

# **APPENDIX**

**CATERPILLAR INC.**

**GENERAL AND FINANCIAL INFORMATION**

**2000**

## TABLE OF CONTENTS

	<b>Page</b>
Report of Management .....	A-3
Report of Independent Accountants .....	A-3
Consolidated Financial Statements and Notes .....	A-4
Five-year Financial Summary .....	A-21
Management's Discussion and Analysis (MD&A)	
Machinery and Engines Sales by Geographic Region .....	A-22
2000 Compared with 1999 .....	A-23
Supplemental Information .....	A-24
Fourth-Quarter 2000 Compared with Fourth-Quarter 1999 .....	A-25
1999 Compared with 1998 .....	A-26
Liquidity & Capital Resources .....	A-26
Employment .....	A-27
Other Matters .....	A-27
Outlook .....	A-29
Supplemental Stockholder Information .....	A-31
Directors and Officers .....	A-32

The management of Caterpillar Inc. has prepared the accompanying financial statements for the years ended December 31, 2000, 1999, and 1998, 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 financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, in accordance with generally accepted auditing standards. They have made similar annual audits since the initial incorporation of our company. Their role is to render an objective, independent opinion on management's financial statements. Their report appears below.

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



Chairman of the Board



Chief Financial Officer

January 18, 2001

## REPORT OF INDEPENDENT ACCOUNTANTS

**PRICEWATERHOUSECOOPERS** 

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

In our opinion, the accompanying consolidated financial statements, in Statements 1 through 4, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2000, 1999, and 1998, and the results of their operations and their cash flow for each of the three years in the period ended December 31, 2000, 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.

*Pricewaterhousecoopers LLP*

Peoria, Illinois

January 18, 2001

## STATEMENT 1

### Results of Operations for the Years Ended December 31

(Millions of dollars except per share data)

	Consolidated			Supplemental consolidating data						
	2000	1999	1998	Machinery and Engines <sup>(1)</sup>			Financial Products			
				2000	1999	1998	2000	1999	1998	
<b>Sales and revenues:</b>										
Sales of Machinery and Engines (Note 1C).....	\$ 18,913	\$ 18,559	\$ 19,972	\$ 18,913	\$ 18,559	\$ 19,972	\$ —	\$ —	\$ —	
Revenues of Financial Products (Note 1C).....	1,262	1,143	1,005	—	—	—	1,465	1,277	1,117	
Total sales and revenues.....	20,175	19,702	20,977	18,913	18,559	19,972	1,465	1,277	1,117	
<b>Operating costs:</b>										
Cost of goods sold.....	14,497	14,481	15,031	14,497	14,481	15,031	—	—	—	
Selling, general, and administrative expenses.....	2,604	2,541	2,561	2,099	2,079	2,210	544	493	377	
Research and development expenses.....	649	626	643	649	626	643	—	—	—	
Interest expense of Financial Products.....	688	560	489	—	—	—	739	585	501	
Total operating costs.....	18,438	18,208	18,724	17,245	17,186	17,884	1,283	1,078	878	
<b>Operating profit</b> .....	<b>1,737</b>	<b>1,494</b>	<b>2,253</b>	<b>1,668</b>	<b>1,373</b>	<b>2,088</b>	<b>182</b>	<b>199</b>	<b>239</b>	
Interest expense excluding Financial Products.....	292	269	264	292	269	264	—	—	—	
Other income (expense) (Note 3).....	83	196	185	(126)	66	46	96	52	65	
<b>Consolidated profit before taxes</b> .....	<b>1,528</b>	<b>1,421</b>	<b>2,174</b>	<b>1,250</b>	<b>1,170</b>	<b>1,870</b>	<b>278</b>	<b>251</b>	<b>304</b>	
Provision for income taxes (Note 6).....	447	455	665	350	362	554	97	93	111	
Profit of consolidated companies.....	1,081	966	1,509	900	808	1,316	181	158	193	
Equity in profit of unconsolidated affiliated companies (Note 10).....	(28)	(20)	4	(31)	(21)	4	3	1	—	
Equity in profit of Financial Products' subsidiaries.....	—	—	—	184	159	193	—	—	—	
<b>Profit</b> .....	<b>\$ 1,053</b>	<b>\$ 946</b>	<b>\$ 1,513</b>	<b>\$ 1,053</b>	<b>\$ 946</b>	<b>\$ 1,513</b>	<b>\$ 184</b>	<b>\$ 159</b>	<b>\$ 193</b>	
<b>Profit per share of common stock (Note 15)</b> .....	<b>\$ 3.04</b>	<b>\$ 2.66</b>	<b>\$ 4.17</b>							
<b>Profit per share of common stock — assuming dilution (Note 15)</b> .....	<b>\$ 3.02</b>	<b>\$ 2.63</b>	<b>\$ 4.11</b>							
Cash dividends declared per share of common stock.....	\$ 1.345	\$ 1.275	\$ 1.150							

<sup>(1)</sup> Represents Caterpillar Inc. and its subsidiaries except for Financial Products, which is accounted for on the equity basis.

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-7 for a definition of the groupings in these statements. Transactions between Machinery and Engines and Financial Products have been eliminated to arrive at consolidated data.

## STATEMENT 2

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

(Dollars in millions)

	2000	1999	1998	
<b>Common stock (Note 14):</b>				
Balance at beginning of year.....	\$ (1,230)	\$ (993)	\$ (442)	
Common shares issued, including treasury shares reissued:				
2000 — 408,629; 1999 — 1,535,626; 1998 — 800,315.....	14	23	16	
Treasury shares purchased:				
2000 — 10,789,700; 1999 — 4,956,100; 1998 — 11,612,300.....	(412)	(260)	(567)	
Balance at year-end.....	(1,628)	(1,230)	(993)	
<b>Profit employed in the business:</b>				
Balance at beginning of year.....	6,617	6,123	5,026	
Profit.....	1,053	946	1,513	1,513
Dividends declared.....	(465)	(452)	(416)	
Balance at year-end.....	7,205	6,617	6,123	
<b>Accumulated other comprehensive income:</b>				
Foreign currency translation adjustment (Note 1H):				
Balance at beginning of year.....	125	65	95	
Aggregate adjustment for year.....	(70)	60	(30)	(30)
Balance at year-end.....	55	125	65	
Minimum Pension Liability Adjustment:				
Balance at beginning of year.....	(47)	(64)	—	
Aggregate adjustment for year.....	15	17	(64)	(64)
Balance at year-end.....	(32)	(47)	(64)	
Comprehensive income.....	998	1,023	1,419	
<b>Stockholders' equity at year-end</b> .....	<b>\$ 5,600</b>	<b>\$ 5,465</b>	<b>\$ 5,131</b>	

See accompanying Notes to Consolidated Financial Statements.

# STATEMENT 3

## Financial Position at December 31

Caterpillar Inc.

(Dollars in millions)

	Consolidated			Supplemental consolidating data					
	(Caterpillar Inc. and subsidiaries)			Machinery and Engines <sup>(1)</sup>			Financial Products		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
<b>Assets</b>									
Current assets:									
Cash and short-term investments	\$ 334	\$ 548	\$ 360	\$ 206	\$ 440	\$ 303	\$ 128	\$ 108	\$ 57
Receivables — trade and other	2,608	3,233	3,660	2,411	2,357	2,604	1,201	1,761	1,875
Receivables — finance (Note 5)	5,471	4,206	3,516	—	—	—	5,471	4,206	3,516
Deferred income taxes	397	405	474	377	394	465	20	11	9
Prepaid expenses	1,019	824	607	1,038	841	616	2	3	9
Inventories (Note 1D)	2,692	2,594	2,842	2,692	2,594	2,842	—	—	—
Total current assets	12,521	11,810	11,459	6,724	6,626	6,830	6,822	6,089	5,466
Property, plant, and equipment — net (Notes 1F and 9)	5,588	5,201	4,866	4,376	4,287	4,125	1,212	914	741
Long-term receivables — trade and other	76	95	85	76	95	85	—	—	—
Long-term receivables — finance (Note 5)	6,095	5,588	5,058	—	—	—	6,095	5,588	5,058
Investments in unconsolidated affiliated companies (Notes 1B and 10)	551	553	773	504	523	773	47	30	—
Investments in Financial Products' subsidiaries	—	—	—	1,620	1,464	1,269	—	—	—
Deferred income taxes (Note 6)	907	954	955	960	974	980	10	9	8
Intangible assets (Note 1F)	1,507	1,543	1,241	1,504	1,541	1,241	3	2	—
Other assets (Note 17)	1,219	967	691	790	648	316	429	319	375
<b>Total assets</b>	<b>\$ 28,464</b>	<b>\$ 26,711</b>	<b>\$ 25,128</b>	<b>\$ 16,554</b>	<b>\$ 16,158</b>	<b>\$ 15,619</b>	<b>\$ 14,618</b>	<b>\$ 12,951</b>	<b>\$ 11,648</b>
<b>Liabilities</b>									
Current liabilities:									
Short-term borrowings (Note 12)	\$ 971	\$ 770	\$ 809	\$ 369	\$ 51	\$ 49	\$ 919	\$ 1,030	\$ 972
Accounts payable	2,339	2,003	2,250	2,556	2,317	2,401	147	41	273
Accrued expenses	1,048	1,048	928	720	758	659	451	337	290
Accrued wages, salaries, and employee benefits	1,274	1,191	1,217	1,262	1,180	1,208	12	11	9
Dividends payable	117	115	107	117	115	107	5	29	36
Deferred and current income taxes payable (Note 6)	57	23	15	28	(12)	(19)	29	35	34
Deferred liability	—	—	—	—	—	—	316	190	143
Long-term debt due within one year (Note 13)	2,762	3,104	2,239	204	167	60	2,558	2,937	2,179
Total current liabilities	8,568	8,254	7,565	5,256	4,576	4,465	4,437	4,610	3,936
Long-term debt due after one year (Note 13)	11,334	9,928	9,404	2,854	3,099	2,993	8,480	6,829	6,411
Liability for postemployment benefits (Note 8)	2,514	2,536	2,590	2,514	2,536	2,590	—	—	—
Deferred income taxes and other liabilities (Note 6)	448	528	438	330	482	440	81	48	32
<b>Total liabilities</b>	<b>22,864</b>	<b>21,246</b>	<b>19,997</b>	<b>10,954</b>	<b>10,693</b>	<b>10,488</b>	<b>12,998</b>	<b>11,487</b>	<b>10,379</b>
<b>Contingencies (Notes 17 and 18)</b>									
<b>Stockholders' equity (Statement 2)</b>									
Common stock of \$1.00 par value (Note 14):									
Authorized shares: 900,000,000									
Issued shares (2000, 1999, and 1998 — 407,447,312)									
at paid-in amount	1,048	1,045	1,063	1,048	1,045	1,063	787	762	683
Profit employed in the business	7,205	6,617	6,123	7,205	6,617	6,123	922	744	615
Accumulated other comprehensive income	23	78	1	23	78	1	(89)	(42)	(29)
Treasury stock (2000 — 64,050,502 shares; 1999 — 53,669,431 shares; and 1998 — 50,248,957 shares) at cost	(2,676)	(2,275)	(2,056)	(2,676)	(2,275)	(2,056)	—	—	—
<b>Total stockholders' equity</b>	<b>5,600</b>	<b>5,465</b>	<b>5,131</b>	<b>5,600</b>	<b>5,465</b>	<b>5,131</b>	<b>1,620</b>	<b>1,464</b>	<b>1,269</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 28,464</b>	<b>\$ 26,711</b>	<b>\$ 25,128</b>	<b>\$ 16,554</b>	<b>\$ 16,158</b>	<b>\$ 15,619</b>	<b>\$ 14,618</b>	<b>\$ 12,951</b>	<b>\$ 11,648</b>

<sup>(1)</sup> Represents Caterpillar Inc. and its subsidiaries except for Financial Products, which is accounted for on the equity basis.

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-7 for a definition of the groupings in these statements. Transactions between Machinery and Engines and Financial Products have been eliminated to arrive at consolidated data.

See accompanying Notes to Consolidated Financial Statements.

## STATEMENT 4

### Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	Consolidated (Caterpillar Inc. and subsidiaries)			Supplemental consolidating data						
	2000	1999	1998	Machinery and Engines <sup>(1)</sup>			Financial Products			
				2000	1999	1998	2000	1999	1998	
<b>Cash flow from operating activities:</b>										
Profit .....	\$ 1,053	\$ 946	\$ 1,513	\$ 1,053	\$ 946	\$ 1,513	\$ 184	\$ 159	\$ 193	
Adjustments for noncash items:										
Depreciation and amortization .....	1,022	945	865	779	745	697	243	200	168	
Profit of Financial Products .....	—	—	—	(184)	(159)	(193)	—	—	—	
Other .....	120	188	(8)	(78)	105	98	130	83	(137)	
Changes in assets and liabilities:										
Receivables — trade and other .....	(327)	494	(104)	(29)	368	993	(273)	294	(1,258)	
Inventories .....	(54)	312	(104)	(54)	312	(104)	—	—	—	
Accounts payable and accrued expenses .....	335	(95)	(60)	231	(45)	(182)	195	(180)	284	
Other — net .....	(90)	(200)	(328)	(87)	(205)	(177)	(5)	3	(72)	
Net cash provided by (used for) operating activities .....	<u>2,059</u>	<u>2,590</u>	<u>1,774</u>	<u>1,631</u>	<u>2,067</u>	<u>2,645</u>	<u>474</u>	<u>559</u>	<u>(822)</u>	
<b>Cash flow from investing activities:</b>										
Capital expenditures — excluding equipment leased to others .....	(723)	(790)	(925)	(709)	(770)	(918)	(14)	(20)	(7)	
Expenditures for equipment leased to others .....	(665)	(490)	(344)	(9)	(21)	(9)	(656)	(469)	(335)	
Proceeds from disposals of property, plant, and equipment .....	263	215	141	29	30	17	234	185	124	
Additions to finance receivables .....	(14,879)	(8,526)	(8,537)	—	—	—	(14,879)	(8,526)	(8,537)	
Collections of finance receivables .....	12,101	5,676	4,635	—	—	—	12,101	5,676	4,635	
Proceeds from sale of finance receivables .....	1,581	1,324	1,705	—	—	—	1,581	1,324	1,705	
Net short-term loans to Financial Products .....	—	—	—	(24)	(100)	29	6	(87)	(244)	
Investments and acquisitions .....	(115)	(302)	(1,428)	(102)	(275)	(1,428)	(13)	(27)	—	
Other — net .....	(316)	(147)	177	(223)	(284)	(107)	(117)	58	4	
Net cash used for investing activities .....	<u>(2,753)</u>	<u>(3,040)</u>	<u>(4,576)</u>	<u>(1,038)</u>	<u>(1,420)</u>	<u>(2,416)</u>	<u>(1,757)</u>	<u>(1,886)</u>	<u>(2,655)</u>	
<b>Cash flow from financing activities:</b>										
Dividends paid .....	(462)	(445)	(400)	(462)	(445)	(400)	(29)	(36)	(49)	
Common stock issued, including treasury shares reissued .....	4	11	6	4	11	6	25	79	280	
Treasury shares purchased .....	(412)	(260)	(567)	(412)	(260)	(567)	—	—	—	
Net short-term loans from Machinery and Engines .....	—	—	—	(6)	87	244	24	100	(29)	
Proceeds from long-term debt issued .....	3,760	3,770	4,590	12	306	627	3,748	3,464	3,963	
Payments on long-term debt .....	(3,147)	(2,288)	(1,153)	(198)	(109)	(65)	(2,949)	(2,179)	(1,088)	
Short-term borrowings — net .....	800	(127)	388	301	(71)	(23)	499	(56)	411	
Net cash provided by (used for) financing activities .....	<u>543</u>	<u>661</u>	<u>2,864</u>	<u>(761)</u>	<u>(481)</u>	<u>(178)</u>	<u>1,318</u>	<u>1,372</u>	<u>3,488</u>	
Effect of exchange rate changes on cash .....	(63)	(23)	6	(66)	(29)	11	(15)	6	(5)	
<b>(Decrease) increase in cash and short-term investments .....</b>	<b>(214)</b>	<b>188</b>	<b>68</b>	<b>(234)</b>	<b>137</b>	<b>62</b>	<b>20</b>	<b>51</b>	<b>6</b>	
Cash and short-term investments at the beginning of the period .....	548	360	292	440	303	241	108	57	51	
Cash and short-term investments at the end of the period .....	<u>\$ 334</u>	<u>\$ 548</u>	<u>\$ 360</u>	<u>\$ 206</u>	<u>\$ 440</u>	<u>\$ 303</u>	<u>\$ 128</u>	<u>\$ 108</u>	<u>\$ 57</u>	

<sup>(1)</sup> Represents Caterpillar Inc. and its subsidiaries except for Financial Products, which is accounted for on the equity basis.

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

The supplemental consolidating data is presented for the purpose of additional analysis. See Note 1B on Page A-7 for a definition of the groupings in these statements. Transactions between Machinery and Engines and Financial Products have been eliminated to arrive at consolidated data.

See accompanying Notes to Consolidated Financial Statements.

(Dollars in millions except per share data)

## 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-scrappers, 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*, on-highway trucks and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; electric power generation systems; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,340 to 18,000 horsepower (1000 to 13 500 kilowatts).

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

Our products are sold primarily under the marks “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 upon the high quality and performance of our products and our dealers’ service support. Although no one competitor is believed to produce all of the same types of machines and engines, there are numerous companies, large and small, which compete with us in the sale of each of our products.

Machines are distributed principally through a worldwide organization of dealers, 63 located in the United States and 157 located outside the United States. Worldwide, these dealers have over 2,700 places of business (including about 650 rental stores) and serve 171 countries. Reciprocating engines are sold principally through the worldwide dealer organization and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through their worldwide distributor network. 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; fourteen in the United Kingdom; eight in Italy; five in Mexico; four in China and India; three in France, Germany, and Northern Ireland; two each in Australia, Canada, and Japan; and one each in Belgium, Brazil, Hungary, Indonesia, Netherlands, Poland, Russia,

South Africa, and Sweden. Fourteen parts distribution centers are located in the United States and twelve are located outside the United States.

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

### B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% are accounted for by the equity method (see Note 10 on Page A-13).

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

**Consolidated** — Caterpillar Inc. and its subsidiaries.

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

**Financial Products** — our finance and insurance subsidiaries, primarily Cat Financial and Caterpillar Insurance Services Corporation.

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation.

### C. Sales and revenue recognition

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

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

### D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 80% of total inventories at December 31, 2000, 1999, and 85% at December 31, 1998.

If the FIFO (first-in, first-out) method had been in use, inventories would have been \$2,065, \$2,000, and \$1,978 higher than reported at December 31, 2000, 1999, and 1998, respectively.

### E. Securitized receivables

When finance receivables are securitized, we retain interest in the form of interest-only strips, servicing rights, cash reserve accounts and subordinate certificates. Gains or losses on the securitization

## NOTES *continued*

(Dollars in millions except per share data)

are dependent upon the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based upon their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds, forward yield curves and discount rates.

### F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Amortization of purchased intangibles is computed using the straight-line method, generally over a period of 20 years or less. Accumulated amortization was \$252, \$150, and \$84 at December 31, 2000, 1999, and 1998, respectively.

The increases in intangible assets in 1999 and 1998 were primarily related to the acquisitions of FG Wilson in 1999 and Perkins in 1998 (see Note 22 on Page A-19).

### G. Shipping and Handling Costs

We include shipping and handling (including warehousing) costs incurred in connection with the distribution of replacement parts in the "Selling, general and administrative expenses" line of the income statement. These amounts were \$235, \$251, and \$247 for the years ended December 31, 2000, 1999, and 1998, respectively.

### H. Foreign currency translation

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

### I. Derivative financial instruments

We use derivative financial instruments (derivatives) to manage foreign currency, interest rate, and commodity price exposures that arise in the normal course of business. Derivatives that we use are primarily foreign currency contracts (forward and option), interest rate swaps, and commodity contracts (forward and option). Derivatives are not used for speculative purposes.

Please refer to Note 2 for more information on derivatives, including the methods used to account for them.

### J. Estimates in financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. Examples of the more significant estimates include: accruals and reserves for warranty and product liability losses, postemployment benefits, environmental costs, income taxes, and plant closing costs.

### K. Future accounting changes

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging

Activities." SFAS 133 requires that an entity record all derivatives in the statement of financial position at their fair value. It also requires changes in fair value to be recorded each period in current earnings or other comprehensive income depending upon the purpose for using the derivative and/or its qualification, designation, and effectiveness as a hedging transaction. In June 2000, the FASB amended portions of SFAS 133 by issuing Statement of Financial Accounting Standards No. 138. We will adopt these new standards effective January 1, 2001. Adoption of these new accounting standards will result in cumulative after tax reductions to net income and other comprehensive income of \$2 and \$12, respectively, in the first quarter of 2001. The adoption will also immaterially impact both assets and liabilities recorded on the balance sheet.

## 2. Derivative financial instruments and risk management

### A. Foreign exchange derivative instruments — forward exchange and option contracts

Our *Machinery and Engines*' operations are subject to foreign exchange risk. Currency exchange rates impact the U.S. dollar value of sales made and costs incurred in foreign currencies. Our *Financial Products*' operations are subject to foreign exchange risk when the currency of debt obligations does not match the currency of the receivables portfolio.

Foreign currency forward contracts and certain foreign currency option contracts are used to hedge our foreign exchange risks. Other than the up-front premiums that we pay on foreign currency option contracts, all cash flow related to these contracts occurs when the contracts mature.

Our accounting treatment of foreign currency contracts depends upon the nature of the contracts:

#### 1. Forward contracts designated as hedges of firm future foreign currency commitments and purchased foreign currency option contracts designated as hedges of probable foreign currency transactions:

- No gains or losses are reported until the hedged transaction occurs, even if the contracts are terminated or mature prior to the time of the hedged transaction.
- Gains and losses are recognized and reported on the same financial statement line as the hedged transaction when the hedged transaction occurs.
- Gains and losses are immediately recognized in current income ("Other income (expense)" in Statement 1) in those unusual instances when the hedged transaction is no longer expected to occur, or a foreign currency contract is no longer effective as a hedge.

#### 2. All other foreign currency contracts (those used to hedge net balance sheet exposures and anticipated net cash flow exposures for the next 12 months):

- All gains or losses are recognized in current income ("Other income (expense)") as currency exchange rates change.
- Net gains are reflected as an asset ("Receivables — trade and other" in Statement 3) until cash is actually received. Conversely, net losses are shown as a liability ("Accrued expenses" in Statement 3) until cash is actually paid.



The notional amounts of outstanding contracts to buy and sell foreign currency were:

	December 31,		
	2000	1999	1998
Hedges of firm commitments and/or probable foreign currency transactions .....	\$ 74	\$ 250	\$ 222
Hedges of balance sheet exposure and/or anticipated cash flow exposure for the next 12 months .....	\$1,807	\$2,405	\$1,802

The company also had \$90 of written foreign currency options open at December 31, 1999. These written options were originally entered into as a part of a combination option strategy. The related purchased options were either sold or terminated prior to the maturity date. The maturity dates of the outstanding written options were within the first quarter of 2000. The company applied mark-to-market accounting treatment to these written options.

The maturity dates for our outstanding contracts are primarily less than six months.

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

#### B. Interest rate derivative instruments

We primarily use interest rate swap contracts to manage our exposure to interest rate changes and to lower the cost of borrowed funds.

Interest rate swap contracts are linked to debt instruments and, in effect, change the characteristics of the debt (e.g., from fixed rate to floating rate). Interest rate swap contracts are not reflected in the financial statements at fair market value. The notional amounts of outstanding interest rate swap contracts were \$4,858, \$4,997, and \$3,083 at December 31, 2000, 1999, and 1998, respectively.

The difference between the interest payable and the interest receivable on each interest rate swap contract is recorded each reporting period as an adjustment to current income ("Interest expense excluding Financial Products" or "Interest expense of Financial Products" in Statement 1, as applicable). Interest rate swap contracts that are in a payable position are shown as interest payable ("Accrued expenses" in Statement 3); those in a receivable position are shown as an asset ("Receivables — trade and other" in Statement 3). The actual cash settlement on these interest rate swap contracts occurs at times specified in the agreement. If an interest rate swap contract is terminated prior to its maturity, no immediate gain or loss is recognized in the financial statements, except in those cases where the debt instrument to which the contract is linked is also terminated.

Please refer to Note 16 and Table IV on Page A-16 for fair value information of interest rate swap contracts.

#### C. Commodity related derivative instruments

Our *Machinery and Engines*' operations are also subject to commodity price risk (i.e., potential price increases of our production material as a result of price increases in raw materials). We make limited use of commodity forward and/or option contracts to manage the risk of unfavorable price movement. The use of these types of derivative financial instruments has not been material.

### 3. Other income (expense)

	Years ended December 31,		
	2000	1999	1998
Investment and interest income .....	\$ 73	\$ 61	\$ 101
License fees .....	15	14	18
Foreign exchange (losses) gains .....	(90)	(10)	(23)
Miscellaneous income .....	85	131	89
	<u>\$ 83</u>	<u>\$ 196</u>	<u>\$ 185</u>

### 4. Inventories

	December 31,		
	2000	1999	1998
Raw materials and work-in-process .....	\$1,022	\$ 969	\$1,041
Finished goods .....	1,485	1,430	1,605
Supplies .....	185	195	196
	<u>\$2,692</u>	<u>\$2,594</u>	<u>\$2,842</u>

### 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.

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 as a cost-effective means of financing the business. 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. During 2000, a net cost of \$38 was recognized on the securitization of dealer receivables. Significant assumptions used to estimate the fair value of dealer receivables securitized in 2000 include a 9.2% discount rate, a 4 month weighted average maturity, a weighted average prepayment rate of 0% and expected credit losses of 0%.

During 2000, Cat Financial serviced installment sale contracts and finance lease contracts that they securitized in 1999, 1998 and 1997. Cat Financial receives a servicing fee of 1% of the average outstanding principal balance. As of December 31, 2000, Cat Financial's retained interests in these securitizations totaled \$61. Key assumptions used to initially determine the fair value of the retained interests included cash flow discount rates on subordinate tranches of 6.27%–6.90%, a cash flow discount rate on other retained interests of 13.61%, a weighted average maturity of 58 months, average prepayment rates of 14%–24% and expected credit losses of .48%–.55%.

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

**NOTES** *continued*

(Dollars in millions except per share data)

Cash flows in 2000 related to the above securitizations consisted of:

	Dealer Receivables	Finance Receivables
Proceeds from receivables initially securitized.....	\$ 660	\$ —
Proceeds from subsequent securitization of receivables into revolving facility.....	\$ 7,109	\$ —
Servicing fees received.....	\$ 2	\$ 10
Other cash flows.....	\$ —	\$ 7

Characteristics of the dealer receivables and finance receivables securitizations as of and for the year ended December 31, 2000 were:

	Dealer Receivables	Finance Receivables
Total securitized principal balance at year end.....	\$ 710	\$ 452
Average balance during 2000.....	\$ 537	\$ 631
Loans > 30 days past due at year end.....	\$ —	\$ 2
Net credit losses during the year.....	\$ —	\$ 3
Weighted average maturity (in months) at year end...	3	16

To estimate the impact of changes to the key economic assumptions used to estimate the fair value of residual cash flows in retained interests on our income, we use a software application that computes a “shocked” fair value of retained interests. The difference between the current fair value and the “shocked” fair value is an estimate of our sensitivity to a change in the assumption. This estimate does not adjust for other variations that may occur should one of the assumptions actually change. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate. Adverse changes to any key assumption of 10% and 20% each had an immaterial impact on the fair value of residual cash flows.

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

**6. Income taxes**
**The components of profit before taxes were:**

	Years ended December 31,		
	2000	1999	1998
U.S. ....	<b>\$1,083</b>	\$ 1,050	\$ 1,880
Non-U.S. ....	<b>445</b>	371	294
	<b>\$1,528</b>	\$ 1,421	\$ 2,174

**The components of the provision for income taxes were:**

	Years ended December 31,		
	2000	1999	1998
Current tax provision:			
U.S. Federal .....	<b>\$ 177</b>	\$ 179	\$ 471
Non-U.S. ....	<b>196</b>	190	102
State (U.S.) .....	<b>14</b>	21	45
	<b>\$ 387</b>	\$ 390	\$ 618
Deferred tax provision (credit):			
U.S. Federal .....	<b>83</b>	81	93
Non-U.S. ....	<b>(35)</b>	(25)	(55)
State (U.S.) .....	<b>12</b>	9	9
	<b>60</b>	65	47
Total provision .....	<b>\$ 447</b>	\$ 455	\$ 665

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

	Years ended December 31,		
	2000	1999	1998
U.S. statutory rate .....	<b>35.0 %</b>	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Net operating loss carryforwards.....	—	(0.4)%	(2.1)%
Benefit of Foreign Sales Corporation .....	<b>(3.8)%</b>	(4.4)%	(3.2)%
Release valuation allowance.....	<b>(2.6)%</b>	—	(1.4)%
Non-U.S. subsidiaries taxed at other than 35% .....	<b>1.6 %</b>	1.9 %	0.9 %
Other — net .....	<b>(0.8)%</b>	(0.1)%	1.4 %
Provision for income taxes .....	<b>29.4 %</b>	32.0 %	30.6 %

**TABLE I — Finance Receivables Information**
**Contractual maturities of outstanding receivables:**

Amounts Due In	December 31, 2000			
	Installment Contracts	Financing Leases	Notes	Total
2001 .....	\$1,231	\$1,346	\$2,396	\$ 4,973
2002 .....	1,107	991	749	2,847
2003 .....	644	626	557	1,827
2004 .....	249	293	315	857
2005 .....	66	92	207	365
Thereafter.....	11	129	538	678
	<u>3,308</u>	<u>3,477</u>	<u>4,762</u>	<u>11,547</u>
Residual value.....	—	996	—	996
Less: Unearned income...	270	517	27	814
Total .....	<u>\$3,038</u>	<u>\$3,956</u>	<u>\$4,735</u>	<u>\$11,729</u>

**Impaired loans and leases:**

	2000	1999	1998
Average recorded investment.....	<b>\$ 144</b>	\$ 106	\$ 74
At December 31:			
Recorded investment.....	<b>\$ 265</b>	\$ 95	\$ 61
Less: Fair value of underlying collateral .....	<b>198</b>	41	35
Potential loss .....	<b>\$ 67</b>	\$ 54	\$ 26

**Allowance for credit loss activity:**

	2000	1999	1998
Balance at beginning of year .....	<b>\$ 134</b>	\$ 110	\$ 84
Provision for credit losses.....	<b>62</b>	60	70
Less: Net credit losses.....	<b>28</b>	31	38
Less: Other — net .....	<b>5</b>	5	6
Balance at end of year.....	<b>\$ 163</b>	\$ 134	\$ 110

**Cat Financial's net investment in financing leases:**

	December 31,		
	2000	1999	1998
Total minimum lease payments receivable .....	<b>\$3,477</b>	\$ 3,493	\$ 3,161
Estimated residual value of leased assets:			
Guaranteed .....	<b>283</b>	261	229
Unguaranteed .....	<b>713</b>	718	667
	<b>4,473</b>	4,472	4,057
Less: Unearned income.....	<b>517</b>	544	487
Net investment in financing leases.....	<b>\$3,956</b>	\$ 3,928	\$ 3,570

We paid income taxes of \$359, \$306, and \$714 in 2000, 1999, and 1998, respectively.

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

#### Deferred tax assets and liabilities:

	December 31,		
	2000	1999	1998
Deferred tax assets:			
Postemployment benefits other than pensions.....	\$1,052	\$ 1,044	\$1,032
Warranty reserves.....	191	237	194
Unrealized profit excluded from inventories.....	176	167	179
Net operating loss carryforwards.....	198	170	83
Inventory valuation method.....	71	93	78
Other.....	248	205	230
	<u>1,936</u>	<u>1,916</u>	<u>1,796</u>
Deferred tax liabilities:			
Capital assets.....	(426)	(383)	(263)
Pension.....	(202)	(138)	(83)
	<u>(628)</u>	<u>(521)</u>	<u>(346)</u>
Valuation allowance for deferred tax assets.....	(45)	(72)	(61)
Deferred taxes — net.....	<u>\$1,263</u>	<u>\$ 1,323</u>	<u>\$ 1,389</u>

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

In 2000, circumstances changed at our Brazilian subsidiary and in 1998, circumstances changed at certain of our European subsidiaries which allowed us to reduce the valuation allowance and recognize additional net deferred tax assets.

As of December 31, 2000 amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

2001	2002	2003	2004	2005	2006	2007	Unlimited	Total
\$5	\$10	\$16	\$18	\$73	\$56	—	\$513	\$691

## 7. Operating leases

We lease certain computer and communications equipment, transportation equipment, and other property through operating leases. Total rental expense for operating leases was \$267, \$246, and \$224 for 2000, 1999, and 1998, respectively.

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

Years ended December 31,							After 2005	Total
2001	2002	2003	2004	2005				
\$183	\$132	\$91	\$58	\$44	\$267	\$775		

## 8. Postemployment benefit plans

### A. Pension plans

We have both U.S. and non-U.S. pension plans covering substantially all of our employees. The defined benefit plans provide

a benefit based on years of service and/or the employee's average earnings near retirement.

Please refer to Table II on Page A-12 for additional financial information.

### B. Other postretirement benefit plans

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

Please refer to Table II on Page A-12 for additional financial information.

### C. Other postemployment benefit plans

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

### D. Summary of long-term liability:

	December 31,		
	2000	1999	1998
Pensions.....	\$ 3	\$ 3	\$ 66
Postretirement benefits other than pensions.....	2,441	2,465	2,457
Other postemployment benefits.....	70	68	67
	<u>\$2,514</u>	<u>\$2,536</u>	<u>\$2,590</u>

## 9. Property, plant, and equipment

	December 31,		
	2000	1999	1998
Land — at original cost.....	\$ 143	\$ 141	\$ 140
Buildings and land improvements.....	2,878	2,925	2,949
Machinery, equipment, and other.....	6,334	6,271	5,871
Equipment leased to others.....	1,771	1,288	1,063
Construction-in-process.....	312	304	372
	<u>11,438</u>	<u>10,929</u>	<u>10,395</u>
Less: Accumulated depreciation.....	5,850	5,728	5,529
Property, plant, and equipment — net.....	<u>\$5,588</u>	<u>\$ 5,201</u>	<u>\$ 4,866</u>

We had commitments for the purchase or construction of capital assets of approximately \$370 at December 31, 2000.

### Assets recorded under capital leases<sup>(1)</sup>:

	December 31,		
	2000	1999	1998
Gross capital leases <sup>(2)</sup> .....	\$ 622	\$ 688	\$ 703
Less: Accumulated depreciation.....	483	529	547
Net capital leases.....	<u>\$ 139</u>	<u>\$ 159</u>	<u>\$ 156</u>

<sup>(1)</sup> Included in Property, plant, and equipment table above.

<sup>(2)</sup> Consists primarily of machinery and equipment.

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

	December 31,		
	2000	1999	1998
Equipment leased to others — at original cost.....	\$1,771	\$ 1,288	\$ 1,063
Less: Accumulated depreciation.....	479	408	328
Equipment leased to others — net.....	<u>\$1,292</u>	<u>\$ 880</u>	<u>\$ 735</u>

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

December 31,					
2001	2002	2003	2004	2005	After 2005
\$281	\$225	\$141	\$70	\$29	\$14

**NOTES** *continued*

(Dollars in millions except per share data)

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

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
<b>Change in benefit obligation:</b>						
Benefit obligation, January 1.....	\$ 7,736	\$ 8,034	\$ 6,713	\$ 3,821	\$ 4,020	\$ 3,603
Service cost.....	131	147	148	71	93	82
Interest cost.....	552	514	484	292	270	256
Business combinations.....	—	4	504	—	—	—
Plan amendments.....	2	15	335	—	—	226
Actuarial losses (gains).....	387	(408)	272	(65)	(329)	43
Foreign currency exchange rates.....	(145)	(52)	40	—	—	—
Participant contributions.....	11	13	9	3	—	—
Benefits paid.....	(585)	(531)	(471)	(253)	(233)	(190)
Benefit obligation, December 31.....	\$ 8,089	\$ 7,736	\$ 8,034	\$ 3,869	\$ 3,821	\$ 4,020
<b>Change in plan assets:</b>						
Fair value of plan assets, January 1.....	\$ 9,700	\$ 8,756	\$ 7,718	\$ 1,291	\$ 1,098	\$ 804
Actual return on plan assets.....	477	1,416	983	22	183	104
Business combinations.....	—	6	448	—	—	—
Foreign currency exchange rate changes.....	(160)	(44)	34	—	—	—
Voluntary employer contributions.....	—	—	—	—	—	200
Participant contributions.....	11	13	9	3	—	—
Benefits paid.....	(585)	(531)	(471)	(247)	(228)	(185)
Employer funding of benefits paid.....	47	84	35	255	238	175
Fair value of plan assets, December 31.....	\$ 9,490	\$ 9,700	\$ 8,756	\$ 1,324	\$ 1,291	\$ 1,098
<b>Over (under) funded, December 31</b>						
Unrecognized prior service cost.....	\$ 1,401	\$ 1,964	\$ 722	\$ (2,545)	\$ (2,530)	\$ (2,922)
Unrecognized net actuarial (gain) loss.....	412	491	577	171	189	208
Unrecognized net actuarial (gain) loss.....	(1,241)	(2,078)	(1,074)	(317)	(355)	51
Unrecognized net obligation (asset) existing at adoption of SFAS 87.....	5	(18)	(42)	—	—	—
Net amount recognized in financial position.....	\$ 577	\$ 359	\$ 183	\$ (2,691)	\$ (2,696)	\$ (2,663)
<b>Components of net amount recognized in financial position:</b>						
Prepaid benefit costs.....	\$ 901	\$ 731	\$ 501	\$ —	\$ —	\$ —
Accrued benefit liabilities.....	(324)	(372)	(318)	(2,691)	(2,696)	(2,663)
Intangible assets.....	1	—	2	—	—	—
Adjustment for minimum pension liability.....	(3)	(3)	(66)	—	—	—
Accumulated other comprehensive income.....	2	3	64	—	—	—
Net asset (liability) recognized.....	\$ 577	\$ 359	\$ 183	\$ (2,691)	\$ (2,696)	\$ (2,663)
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ 131	\$ 147	\$ 148	\$ 71	\$ 93	\$ 82
Interest cost.....	552	514	484	292	270	256
Expected return on plan assets.....	(854)	(798)	(689)	(123)	(107)	(74)
Amortization of:						
Net asset existing at adoption of SFAS 87.....	(23)	(23)	(23)	—	—	—
Prior service cost <sup>(1)</sup> .....	76	101	88	19	19	(80)
Net actuarial (gain) loss.....	(62)	(26)	(4)	—	1	—
Total (benefit) cost included in results of operations.....	\$ (180)	\$ (85)	\$ 4	\$ 259	\$ 276	\$ 184
<b>Rate assumptions as of December 31:</b>						
Assumed discount rate <sup>(2)</sup> .....	7.5%	7.4%	6.6%	7.8%	7.8%	6.8%
Expected rate of compensation increase <sup>(2)</sup> .....	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Expected long-term rate of return on plan assets <sup>(2)</sup> .....	9.7%	9.6%	9.6%	10.0%	10.0%	10.0%

For measurement purposes, a 5.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. This rate was assumed to decrease to 4.5% in 2005.

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

<sup>(2)</sup> Weighted-average rates.

*(continued on next page)*

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

## Effects of a one-percentage-point change in the assumed health care cost trend rates for 2000:

	One-percentage-point increase	One-percentage-point decrease
Approximate effect on the total of service and interest cost components of other postretirement benefit cost .....	\$ 40	\$ (23)
Approximate effect on accumulated postretirement benefit obligation .....	\$280	\$(239)

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

	At December 31,		
	2000	1999	1998
Accumulated benefit obligation .....	\$(2,937)	\$ (84)	\$(3,546)
Projected benefit obligation .....	\$(2,943)	\$ (92)	\$(3,593)
Fair value of plan assets .....	\$ 2,833	\$ 12	\$ 3,239

## 10. Unconsolidated affiliated companies

Combined financial information of the unconsolidated affiliated companies, accounted for by the equity method, was as follows:

	Years ended September 30,		
	2000	1999	1998
Results of Operations:			
Sales .....	\$2,773	\$ 2,814	\$ 2,909
Cost of Sales .....	2,220	2,247	2,249
Gross Margin .....	553	567	660
Profit (Loss) .....	\$ (56)	\$ (37)	\$ 6
Financial Position:			
Assets:			
Current assets .....	\$1,583	\$ 1,641	\$ 1,569
Property, plant, and equipment — net .....	1,000	978	788
Other assets .....	352	415	351
	2,935	3,034	2,708
Liabilities:			
Current liabilities .....	1,284	1,306	1,259
Long-term debt due after one year .....	557	512	274
Other liabilities .....	253	318	94
	2,094	2,136	1,627
Ownership .....	\$ 841	\$ 898	\$ 1,081

At December 31, 2000, consolidated "Profit employed in the business" in Statement 2 included \$89 representing undistributed profit of the unconsolidated affiliated companies. In 2000, 1999, and 1998, we received \$4, \$8, and \$10, respectively, in dividends from unconsolidated affiliated companies.

In 1998 and through June of 1999, our investment in FG Wilson was accounted for using the equity method and reported as an unconsolidated affiliated company. In June, we acquired the remaining interest in FG Wilson. Beginning in July, all elements of its financial reporting are included in the appropriate lines of the consolidated financial statements.

## 11. Credit commitments

	December 31, 2000		
	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
U.S. ....	\$3,450 <sup>(1)</sup>	\$3,450 <sup>(1)</sup>	\$2,850 <sup>(1)</sup>
Non-U.S. ....	1,551	172	1,379
Intercompany .....	—	668 <sup>(2)</sup>	825 <sup>(2)</sup>
Total credit lines available .....	5,001	4,290	5,054
Utilized credit:			
Backup for bank borrowings ....	196	104	92
Unused credit .....	\$4,805	\$4,186	\$4,962

<sup>(1)</sup> A U.S. line of credit of \$3,250 is available to both *Machinery and Engines* and *Financial Products* (Cat Financial). Cat Financial may use up to 90% of the available line subject to a maximum debt to equity ratio. *Machinery and Engines* may use up to 100% of the available line subject to a minimum level of net worth. Based on these restrictions, and the allocating decisions of available credit made by management, the line of credit available to Cat Financial at December 31, 2000 was \$2,850. An additional line of credit of \$200 is available to *Machinery and Engines*.

<sup>(2)</sup> Represents variable lending agreements between Caterpillar Inc. and Cat Financial.

Based on long-term credit agreements, \$2,732, \$2,244, and \$2,353 of commercial paper outstanding at December 31, 2000, 1999, and 1998, respectively, were classified as long-term debt due after one year.

## 12. Short-term borrowings

	December 31,		
	2000	1999	1998
Machinery and Engines:			
Notes payable to banks .....	\$ 104	\$ 51	\$ 49
Commercial paper .....	237	—	—
Other .....	28	—	—
	369	51	49
Financial Products:			
Notes payable to banks .....	92	88	189
Commercial paper .....	400	534	497
Other .....	427	408	286
	919	1,030	972
Less: Intercompany borrowings .....	317	311	212
Total short-term borrowings .....	\$ 971	\$ 770	\$ 809

**NOTES** *continued*

(Dollars in millions except per share data)

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

	December 31,		
	2000	1999	1998
Notes payable to banks .....	6.9%	5.3%	4.7%
Commercial paper.....	5.9%	5.5%	5.2%
Other .....	6.8%	5.8%	5.2%

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

**13. Long-term debt**

	December 31,		
	2000	1999	1998
Machinery and Engines:			
Notes — 9½% due 2000.....	\$ —	\$ —	\$ 150
Notes — 9½% due 2001.....	—	184	184
Notes — 6% due 2003.....	252	252	253
Debentures — 9% due 2006 .....	203	203	202
Debentures — 6% due 2007 .....	162	154	147
Debentures — 7¼% due 2009 .....	300	300	—
Debentures — 9½% due 2011 .....	123	123	123
Debentures — 9¾% due 2000-2019.....	139	184	199
Debentures — 9½% due 2021 .....	236	236	236
Debentures — 8% due 2023 .....	199	199	199
Debentures — 6½% due 2028 .....	299	299	299
Debentures — 7½% due 2097 .....	297	297	297
Medium-term notes.....	96	96	96
Capital lease obligations .....	474	508	510
Other .....	74	64	98
Total Machinery and Engines.....	<b>2,854</b>	3,099	2,993
Financial Products:			
Commercial paper supported by revolving credit agreements (Note 11).....	2,732	2,244	2,353
Medium-term notes.....	5,687	4,524	4,025
Other .....	61	61	33
Total Financial Products.....	<b>8,480</b>	6,829	6,411
Total long-term debt due after one year.....	<b>\$11,334</b>	\$ 9,928	\$ 9,404

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

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

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

We may redeem annually, at our option, an additional amount for the 9¾% sinking fund debenture issue, without premium,

equal to 200% of the amount of the sinking fund requirement. Also, we may redeem additional portions of the sinking fund debentures by the payment of premiums which, starting in 2000, decrease periodically.

We may redeem the 7¼%, 6½%, and the 7⅜% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

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

The medium-term notes are offered on a continuous basis through agents and are primarily at fixed rates. *Machinery and Engines*' medium-term notes have maturities from nine months to 30 years. At December 31, 2000, these notes had a weighted average interest rate of 8.2% with two years to three years remaining to maturity. *Financial Products*' medium-term notes have a weighted average interest rate of 6.7% with remaining maturities up to fifteen years at December 31, 2000.

The aggregate amounts of maturities and sinking fund requirements of long-term debt during each of the years 2001 through 2005, including that due within one year and classified as current are:

	December 31,				
	2001	2002	2003	2004	2005
Machinery and Engines.....	\$ 204	\$ 91	\$ 272	\$ 42	\$ 17
Financial Products .....	2,558	2,972	166	596	304
	<u>\$ 2,762</u>	<u>\$ 3,063</u>	<u>\$ 438</u>	<u>\$ 638</u>	<u>\$ 321</u>

Interest paid on short-term and long-term borrowings for 2000, 1999, and 1998 was \$930, \$796, and \$669, respectively.

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

**14. Capital stock****A. Stock options**

In 1996, stockholders approved a plan providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. This plan reserves 22,000,000 shares of common stock for issuance. Options vest at the rate of one-third per year over the three year period following the date of grant, and have a maximum term of ten years. Common shares issued under stock options, including treasury shares reissued, totaled 346,333, 1,449,797, and 676,113, in 2000, 1999, and 1998, respectively.

Our plan grants options which have exercise prices equal to the average market price on the date of grant. We account for our stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense is recognized in association with these options. As required by Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation," a summary of the pro forma net income and profit per share amounts are shown in Table III on Page A-15. Consistent with the requirements of SFAS 123, compensation

expense related to grants made prior to 1995 have not been taken into consideration. The fair value of each option grant is estimated at the date of grant using the Black-Scholes option-pricing model.

Please refer to Table III below for additional financial information on our stock options.

### B. Restricted stock

The 1996 Stock Option and Long-Term Incentive Plan permits the award of restricted stock to officers and other key employees, as well as non-employee directors. During 2000, 52,032 shares of restricted stock were awarded to officers and other key employees as Performance Awards, and 9,050 shares of restricted stock were granted to non-employee directors.

### C. Stockholders' rights plan

We are authorized to issue 5,000,000 shares of preferred stock, of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock of \$1.00 par value. None of the preferred shares have been issued.

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

**TABLE III — Financial Information Related to Capital Stock**

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

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options:						
Outstanding at beginning of year .....	20,404,176	\$ 45.90	18,439,777	\$ 38.50	15,056,412	\$ 31.89
Granted to officers and key employees .....	6,621,858	\$ 38.41	4,937,132	\$ 62.34	4,695,495	\$ 55.69
Granted to outside directors.....	44,000	\$ 43.75	52,000	\$ 57.56	44,000	\$ 54.38
Exercised .....	(543,090)	\$ 19.49	(2,752,448)	\$ 25.20	(1,237,010)	\$ 23.22
Lapsed.....	(190,870)	\$ 55.17	(272,285)	\$ 54.39	(119,120)	\$ 45.74
Outstanding at end of year .....	<u>26,336,074</u>	<u>\$ 44.49</u>	<u>20,404,176</u>	\$ 45.90	<u>18,439,777</u>	\$ 38.50
Options exercisable at year-end .....	15,214,347	\$ 42.47	11,655,668	\$ 36.12	10,443,515	\$ 28.48
Weighted-average fair value of options granted during the year .....	\$ 10.92		\$ 16.45		\$ 13.01	

#### Stock options outstanding and exercisable:

Exercise Prices	Options Outstanding			Options Exercisable	
	# Outstanding at 12/31/00	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	# Outstanding at 12/31/00	Weighted-Average Exercise Price
\$11.78-\$16.44	924,109	1.2	\$14.38	924,109	\$14.38
\$18.77-\$26.77	1,780,717	3.1	\$24.29	1,780,717	\$24.29
\$27.91-\$39.19	10,994,986	7.7	\$35.75	4,393,786	\$31.76
\$43.75-\$62.34	12,636,262	7.6	\$57.14	8,115,735	\$55.45
	<u>26,336,074</u>	7.1	<u>\$44.49</u>	<u>15,214,347</u>	<u>\$42.47</u>

#### SFAS 123 pro forma net income and earnings per share:

	Years ended December 31,		
	2000	1999	1998
Net Income:			
As reported .....	\$1,053	\$ 946	\$1,513
Pro forma .....	\$1,008	\$ 910	\$1,481
Profit per share of common stock:			
As reported:			
Basic.....	\$ 3.04	\$ 2.66	\$ 4.17
Assuming dilution .....	\$ 3.02	\$ 2.63	\$ 4.11
Pro forma:			
Basic.....	\$ 2.91	\$ 2.56	\$ 4.08
Assuming dilution .....	\$ 2.90	\$ 2.55	\$ 4.04

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

	Grant Year		
	2000	1999	1998
Dividend yield .....	2.11%	2.07%	1.91%
Expected volatility.....	26.4%	24.4%	19.8%
Risk-free interest rates .....	6.20%	5.80%	5.55%
Expected lives .....	5 years	5 years	5 years

**NOTES** *continued*

(Dollars in millions except per share data)

**15. Profit per share**

	Years ended December 31,		
	2000	1999	1998
Profit (A).....	\$ 1,053	\$ 946	\$ 1,513
<b>Determination of shares:</b>			
Weighted-average common shares outstanding (B) .....	346,817,759	355,392,423	363,189,005
Assumed conversion of stock options .....	2,080,151	3,974,862	4,941,357
Weighted-average common shares outstanding — assuming dilution (C) .....	348,897,910	359,367,285	368,130,362
<b>Profit per share of common stock (A÷B).....</b>	<b>\$ 3.04</b>	<b>\$ 2.66</b>	<b>\$ 4.17</b>
<b>Profit per share of common stock — assuming dilution (A÷C).....</b>	<b>\$ 3.02</b>	<b>\$ 2.63</b>	<b>\$ 4.11</b>

Stock options to purchase 12,636,262, 12,953,783, and 8,143,885 shares of common stock at a weighted-average price of \$57.14, \$56.99, and \$53.98 were outstanding during 2000, 1999 and 1998, respectively, but were not included in the computation of diluted profit per share, because the options' exercise price was greater than the average market price of the common shares.

**16. Fair values of financial instruments**

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

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

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

**Foreign currency contracts (forwards and options)** — fair value was estimated based on quoted market prices of comparable instruments.

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

**Short-term borrowings** — carrying amount approximated fair value.

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

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

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

**17. Concentration of credit risk**

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term

**TABLE IV — Fair Values of Financial Instruments**

Asset (Liability) At December 31	2000		1999		1998		Reference #
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Cash and short-term investments .....	\$ 334	\$ 334	\$ 548	\$ 548	\$ 360	\$ 360	Statement 3, Note 17
Long-term investments .....	741	741	667	667	450	450	Note 17
Foreign currency contracts .....	(30)	(34)	69	82	8	9	Note 2
Finance receivables — net (excluding operating and finance type leases and currency forward contracts <sup>(1)</sup> ) .....	10,465	10,557	8,774	8,753	7,709	7,770	Note 5
Short-term borrowings.....	(971)	(971)	(770)	(770)	(809)	(809)	Note 12
Long-term debt (including amounts due within one year)							
Machinery and Engines.....	(3,058)	(3,198)	(3,266)	(3,285)	(3,053)	(3,417)	Note 13
Financial Products .....	(11,038)	(11,154)	(9,766)	(9,688)	(8,590)	(8,634)	Note 13
Interest rate swaps							
Machinery and Engines —							
in a net receivable position .....	—	25	2	1	1	22	Note 2
in a net payable position.....	(1)	—	(8)	(24)	(6)	—	Note 2
Financial Products —							
in a net receivable position .....	8	27	22	29	14	19	Note 2
in a net payable position.....	—	(25)	(1)	(7)	(2)	(24)	Note 2

<sup>(1)</sup> Excluded items have a net carrying value at December 31, 2000, 1999, and 1998 of \$1,101, \$1,020, and \$865, respectively.



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 is generally 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, 2000, 1999, and 1998, respectively. We generally maintain a secured interest in the equipment financed. No single customer or region represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments are comprised of investments which collateralize capital lease obligations (see Note 13 on Page A-14) and investments of Caterpillar Insurance Co. Ltd. supporting insurance reserve requirements. Long-term investments are a component of "Other assets" in Statement 3.

At December 31, 2000, 1999, and 1998, Cat Financial was contingently liable under guarantees totaling \$335, \$390, and \$254, respectively, of which \$210, \$133, and \$119, respectively, were outstanding. These guarantees have terms ranging up to two years and are fully secured. No loss has been experienced nor is any anticipated under these agreements.

Outstanding derivative instruments, with notional amounts totaling \$6,794, \$7,795, and \$5,143 and terms generally ranging up to five years, were held at December 31, 2000, 1999, and 1998, 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, 2000, 1999, and 1998, the exposure to credit loss was \$30, \$75, and \$22, respectively.

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

## 18. Environmental matters

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

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

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

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

## 19. Plant closing costs

The reserve for plant closing costs includes the following:

	December 31,		
	2000	1999	1998
Write-down of property, plant, and equipment ....	\$ 61	\$ 70	\$ 78
Employee severance benefits .....	9	16	37
Rearrangement, start-up costs, and other.....	3	3	5
Total reserve.....	<u>\$ 73</u>	<u>\$ 89</u>	<u>\$ 120</u>

The write-down of property, plant, and equipment establishes a new cost basis for assets that have been permanently impaired.

Employee severance benefits (e.g., pension, medical, and supplemental unemployment benefits) are provided to employees affected by plant closings. The reserve for such benefits is reduced as the benefits are provided.

## 20. 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 on-going support of their products; however, some of these product-focused profit centers also have marketing responsibilities. We also have geographically-based profit centers that are primarily focused on marketing; however, most of these profit centers also have some manufacturing responsibilities. One of our profit centers provides various financial services to our customers and dealers. The service center divisions perform corporate functions and provide centralized services.

We have developed an internal measurement system to evaluate performance and to drive continuous improvement. This measurement system, which is not based on generally accepted accounting principles (GAAP), is intended to motivate desired behavior of employees and drive performance. It is not intended to measure a division's contribution to enterprise results. The sales and cost information used for internal purposes varies significantly from our consolidated, externally-reported information resulting in substantial reconciling items. Each division has specific performance targets and is evaluated and compensated based on achieving those targets. Performance targets differ from division to division; therefore, meaningful comparisons cannot be made among the profit or service center divisions. It is the comparison

of actual results to budgeted results that makes our internal reporting valuable to management. Consequently, we feel that the financial information required by Statement of Financial Accounting Standards No. 131 (SFAS 131) "Disclosures about Segments of an Enterprise and Related Information" has limited value for our external readers.

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose GAAP-based financial results for our three lines of business (Machinery, Engines, and Financial Products) in our Management's Discussion and Analysis beginning on Page A-22.

## B. Description of segments

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

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

**Construction & Mining Products:** Primarily responsible for the design, manufacture, and on-going 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 primarily consumed 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 noncompetitive related equipment, as well as some financing for Caterpillar sales to dealers. Also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

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

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

**All other:** Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; the

design, manufacture, and ongoing support of agricultural machinery and paving products; logistics services for other companies; service tools for Caterpillar dealers; preventive maintenance products (filters and fluids); and the remanufacturing of Caterpillar engines and components.

## C. Segment measurement and reconciliations

Please refer to Table V on Pages A-19 and A-20 for financial information regarding our segments. There are several accounting differences between our segment reporting and our GAAP-based external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit/(loss) and assets. The following is a list of the more significant accounting differences:

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

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to Table V on Pages A-19 and A-20 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we have grouped the reconciling items as follows:

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

TABLE V — Segment Information (unaudited)

## Business Segments:

	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Financing & Insurance Services	Latin America Marketing	Power Products	North America Marketing	All Other	Total
<b>2000</b>									
External sales and revenues.....	\$ 1,370	226	3,295	1,549	1,276	5,746	5,861	1,070	\$ 20,393
Intersegment sales and revenues.....	\$ 7	7,564	714	—	142	4,592	173	1,771	\$ 14,963
Total sales and revenues.....	\$ 1,377	7,790	4,009	1,549	1,418	10,338	6,034	2,841	\$ 35,356
Depreciation and amortization.....	\$ 9	219	60	237	27	338	—	61	\$ 951 <sup>(1)</sup>
Imputed interest expense.....	\$ 9	64	27	703	11	100	88	62	\$ 1,064
Accountable profit (loss).....	\$ 39	639	195	253	43	487	79	233	\$ 1,968
Accountable assets at Dec. 31.....	\$ 370	2,355	914	14,185	618	3,813	1,739	2,207	\$ 26,201
Capital Expenditures.....	\$ 7	202	65	659	24	261	1	69	\$ 1,288 <sup>(1)</sup>
<b>1999</b>									
External sales and revenues.....	\$ 1,332	206	3,095	1,413	1,229	5,653	5,941	1,003	\$ 19,872
Intersegment sales and revenues.....	\$ 4	7,169	701	10	104	4,514	179	1,710	\$ 14,391
Total sales and revenues.....	\$ 1,336	7,375	3,796	1,423	1,333	10,167	6,120	2,713	\$ 34,263
Depreciation and amortization.....	\$ 7	223	60	194	28	327	—	60	\$ 899 <sup>(1)</sup>
Imputed interest expense.....	\$ 15	72	25	569	6	108	39	60	\$ 894
Accountable profit (loss).....	\$ 47	576	150	207	72	354	31	187	\$ 1,624
Accountable assets at Dec. 31.....	\$ 361	2,389	856	12,776	582	3,926	852	2,077	\$ 23,819
Capital Expenditures.....	\$ 23	237	76	431	20	316	2	60	\$ 1,165 <sup>(1)</sup>
<b>1998</b>									
External sales and revenues.....	\$ 1,093	197	3,289	1,296	1,627	5,300	7,233	1,001	\$ 21,036
Intersegment sales and revenues.....	\$ 2	8,678	937	11	145	4,122	198	1,830	\$ 15,923
Total sales and revenues.....	\$ 1,095	8,875	4,226	1,307	1,772	9,422	7,431	2,831	\$ 36,959
Depreciation and amortization.....	\$ 6	224	64	165	28	258	—	54	\$ 799 <sup>(1)</sup>
Imputed interest expense.....	\$ 8	72	25	505	21	118	64	57	\$ 870
Accountable profit (loss).....	\$ (49)	1,090	211	199	73	410	120	203	\$ 2,257
Accountable assets at Dec. 31.....	\$ 289	2,349	862	11,451	717	3,479	1,475	2,054	\$ 22,676
Capital Expenditures.....	\$ 26	292	72	—	19	349	—	88	\$ 846 <sup>(1)</sup>

<sup>(1)</sup> Amount differs from our consolidated, external reporting amount primarily because of service centers, which are not included in business segments.

Continued on Page A-20

## 21. Selected quarterly financial results (unaudited)

	2000 Quarter			
	1st	2nd	3rd	4th
Sales and revenues.....	\$ 4,919	\$ 5,363	\$ 4,779	\$ 5,114
Less: Revenues.....	294	307	327	334
Sales.....	4,625	5,056	4,452	4,780
Cost of goods sold.....	3,558	3,840	3,471	3,628
Gross margin.....	1,067	1,216	981	1,152
Profit.....	258	315	216	264
Profit per share of common stock ...	\$ .73	\$ .91	\$ .63	\$ .77
Profit per share of common stock — assuming dilution.....	\$ .73	\$ .90	\$ .62	\$ .76
	1999 Quarter			
	1st	2nd	3rd	4th
Sales and revenues.....	\$ 4,867	\$ 5,101	\$ 4,715	\$ 5,019
Less: Revenues.....	269	280	293	301
Sales.....	4,598	4,821	4,422	4,718
Cost of goods sold.....	3,578	3,743	3,470	3,690
Gross margin.....	1,020	1,078	952	1,028
Profit.....	205	283	219	239
Profit per share of common stock ...	\$ .58	\$ .80	\$ .62	\$ .67
Profit per share of common stock — assuming dilution.....	\$ .57	\$ .78	\$ .61	\$ .67

## 22. Alliances and Acquisitions

In the fourth quarter of 2000, we announced an agreement to create a global alliance with the commercial vehicle division of DaimlerChrysler to develop, manufacture, market and distribute medium-duty engines and fuel systems for sale to third-party customers and for captive use. The alliance will create a medium-duty engine joint venture, a fuel systems joint venture, research and engineering cooperation, and combined purchasing volume focused on procurement synergies. The alliance is expected to be finalized during the second quarter of 2001.

During the second quarter of 1999, we acquired the remaining 51% interest in FG Wilson. FG Wilson is a leading packager of diesel-powered generator sets. During the first quarter of 1998, we acquired the net assets of Perkins Ltd. and the stock of several related subsidiaries for \$1,328. Perkins is a leading manufacturer of small- to medium-sized diesel engines. Both acquisitions were accounted for using the purchase method of accounting.

**NOTES** *continued*

(Dollars in millions except per share data)

**TABLE V Continued — Segment Information (unaudited)****Reconciliations:**

				December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Sales &amp; Revenues</b>						
Total external sales and revenues from business segments .....	<b>\$20,393</b>	\$19,872	\$21,036			
Methodology differences .....	<b>(218)</b>	(170)	(59)			
Total consolidated sales and revenues .....	<b><u>\$20,175</u></b>	<u>\$19,702</u>	<u>\$20,977</u>			
<b>Profit before taxes</b>						
Total accountable profit from business segments .....	<b>\$ 1,968</b>	\$ 1,624	\$ 2,257			
Corporate costs .....	<b>(232)</b>	(218)	(316)			
Methodology differences .....	<b>(285)</b>	(43)	168			
Other .....	<b>77</b>	58	65			
Total consolidated profit before taxes .....	<b><u>\$ 1,528</u></b>	<u>\$ 1,421</u>	<u>\$ 2,174</u>			
<b>Assets</b>						
Total accountable assets from business segments .....	<b>\$26,201</b>	\$23,819	\$22,676			
Items not included in segment assets:						
Deferred income taxes & prepaids .....	<b>2,323</b>	2,107	2,036			
Intangible assets & other assets .....	<b>1,757</b>	1,748	1,663			
Investments in affiliated companies .....	<b>450</b>	452	534			
Cash and short-term investments .....	<b>334</b>	548	360			
Service center assets .....	<b>453</b>	442	429			
Liabilities included in segment assets .....	<b>696</b>	558	596			
Inventory methodology differences .....	<b>(1,653)</b>	(1,679)	(1,769)			
Intercompany trade receivables double counted in segment assets .....	<b>(1,790)</b>	(958)	(1,217)			
Other .....	<b>(307)</b>	(402)	(180)			
Total consolidated assets .....	<b><u>\$28,464</u></b>	<u>\$26,635</u>	<u>\$25,128</u>			

**Enterprise-Wide Disclosures:****External sales and revenues from products and services:**

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Machinery .....	<b>\$11,857</b>	\$11,705	\$13,448
Engines .....	<b>7,056</b>	6,854	6,524
Financial Products .....	<b>1,262</b>	1,143	1,005
Total consolidated .....	<b><u>\$20,175</u></b>	<u>\$19,702</u>	<u>\$20,977</u>

**Information about Geographic Areas:**

	Sales & Revenues <sup>(1)</sup>			Net property, plant, and equipment		
				December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Inside United States .....	<b>\$ 10,076</b>	\$ 10,171	\$ 10,870	<b>\$ 3,499</b>	\$ 3,223	\$ 3,038
Outside United States .....	<b>10,099</b>	9,531	10,107	<b>2,089<sup>(2)</sup></b>	1,978 <sup>(2)</sup>	1,828 <sup>(2)</sup>
Total .....	<b><u>\$ 20,175</u></b>	<u>\$ 19,702</u>	<u>\$ 20,977</u>	<b><u>\$ 5,588</u></b>	<u>\$ 5,201</u>	<u>\$ 4,866</u>

<sup>(1)</sup> Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.<sup>(2)</sup> Amount includes \$628, \$614, and \$531 of net property, plant, and equipment located in the United Kingdom as of December 31, 2000, 1999, and 1998, respectively.

## Five-year Financial Summary

(Dollars in millions except per share data)

<b>Years ended December 31,</b>	<b>2000</b>	1999	1998	1997	1996
Sales and revenues .....	<b>\$ 20,175</b>	19,702	20,977	18,925	16,522
Sales .....	<b>\$ 18,913</b>	18,559	19,972	18,110	15,814
Percent inside the United States .....	<b>50%</b>	50%	51%	49%	49%
Percent outside the United States .....	<b>50%</b>	50%	49%	51%	51%
Revenues .....	<b>\$ 1,262</b>	1,143	1,005	815	708
Profit.....	<b>\$ 1,053</b>	946	1,513	1,665	1,361
Profit per share of common stock <sup>(1)</sup> .....	<b>\$ 3.04</b>	2.66	4.17	4.44	3.54
Profit per share of common stock — assuming dilution <sup>(1)</sup> .....	<b>\$ 3.02</b>	2.63	4.11	4.37	3.50
Dividends declared per share of common stock .....	<b>\$ 1.345</b>	1.275	1.15	.95	.775
Return on average common stock equity .....	<b>19.0%</b>	17.9%	30.9%	37.9%	36.3%
Capital expenditures:					
Property, plant, and equipment .....	<b>\$ 723</b>	790	925	824	506
Equipment leased to others .....	<b>\$ 665</b>	490	344	282	265
Depreciation and amortization .....	<b>\$ 1,022</b>	945	865	738	696
Research and engineering expenses .....	<b>\$ 854</b>	814	838	700	570
As a percent of sales and revenues .....	<b>4.2%</b>	4.1%	4.0%	3.7%	3.4%
Wages, salaries, and employee benefits .....	<b>\$ 4,029</b>	4,044	4,146	3,773	3,437
Average number of employees .....	<b>67,200</b>	66,225	64,441	58,366	54,968
<b>December 31,</b>					
Total assets:					
Consolidated .....	<b>\$ 28,464</b>	26,711	25,128	20,756	18,728
Machinery and Engines <sup>(2)</sup> .....	<b>\$ 16,554</b>	16,158	15,619	14,188	13,066
Financial Products .....	<b>\$ 14,618</b>	12,951	11,648	7,806	6,681
Long-term debt due after one year:					
Consolidated .....	<b>\$ 11,334</b>	9,928	9,404	6,942	5,087
Machinery and Engines <sup>(2)</sup> .....	<b>\$ 2,854</b>	3,099	2,993	2,367	2,018
Financial Products .....	<b>\$ 8,480</b>	6,829	6,411	4,575	3,069
Total debt:					
Consolidated .....	<b>\$ 15,067</b>	13,802	12,452	8,568	7,459
Machinery and Engines <sup>(2)</sup> .....	<b>\$ 3,427</b>	3,317	3,102	2,474	2,176
Financial Products .....	<b>\$ 11,957</b>	10,796	9,562	6,338	5,433
Percent of total debt to total debt and stockholders' equity (Machinery and Engines) .....	<b>38.0%</b>	37.8%	37.7%	34.6%	34.6%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 20A, "Basis for segment information" on Page A-17, our segment financial information is not based on generally accepted accounting principles and it is not intended to measure contributions to enterprise results. Therefore, it is impractical for us to try to discuss our company's results of operations and liquidity and capital resources solely based on segment information. Where practical, we have linked our discussions to segment information provided in Table V on Pages A-19 and A-20 (see Reconciliation of *Machinery and Engine Sales* by Geographic Region to External Sales by Marketing Segment on Page A-23). 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-scrappers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders, and related parts.

**Engines** — design, manufacture, and marketing of engines for Caterpillar *Machinery*, on-highway trucks and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; electric power generation systems; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,340 to 18,000 horsepower (1000 to 13 500 kilowatts).

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

### Machinery and Engines Sales by Geographic Region

(Millions of dollars)	Total	North America	EAME*	Latin America	Asia/Pacific
<b>2000</b>					
Machinery .....	\$11,857	\$ 6,607	\$ 3,121	\$ 893	\$ 1,236
Engines** .....	7,056	3,885	1,920	538	713
	<u>\$18,913</u>	<u>\$10,492</u>	<u>\$ 5,041</u>	<u>\$ 1,431</u>	<u>\$ 1,949</u>
<b>1999</b>					
Machinery .....	\$11,705	\$ 6,725	\$ 2,955	\$ 851	\$ 1,174
Engines** .....	6,854	3,690	1,899	621	644
	<u>\$18,559</u>	<u>\$10,415</u>	<u>\$ 4,854</u>	<u>\$ 1,472</u>	<u>\$ 1,818</u>
<b>1998</b>					
Machinery .....	\$13,448	\$ 8,352	\$ 2,871	\$ 1,252	\$ 973
Engines** .....	6,524	3,097	2,134	666	627
	<u>\$19,972</u>	<u>\$11,449</u>	<u>\$ 5,005</u>	<u>\$ 1,918</u>	<u>\$ 1,600</u>

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

\*\*Does not include internal engine transfers of \$1,360 million, \$1,234 million, and \$1,268 million in 2000, 1999, and 1998, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

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

(Millions of dollars)	2000	1999	1998
North America Geographic Region .....	\$ 10,492	\$ 10,415	\$ 11,449
Engine sales included in the Power Products segment .....	(3,885)	(3,690)	(3,097)
Company owned dealer sales included in the All Other segment .....	(350)	(389)	(389)
North America Geographic Region sales which are included in the All Other segment .....	(197)	(133)	(135)
Other* .....	(199)	(262)	(595)
North America Marketing external sales .....	<u>\$ 5,861</u>	<u>\$ 5,941</u>	<u>\$ 7,233</u>
EAME .....	\$ 5,041	\$ 4,854	\$ 5,005
Power Products sales not included in the EAME Marketing segment .....	(1,306)	(1,352)	(1,448)
Other* .....	(440)	(407)	(268)
EAME Marketing external sales .....	<u>\$ 3,295</u>	<u>\$ 3,095</u>	<u>\$ 3,289</u>
Latin America Geographic Region .....	\$ 1,431	\$ 1,472	\$ 1,918
Power Products sales not included in the Latin America Marketing segment .....	(247)	(328)	(385)
Other* .....	92	85	94
Latin America Marketing external sales .....	<u>\$ 1,276</u>	<u>\$ 1,229</u>	<u>\$ 1,627</u>
Asia/Pacific Geographic Region .....	\$ 1,949	\$ 1,818	\$ 1,600
Power Products sales not included in the Asia/Pacific Marketing segment .....	(307)	(283)	(370)
Other* .....	(272)	(203)	(137)
Asia/Pacific Marketing external sales .....	<u>\$ 1,370</u>	<u>\$ 1,332</u>	<u>\$ 1,093</u>

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

**2000 COMPARED WITH 1999**

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

**MACHINERY AND ENGINES**

**Machinery sales** were \$11.86 billion, an increase of \$152 million or 1 percent from 1999. A 4 percent increase in physical sales volume was largely offset by the effect of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars (primarily the euro). Higher sales in EAME, Asia/Pacific and Latin America more than offset lower sales in North America. Sales

in North America declined due to lower industry demand, which more than offset the positive impact of a slower rate of inventory reduction by dealers compared to 1999. In EAME, sales were higher due to increased industry demand throughout the region and dealer inventory growth. Sales in Latin America improved as dealers held inventory steady compared to sharp cutbacks in 1999. Sales in Asia/Pacific were up as improved retail demand more than offset slower dealer inventory growth.

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

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

**Operating Profit Table**

(Millions of dollars)	2000	1999	1998
Machinery .....	\$ 1,001	\$ 867	\$ 1,584
Engine .....	667	506	504
	<u>\$ 1,668</u>	<u>\$ 1,373</u>	<u>\$ 2,088</u>

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

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

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

**Interest expense** was \$23 million higher than a year ago due to higher average debt levels.

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

**Table of Supplemental Information**

(Millions of dollars)	2000	1999	1998
<b>Identifiable Assets:</b>			
Machinery .....	\$ 9,602	\$ 9,160	\$ 9,199
Engines.....	6,952	6,998	6,420
Total .....	<u>\$ 16,554</u>	<u>\$ 16,158</u>	<u>\$ 15,619</u>
<b>Capital Expenditures:</b>			
Machinery .....	\$ 410	\$ 416	\$ 511
Engines.....	308	375	416
Total .....	<u>\$ 718</u>	<u>\$ 791</u>	<u>\$ 927</u>
<b>Depreciation and Amortization:</b>			
Machinery .....	\$ 390	\$ 386	\$ 414
Engines.....	389	359	283
Total .....	<u>\$ 779</u>	<u>\$ 745</u>	<u>\$ 697</u>

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

**FINANCIAL PRODUCTS**

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

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

**INCOME TAXES**

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

**UNCONSOLIDATED AFFILIATED COMPANIES**

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

**SUPPLEMENTAL INFORMATION**

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

Sales (including both sales to end users and deliveries to dealer rental operations) in North America were lower than 1999 due to reduced industry demand in the United States, which more than offset higher industry sales in Canada. For the region, sales into general construction, industrial, mining, quarry & aggregates and waste declined. Sales increased into heavy construction, especially highways and streets. Sales into agriculture and forestry remained near 1999 levels.

Sales increased in EAME. In Europe, higher sales in France, Spain and Italy more than offset lower retail demand in Germany, the United Kingdom and Sweden. In Africa & Middle East, sales increased in Turkey and Saudi Arabia, which more than offset lower sales in Egypt, the United Arab Emirates and South Africa. In the CIS, sales improved in Russia. For the region, sales into heavy construction, mining, industrial and quarry & aggregates increased. Sales declined into agriculture, forestry and waste. Sales into general construction remained near 1999 levels.

In Latin America, sales were flat compared to 1999. Sales increased in Brazil, Venezuela, Colombia and Mexico. Sales declined in Peru and Argentina. For the region, sales were higher into heavy construction, forestry, and quarry & aggregates. Sales into industrial, general construction, mining and waste declined.

In Asia/Pacific, sales increased. Sales gained in China and New Zealand. Sales were lower in India, Australia and Indonesia. For the region, sales increased into heavy construction, general construction and industrial. Sales declined into quarry & aggregates, mining, forestry and agriculture.

**Dealer Inventories of New Machines**

Worldwide dealer new machine inventories at year-end 2000 were slightly below year earlier levels. Declines in North America offset increases in EAME and Asia/Pacific. Inventories in Latin America at year end were even with 1999.

Inventories compared to current selling rates were lower than year earlier in North America, EAME and Latin America. Inventories compared to current selling rates were higher than a year earlier in Asia/Pacific.

**Engine Sales to End Users and OEMs**

Sales were higher in North America due to strong growth in sales for electric power generation and improved sales to the petroleum sector. Sales of truck engines were sharply lower due to production cutbacks by North American truck OEMs. Caterpillar continued to improve its leadership position in the on-highway truck business.

Sales in EAME improved due to higher demand for electric power generation. In Latin America, sales were lower due primarily to declines in petroleum. In Asia/Pacific, sales were higher primarily due to increases in the petroleum sector.



**Machinery and Engines Sales Table**

(Millions of dollars)	Total	North America	EAME	Latin America	Asia/Pacific
<b>Fourth-Quarter 2000</b>					
Machinery .....	\$ 2,795	\$ 1,402	\$ 793	\$ 270	\$ 330
Engines*** .....	1,985	1,016	582	185	202
	<u>\$ 4,780</u>	<u>\$ 2,418</u>	<u>\$ 1,375</u>	<u>\$ 455</u>	<u>\$ 532</u>
<b>Fourth-Quarter 1999</b>					
Machinery .....	\$ 2,537	\$ 1,260	\$ 734	\$ 241	\$ 302
Engines*** .....	2,181	1,076	676	235	194
	<u>\$ 4,718</u>	<u>\$ 2,336</u>	<u>\$ 1,410</u>	<u>\$ 476</u>	<u>\$ 496</u>

\*\*\*Does not include internal engine transfers of \$327 million and \$323 million in 2000 and 1999, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

**FOURTH-QUARTER 2000  
COMPARED WITH FOURTH-QUARTER 1999**

Sales and revenues for fourth-quarter 2000 were \$5.11 billion, \$95 million or 2 percent higher than fourth-quarter 1999. The increase was primarily due to a 3 percent increase in physical sales volume and an 11 percent increase in Financial Products revenues. Profit of \$264 million was \$25 million or 10 percent more than fourth-quarter 1999. The increase was due primarily to improved price realization (excluding currency) and higher physical volume, partially offset by several smaller unfavorable items, the largest being currency effects. Profit per share of 76 cents was up 9 cents, or 13 percent, from fourth-quarter 1999.

**MACHINERY AND ENGINES**

**Machinery sales** were \$2.80 billion, an increase of \$258 million or 10 percent from fourth-quarter 1999. Physical sales volume increased 11 percent reflecting higher retail sales and a significantly slower rate of inventory reduction compared to the same period a year ago. Price realization declined, primarily due to the effect of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars (primarily the euro).

Sales improved in all regions. In North America, sales gained because dealer inventory reductions during the quarter were much less severe than the same period a year ago. Retail sales in North America remained even with fourth-quarter 1999 as higher share of industry sales offset lower industry demand. In EAME and Latin America, sales improved due to higher retail demand. In Asia/Pacific, dealers increased inventories during the quarter, which more than offset lower retail demand.

**Engine sales** were \$1.99 billion, a decrease of \$196 million or 9 percent from fourth-quarter 1999. The decrease was due to a 7 percent decrease in physical sales volume and lower price realization.

Sales were lower primarily due to sharp declines in engine sales to North American truck OEMs. Sales of electric power products were lower when compared to the fourth quarter of 1999, which benefited from the impact of Y2K uncertainties.

Higher sales of electric power products in North America were more than offset by declines in EAME and Asia/Pacific.

**Operating Profit**

(Millions of dollars)	Fourth-Quarter	
	2000	1999
Machinery .....	\$ 248	\$ 131
Engine .....	192	217
	<u>\$ 440</u>	<u>\$ 348</u>

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

**Machinery operating profit** increased \$117 million from fourth-quarter 1999. Higher physical sales volume and improved price realization (excluding currency) were partially offset by higher SG&A expenses.

**Engine operating profit** decreased \$25 million, or 12 percent from fourth-quarter 1999. The decrease was primarily due to lower sales volumes of truck engines and higher SG&A and R&D expenses, partially offset by better product mix related to increased demand for electric power in North America.

**Interest expense** was \$10 million higher than a year ago.

**Other income/expense** was expense of \$52 million compared with income of \$35 million last year. The adverse change was mostly due to unfavorable foreign exchange results and to discounts taken on the sales of trade receivables.

**FINANCIAL PRODUCTS**

**Revenues** for the fourth quarter were \$390 million, up \$57 million or 17 percent compared with fourth-quarter 1999 (excluding revenue transactions with *Machinery and Engines*, revenues increased \$33 million or 11 percent). The increase resulted primarily from continued growth in Cat Financial's portfolio.

**Before tax profit** increased \$37 million or 69 percent from fourth-quarter 1999. Profit increased at Cat Financial resulting from portfolio growth, and at Cat Insurance from higher investment income partially offset by a reduction in favorable reserve adjustments.

**INCOME TAXES**

Fourth-quarter tax expense reflects an effective annual tax rate of 32 percent for both 2000 and 1999.

**UNCONSOLIDATED AFFILIATED COMPANIES**

The company's share of unconsolidated affiliated companies' results increased \$2 million from a year ago, primarily due to stronger results at Shin Caterpillar Mitsubishi Ltd. and Claas Caterpillar Europe.

**1999 COMPARED WITH 1998**

Sales and revenues for 1999 were \$19.70 billion, \$1.28 billion lower than 1998. The decrease was primarily due to a 6 percent decrease in physical sales volume, partially offset by a 14 percent increase in Financial Products revenues. Profit of \$946 million was \$567 million less than 1998. The decrease was due primarily to lower sales volume, an unfavorable change in product sales mix and slightly lower price realization (primarily geographic mix and the impact of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars). Lower selling, general and administrative (SG&A) and research and development (R&D) costs partially offset these unfavorable items. Profit per share of \$2.63 was down \$1.48 from 1998.

**MACHINERY AND ENGINES**

**Machinery sales** were \$11.71 billion, a decrease of \$1.74 billion or 13 percent from 1998. The lower sales resulted primarily from an 11 percent decrease in physical sales volume. Price realization also declined primarily due to unfavorable geographic mix and the continued effect of the stronger U.S. dollar on sales denominated in currencies other than U.S. dollars.

Sales were lower in North America and Latin America, which more than offset higher sales in Asia/Pacific and EAME. Sales in North America were lower reflecting reductions in dealer inventory, especially in the last half of the year, and declines in industry demand. Sales were down in both the United States and Canada. In EAME, sales were higher in Europe due to improved industry demand. This was partially offset by significantly lower sales in Africa & Middle East, where industry demand declined due to weak commodity prices. Sales in Asia/Pacific improved because of higher sales to developing Asia as dealers began rebuilding inventories in response to improved retail demand. This improvement in developing Asia more than offset lower sales in Australia. Latin American sales fell sharply in 1999 due to recessions in a number of countries and low commodity prices.

**Engine sales** were \$6.85 billion, an increase of \$330 million or 5 percent from 1998. This increase was primarily due to 4 percent higher physical sales volume resulting from improved end user and Original Equipment Manufacturer (OEM) demand. Price realization also improved slightly in 1999.

Sales increased in North America and Asia/Pacific, which more than offset declines in EAME and Latin America. Sales in the power generation segment were up in every region of the world, while sales in the petroleum segment declined in every region. Sales in North America also benefited from extremely strong sales in the truck segment.

**Machinery operating profit** decreased \$717 million, or 45 percent from 1998. Margin (sales less cost of goods sold) declined primarily due to the lower sales volume, an unfavorable change in product sales mix, the impact of lower production volumes on manufacturing efficiencies and lower price realization. SG&A and R&D expenses were lower reflecting the impact of ongoing cost reduction actions.

Total pension and other postretirement benefit costs were about the same in 1999 as in 1998. However, SG&A and R&D expenses were favorably impacted by approximately \$60 million due to favorable returns on plan assets, and cost of sales was unfavorably impacted by a like amount due to plan amendments.

**Engine operating profit** increased \$2 million from 1998 due to the higher sales volume and slightly better price realization, partially offset by an unfavorable sales mix. Sales into the petroleum segment declined 35 percent, while sales into the lower margin truck engine market increased 40 percent. SG&A and R&D expenses were slightly higher.

**Interest expense** was \$5 million higher than a year ago.

**Other income/expense** reflects a net increase in income of \$20 million primarily related to currency exchange.

**FINANCIAL PRODUCTS**

**Revenues** for 1999 were a record \$1.28 billion, up \$160 million or 14 percent compared with 1998. The increase resulted primarily from continued growth in Cat Financial's portfolio.

**Before tax profit** decreased \$53 million or 17 percent from 1998. Profit at Caterpillar Insurance Co. Ltd. (Cat Insurance) was lower due to less favorable reserve adjustments. This was partially offset by record profits at Cat Financial as a result of portfolio growth.

**INCOME TAXES**

1999 tax expense reflects an effective tax rate of 32 percent. The 1998 effective tax rate was 31 percent and included a favorable adjustment to recognize deferred tax assets at certain European subsidiaries.

**UNCONSOLIDATED AFFILIATED COMPANIES**

The company's share of unconsolidated affiliated companies' results declined \$24 million from a year ago, primarily due to weaker results at Shin Caterpillar Mitsubishi Ltd. and the conversion of FG Wilson from an affiliated company to a consolidated subsidiary effective June 1999.

**LIQUIDITY & CAPITAL RESOURCES**

Consolidated operating cash flow was \$2.06 billion for 2000, compared with \$2.59 billion for 1999. The decrease was largely due to an increase in inventories and trade receivables. Total debt as of December 31, 2000 was \$15.07 billion, an increase of \$1.27 billion from year-end 1999. During 2000, debt related to *Machinery and Engines* increased \$110 million, to \$3.43 billion, while debt related to *Financial Products* increased \$1.16 billion to \$11.96 billion.

In 1998, the board of directors authorized a share repurchase program to reduce the number of outstanding shares to 320 million over a three to five year period. In total, 10.8 million shares were repurchased during 2000. The number of shares outstanding at December 31, 2000 was 343.4 million.

### Machinery and Engines

Operating cash flow was \$1.63 billion for 2000, compared with \$2.07 billion for 1999. The decrease was primarily due to an increase in inventories and trade receivables in 2000 compared to a decrease in 1999. Capital expenditures for 2000, excluding equipment leased to others, were \$709 million compared with \$770 million for 1999. Total debt increased by \$110 million during 2000. The debt to debt plus equity ratio as of December 31, 2000 was 38.0%.

### Financial Products

Operating cash flow was \$474 million for 2000, compared with \$559 million for 1999. The decrease was primarily due to an increase in trade receivables. Cash used to purchase equipment leased to others was \$656 million in 2000. In addition, net cash used for finance receivables was \$1.20 billion in 2000, compared with \$1.53 billion in 1999.

*Financial Products'* debt was \$11.96 billion at December 31, 2000, an increase of \$1.16 billion from December 31, 1999, and primarily comprised \$8.24 billion of medium-term notes, \$317 million of notes payable to banks and \$3.13 billion of commercial paper. December 31, 2000, finance receivables past due over 30 days were 3.6%, compared with 2.8% at the end of 1999. The ratio of debt to equity of Cat Financial was 8.0:1 at December 31, 2000, compared with 7.8:1 at December 31, 1999.

*Financial Products* had outstanding credit lines totaling \$5.05 billion at December 31, 2000, which included \$2.85 billion of shared revolving credit agreements with *Machinery and Engines*. These credit lines are with a number of banks and are considered support for the company's outstanding commercial paper, commercial paper guarantees, the discounting of bank and trade bills and bank borrowings. Also included are variable-amount lending agreements with Caterpillar. Under these agreements, *Financial Products* (Cat Financial) may borrow up to \$825 million from *Machinery and Engines* (Caterpillar Inc.).

### Dividends paid per share of common stock

Quarter	2000	1999	1998
First .....	\$ .325	\$ .300	\$ .25
Second .....	.325	.300	.25
Third .....	.340	.325	.30
Fourth .....	.340	.325	.30
	<u>\$1.330</u>	<u>\$1.250</u>	<u>\$1.10</u>

### EMPLOYMENT

At the end of 2000, Caterpillar's worldwide employment was 68,440 compared with 66,896 one year ago. Employment outside the United States increased by 2,263 including 748 resulting from acquisitions.

### Full-Time Employees at Year End

	2000	1999	1998
Inside U.S. ....	37,660	38,379	40,261
Outside U.S. ....	30,780	28,517	25,563
Total .....	68,440	66,896	65,824
By Region:			
North America.....	37,870	38,560	40,485
EAME.....	21,880	20,794	18,117
Latin America .....	6,186	5,493	5,302
Asia/Pacific .....	2,504	2,049	1,920
Total .....	68,440	66,896	65,824

### OTHER MATTERS

#### ENVIRONMENTAL MATTERS

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

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

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

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

#### DERIVATIVE FINANCIAL INSTRUMENTS

##### I. Market Risk and Risk Management Policies

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 includes the use of derivative financial instruments to manage foreign currency exchange rate, interest rate, and commodity price exposures.

##### Foreign Currency Exchange Rate

Foreign currency exchange rate movements create a degree of risk to our operations by affecting:

- The U.S. dollar value of sales made in foreign currencies, and
- The U.S. dollar value of costs incurred in foreign currencies.

Foreign currency exchange rate movements also affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

Our general policy is to use foreign currency derivative instruments as needed to operate our business and protect our interests. We enter into foreign currency derivative instruments only to manage risk — not as speculative instruments. We buy and sell currencies only to cover business needs and to protect our financial

and competitive position. Our general approach is to manage future foreign currency cash flow for *Machinery and Engines'* operations and net foreign currency balance sheet exposures for *Financial Products'* operations.

Our *Machinery and Engines'* operations manufacture products in, and purchase raw materials from, many locations around the world. Consequently, our cost base is well diversified over a number of European, Asia/Pacific, and Latin American currencies, as well as the U.S. dollar. This diversified cost base serves to counterbalance the cash flow and earnings impact of non-U.S. dollar revenues and, therefore, minimizes the effect of exchange rate movements on consolidated earnings. We use derivative financial instruments to manage the currency exchange risk that results when the cash inflows and outflows by currency are not completely matched.

In managing foreign currency for *Machinery and Engines'* operations, our objective is to maximize consolidated after-tax U.S. dollar cash flow. To this end, our policy allows for actively managing:

- Cash flow related to firmly committed foreign currency transactions;
- Anticipated foreign currency cash flow for the future rolling twelve-month period; and
- Any hedges (derivative instruments) that are outstanding.

We limit the types of derivative instruments we use to foreign currency forward and option contracts (net purchased option contracts). When using foreign currency forward contracts, we are protected from unfavorable exchange rate movements, but have given up any potential benefit from favorable changes in exchange rates. Purchased option contracts, on the other hand, protect us from unfavorable rate movements while permitting us to benefit from the effect of favorable exchange rate fluctuations. We do not use historic rate rollovers or leveraged options, nor do we sell or write foreign currency options, except in the case of combination option contracts that limit the unfavorable effect of exchange rate movements, while allowing a limited potential benefit from favorable exchange rate movements. The foreign currency forward or option contracts that we use are not exchange traded.

Each month, our financial officers approve the company's outlook for expected currency exchange rate movements, as well as the policy on desired future foreign currency cash flow positions (long, short, balanced) for those currencies in which we have significant activity. Financial officers receive a daily report on currency exchange rates, cash flow exposure, and open foreign currency hedges. Expected future cash flow positions and strategies are continuously monitored. Foreign exchange management practices, including the use of derivative financial instruments, are presented to the Audit Committee of our Board of Directors at least annually.

In managing foreign currency risk for our *Financial Products'* operations, our objective is to minimize earnings volatility resulting from the translation of net foreign currency balance sheet positions. We use foreign currency forward contracts to offset the risk when the currency of our receivable portfolio does not match the currency of our debt portfolio.

### **Interest Rate**

We use various interest rate derivative instruments, including interest rate swap agreements, interest rate cap (option) agreements, and forward rate agreements to manage exposure to interest rate changes and lower the cost of borrowed funds. All interest rate derivative instruments are linked to debt instruments upon entry. We enter into such agreements only with those financial institutions with strong bond ratings which, in the opinion of management, virtually negates exposure to credit loss.

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

### **Commodity Prices**

Our *Machinery and Engines'* operations are subject to commodity price risk, as the price we must pay for raw materials changes with movements in underlying commodity prices. We use commodity forward and option contracts to reduce this risk. However, our use of these types of derivative financial instruments is not material.

## **II. Sensitivity**

### **Exchange Rate Sensitivity**

Based on the anticipated and firmly committed cash inflows and outflows for our *Machinery and Engines'* operations for the next 12 months and the foreign currency derivative instruments in place at year end, a hypothetical 10% weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2001 cash flows for our *Machinery and Engines'* operations by \$62 million. This is not materially different than the potential \$80 million adverse impact on expected 2000 cash flows for our *Machinery and Engines'* operations that we reported last year based on similar assumptions and calculations.

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

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

### Interest Rate Sensitivity

For our *Machinery and Engines*' operations, we currently use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed rate debt. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2001 pretax earnings of *Machinery and Engines* by \$22 million. Last year, similar assumptions and calculations also yielded a potential \$22 million adverse impact on 2000 pretax earnings.

For our *Financial Products*' operations, we use interest rate derivative instruments primarily to meet our "match funding" objectives and strategies. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect the 2001 pretax earnings of *Financial Products* by \$15 million. Last year, similar assumptions and calculations also yielded a potential \$18 million adverse impact on 2000 pretax earnings.

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

## OUTLOOK

### Summary

World economic growth and industrial production are projected to moderate in 2001. The change in GDP is expected to decline from 4 percent in 2000 to about 3 percent in 2001, and world industrial production is projected to decelerate from about 8 percent in 2000 to 4 percent in 2001. This will be primarily driven by a slowdown in the major industrialized countries, impacting developing countries as well. With inflation in the industrialized countries relatively low (excluding the recent impact of higher energy prices), this slowdown is projected to lead to further interest rate reductions in the United States, which should reduce effective borrowing costs worldwide. Despite these expected interest rate reductions, we are projecting a moderate reduction in growth for the world economy in 2001. Should the expected U.S. rate reductions not succeed in reversing recent declines in business and consumer confidence by the second quarter of 2001, a more severe world economic slowdown would result. While world growth is expected to moderate, demand for energy commodities is expected to remain relatively strong.

In this environment, company sales and revenues are expected to be about flat in 2001, with slightly higher sales expected in each region of the world except North America. In the United States, industry demand for construction machines is expected to decline 5 to 10 percent, agriculture machine demand is expected to be about flat, and demand for compact machines is expected to be up slightly. Year-end dealer machine inventories are projected to decline, and company machine sales are expected to be down slightly. Engine sales are expected to be about flat, as higher sales to petroleum and electric power generation are projected to offset lower truck engine sales.

In summary, with world growth expected to moderate, company sales and revenues are forecast to be about flat in 2001. Slightly higher sales in EAME, Asia/Pacific and Latin America are expected to be offset by slightly lower sales in North America. Profit is expected to be down about 5 to 10 percent from 2000 because of the North American sales volume decrease, continuing global pricing pressures, absence of a favorable income tax adjustment and strategic investments. These investments, which relate to the updated strategy that was announced in 2000, are critical to achievement of our longer-term projected sales growth and cost reduction targets.

### North America

In the United States, the increase in GDP is projected to slow from 5 percent in 2000 to about 2.5 percent in 2001. Growth early in the year is expected to be quite weak, but the pace of growth and capital spending is expected to pick up in the third and fourth quarters, boosted by lower interest rates and projected reductions in federal tax withholdings. With the pace of economic growth slowing significantly, we expect further rate reductions by the Federal Reserve in early 2001, and assume the fed funds rate will move down from the current level of 6 percent to a range of 5 percent to 5.5 percent in the second half of the year. In this environment, industry demand for construction machines is expected to decline 5 to 10 percent — a decline in the demand for general construction machines is expected to be partially offset by higher sales to the heavy construction industry. Demand for agriculture machines is expected to be about flat, while compact machines should be up slightly. Engine sales are projected to be about flat, as higher sales to petroleum and electric power applications are forecast to offset a projected further decline in truck engines. In Canada, industry demand for machines is expected to increase due to higher demand in heavy construction, oil sands and petroleum. With projected reductions in dealer year-end inventories, company sales for North America as a whole are forecast to decline slightly.

### EAME

In EAME, sales of machines and engines are expected to be up slightly. In Europe, sales should benefit from continued economic growth, although interest rate increases and higher oil prices in the second half of 2000 are slowing economic growth rates and continue to erode business confidence. However, business and consumer confidence in Europe is expected to improve over the course of 2001, as the euro is projected to be stronger on average than its weak levels in 2000 and oil prices moderate. Sales in oil exporting countries in Africa & Middle East should continue to benefit from strong cash flows related to higher production volumes, even though oil prices are expected to be lower than 2000. Sales elsewhere in Africa & Middle East are expected to decline. In the CIS, sales should increase as the Russian recovery continues and the oil exporting nations of the region continue to experience stronger economic growth.

### Asia/Pacific

For the Asia/Pacific region as a whole, sales of machines and engines are expected to be up in 2001. China should continue to register solid sales growth. However, instability in Indonesia and the Philippines and the aftermath of general elections in Thailand are concerns.

**Latin America**

In Latin America, continued economic growth in Mexico, Brazil and Chile is expected to lead to higher machine and engine sales.

\* \* \*

The outlook above does not consider the potential impacts in 2001 of the recently announced alliance with DaimlerChrysler to jointly develop medium-duty engines, fuel systems and other powertrain components.

\* \* \*

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 18, 2001.

**MANAGEMENT'S DISCUSSION AND ANALYSIS ■**

## SUPPLEMENTAL STOCKHOLDER INFORMATION

### Shareholder Services:

#### *Stock Transfer Agent*

First Chicago Trust Company of New York  
 P.O. Box 2500  
 Jersey City, NJ 07303-2500  
*phone:* (800) 446-2617 (U.S. and Canada)  
 (201) 324-0498 (Outside U.S. and Canada)  
 (201) 222-4955 (Hearing impaired)  
*Internet home page:* [www.equiserve.com](http://www.equiserve.com)

#### *Caterpillar Assistant Secretary:*

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

### Stock Purchase Plan:

Current shareholders and other interested investors may purchase Caterpillar Inc. common stock directly through the DirectSERVICE™ Investment Program sponsored and administered by our Transfer Agent.

Current shareholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-shareholders can request program materials by calling: 800-955-4749 (U.S. and Canada) or 201-324-0498 (outside the U.S. and Canada). The DirectSERVICE Investment Program may also be accessed on-line at [www.CAT.com/dspp](http://www.CAT.com/dspp) or from First Chicago's home page.

### Investor Relations:

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

#### *Director of Investor Relations*

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

Quarter	2000		1999	
	High	Low	High	Low
First .....	55 <sup>1</sup> / <sub>8</sub>	33 <sup>1</sup> / <sub>2</sub>	52 <sup>15</sup> / <sub>16</sub>	42
Second .....	44 <sup>7</sup> / <sub>8</sub>	33 <sup>13</sup> / <sub>16</sub>	66 <sup>7</sup> / <sub>16</sub>	46 <sup>5</sup> / <sub>16</sub>
Third .....	39 <sup>5</sup> / <sub>8</sub>	32 <sup>1</sup> / <sub>2</sub>	63 <sup>7</sup> / <sub>8</sub>	52 <sup>9</sup> / <sub>16</sub>
Fourth .....	47 <sup>15</sup> / <sub>16</sub>	29 <sup>9</sup> / <sub>16</sub>	58 <sup>7</sup> / <sub>8</sub>	43 <sup>3</sup> / <sub>16</sub>

**Number of Stockholders:** Stockholders of record at year end totaled 36,253, compared with 36,048 at the end of 1999. Approximately 64% of our issued shares are held by institutions and banks, 27% by individuals, and 9% by Caterpillar benefit plans.

Employees' investment and profit-sharing plans acquired 3,955,607 shares of Caterpillar stock in 2000. Investment plans, for which membership is voluntary, held 27,746,574 shares for employee accounts at 2000 year end. Profit-sharing plans, in which membership is automatic for most U.S. and Canadian employees in eligible categories, held 459,655 shares at 2000 year end.

### Company Publications:

#### *Current information:*

- phone our Information Hotline — (800) CAT-7717 (U.S. and Canada) or (858) 431-7900 (outside U.S. and Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail
- request, view, or download materials on-line or register for e-mail alerts by visiting [www.CAT.com/materialsrequest](http://www.CAT.com/materialsrequest)

#### *Historical information:*

- view/download on-line at [www.CAT.com/historical](http://www.CAT.com/historical)

### Annual Meeting:

On Wednesday, April 11, 2001, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held at the Bank One Auditorium, Chicago, Illinois. Requests for proxies are being sent to stockholders with this report mailed on or about March 2, 2001.

### Internet:

Visit us on the Internet at [www.CAT.com](http://www.CAT.com).

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

## DIRECTORS AND OFFICERS

### DIRECTORS

Lilyan H. Affinito <sup>2,4</sup>	Former Vice Chairman, Maxxam Group Inc.
Glen A. Barton	Chairman and CEO, Caterpillar Inc.
W. Frank Blount <sup>1,3</sup>	Chairman and CEO, Cypress Communications, Inc.
John R. Brazil <sup>1,3</sup>	President, Trinity University
John T. Dillon <sup>2,4</sup>	Chairman and CEO, International Paper
Juan Gallardo <sup>1,3</sup>	Chairman and CEO, Grupo Embotelladoras Unidas S.A. de C.V.
David R. Goode <sup>1,2</sup>	Chairman, President, and CEO, Norfolk Southern Corporation
James P. Gorter <sup>1,2</sup>	Chairman, Baker, Fentress & Company
Peter A. Magowan <sup>2,4</sup>	Former Chairman and CEO, Safeway Inc.; President and Managing General Partner, San Francisco Giants
William A. Osborn <sup>2,4</sup>	Chairman and CEO, Northern Trust Corporation and The Northern Trust Company
Gordon R. Parker <sup>1,3</sup>	Former Chairman, Newmont Mining Corporation
Charles D. Powell <sup>5</sup>	Chairman, Sagitta Asset Management Limited
Joshua I. Smith <sup>3,4</sup>	Chairman and CEO, The MAXIMA Corporation; Vice Chairman, iGate, Inc.
Clayton K. Yeutter <sup>2,4</sup>	Of Counsel to Hogan & Hartson, Washington, D.C.

<sup>1</sup>Member of Audit Committee (David R. Goode, chairman)

<sup>2</sup>Member of Compensation Committee (James P. Gorter, chairman)

<sup>3</sup>Member of Nominating & Governance Committee (Joshua I. Smith, chairman)

<sup>4</sup>Member of Public Policy Committee (Clayton K. Yeutter, chairman)

<sup>5</sup>Effective January 1, 2001

### OFFICERS

Glen A. Barton	Chairman and CEO
Vito H. Baumgartner	Group President
Gerald S. Flaherty	Group President
James W. Owens	Group President
Gerald L. Shaheen	Group President
Richard L. Thompson	Group President
R. Rennie Atterbury III	Vice President, General Counsel and Secretary
Sidney C. Banwart	Vice President
Michael J. Baunton	Vice President
James S. Beard	Vice President
Richard A. Benson	Vice President
James E. Despain	Vice President
Michael A. Flexsenhar	Vice President
Thomas A. Gales	Vice President
Donald M. Ings	Vice President
Stuart L. Levenick	Vice President
Duane H. Livingston	Vice President
Robert R. Macier	Vice President
David A. McKie	Vice President
F. Lynn McPheeters	Vice President, Chief Financial Officer
Daniel M. Murphy	Vice President
Douglas R. Oberhelman	Vice President
Gerald Palmer	Vice President
Robert C. Petterson	Vice President
John E. Pfeffer	Vice President
Siegfried R. Ramseyer	Vice President
Edward J. Rapp	Vice President
Alan J. Rassi	Vice President
Gary A. Stroup	Vice President
Gerard R. Vittecoq	Vice President
Sherril K. West	Vice President
Donald G. Western	Vice President
Steven H. Wunning	Vice President
Robert R. Gallagher	Controller
Kenneth J. Zika	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, 2000, except as noted.



## NOTES

---

