.L. de C.V.	Mexico
Caterpillar Distribution Services Europe BVBA	Belgium
Caterpillar Elphinstone Pty. Ltd.	Australia
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 000	Russia
Caterpillar Financial Acquisition Funding LLC	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 New Zealand Limited	New Zealand
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. z o.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 Fomento Comercial Ltda.	Brazil
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 Component Manufacturing Company 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 FT Services LLC	Delaware
Caterpillar Logistics FT Services (UK) Limited	England and Wales

Caterpillar Logistics France SAS	France
Caterpillar Logistics NV	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 NV	Belgium
Caterpillar Logistics Services Polska Sp. z o.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 North America S.A.R.L.	New Zealand
Caterpillar NZ Funding LLC	Delaware
Caterpillar NZ Funding Parent Limited	Netherlands
Caterpillar of Australia Pty. Ltd.	Australia
Caterpillar of Canada Corporation	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. z o.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 Development S.A.R.L.	Switzerland
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 SPRL	Belgium
Caterpillar Stockton Limited	England and Wales
Caterpillar Torreon S. de R.L. de C.V.	Mexico
Caterpillar Tosno, L.L.C.	Russia
Caterpillar Transmissions France SARL	France
Caterpillar Trimble Control Technologies LLC	Delaware
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
Catsub I, Inc.	Oregon
Celerity Energy of Colorado LLC	Colorado
Celerity Energy of New Mexico LLC	New Mexico
Centre de Distribution de Wallonie SA	Belgium
Charlton Leasing Limited	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
Energyst B.V.	Netherlands

SEnsambladora 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 Generators India Private Limited	India
F.G. Wilson Incorporated	Delaware
F.G. Wilson Singapore Pte Limited	Singapore
FCC Equipment Financing, Inc.	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 Limited Company	China
Hama-rental Co.	Japan
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
Kasargod 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
Let's Co., Ltd.	Japan
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 Deutschland GmbH & Co. KG	Germany
MaK Deutschland Verwaltungs-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
Metalmark Financial Services Limited	Netherlands
MICA Energy Systems	Michigan
Mincom Limited	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
Monte Rio Power Corporation, Ltd.	Bermuda
Mopesa Motores Power, S.A.	Mexico
Motores Diesel Andinos 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 Brasil 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 Group Limited	England and Wales
Perkins Engines, Inc.	Maryland
Perkins Engines Leasing Limited	England and Wales
Perkins Executive Pension Trust Limited	England and Wales
Perkins France (SAS)	France
Perkins Group Limited	England and Wales
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
Przedsiebiorstwem Energetyki Cieplncj (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
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 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
Turbinas Solar S.A. de C.V.	Mexico
Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turboservices SDN BHD	Malaysia

Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England
UK Partners Limited Partnership	Ontario
VALA (UK) LP	United Kingdom
VALA C.V.	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 (Proprietary) 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. 2-43929, as amended, 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, 333-41464 and 333-98197) of Caterpillar Inc. of our report dated January 23, 2003 related to the consolidated financial statements, appearing on page A-3 of the Appendix to the Company's 2003 Annual Meeting Proxy Statement which is incorporated in this Annual Report on Form 10-K, except footnotes 1C and 21.

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, 2003 related to the consolidated financial statements, appearing on page A-3 of the Appendix to the Company's 2003 Annual Meeting Proxy Statement which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 31, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Caterpillar Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

___________, 2003	______________________________ (Glen A. Barton)	Chairman of the Board and Chief Executive Officer
___________, 2003	______________________________ (F. Lynn McPheeters)	Chief Financial Officer

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**
For the fiscal year ended December 31, 2002

OR

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

Commission File No. 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.

The audited statement of net assets available for plan benefits as of the end of the latest two fiscal years of the Plan is attached hereto as Exhibit A.

Item 2.

The audited statement of changes in net assets available for plan benefits for each of the latest two fiscal years of the Plan is attached hereto as Exhibit B.

Item 3.

The statements required by Items 1 and 2 have been prepared in accordance with the applicable financial reporting requirements of ERISA.

Item 4.

The Consent of Independent Accountants is attached hereto as Exhibit C.

SIGNATURES

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

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN

CATERPILLAR INC.
(Issuer)

March 31, 2003

By: /s/ F. Lynn McPheeters
Name: F. Lynn McPheeters
Title: Vice President and Chief Financial Officer

Caterpillar Inc.
Foreign Service Employees'
Stock Purchase Plan

Report of Independent Accountants

To the Participants, Investment Plan Committee
and Benefits Funds Committee of the Caterpillar Inc.
Foreign Service Employees'
Stock Purchase Plan

In our opinion, the accompanying statement of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan (the Plan) at December 31, 2002, and the changes in net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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 audit provides a reasonable basis for our opinion.

Management has chosen to present only one year financial statements.

Peoria, Illinois
March 27, 2003

CATERPILLAR INC.
STOCK PURCHASE PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
Investment in Caterpillar Inc. common stock	$ 1,028,098
Participant contributions receivable	9,232
Employer contributions receivable	4,985
Net assets available for benefits	$ 1,042,315

CATERPILLAR INC.
STOCK PURCHASE PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
Contributions:	
Participants	$ 108,471
Employer	58,491
Total contributions	166,962
Investment income (loss):	
Dividends	32,206
Net (depreciation) in fair value of common stock	(284,471)
Net investment (loss)	(252,265)
Withdrawals	(247,981)
(Decrease) in net assets available for benefits	(333,284)
Net assets available for benefits:	
Beginning of year	1,375,599
End of year	$ 1,042,315

CATERPILLAR INC.
STOCK PURCHASE PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - PLAN DESCRIPTION:

The following description of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan provides only general information. Employees should refer to the Plan agreement for a more complete While an employee, a participant may elect to withdraw all participant contributions and related earnings as provided by the Plan. Employer contributions may also be withdrawn based on vested status as provided by the Plan. Upon termination of employment, participants may elect (with spousal consent, if applicable) to receive their shares by immediate distribution or a deferred distribution. If termination is due to retirement or disability, participants may elect (with spousal consent, if applicable) various annuity payments.

Administration

The Plan is administered by the Investment Plan Committee, which is responsible for nonfinancial matters, and the Benefits Funds Committee, which is responsible for financial aspects of the Plan. Caterpillar Inc. and the Benefit Funds Committee have entered into trust agreements with The Northern Trust Company to receive contributions, administer the assets of the Plan and distribute withdrawals pursuant to the Plan.

Plan termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time. In the event of Plan termination, each participant shall have a fully vested interest in the assets attributable to employer contributions and earnings thereon. Any unallocated assets of the Plan will be allocated to participant accounts and distributed in such a manner as the Company may determine.

Risks and uncertainties

The Plan provides for investments in the Company's common stock. Investment securities are exposed to various risks, including market risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting

The Plan's accounts are maintained on the accrual basis of accounting.

Investments

The Plan's investments are stated at fair value. Caterpillar Inc. common stock is valued at quoted market prices. Income from investments is recorded as earned.

Contributions

Contributions to the Plan are made directly to the trust and shares are immediately purchased by the trust on the open market.

Administrative expenses

Administrative costs, including trustee fees and certain investment costs, are paid by the Company.

Withdrawals

Withdrawals are recorded when paid.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and benefit payments. Actual results could differ from those estimates. The Company believes the techniques and assumptions used in establishing these amounts are appropriate.

description of the Plan's provisions.

General

The Plan is a contributory defined contribution plan established by Caterpillar Inc. (the Company) to enable eligible employees of the Company and its subsidiaries (the participating employers) to acquire ownership interests in the Company through repurchases of its common stock.

Participation

Generally, employees of the participating employers, other than those employed under collective bargaining agreements, who meet certain age, service and citizenship or residency requirements, and are ineligible to make contributions under the Employees' Investment Plan adopted by the Company, are eligible to participate in the plan. Participation commences upon an eligible employee filing an application with the Investment Plan Committee. Participating eligible employees (the participants) may acquire ownership interests in the Company through purchases of its common stock.

Participant accounts

The participant's account is credited with the participant's contribution. The employer account of each participant is credited with the employer's contribution. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested accounts.

Contributions

Participant contributions are made through after-tax payroll deductions based on a percentage (2%-6%) of total earnings as elected by the employee. Participants with 25 or more years of service with the employers may contribute an additional 1%-4% of earnings.

Employer contributions are 50%, 66-2/3% or 80% of participant contributions (up to 6% of earnings), based on the participant's years of service.

Investment programs

Employer contributions are invested entirely in Caterpillar Inc. common stock.

Vesting and distribution provisions

Participants are immediately fully vested at all times in participant contributions and earnings thereon.

Participants begin vesting in employer contributions generally after the end of the second year of plan participation. Participants generally vest at the rate of 33% per year, resulting in full vesting by participants in employer contributions after five years of service with the Company. Any amounts not vested at withdrawal are forfeited and are applied to reduce the amount of future employer contributions to the Plan. Shares become fully vested upon retirement, permanent disability or death.

While an employee, a participant may elect to withdraw all participant contributions and related earnings as provided by the Plan. Employer contributions may also be withdrawn based on vested status as provided by the Plan. Upon termination of employment, participants may elect (with spousal consent, if applicable) to receive their shares by immediate distribution or a deferred distribution. If termination is due to retirement or disability, participants may elect (with spousal consent, if applicable) various annuity payments.

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EXHIBIT C

PRICEWATERHOUSECOOPERS

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 2,43929, as amended) of Caterpillar Inc. of our report dated March 27, 2003 relating to the financial statements of the Caterpillar Foreign Service Employees' Stock Purchase Plan, which appears in this Form 11-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 27, 2003

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