CATERPILLAR®

100 NE Adams Street
Peoria, Illinois 61629

Notice of Annual Meeting of Stockholders
Wednesday, April 11, 2001
1:30 p.m. — Central Daylight Time

Bank One Auditorium
1 Bank One Plaza
Chicago, Illinois 60670

March 2, 2001

Fellow stockholder:

On behalf of the Board of Directors, you are cordially invited to attend the 2001 Caterpillar Inc. Annual Meeting of Stockholders to:

- elect directors;
- act on stockholder proposals, if properly presented; and
- conduct other business properly brought before the meeting.

Attendance and voting is limited to stockholders of record at the close of business on February 12, 2001.

Sincerely yours,

Glen A. Barton
Chairman

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Voting Matters

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Record Date Information

Each share of Caterpillar stock you own as of February 12, 2001 entitles you to one vote. On February 12, 2001, there were 343,331,812 shares of Caterpillar common stock outstanding.

Voting by Telephone or Internet

Caterpillar is again offering shareholders the opportunity to vote by phone or via the internet. Instructions for shareholders interested in using either of these methods to vote are set forth on the enclosed proxy and voting instruction card.

If you vote by phone or via the internet, please have your proxy and voting instruction card available. The control number appearing on your card is necessary to process your vote. A phone or internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail. In the opinion of counsel, voting by phone and via the internet are valid proxy voting methods under Delaware law and Caterpillar bylaws.

Giving your Proxy to Someone Other than Individuals Designated on the Card

If you want to give your written proxy to someone other than individuals named on the proxy card:

- cross out individuals named and insert the name of the individual you are authorizing to vote; or
- provide a written authorization to the individual you are authorizing to vote along with your proxy card.

Quorum

A quorum of stockholders is necessary to hold a valid meeting. If at least one-third of Caterpillar stockholders are present in person or by proxy, a quorum will exist. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker votes on some matters on the proxy card but not on others, because he does not have the authority to do so.

Vote Necessary for Action

Directors are elected by a plurality vote of shares present at the meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. In an uncontested election for directors, the plurality requirement is not a factor.

Other action is by an affirmative vote of the majority of shares present at the meeting. Abstentions and broker non-votes have the effect of a no vote on matters other than director elections.

Votes submitted by mail, telephone or internet will be voted by the individuals named on the card in the manner you indicate. If your signed proxy card does not specify how you want your shares voted, they will be voted in accordance with the Board of Directors' recommendations. You may change your vote by voting in person at the Annual Meeting or by submitting another proxy that is dated later.

The Caterpillar Board of Directors

Structure

Our Board of Directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term.

Directors elected at the 2001 Annual Meeting of Stockholders will hold office for a three-year term expiring in 2004. Other directors are not up for election this year and will continue in office for the remainder of their terms.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Board or, as an alternative, the Board may reduce the number of directors to be elected at the meeting.

✓ PROPOSAL 1 — Election of Directors

Directors Up For Election This Year for Terms Expiring in 2004

- ***JOHN T. DILLON,*** 62, Chairman and CEO of International Paper (paper and forest products). Prior to his current position, Mr. Dillon served as President and Chief Operation Officer of International Paper. Other directorships: Kellogg Co. Mr. Dillon has been a director of the Company since 1997.
- ***JUAN GALLARDO,*** 53, Chairman and CEO of Grupo Embotelladoras Unidas S.A. de C.V. (bottling); Chairman of Mexico Fund Inc. (mutual fund); and Vice Chairman of Home Mart de Mexico, S.A. de C.V. (retail trade). Former Chairman and CEO of Grupo Azucarero Mexico, S.A. de C.V. (sugar mills). Other directorships: NADRO S.A. de C.V. and Grupo Mexico, S.A. de C.V. Mr. Gallardo has been a director of the Company since 1998.
- ***WILLIAM A. OSBORN,*** 53, Chairman and CEO of Northern Trust Corporation (multi-bank holding company) and The Northern Trust Company (bank). Other directorships: Nicor Inc. Mr. Osborn was elected a director of the Company in October, 2000.

- ***GORDON R. PARKER,*** 65, former Chairman of Newmont Mining Corporation (production, worldwide exploration for, and acquisition of gold properties). Other directorships: Gold Fields Limited; Phelps Dodge Corporation; and The Williams Companies, Inc. Mr. Parker has been a director of the Company since 1995.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINEES PRESENTED IN PROPOSAL 1.

Directors Remaining in Office until 2002

- ***W. FRANK BLOUNT,*** 62, Chairman and CEO of Cypress Communications Inc. (telecommunications) and Chairman and CEO of JI Ventures, Inc. (venture capital firm). Prior to his current position, Mr. Blount served as Director and CEO of Telstra Corporation Limited (telecommunications). Other directorships: ADTRAN Inc.; Alcatel S.A.; B Digital Ltd.; Entergy Corporation; and Hanson PLC. Mr. Blount has been a director of the Company since 1995.
- ***JOHN R. BRAZIL,*** 54, President of Trinity University (San Antonio, TX). Former President of Bradley University (Peoria, IL). Dr. Brazil has been a director of the Company since 1998.
- ***JAMES P. GORTER,*** 71, former Chairman of Baker, Fentress & Company (mutual fund) and former Limited Partner of Goldman, Sachs & Co. (investment bankers). Mr. Gorter has been a director of the Company since 1990.
- ***PETER A. MAGOWAN,*** 58, former Chairman and CEO of Safeway Inc. (leading food retailer). Mr. Magowan is President and Managing General Partner of the San Francisco Giants (Major League Baseball team). Other directorships: DaimlerChrysler AG and Safeway Inc. Mr. Magowan has been a director of the Company since 1993.
- ***CLAYTON K. YEUTTER,*** 70, Of Counsel to Hogan & Hartson (Washington, D.C. law firm). Other directorships: ConAgra, Inc.; FMC Corporation; Oppenheimer Funds; Texas Instruments Incorporated; Weyerhaeuser Co.; and Zurich Financial Services AG. Mr. Yeutter has been a director of the Company since 1991.

Directors Remaining in Office Until 2003

- ***LILYAN H. AFFINITO,*** 69, former Vice Chairman of Maxxam Group Inc. (forest products operations, real estate management and development, and aluminum production). Other directorships: KeySpan Corporation and Kmart Corporation. Ms. Affinito has been a director of the Company since 1980.
- ***GLEN A. BARTON,*** 61, Chairman and CEO of Caterpillar Inc. (machinery, engines, and financial products). Prior to his current position, Mr. Barton served as Vice Chairman and as Group President of Caterpillar. Other directorships: Inco Ltd. Mr. Barton has been a director of the Company since 1998.

- ***DAVID R. GOODE,*** 60, Chairman, President, and CEO of Norfolk Southern Corporation (holding company engaged principally in surface transportation). Other directorships: Delta Air Lines, Inc.; Georgia-Pacific Corporation; and Texas Instruments Incorporated. Mr. Goode has been a director of the Company since 1993.
- ***CHARLES D. POWELL,*** 59, Chairman of Sagitta Asset Management Limited (asset management); Phillips Fine Art Auctioneers (art, jewelry, and furniture auction); and Louis Vuitton U.K. Ltd. (luggage and leather goods). Other directorships: LVMH Moet-Hennessy Louis Vuitton and Textron Corporation. Lord Powell was elected a director of the Company effective January, 2001.
- ***JOSHUA I. SMITH,*** 59, Chairman and CEO of The MAXIMA Corporation (computer systems and management information products and services) and Vice Chairman of iGate, Inc. (broadband networking company). Other directorships: CardioComm Solutions Inc.; Federal Express Corporation; and The Allstate Corporation. Mr. Smith has been a director of the Company since 1993.

Board Meetings and Committees

In 2000, our Board met nine times. In addition to those meetings, directors attended meetings of individual Board committees. For our incumbent Board as a whole, attendance in 2000 at Board and committee meetings was 94.4%.

Our Board has four standing committees.

The ***Audit Committee,*** made up of only independent directors as defined by New York Stock Exchange rules, recommends the independent auditor for appointment by the Board. The Committee also questions management, including Caterpillar's internal accounting staff and independent auditors, on the application of accounting and reporting standards to Caterpillar. During 2000, the Committee held five meetings.

The ***Compensation Committee*** reviews Caterpillar's compensation practices and approves its compensation programs and plans. The Committee also reviews CEO performance and determines CEO compensation. During 2000, the Committee held four meetings.

The ***Nominating and Governance Committee*** recommends candidates to fill Board vacancies and for the slate of directors to be proposed by the Board at the Annual Meeting of Stockholders. The Committee also advises the Board on nominees for Chairman of the Board, Chief Executive Officer, and other executive officer positions at Caterpillar. In addition to these duties, the Committee monitors Caterpillar's corporate governance practices and suggests applicable revisions. It also annually conducts a Board self-assessment of its' performance. During 2000, the Committee held four meetings.

The ***Public Policy Committee*** makes recommendations to the Board on public and social policy issues impacting Caterpillar. The Committee also oversees Caterpillar's compliance programs and reviews legislation and stockholder matters not within the responsibilities of another Board committee. During 2000, the Committee held three meetings.

Committee Membership				
	Audit	Compensation	Nominating & Governance	Public Policy
Lilyan H. Affinito		✔		✔
Glen A. Barton				
W. Frank Blount	✔		✔	
John R. Brazil	✔		✔	
John T. Dillon		✔		✔
Juan Gallardo	✔		✔	
David R. Goode	✔*	✔		
James P. Gorter	✔	✔*		
Peter A. Magowan		✔		✔
William A. Osborn		✔		✔
Gordon R. Parker	✔		✔	
Charles D. Powell[1]				
Joshua I. Smith			✔*	✔
Clayton K. Yeutter		✔		✔*

* Chairman of Committee

[1] Lord Powell became a director of the Company effective January, 2001 and will not be assigned committee memberships until the April, 2001 Board meeting.

Director Compensation

Of our current Board members, only Mr. Barton is a salaried employee of Caterpillar. Board members that are not salaried employees of Caterpillar receive separate compensation for Board service. That compensation includes:

Annual Retainer:	$30,000
Attendance Fees:	$1,000 for each Board meeting $1,000 for each Board Committee meeting Expenses related to attendance
Committee Chairman Stipend:	$5,000 annually
Stock Options:	4,000 shares annually
Restricted Stock:	750 shares annually (400 shares have a restricted period of three years, while 350 shares are restricted until the director terminates service)

Under Caterpillar's Directors' Deferred Compensation Plan, directors may defer fifty percent or more of their annual compensation in an interest-bearing account or an account representing shares of Caterpillar stock. Under the 1996 Stock Option and Long-Term Incentive Plan, directors may also elect to receive all or a portion of their annual retainer fees, attendance fees, or stipends in shares of Caterpillar stock.

Our directors also participate in a Charitable Award Program. In the year of a director's death, the first of ten equal annual installments is paid to charities selected by the director and to the

Caterpillar Foundation. The maximum amount payable under the program is $1 million on behalf of each eligible director and is based on the director's length of service. The program is financed through the purchase of life insurance policies, and directors derive no financial benefit from the program.

Legal Proceedings

Joshua I. Smith is Chairman and Chief Executive Officer of The MAXIMA Corporation. On June 26, 1998, that corporation filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States District Court for the Southern District of Maryland.

On May 11, 2000, the First Circuit Court in Mexico City granted Grupo Azucarero Mexico, S.A. de C.V., a public company of which Juan Gallardo is the controlling shareholder, suspension of payments protection, which is legal protection similar to Chapter 11 of the U.S. Bankruptcy Code. This protection enables the company to continue its operations while meeting its financial obligations in an orderly fashion.

Certain Related Transactions

In October 1998, Caterpillar entered into a lease agreement with Riverfront Development L.L.C. for space at One Technology Plaza, 211 Fulton Street, Peoria, Illinois. Pursuant to this lease and subsequent amendments, in 2000 Caterpillar paid $377,311.05 to Riverfront Development L.L.C. Cullinan Properties, Ltd. owns 50% of Riverfront Development L.L.C. In 2000, Douglas R. Oberhelman, a Caterpillar vice president, married Diane A. Cullinan, who owns a majority of Cullinan Properties, Ltd.

Audit Committee Report

The Audit Committee of the Caterpillar Inc. Board of Directors (the Committee) is comprised of six independent directors and operates under a written charter adopted by the Board (Exhibit A). The members of the Committee are listed at the end of this report.

Management is responsible for the Company's internal controls and the financial reporting process. The independent accountants (auditors) are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Committee's responsibility is to monitor these processes. In addition, the Committee recommends to the Board the appointment of the Company's auditors (PricewaterhouseCoopers LLP).

In this context, the Committee has discussed with the Company's auditors the overall scope and plans for the independent audit. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Discussions about the Company's audited financial statements included the auditors' judgements about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgements and the clarity of disclosures in the financial statements. The Committee also discussed with the auditors other matters required by Statement on Auditing Standards No. 61 *Communication with Audit Committees,* as amended by SAS No. 90 *Audit Committee Communications.*

The Company's auditors provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Committee discussed the auditors' independence with management and the auditors. In addition, the Committee considered whether the information technology and other non-audit consulting services provided by the auditors' firm could impair the auditors' independence and concluded that such services have not impaired the auditors' independence.

Based on the Committee's discussion with management and the auditors and the Committee's review of the representations of management and the report of the auditors to the Committee, the Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission.

David R. Goode (Chair)	Juan Gallardo	John R. Brazil
W. Frank Blount	James P. Gorter	Gordon R. Parker

Audit Fees

Fees paid to our auditors' firm were comprised of the following (in millions):

2000 Financial Statement Audit	\$ 6.7
Information system design & implementation services provided in 2000	\$ 3.4
All other services provided in 2000*	\$12.8

*Consists primarily of income tax consulting, planning and return preparation, merger and acquisition support, and other operational consulting projects.

Caterpillar Stock Owned by Officers and Directors

(As of December 31, 2000)

Affinito	49,359 [1]	Magowan	36,845 [11]
Barton	319,249 [2]	Osborn	3,000
Baumgartner	137,265 [3]	Owens	288,275 [12]
Blount	17,137 [4]	Parker	22,925 [13]
Brazil	3,033 [5]	Shaheen	110,492 [14]
Dillon	12,250 [6]	Smith	17,025 [15]
Flaherty	386,922 [7]	Thompson	170,820 [16]
Gallardo	42,702 [8]	Yeutter	35,023 [17]
Goode	26,925 [9]	All directors and executive officers as a group	4,318,436 [18]
Gorter	51,075 [10]		

[1] Affinito — Includes 32,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 9,060 shares of Common Stock.

[2] Barton — Includes 227,993 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2000 in 4,386 shares of Common Stock.

[3] Baumgartner — Includes 83,800 shares subject to stock options exercisable within 60 days.

[4] Blount — Includes 12,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 169 shares of Common Stock.

[5] Brazil — Includes 1,333 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 33 shares of Common Stock.

[6] Dillon — Includes 8,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 62 shares of Common Stock.

[7] Flaherty — Includes 270,601 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2000 in 6,620 shares of Common Stock.

[8] Gallardo — Includes 4,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 33 shares of Common Stock.

[9] Goode — Includes 20,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 8,161 shares of Common Stock.

[10] Gorter — Includes 32,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 7,222 shares of Common Stock.

[11] Magowan — Includes 20,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 180 shares of Common Stock.

[12] Owens — Includes 223,401 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2000 in 2,855 shares of Common Stock.

[13] Parker — Includes 16,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 200 shares of Common Stock.

[14] Shaheen — Includes 68,270 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2000 in 1,548 shares of Common Stock.

[15] Smith — Includes 12,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 190 shares of Common Stock.

[16] Thompson — Includes 100,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2000 in 5,619 shares of Common Stock.

[17] Yeutter — Includes 24,000 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2000 in 5,476 shares of Common Stock.

[18] Group — Includes 2,903,079 shares subject to stock options exercisable within 60 days. Also includes 36,480 shares for which voting and investment power is shared. All directors and executive officers as a group beneficially own less than one percent of outstanding Common Stock.

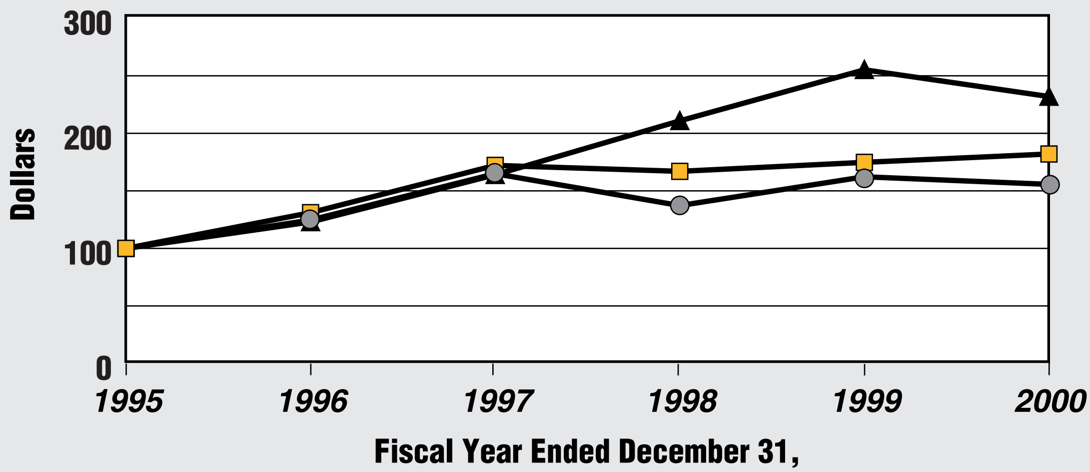
Persons Owning More than Five Percent of Caterpillar Stock
(As of December 31, 2000)

Name and Address	Voting Authority		Dispositive Authority		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
Joint filing by FMR Corp., Edward C. Johnson 3d, and Abigail P. Johnson 82 Devonshire Street Boston, MA 02109	3,701,194	-0-	18,318,064	-0-	18,318,064	5.328%

Performance Graph

CATERPILLAR INC.
Total Cumulative Shareholder Return for
Five-Year Period Ending December 31, 2000

The graph below shows the cumulative shareholder return assuming the investment of $100 on December 31, 1995 and reinvestment of dividends thereafter.



December 31,		1995	1996	1997	1998	1999	2000
Caterpillar Inc.	■	100.00	131.03	172.13	166.96	174.78	182.03
S&P 500	▲	100.00	122.96	163.98	210.85	255.21	231.97
S&P Machinery (Diversified)	●	100.00	124.64	164.88	137.22	162.23	155.64

Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation

As Caterpillar's Compensation Committee, our primary goal is to establish a compensation program that serves the long-term interests of Caterpillar and its stockholders. Our prime asset is our people. Without a focused, competitive compensation program tailored to meet our long-term goals, that asset is diminished significantly.

We believe that Caterpillar has developed a compensation program that effectively:

- links the interests of management and stockholders;
- links employee compensation with long-term Caterpillar performance; and
- attracts and retains people of high caliber and ability.

Although this report is directed at CEO and executive officer compensation, the Committee emphasizes that without the efforts of all highly motivated, dedicated Caterpillar employees around the globe, the Company's achievements would not have been possible.

EXECUTIVE OFFICER COMPENSATION

Our executive officer compensation package is a combination of short-term and long-term incentive compensation. Short-term compensation consists of base salary and cash payouts under our Corporate Incentive Compensation Plan. Long-term compensation consists of stock options and payouts under the long-term portion of our stock option plan.

Short-Term Incentive Compensation

Survey Data

In December of 1999, we received survey data from Hewitt, Hay, Towers Perrin, and a group of selected Comparator Companies with which we often benchmark. All companies included in these surveys are in the S&P Composite Index and two of them are in the S&P Machinery (Diversified) Index. The data showed that executive officer short-term incentive compensation at Caterpillar at all three executive officer levels — Chairman/CEO, Group President and Vice President — was below that of surveyed companies.

In response, we approved increases to the midpoint of salary range for the Vice President level, and increased the short-term incentive percentage at target for the Chairman/CEO, Group President and Vice President levels to 100%, 80%, and 65%, respectively. With those increases, executive officer short-term incentive compensation for 2000 was anticipated to remain below market average.

Base Salary Increases

In December of 1999, we also discussed with Caterpillar's CEO Glen Barton, potential salary increases for individual executive officers. Based on that discussion, it was determined that although Company performance did not warrant an increase in executive officer pay at that time, an increase to the base pay of selected executive officers for 2000 was necessary to bring their salary levels closer to minimum levels revealed in survey data.

At our June 2000 meeting, we discussed Company performance, executive officers' salaries, and Mr. Barton's salary. Based on that discussion, which involved a subjective analysis of individual performance, as well as a review of each executive officer's then-current salary and the amount of the last salary increase, base salary increases were established for certain executive officers for the remainder of 2000.

Also at the June meeting, the survey data referenced above was reviewed and it was determined that Mr. Barton's salary was well below market average. As a result, an increase in Mr. Barton's salary was established to bring the salary closer to the survey salary range. With that increase, Mr. Barton's salary for 2000 was anticipated to remain below market average.

Payouts Under The Corporate Incentive Compensation Plan

Executive officers, along with other management and salaried employees, participate in the Corporate Incentive Compensation Plan as part of their short-term compensation package. Payouts under this plan are driven by two factors:

- a team award based on Caterpillar's pre-tax return on assets (ROA) for the year; and
- an individual award based on individual performance.

For 2000, approximately $209.676 million in short-term incentive compensation was earned by about 55,000 Caterpillar employees.

Team awards under this plan are calculated by multiplying:

- annual base salary;
- a specific percentage of base salary that varies based on position; and
- a performance factor based upon Caterpillar's achievement of certain ROA levels.

Before any amount could be awarded under the Corporate Incentive Compensation Plan for 2000, Caterpillar had to achieve a minimum ROA level, with larger amounts awarded for achievement of a target or maximum ROA level. For 2000, the minimum ROA level was achieved and all executive officers received a team award.

As part of the Corporate Incentive Compensation Plan, twenty-five business units (or divisions within those units) at Caterpillar have their own short-term incentive compensation plans tied to the goals of their particular unit. For 2000, thirty-four executive officers received short-term incentive payouts based on the performance of their individual business units. Several factors specific to the unit may have impacted that payout, including return on sales, ROA, accountable profit, operating expenses, percentage of industry sales, quality, and customer satisfaction.

Executive officers participating in their respective Divisional incentive plans were eligible to receive fifty percent of the team award amount that would have been awarded if he or she had participated solely in the Divisional plans and fifty percent of the amount that would have been awarded had the officer participated solely in the Corporate Incentive Plan.

In addition to these awards, certain executive officers received an individual award for 2000 based on individual performance. In making individual awards, the Chairman is allocated a special recognition award amount each year that equals a percentage of all incentive compensation paid to executive officers that year. In his discretion, the Chairman decides whether any individual awards are warranted. Unused portions of the funds allocated to the Chairman each year for individual awards are not carried forward into the next year.

Long-Term Incentive Compensation

Stock Options

In 2000, all executive officers and certain other key employees were granted stock options. These stock options permit the holder to buy Caterpillar stock for a price equal to the stock's value when the option was granted. If the price of Caterpillar stock increases from the date of grant, the options have value. Typically, holders have ten years to exercise stock options from the date they were granted, absent events such as death or termination of employment. We view stock options as critical to linking the interests of our stockholders and employees in realizing a benefit from appreciation in the price of Caterpillar stock.

The number of options an executive officer receives depends upon his or her position in the Company. Typically, a baseline number of options is granted for the positions of Vice President, Group President, and Chairman. Adjustments may be made based on a subjective assessment of individual performance.

Adjustments to the number of options granted may also be made if the officer does not meet certain stock ownership guidelines. For 2000 option grants, the Compensation Committee encouraged officers to own a number of shares at least equal to the average number of shares for which they received options in their last five option grants, but granted a five-year period to meet this target. For 2000 option grants, the Committee also decided that 25% of vested unexercised options would apply toward the ownership target.

For 2000 stock option grants, if one hundred percent of this guideline was not met, significant progress had not been made toward meeting it, or a satisfactory explanation for failure to meet it had not been presented, we would have reduced the number of options to be granted to the particular officer. For 2000, all officers complied with the target ownership guidelines and no officer was penalized for low share ownership.

Long-Term Incentive Feature

Our option plan also includes a long-term incentive feature offered to executive officers and other high-level management employees. Under this feature, a three-year company performance cycle is established each year. If the Company meets certain threshold, target, or maximum performance goals at the end of the cycle, participants receive a payout that is one-half cash and one-half restricted Caterpillar stock. We have the ability to apply different performance criteria for different cycles, as well as the discretion to adjust performance measures for unusual items such as changes in accounting practices or corporate restructurings.

In 2000, a payout occurred under a long-term incentive cycle established for the years 1998 through 2000. That payout was based on a formula that factored the participant's base salary at the end of the cycle, a predetermined percentage of that salary based on the participant's position in the Company, and whether certain after-tax return on asset goals were met by Caterpillar. For the 1998 through 2000 cycle, the threshold after-tax return on asset goal was exceeded, although the target goal was not achieved. The total payout value received by 171 participants in 2000 under this long-term incentive feature was approximately $5.896 million.

MR. BARTON'S INDIVIDUAL GOALS FOR 2000

The Committee reviewed Mr. Barton's individual goals established at the beginning of 2000 and his subsequent performance against those goals. Mr. Barton's 2000 performance was also considered in determining adjustments to his 2001 salary. We believe that during his second year as CEO, Mr. Barton has done an excellent job of positioning Caterpillar for long-term growth and success.

Financial Results

Mr. Barton delivered profits in line with expectations for the year despite a very difficult global business environment in 2000. Under Mr. Barton's stewardship, the electric power business and financial services business performed particularly well. In addition, Mr. Barton redoubled efforts to reduce costs in response to a number of unfavorable economic conditions, including the continued strength of the dollar and softness in key markets. These efforts and the Company's results in a difficult economic environment are a testament to Mr. Barton's leadership and ability to manage the Company effectively in times of slower growth.

Effective Management of Acquisitions and Growth Initiatives

In 2000, Mr. Barton set a goal of keeping recent acquisitions and growth initiatives on track to deliver improved returns. Mr. Barton achieved this goal. Progress was made in the Company's agriculture business growth initiative, as the Company penetrated the European agricultural tractor market, laid the groundwork on a new combine assembly facility and enhanced its distribution capability in North America and Australia through new market segment organization structures and accelerated dealer development.

Mr. Barton successfully steered many recent acquisitions on a path to improved returns. At MaK, significant cost reductions were implemented and management changes effected, designed to result in solid future growth. Thanks to these efforts, MaK was able to introduce two new world-class engine products in 2000, which have already achieved high levels of market acceptance and demand. Excellent progress was made in integrating FG Wilson into our dealer network, improving production flows and improving delivery performance. At Perkins, improvements in quality and productivity led to an increased sales volume despite an extremely competitive environment.

Long-Term Truck Engine Relationship

In 2000, Mr. Barton set a goal of securing a long-term truck engine relationship to further enhance the Company's standing in that market. Mr. Barton met this goal, orchestrating a bold agreement with DaimlerChrysler to create a global engine alliance to develop, manufacture, market and distribute medium-duty engines and fuel systems to serve the needs of third-party customers and for use in their own products. This alliance is expected to be finalized in the second quarter of 2001.

Continued Focus on Quality

In 2000, Mr. Barton set a goal of continuing to focus on the quality of Caterpillar products and undertaking initiatives designed to ensure that the Company's excellent reputation for quality is maintained. Mr. Barton met this goal in demonstrable ways. For example, the three-year repair hour per unit for both construction equipment and engines reached new all time lows in 2000.

Recognition from parties outside Caterpillar in 2000 is a testament to the Company's continued focus on quality. In December, international marketing information firm J.D. Power and Associates awarded Caterpillar's heavy-duty diesel truck engines two awards: Highest Customer Satisfaction — Heavy-Duty Over the Road Engine and Highest Customer Satisfaction — Heavy-Duty Vocational Engine. These awards are based on the results of a J.D. Power and Associates 2000 Heavy-Duty Truck Engine Study, which measured customer satisfaction with product quality and performance.

In August, *R&D Magazine* announced the Caterpillar Uninterruptible Power Supply (Cat UPS) as a 2000 R&D Awards winner to be featured in the September R&D Awards issue. *R&D Magazine* recognized the Cat UPS as one of the 100 most technologically significant new products and processes of the year.

In March, the National Association of State Directors of Vocational Technical Education Consortium presented Caterpillar with the Outstanding Business and Industry Contribution award for its dedication to vocational technical education.

To achieve a further quantum leap in product quality as well as breakthroughs in growth and cost reduction in the years to come, Mr. Barton championed the Company's adoption of the stringent 6 Sigma methodologies, which was announced in late 2000.

Interaction with Caterpillar Directors

In addition to regular informal and formal contact with all directors, Mr. Barton met individually with a number of directors in 2000 and implemented suggestions resulting from those meetings.

Contact with Analysts and Shareholders

For 2000, Mr. Barton set a goal of maintaining contact with financial analysts and shareholders. This goal was met as Mr. Barton made presentations to analysts in March and August and held meetings with several institutional shareholders, providing significant support to our investor relations efforts.

Contact with Caterpillar Dealers and Customers

For 2000, Mr. Barton set a goal of maintaining regular contact with Caterpillar dealers and customers. This goal was met as Mr. Barton visited numerous dealers and large customers around the world. Mr. Barton also served as Chairman of the National Mining Association (NMA) Manufacturers and Services Division and served on the Executive Board of the NMA. Mr. Barton also served as chair to the MINEXPO committee and show in Las Vegas, where he interfaced with numerous major mining customers and received their input on business trends, product needs, and dealer issues.

Maintaining Contact with Political Leaders

For 2000, Mr. Barton set a goal of concentrating the Company's efforts on Capitol Hill in Washington D.C. to advance Caterpillar's position on several topics. These efforts were largely successful, including the successful campaign to grant China membership in the World Trade Organization and to establish Permanent Normalized Trade Relations (PNTR) with China. The Company was also successful in gaining broad industry support for the Diesel Technology Forum.

Commitment to the Peoria Community

Mr. Barton established a goal in 2000 of continuing his involvement in the growth and development of Caterpillar's hometown, Peoria, Illinois. Mr. Barton met that goal by continuing his participation on the Bradley University Board of Trustees and by becoming Chairman of that Board in December. He also served on the presidential search committee for Bradley University. In addition, Mr. Barton and his wife led a community-wide fund-raising effort for Peoria's local public broadcasting station and served as co-chairs for fund-raising dinners for the Crippled Children's Home and the Pediatric Resource Center.

By the Compensation Committee consisting of:

James P. Gorter (Chairman) *Lilyan H. Affinito*
John T. Dillon *David R. Goode*
Peter A. Magowan *William A. Osborn* *Clayton K. Yeutter*

Executive Compensation Tables

2000 Summary Compensation Table

	Annual Compensation				Long-Term Compensation		
					Awards	Payouts	
Name and Principal Position	Year	Salary	Bonus[2]	Other Annual Compensation[4]	Securities Underlying Options	LTIP Payouts	All Other Compensation[1]
G. A. Barton Chairman and CEO	2000	$ 967,500	$ 780,000	$ -0-	160,000	$ 352,778[3]	$46,440
	1999	935,000	441,322	1,410	150,000	493,784	44,880
	1998	562,503	409,500	1,654	50,000	492,917	26,999
V. H. Baumgartner[5] Group President	2000	506,813	306,901	-0-	24,000	127,635[3]	24,327
	1999	488,049	175,065	-0-	21,000	173,073	21,549
	1998	522,168	267,059	-0-	21,000	261,413	22,815
G. S. Flaherty Group President	2000	657,498	418,078	266	54,000	195,417[3]	31,560
	1999	645,000	228,330	1,437	50,000	316,050	30,960
	1998	545,004	294,300	-0-	50,000	408,750	21,363
J. W. Owens Group President	2000	600,000	383,760	-0-	54,000	179,375[3]	24,000
	1999	585,000	207,090	-0-	50,000	286,650	23,400
	1998	485,004	261,900	-0-	50,000	363,750	17,246
G. L. Shaheen Group President	2000	519,996	324,478	68	54,000	144,444[3]	20,800
	1999	480,000	169,920	1,221	50,000	206,453	19,470
	1998	325,830	197,722	-0-	21,000	246,375	1,350
R. L. Thompson Group President	2000	600,000	383,760	1,528	54,000	179,375[3]	18,000
	1999	585,000	207,090	2,283	50,000	286,650	17,550
	1998	485,004	261,900	-0-	50,000	363,750	14,549

[1] Consists of matching Company contributions, respectively, for the Employees' Investment Plan and supplemental employees' investment plans of G. A. Barton ($9,542/$36,898), G. S. Flaherty ($7,967/$23,593), J. W. Owens ($6,890/$17,110), G. L. Shaheen ($6,933/$13,867), and R. L. Thompson ($5,175/$12,825) and of matching contributions for V. H. Baumgartner ($24,327) in a foreign EIP plan.

[2] Consists of cash payments made pursuant to the Corporate Incentive Compensation Plan in 2001 with respect to 2000 performance, in 2000 with respect to 1999 performance, and in 1999 with respect to 1998 performance.

[3] This payout was made in early 2001. Fifty percent was in cash and fifty percent in restricted stock. Caterpillar's average stock price on December 31, 2000 ($47.3750 per share) was used to determine the restricted stock portion of the payout. As of December 31, 2000, the number and value of restricted stock held was G. A. Barton — 14,445 ($684,332), V. H. Baumgartner — 6,864 ($325,182), G. S. Flaherty — 11,640 ($551,445), J. W. Owens — 10,300 ($487,963), G. L. Shaheen — 6,553 ($310,448), and R. L. Thompson — 10,300 ($487,963). Dividends are paid on this restricted stock.

[4] Taxes paid on behalf of employee related to aircraft usage.

[5] Dollar amounts are based on compensation in Swiss Francs converted to U.S. dollars using the exchange rate in effect December 31, 2000.

Option Grants in 2000

Name	Individual Grants: Number of Securities Underlying Options Granted[2]	% of Total Options Granted to Employees In Fiscal Year 2000[3]	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1]: 5%	10%
G. A. Barton	160,000	2.42	$38.4063	06/12/10	$ 3,864,560	$ 9,793,568
V. H. Baumgartner	24,000	.36	38.4063	06/12/10	579,684	1,469,035
G. S. Flaherty	54,000	.82	38.4063	06/12/10	1,304,289	3,305,329
J. W. Owens	54,000	.82	38.4063	06/12/10	1,304,289	3,305,329
G. L. Shaheen	54,000	.82	38.4063	06/12/10	1,304,289	3,305,329
R. L. Thompson	54,000	.82	38.4063	06/12/10	1,304,289	3,305,329
Executive Group	1,021,360	15.42	38.4063	06/12/10	24,669,419	62,517,241
All Stockholders[4]	N/A	N/A	N/A	N/A	8,367,873,317	21,205,864,663
Executive Group Gain as % of all Stockholder Gain	N/A	N/A	N/A	N/A	.2948%	.2948%

[1] The dollar amounts under these columns reflect the 5% and 10% rates of appreciation prescribed by the Securities and Exchange Commission. The 5% and 10% rates of appreciation would result in per share prices of $62.5598 and $99.6161, respectively.

[2] Options are exercisable upon completion of one full year of employment following the grant date (except in the case of death or retirement) and vest at the rate of one-third per year over the three years following the grant. Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy tax-withholding requirements. Options granted to certain employees that are vested and not incentive stock options may be transferred to certain permitted transferees.

[3] In 2000, options for 6,665,858 shares were granted to employees and directors as follows:
Executive Group — 1,021,360; non-employee directors — 44,000; and all others — 5,600,498.

[4] For "All Stockholders" the potential realizable value is calculated from $38.4063, the price of Common Stock on June 12, 2000, based on the outstanding shares of Common Stock on that date.

Aggregated Option/SAR Exercises in 2000, and 2000 Year-End Option/SAR Values

Name	Shares Acquired On Exercise[1]	Value Realized[2]	Number of Securities Underlying Unexercised Options/SARs at 2000 Year-End[3]: Exercisable	Unexercisable	Value of Unexercised In-the-Money Options/SARs at 2000 Year-End[2]: Exercisable	Unexercisable
G. A. Barton	-0-	$ -0-	227,993	276,666	$ 1,497,983	$ 1,434,992
V. H. Baumgartner	-0-	-0-	83,800	45,000	685,052	215,249
G. S. Flaherty	-0-	-0-	270,601	103,999	3,284,204	484,310
J. W. Owens	-0-	-0-	223,401	103,999	2,090,640	484,310
G. L. Shaheen	-0-	-0-	68,270	94,333	289,692	484,310
R. L. Thompson	-0-	-0-	100,001	103,999	-0-	484,310

[1] Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy tax-withholding requirements. The amounts provided are gross amounts absent netting for shares surrendered.

[2] Calculated on the basis of the fair market value of the underlying securities at the exercise date or year-end, as the case may be, minus the exercise price.

[3] Numbers presented have not been reduced to reflect any transfers of options by the named executives.

Long-Term Incentive Plans/Awards in 2000

Name	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans[1]		
		Threshold	Target	Maximum
G. A. Barton Chairman and CEO	2000–2002	$ 500,000	$ 1,000,000	$ 1,500,000
	1999–2001	433,333	866,667	1,300,000
V. H. Baumgartner Group President	2000–2002	172,667	345,333	518,000
	1999–2001	144,667	289,333	434,000
G. S. Flaherty Group President	2000–2002	251,250	502,500	753,750
	1999–2001	223,333	446,667	670,000
J. W. Owens Group President	2000–2002	230,625	461,250	691,875
	1999–2001	205,000	410,000	615,000
G. L. Shaheen Group President	2000–2002	195,000	390,000	585,000
	1999–2001	173,333	346,667	520,000
R. L. Thompson Group President	2000–2002	230,625	461,250	691,875
	1999–2001	205,000	410,000	615,000

[1]Payout is based upon an executive's base salary at the end of the three-year cycle, a predetermined percentage of that salary, and Caterpillar's achievement of specified levels of after-tax return on assets ("ROA") over the three-year period. The target amount will be earned if 100% of targeted ROA is achieved. The threshold amount will be earned if 50% of targeted ROA is achieved, and the maximum award amount will be earned at 150% of targeted ROA. Base salary levels for 2000 were used to calculate the estimated dollar value of future payments under both cycles.

Pension Plan Table

Remuneration	Years of Service				
	15	20	25	30	35
$ 100,000	$ 22,500	$ 30,000	$ 37,500	$ 45,000	$ 52,500
$ 150,000	33,750	45,000	56,250	67,500	78,750
$ 200,000	45,000	60,000	75,000	90,000	105,000
$ 250,000	56,250	75,000	93,750	112,500	131,250
$ 300,000	67,500	90,000	112,500	135,000	157,500
$ 350,000	78,750	105,000	131,250	157,500	183,750
$ 400,000	90,000	120,000	150,000	180,000	210,000
$ 450,000	101,250	135,000	168,750	202,500	236,250
$ 500,000	112,500	150,000	187,500	225,000	262,500
$ 550,000	123,750	165,000	206,250	247,500	288,750
$ 650,000	146,250	195,000	243,750	292,500	341,250
$ 750,000	168,750	225,000	281,250	337,500	393,750
$ 850,000	191,250	255,000	318,750	382,500	446,250
$ 950,000	213,750	285,000	356,250	427,500	498,750
$ 1,100,000	247,500	330,000	412,500	495,000	577,500
$ 1,400,000	315,000	420,000	525,000	630,000	735,000
$ 1,600,000	360,000	480,000	600,000	720,000	840,000
$ 1,950,000	438,750	585,000	731,250	877,500	1,023,750

The compensation covered by the pension program is based on an employee's annual salary and bonus. Amounts payable pursuant to a defined benefit supplementary pension plan are included. As of December 31, 2000, the persons named in the Summary Compensation Table had the following estimated credited years of benefit service for purposes of the pension program: G. A. Barton – 35 years*; V. H. Baumgartner – 36 years**; G. S. Flaherty – 35 years*; J. W. Owens – 28 years; G. L. Shaheen – 33 years; and R. L. Thompson – 18 years. The amounts payable under the pension program are computed on the basis of an ordinary life annuity and are not subject to deductions for Social Security benefits or other amounts.

* Although having served more than 35 years with the Company, amounts payable under the plan are based on a maximum of 35 years of service.

** Mr. Baumgartner is covered by the pension plan of a subsidiary of the Company which is intended to provide benefits comparable to those under the Company's pension program. There are no material differences between Mr. Baumgartner's pension plan benefits and those disclosed in the table.

PROPOSAL 2 — Stockholder Proposal re: MacBride Principles and Caterpillar Response

This shareholder proposal is submitted by Mr. Alan G. Hevesi, Comptroller of the City of New York, 1 Centre Street, New York, NY 10007-2341 (custodian of the New York City Employees' Retirement System, owner of 490,000 shares of Company stock; custodian of the New York City Teachers' Retirement System, owner of 347,100 shares of Company stock; custodian of the New York City Fire Dept. Pension Fund Art. 1B, owner of 60,100 shares of Company stock; and custodian of the New York City Police Pension Fund Art. 2, owner of 148,000 shares of Company stock).

Resolution Proposed by Stockholder

WHEREAS, Caterpillar, Inc. operates a wholly-owned subsidiary in Northern Ireland,

WHEREAS, the securing of a lasting peace in Northern Ireland encourages us to promote means for establishing justice and equality;

WHEREAS, employment discrimination in Northern Ireland has been cited by the International Commission of Jurists as one of the major causes of sectarian strife in that country:

WHEREAS, Dr. Sean MacBride, founder of Amnesty International and Nobel Peace Laureate, has proposed several equal opportunity employment principles to serve as guidelines for corporations in Northern Ireland. These include:

1. Increasing the representation of individuals from under-represented religious groups in the workforce, including managerial, supervisory, administrative, clerical and technical jobs.
2. Adequate security for the protection of minority employees both at the workplace and while traveling to and from work.
3. The banning of provocative religious or political emblems from the workplace.
4. All job openings should be publicly advertised and special recruitment efforts should be made to attract applicants from under-represented religious groups.
5. Layoff, recall, and termination procedures should not, in practice favor particular religious groups.
6. The abolition of job reservations, apprenticeship restrictions, and differential employment criteria, which discriminate on the basis of religion or ethnic origin.
7. The development of training programs that will prepare substantial numbers of current minority employees for skilled jobs, including the expansion of existing programs and the creation of new programs to train, upgrade, and improve the skills of minority employees.
8. The establishment of procedures to assess, identify and actively recruit minority employees with potential for further advancement.

9. The appointment of a senior management staff member to oversee the company's affirmative action efforts and the setting up of timetables to carry out affirmative action principles.

RESOLVED, Shareholders request the Board of Directors to:

1. Make all possible lawful efforts to implement and/or increase activity on each of the nine MacBride Principles.

Supporting Statement of Proponent

We believe that our company benefits by hiring from the widest available talent pool. An employee's ability to do the job should be the primary consideration in hiring and promotion decisions.

Implementation of the MacBride Principles by Caterpillar, Inc. will demonstrate its concern for human rights and equality of opportunity in its international operations.

Please vote your proxy **FOR** these concerns.

Statement in Opposition to Proposal

Under this proposal, Caterpillar Inc. is being asked to adopt the MacBride Principles. Caterpillar's policy and practice worldwide is to provide equal opportunity employment in all locations without regard to race, color, religion, sex, national origin, citizenship status, age, disability or marital status. Northern Ireland is no exception.

Caterpillar has one subsidiary located in Northern Ireland, FG Wilson (Engineering) Ltd. (FG Wilson). FG Wilson's current policies, practices and procedures conform and compare favorably to the spirit and the intent of the MacBride Principles and adhere to the standards of the Northern Ireland Fair Employment Act, as amended and updated by the Fair Employment and Treatment (Northern Ireland) Order 1998, and the Code of Practice for the Promotion of Equality of Opportunity.

FG Wilson complies with all fair employment laws in Northern Ireland and monitors the religious composition of employees and job applicants. At FG Wilson, vacancies are advertised through Training and Enforcement Agency (T&EA) Job Centres, advertisements for vacancies set out the main duties and necessary requirements for the vacancies and no speculative applications are accepted. Interview panels include a personnel specialist and have representatives from both communities, and all appointments and promotions are made on merit. The company tracks success rates by religion, and employees may apply for promotions that result from internal vacancies at all the company's plants.

Considering an area within ten miles of the plant for recruitment of skilled workers, an underrepresentation of Catholic skilled workers is not prevalent. Thirty-three percent of managers and administrators are Catholics, producing no underrepresentation in that category. Despite the foregoing information, FG Wilson has set goals and a timetable to increase the Catholic share of its workforce.

In 1997, an affirmative action agreement was reached with the Fair Employment Commission (FEC) calling for "increased involvement of the government's T&EA to ensure widespread announcement of vacancies, with monitoring of the effort. Newspapers read mainly by Catholics are to be used for recruitment ads. Job ads are to include a statement welcoming applicants from all parts of the community." Equal Employment Opportunity statements are placed in all ads.

The company policy states that it promotes a working environment free of intimidation and harassment. The MacBride Principles and the Northern Ireland Fair Employment Act both seek to eliminate employment discrimination in Northern Ireland. Caterpillar whole-heartedly supports the objectives of the MacBride Principles; however, by adopting such principles, FG Wilson would become unnecessarily accountable to two sets of similar, but not identical, fair employment guidelines. In light of FG Wilson's own policies and practices, its compliance with the requirements of the Northern Ireland Fair Employment Act, and its cooperation with the FEC, it is felt that implementation of the MacBride Principles would be burdensome, superfluous, unnecessary and undesirable.

Caterpillar's and FG Wilson's policies on equal employment opportunity are entirely consistent with its obligations and goals to act as an ethically responsible member of the business community.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 2.

✔ PROPOSAL 3 — Stockholder Proposal re: Rights Plan and Caterpillar Response

This shareholder proposal is submitted by Mr. John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, CA 90278 (owner of 100 shares of Company stock).

Resolution Proposed by Stockholder

SHAREHOLDER VOTE ON POISON PILLS
ADOPT PROPOSAL TOPIC THAT WON MORE THAN 50% VOTE IN 2000
(Greater than 50% vote is based on yes and no votes cast)
(Greater than 46% vote if abstentions are counted as no votes)

SHAREHOLDER VOTE ON POISON PILLS

Shareholders recommend the company not adopt or maintain any poison pill designed to block, the acquisition of stock in excess of a specified amount:

Unless such plan or agreement has previously been approved by a shareholder vote. Shareholders recommend the board redeem or terminate any such plan or agreement.

The Investor Responsibility Research Center reported greater than 50% of the yes-no votes approved this proposal topic sponsored by John Chevedden at the 2000 shareholder meeting.

Supporting Statement of Proponent

Why submit Caterpillar's poison pill to a simple-majority shareholder vote?

- The poison pill is an anti-takeover device, which injures shareholders by reducing management accountability. It adversely affects shareholder value.
- Poison pills are a major shift of shareholder rights from shareholders to management. Pills give directors absolute veto power over any proposed business combination, no matter how beneficial it might be for the shareholders.

  Nell Minow and Robert Monks in their book
  POWER AND ACCOUNTABILITY
- Poison pills like Caterpillar's are increasingly unpopular. Shareholder proposals to redeem poison pills or subject pills to shareholder vote achieved 60%-approval from shareholders in 1999.

  Corporate Governance Bulletin, April 1999
- The Council of Institutional Investors (www.cii.org) — an association of institutional investors — recommends poison pills be subject to shareholder vote.
- Institutional investors own 60% of Caterpillar stock and mutual funds an additional 15%. Institutions and funds have a fiduciary duty to vote in the best interest of shareholders.

The adoption of this proposal to improve a significant management rule deserves particular attention because the company has important rules and practices that are not competitive — according to many institutional investors:

- A 75% supermajority vote requirement.
- Classified Board.
- No cumulative voting.
- A directors' charitable award program compromises director independence.

These less-than-optimal rules and practices argue that it is increasingly important for Caterpillar to adopt this one proposal to improve — as the stock continues to languish.

The Caterpillar 1999 proxy statement said: "At Caterpillar, we make decisions based on their potential to enhance shareholder value."

Good governance rules can improve stock price:

A recent survey by McKinsey & Co., international management consultant shows that institutional investors are prepared to pay an 18% premium for good corporate governance.

McKinsey warns that companies that fail to reform will find themselves at a competitive disadvantage in attracting capital to finance growth.

Wall Street Journal June 19, 2000

What additional issues highlight concern about improving Caterpillar's stock performance?

As reported in *Business Week:*
With earnings down in 1999 for the second year in a row, and prospects for only a scant increase in 2000, Cat's share price has plunged.

"The stock for the foreseeable future is dead money," said John Inch, an industry analyst with Bears, Stearns & Co.

1999 profits fell 37%, to $946 million, as sales slipped 6%, to $19.7 billion. That was Cat's worst showing since 1993.

The company has been embarrassed by a string of legal losses over patents, capped by an arbitrator who recently branded Cat management cheats.

Business Week, February 21, 2000

Caterpillar is ranked 2nd lowest (4) in Timeliness by *Value Line* (4) for more than 8 months.

To increase shareholder value vote yes for:
SHAREHOLDER VOTE ON POISON PILLS
ADOPT PROPOSAL TOPIC THAT WON MORE THAN 50% VOTE IN 2000
YES ON 3

Statement in Opposition to Proposal

Rewarding stockholders with increased value unquestionably is a primary function of corporate managers and directors. That is what they are paid to do. But, this does not justify irresponsible, short-term actions to achieve quick results.

Caterpillar believes the correct approach for assuring ongoing stockholder value is a long-term commitment to sustained business competitiveness. It was this commitment that permitted the investment of billions of dollars in renewed factories and a radical restructuring of the Company so it could excel in the highly competitive global environment of the twenty-first century. These strategic initiatives would not have been taken under a short-term perspective seeking instantaneous rewards.

But, as a result of these and related initiatives, over the past decade Caterpillar has generated significant consolidated operating cash flow. Much of that cash flow was used to increase our dividend several times and to initiate programs to repurchase a percentage of our outstanding shares. Equally important, we are using that cash flow to fund our business for sustained growth.

That, we believe, is the key to stockholder value; creating a company that can deliver cash flow to both replenish itself and to provide reasonable returns to stockholders over a continuum of time.

Some take a more shortsighted view of "value." They see it as anything that produces a reward — even if it is a one-time event that destroys the company. A leveraged buyout, a takeover, a split-up of the company, it doesn't matter so long as they realize a gain. If the company ceases to exist, no matter. They will move their capital to another investment.

Perhaps we can't blame these individuals for wanting quick gains. But managers and directors are responsible for providing more stockholder wealth on an ongoing basis by managing the company's assets for the highest possible returns over the long term. They also have obligations to provide meaningful jobs for employees, and to the well being of communities in which their facilities are located.

Our Shareholder Rights Plan does not, and is not intended to, prevent bidders from making offers to acquire the Company at a price and on terms that would be in the best interests of all shareholders. Instead, the Shareholder Rights Plan is designed to protect shareholders against potential abuses during a takeover attempt. In this regard, it is important to remember that hostile acquirers are interested in buying a company as cheaply as they can, and, in attempting to do so, may use coercive tactics such as partial and two-tiered tender offers and creeping stock accumulation programs which do not treat all shareholders fairly and equally. We believe our Rights Plan provides our Board with an additional degree of control in a takeover situation by allowing it to evaluate a takeover proposal in a rational manner to determine whether, in the exercise of its fiduciary duties, the Board believes the proposed offer adequately reflects the value of the Company and is in the interests of all shareholders.

The economic benefits of a shareholder rights plan to shareholders have been validated in several studies. Georgeson & Company Inc. — a nationally recognized proxy solicitor and investor relations firm — analyzed takeover data between 1992 and 1996 to determine whether shareholder rights plans had any measurable impact on shareholder value. Their findings (available at http://www.georgeson.com/menu/pubs.html) were as follows:

- premiums paid to acquire target companies with rights plans were on average eight percentage points higher than premiums paid to target companies without rights plans;
- rights plans contributed an additional $13 billion in shareholder value during the last five years and shareholders of acquired companies without rights plans gave up $14.5 billion in potential premiums;
- the presence of a rights plan did not increase the likelihood of withdrawal of a friendly takeover bid nor the defeat of a hostile one; and
- rights plans did not reduce the likelihood of a company becoming a takeover target.

Georgeson's two pioneering "Poison Pill" Impact Studies in 1998 and a 1995 report from JP Morgan reached the same conclusions. For these reasons, plans similar to our Shareholder Rights Plan have been adopted by a majority of the companies in the S&P 500 index.

The Board disagrees with many of the "supporting statements" contained in this proposal and believes that many are either outdated or out of context, or both.

Based on its business experience and knowledge of Caterpillar and the industry in which it operates, the Board believes the Caterpillar Shareholder Rights Plan is in your best interest.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 3.

PROPOSAL 4 — Stockholder Proposal re: Code of Worldwide Business Conduct and Caterpillar Response

This proposal is submitted by Ms. Vidette Bullock Mixon, 1201 Davis Street, Evanston, IL 60201-4118 (owner of 1,000 shares of Company stock), Maryknoll Fathers and Brothers, whose legal title is Catholic Foreign Mission Society of America, Inc., P. O. Box 305, Maryknoll, NY 10545-0305 (owner of 15,000 shares of Company stock), and Benedictine Sisters, 530 Bandera Road, San Antonio, TX 89228 (owner of 1,000 shares of Company stock).

Resolution Proposed by Stockholder

WHEREAS, our company, as a global corporation, faces numerous complex problems which also affect our interests as shareholders. The international context within which our company operates is becoming increasingly diverse as we enter the new millennium.

Companies operating in the global economy are faced with important concerns arising from diverse cultures and political and economic contexts. These concerns require management to address issues beyond the traditional business focus. These include such areas as human rights, worker's right to organize and bargain collectively, non-discrimination in the workplace and sustainable community development. Companies should find effective ways to eliminate the use of child labor, forced labor, bribery and harmful environmental practices.

A *New York Times* editorial stated, "[Corporations] should hold themselves to some guidelines. Their own practices should not be abusive, even if local laws allow it. This means giving workers wages they can live on and good working conditions." (Corporations and Conscience, *New York Times*, 12/6/98).

Our company should be in a position to assure shareholders that its employees are treated fairly and are paid a sustainable living wage wherever they work in the global economy.

We believe global companies need to operationalize comprehensive codes of conduct, such as those found in the *"Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance,"* developed by an international group of religious investors which highlight both criteria and bench marks which guide code compliance.

One important element of ensuring code compliance is the utilization of independent monitors made up of respected local human rights, religious and other non-governmental organizations. A number of global companies are involved in the development of credible code enforcement mechanisms that include independent monitoring.

RESOLVED that our company amend its *Code of Worldwide Business Conduct* to include a program of independent monitoring of both its international suppliers and its own national/international facilities.

Supporting Statement

Caterpillar's revised *Code of Worldwide Business Conduct*, Oct. 1, 2000, distributed shortly after the last shareholders' meeting does not address essential issues. There is no evaluation and/or transparency noted in it. The revised *Code* fails to:

- Enumerate fully the care, concern and support required of a corporation to protect and guide all stakeholders touched by the economic, political, social and cultural realities of its presence in the community.
- Move from principles to measurable policy.
- Plan for independent evaluations, reporting and transparency. In house evaluation simply consists of asking "...senior company managers...to report any events or activities that might cause an impartial observer to conclude that the Code hasn't been followed" and further, it states that, "[the reports] will be held in confidence." [Page 13 of the Code].

As in a financial audit, independent monitoring of a social and environmental audit is essential if consumer and investor confidence in our company's commitment to human rights and environmental responsibilities is to be realized and maintained.

Statement in Opposition to Proposal

We adopted the Caterpillar Code of Worldwide Business Conduct and Operating Principles ("Code of Conduct") in 1974 and have revised it five times since then, the latest revision occurring this year. We readily distribute this document to inquiring shareholders and other constituents. As stated in our introduction to the Code of Conduct, we believe "[n]o document Caterpillar has published is more important than our Code of Worldwide Business Conduct."

As illustrated in the following excerpts, our current Code of Conduct embodies many of the principles contained in the proponent's proposal.

Employee Relationships

- "We build and maintain a productive, motivated workforce by treating all employees fairly and equally ...
- We select and place employees on the basis of their qualifications for the work to be performed — without regard to their race, religion, national origin, color, gender, age, and/or physical or mental disability ...
- We value highly the differences among individuals and we welcome diversity within our workforce. We support and obey laws that prohibit discrimination everywhere we do business ...
- We reward employees based on the quality of the work they do and the contributions they make to Caterpillar."

Corporate Facilities

- "We actively promote the health and safety of our employees with policies and practical programs that help individuals safeguard themselves and their coworkers ...
- [W]e take many precautions to prevent illness or injury, and we make appropriate changes in our behavior or work environment that will contribute to improving the health and safety of ourselves and others."

Protection of the Environment

"We establish and adhere to environmentally sound policies and practices in product design, engineering and manufacturing, and we are committed to providing our customers with products that are both safe and reliable. We educate and encourage our customers to use the products they purchase from us in environmentally responsible ways."

Public Responsibility

- "Caterpillar accepts the responsibilities of global citizenship ... [w]e believe that our success should also contribute to the quality of life and the prosperity of communities where we work and live ...
- [W]e contribute significant time and energy to promoting the health, welfare and economic stability of our communities around the world ...
- We encourage all employees to participate in community activities that promote the common good."

Conclusion

At Caterpillar, we are dedicated to promoting a healthy, productive and rewarding work environment for our employees worldwide and our Code of Conduct, which is readily available to requesting shareholders, currently reflects that dedication. Accordingly, we see no further purpose served by the proponent's proposal.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 4.

Other Matters

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Exchange Act were filed on a timely basis except one late Form 4 filing for Juan Gallardo with respect to seven purchase transactions resulting in the acquisition of 24,259 shares of Company stock.

Stockholder Proposals for the 2002 Annual Meeting

If you want to submit a proposal for possible inclusion in the Company's 2002 Proxy Statement, our Corporate Secretary must receive it on or before November 2, 2001.

Matters Raised at the Meeting not Included in this Statement

We have received notification from Mr. John Chevedden that he intends to ask for a vote from the floor of the annual meeting on his request that the Company report on five specific business items relating to the Company's recommendations on, and oppositions to, certain proposals herein, employee stock ownership and Company policies on the election and terms of directors. If these requests for reports are properly presented for a vote at the annual meeting, proxy holders intend to vote in their discretion against each request included in the notification.

We do not know of any matters to be acted upon at the meeting other than those discussed in this statement. If any other matter is presented, proxy holders will vote on the matter in their discretion.

Under Caterpillar bylaws, a stockholder may bring a matter before the annual meeting by giving adequate notice to our Corporate Secretary. To be adequate, that notice must contain information specified in our bylaws and be received by us not less than 45 days nor more than 90 days prior to the annual meeting. If, however, less than 60 days notice of the meeting date is given to stockholders, notice of a matter to be brought before the annual meeting may be provided to us up to the 15th day following the date notice of the annual meeting was provided.

Solicitation

Caterpillar is soliciting this proxy on behalf of its Board of Directors. This solicitation is being made by mail but also may be made by telephone or in person. We have hired Innisfree M&A Incorporated for $15,000, plus out-of-pocket expenses, to assist in the solicitation.

Stockholder List

A stockholder list will be available for your examination during normal business hours at 100 NE Adams Street, Peoria, Illinois, at least ten days prior to the annual meeting and will also be available for examination at the annual meeting.

Revocability of Proxy

You may revoke the enclosed proxy by filing a written notice of revocation with us or by submitting another executed proxy that is dated later.

Exhibit A

CATERPILLAR INC.

CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
(adopted by the Board of Directors on August 9, 2000)

I. PURPOSE AND GENERAL RESPONSIBILITIES

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for financial matters. It performs this function by:

- serving as an independent and objective party to monitor Caterpillar's financial reporting process and internal control system;
- reviewing and assessing audit efforts of Caterpillar's independent auditors and internal auditing department; and
- providing an avenue of open communication among Caterpillar's independent auditors, financial and senior management, internal auditing department, and Board of Directors.

While the Audit Committee has the responsibilities set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that Caterpillar's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.

II. COMPOSITION

The Audit Committee shall have a Chairman appointed by the Board of Directors. No member of the Audit Committee shall have a relationship to Caterpillar that may interfere with the exercise of their independent judgment, as such independence is defined by New York Stock Exchange Listing Standards. All members of the Audit Committee shall be financially literate as determined by the Board in its business judgment consistent with financial literacy guidelines adopted by the Board. At least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment. At each April meeting of the Board, the composition of the existing Audit Committee shall be reaffirmed or the Audit Committee shall be reconstituted.

III. MEETINGS AND ATTENDANCE

The Audit Committee shall meet at least four times a year — in February, April, August, and October — or more frequently if circumstances dictate. At least twice a year, the Audit Committee shall meet separately with the independent auditor and the Vice President for Corporate Auditing and Compliance in executive session.

At each meeting of the Audit Committee, the following individuals, or their designated representative, shall be present: the Group President in charge of financial matters, Chief Financial Officer, Controller, General Counsel and Corporate Secretary, Vice President for Corporate Auditing and Compliance, and the engagement partner for the independent auditor. At the invitation of the Audit Committee Chairman, other members of management or outside consultants shall attend Audit Committee meetings.

IV. RESPONSIBILITIES AND DUTIES

Audit Committee Charter

The Audit Committee shall review this charter at least annually for adequacy and recommend to the Board any necessary changes. Should necessary charter changes come to the Audit Committee's attention prior to its scheduled annual review, such changes may be recommended to the Board prior to the annual review.

Independent Auditor

It is understood that the independent auditor is ultimately accountable to the Audit Committee and the Board. In that regard, the Audit Committee and the Board have the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditor.

The Audit Committee shall annually recommend to the Board the selection of the independent auditor. Factors considered in making that recommendation include the auditor's independence, effectiveness, and fees.

At least annually, the Audit Committee shall review a formal written statement from the independent auditor delineating all relationships between the independent auditor and Caterpillar and discuss with the independent auditor all significant relationships the independent auditor has with Caterpillar to determine its independence and objectivity. Any necessary action resulting from that review shall be recommended to the Board by the Audit Committee.

The Audit Committee views updates on emerging accounting and auditing issues as critical to its function. In this regard, the independent auditor and management shall provide updates on emerging accounting and auditing issues, as well as an assessment of their potential impact on Caterpillar, on a timely basis throughout the year.

Internal Controls

Periodically, the Audit Committee shall review with the independent auditor and management personnel the adequacy and effectiveness of Caterpillar's accounting and financial controls (including a review of any reports or communications required by or referred to in Statement of Auditing Standards No. 61), and elicit any recommendations for improvement of existing controls or the addition of new or more detailed controls.

Financial Reporting Process

Annual Process

In February of each year, the Audit Committee shall review with the independent auditor and management Caterpillar's annual audited financial statements and related financial disclosures. As a result of that review, the Audit Committee shall recommend to the Board whether the audited financials and related disclosures should be included in Caterpillar's Annual Report on Form 10-K and the Annual Report to Shareholders as reflected in the Appendix to Caterpillar's annual Proxy Statement. In connection with that review:

- the independent auditor shall report on its completion of the annual audit, any significant issues arising and whether it intends to issue an unqualified opinion on the financials;
- the independent auditor shall express its judgment regarding the quality and appropriateness of Caterpillar's accounting principles as they apply to its financial reporting;
- management shall review the annual consolidated financial statements with the Audit Committee, discussing significant changes from the previous year and the impact of any new accounting pronouncements;
- the Audit Committee shall consider any significant changes to Caterpillar's auditing and accounting practices as suggested by the independent auditor or management;
- the Audit Committee shall review separately with management and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and
- the Audit Committee shall review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented.

Throughout the year, both the independent auditor and Vice President for Corporate Auditing and Compliance shall describe their audit plans (in terms of scope and procedures to be used) for the year and the progress of those plans to date.

Quarterly Process

Prior to each Form 10-Q filing by Caterpillar, the Audit Committee shall review with the independent auditor any significant issues arising in the independent auditor's SAS 71 review of the quarterly financial statements and related disclosures.

Annual Audit Committee Report

At each February meeting, the Audit Committee shall review and approve for inclusion in Caterpillar's annual Proxy Statement a "Report of the Audit Committee," containing information required under Securities & Exchange Commission rules.

Report of Significant Litigation and Regulatory Matters

At least once a year, the Corporate Secretary and General Counsel shall discuss with the Audit Committee any significant litigation or regulatory matters outstanding involving Caterpillar. If significant litigation or regulatory matters arise during the year outside of a regularly scheduled report, those matters shall be brought to the attention of the Audit Committee at its next regularly scheduled meeting.

Additional Areas of Review

The Audit Committee may participate in other areas of review as designated by the Board, including, but not limited to, the following:

Senior Officer Expenses — The Audit Committee shall review annually the expenses of the senior officers of Caterpillar through the level of Group President.

Transactions with Management — The Audit Committee shall review past or proposed transactions between Caterpillar, members of management, directors, and associates of directors.

Information Technology — The Audit Committee shall receive periodic reports on the adequacy of Caterpillar's computerized information system controls and related security.

Income Tax Matters — Annually, the Audit Committee shall receive a report from Caterpillar's Director of Tax regarding certain income tax matters, including the status of income tax reserves and governmental tax audits.

Derivative Securities — Annually, the Audit Committee shall receive a report from the Chief Financial Officer on Caterpillar's use of derivative securities and compliance with the Derivative Policy of the Board.

Caterpillar Financial Services Matters — Periodically, the Vice President in charge of Caterpillar Financial Services Corporation shall update the Audit Committee on that subsidiary's operations, including a discussion of financing and lending activities.

Foreign Corrupt Practices — The Audit Committee shall receive periodic reports regarding Caterpillar's compliance with the provisions of the Foreign Corrupt Practices Act as well as the adequacy of Caterpillar's internal controls to assure continued compliance with the Act.

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