SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

CATERPILLAR®

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

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

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of December 31, 2003, there were 343,762,040 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of this computation that directors and officers may be affiliates) was $28,128,435,330.

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

Documents Incorporated by Reference

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

- Part III — 2004 Annual Meeting Proxy Statement (Proxy Statement) filed with the Securities and Exchange Commission (SEC) on February 24, 2004.

- Parts I, II, IV — General and Financial Information for 2003 containing the information required by SEC Rule 14a-3 for an annual report to security holders filed with the SEC as an appendix to the 2004 Annual Meeting Proxy Statement (Appendix) on February 24, 2004, and furnished as Exhibit 13 to this Form 10-K.

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PART I

Item 1. Business.

<u>Principal Lines of Business / Nature of Operations</u>

Caterpillar operates in three principal lines of business:

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

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

3. ***Financial Products*** - consists primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries. Cat Financial provides a wide range of financing alternatives for Caterpillar machinery and engines, Solar gas turbines, as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

Due to financial information required by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we have also divided our business into eight operating segments for financial reporting purposes. Information about our operating segments, including geographic information, appears in Note 22 on page A-26 of the Appendix.

<u>Company Strengths</u>

Caterpillar is the leader in construction and mining equipment, diesel and natural gas engines and industrial gas turbines in our size range. Annual sales and revenues top $22 billion, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter, with more than half of its sales outside the United States. Through a global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For over 75 years, the Caterpillar name has been associated with the highest level of quality products and services.

<u>Competitive Environment</u>

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

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

Machinery

The competitive environment for Caterpillar's machinery business consists of global competitors, regional competitors, and specialized local competitors. Principal global competitors include Komatsu, Volvo Construction Equipment, CNH Global, Hitachi Construction Machinery, John Deere, Terex, JCB, and Ingersoll-Rand. Each has particular regional pockets of strength. John Deere Construction and Forestry Division, for example, is a principal competitor in the Americas. Some competitors have broad ranges of product competitive to Caterpillar. Others, like Ingersoll-Rand, only offer limited product that is competitive to Caterpillar. The machinery business in total has been characterized in recent years by consolidations, marketing alliances, and overcapacity resulting in strong competition and difficult financial conditions.

During 2003, most competitors saw some financial recovery after several years of struggle as business volumes began to improve - especially in North America and Asia. New and improved products continued to be introduced, and cost reduction efforts through process improvements continued. Many competitors continued to experience significant pressure on their distribution channels - either directly or indirectly through marketing alliances.

Japanese and Korean-based competitors experienced benefits from significant sales increases in China. European-based global competitors, on the other hand, were negatively impacted by the strength of the Euro and slow European economies. Overall, continued excess industry capacity drove intense competition for the available customers and their business.

Engines

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

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

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

In 2003, competitors formed or continued joint ventures and partnerships in an effort to share development costs, secure customer bases, reach new markets, and/or leverage core competencies. In addition, component suppliers such as Delphi Automotive Systems, Bosch GmbH, Denso, and Stanadyne Automotive played more visible roles as technology drivers, partners, and key suppliers to the engine business.

Competitors in North America introduced new on-highway truck diesel engines utilizing cooled exhaust re-circulation technology (EGR) to meet lower emission standards mandated pursuant to a United States Environmental Protection Agency (EPA) consent decree which required the company and other engine manufacturers to meet certain emission standards by October 2002 and January 2004. The industry continues to invest in new technology to meet emission deadlines in North America, Europe, and Asia.

Prior to the implementation of the consent decree in October 2002, Caterpillar's share of NAFTA industry sales of heavy-duty engines increased 5 percentage points in 2002. Caterpillar maintained this strong competitive position during 2003 with the bridge and Advanced Combustion Emission Reduction Technology (ACERT®) engines. We believe this is occurring because the consent decree motivated most of our competitors to accelerate their production of EGR engines in advance of the October 2002 deadline. This new technology had not been previously used or tested and has large amounts of new content. The technology that Caterpillar developed and uses, however, is an outgrowth of existing technology and requires significantly less new content than our competitors' products. We employ a phased introduction of new technology that assures customers of only limited new technology in any given engine model. We have been phasing in the technological components for our ACERT engines since we made the decision to abandon EGR in early 2001. For example, we introduced aftertreatment technology into our medium heavy-duty product in early 2001, one of the four major components used in our ACERT product. Similarly, our October 2002 heavy-duty bridge engines phased in ACERT fuels systems and aftertreatment technology. We believe that this phased in approach has helped our competitive position, as lower new content is recognized to carry a lower risk in new developments. The NAFTA heavy-duty truck engine industry became more comfortable with Caterpillar engines as the year 2003 ended.

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

We believe we were, at year-end, the only engine manufacturer with a full product line (C7, C9, C11, C13, and C15) that was fully compliant with the January 2004 EPA emissions requirements. Certain engine manufacturers who were not part of the October 2002 consent decree will have to make additional product changes to satisfy the January 2004 emission requirements and other manufacturers who were subject to the consent decree will also be required to make product changes to fully satisfy the January 2004 requirements. We believe that all of our competitors, who are subject to consent decree requirements, have certified at least one engine model as fully compliant with the consent decree requirements, as have we. However, it is our understanding that some competitive engine manufacturers have chosen to reduce the number of engine models for which they are seeking certification.

Additional information about the consent decree appears in this Item 1 under "Environmental Matters."

Financial Products

Caterpillar Financial Services Corporation (Cat Financial), incorporated in Delaware, is a wholly owned finance subsidiary of Caterpillar Inc. Cat Financial provides retail financing alternatives for Caterpillar machinery and engines as well as other equipment and marine vessels to customers and dealers around the world and provides wholesale financing to Caterpillar dealers. It has over 20 years of experience in providing financing in these markets, contributing to knowledge of asset values, industry trends, product structuring, and customer needs. Cat Financial emphasizes prompt and responsive service and offers various financing plans to meet customer requirements, increase Caterpillar sales, and generate financing revenue. As of December 31, 2003, Cat Financial had 1,282 employees.

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

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

Cat Financial's retail financing plans include:

Finance leases and installment sale contracts - retail:

- Leases that, for tax purposes, Cat Financial is considered the owner of the equipment, but depending on the characteristics of the lease, are classified as either operating or finance leases for financial reporting purposes (20 percent*).
- Finance (non-tax) leases where the lessee is considered the owner of the equipment during the term of the contract and that either require or allow the customer to purchase the equipment for a fixed price at the end of the term (14 percent*).
- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structure payments over time (22 percent*).
- Governmental lease-purchase plans in the U.S. that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivable:

- Loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing (25 percent*).

Cat Financial's wholesale financing plans (18 percent*) include wholesale notes receivable, finance leases and installment sale contracts - wholesale that are secured by the assets of the dealers.

* Indicates the percentage of Cat Financial's total portfolio (total net finance receivables plus equipment on operating leases, less accumulated depreciation) at December 31, 2003. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 18 on pages A-22 and A-23 of the Appendix.

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's competitors include CIT Group, Citibank, GECC, and local banks. Competitive manufacturers use below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. Caterpillar and Cat Financial work together to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

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

Cat Financial has a "match funding" policy whereby the interest rate profile (fixed rate or floating rate) of their debt portfolio largely matches the interest rate profile of their receivable portfolio within established guidelines. In connection with that policy, Cat Financial uses interest rate derivative instruments to modify the debt structure to match the receivable portfolio. This "match funding" reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. Cat Financial also uses these instruments to gain an economic and/or competitive advantage through a lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt. For more information regarding match funding, please see Note 2 on pages A-11 and A-12 of the Appendix.

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

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

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

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

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

Cat Insurance provides protection for claims under the following programs:

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

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

Other information about our operations in 2003 and outlook for 2004, including risks associated with foreign operations is incorporated by reference from "Management's Discussion and Analysis" on pages A-33 through A-54 of the Appendix.

Business Developments in 2003

As key markets recovered in 2003, the company made progress on growth goals, held firm on cost reduction targets and continued to serve customers with innovative products such as our new models of engines with the company's proprietary ACERT technology. The new Caterpillar engine line with ACERT technology offers five engines, the C7, C9, C11, C13 and C15, all of which received EPA certification in 2003. Each of these engines meet 2004 EPA emission regulations without sacrificing engine performance. We are in full production of all of the engines, in accordance with our announced timeline. As a result Caterpillar expects to pay no non-conformance penalties (NCPs) on any engines sold in 2004. Market acceptance of our ACERT engines has been strong. As reported in the Ward's year to date data through November 2003, Caterpillar maintained its leadership position in the North American on-highway truck and bus industry.

We anticipate that this technology will also provide us with a significant competitive advantage well into the future. ACERT will provide a technology platform for our engines through the end of the decade. Off-highway equipment engines must meet emissions regulations starting in 2005, and European machine noise directives in 2006. Over 100 ACERT engines have already been shipped for continued application testing and exposure in off-highway applications. We are on track to introduce machines and industrial engines with the ACERT technology prior to the effective dates of the emissions and noise regulations.

In November, the company announced a multi-year framework for investments in China, which we expect to provide the basis for the company to significantly expand our business there. In the first concrete milestone toward implementation for this expansion, the company signed a non-binding memorandum of understanding with the PRC's Shandong Engineering Machinery - the seventh largest wheel loader producer in China. Subject to approval from China's government officials and the companies' satisfactory completion of due diligence, these negotiations are expected to pave the way for Caterpillar to increase its presence in China, which the company has identified as a key emerging market for the future.

In December, the company announced that the board of directors had selected James W. Owens to succeed Glen A. Barton as Chairman and Chief Executive Officer, effective upon Mr. Barton's retirement on January 31, 2004. The company also announced the retirement of two other officers and the appointment of new officers to fill vacancies created by the retirements. We believe that the right team is in place to lead our employees worldwide in the effort to achieve $30 billion in sales and revenues by the end of this decade.

Charges

Information about charges related to the sale of the MT series of our Challenger line of high-tech tractors, planned U.S. salaried and management employment reductions and plant closings appears in Note 23 on page A-31 of the Appendix.

Order Backlog

The dollar amount of backlog believed to be firm was approximately $4.91 billion and $2.90 billion at December 31, 2003, and December 31, 2002, respectively. Of the total backlog, approximately $320 million and $310 million at December 31, 2003, and December 31, 2002, respectively, was not expected to be filled in the following year. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

Dealers

Our machines are distributed principally through a worldwide organization of dealers (dealer network), 56 located in the United States and 151 located outside the United States. Worldwide, these dealers serve 178 countries and operate 3,263 places of business, including 1,391 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 166 distributors located in 148 countries. Most of the electric power generations systems manufactured by FG Wilson are sold through a worldwide network of 250 dealers located in 170 countries.

These dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

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

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

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

Patents and Trademarks

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

Research and Development

We have always placed strong emphasis on product-oriented research and development relating to the development of new or improved machines, engines and major components. In 2003, 2002, and 2001, we spent $669 million, $656 million, and $696 million, respectively, on our research and development programs.

Employment

As of December 31, 2003, we employed 69,169 persons of whom 33,909 were located outside the United States. From a global, enterprise perspective, we believe our relationship with our employees is very good. We build and maintain a productive, motivated workforce by treating all employees fairly and equitably.

In the United States, most of our 35,260 employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. At select business units, certain highly specialized employees have been hired under employment contracts that specify a term of employment and specify pay and other benefits.

As of December 31, 2003, there were 11,390 hourly U.S. employees who were covered by collective bargaining agreements with various labor unions. Of these, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) represented 8,840 Caterpillar employees under a six-year central labor agreement that will expire April 1, 2004. Negotiations on a successor contract began December 10, 2003. The International Association of Machinists (IAM) represented 2,371 employees under various labor agreements expiring on October 30, 2004, December 5, 2004, April 30, 2005, and May 29, 2005. Based on our historical experience during periods when labor unrest or work stoppage by union employees has occurred, we do not expect that the occurrence of such events, if any, arising in connection with the expiration of these agreements will have a material impact on our operations or results.

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

Sales

Sales outside the United States were 56 percent of consolidated sales for 2003, 55 percent for 2002, and 51 percent for 2001.

Environmental Matters

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

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

The amount recorded for environmental clean-up is not material and is included in Statement 3 on page A-6 of the Appendix under "Accrued expenses." If a range of liability estimates is available on a particular site, we accrue at the lower end of that range.

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

Pursuant to a consent decree Caterpillar entered with the EPA, the company was required to meet certain emission standards by October 2002. The decree provides that if engine manufacturers were unable to meet the standards at that time, they would be required to pay a NCP on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began shipping lower emission engines in October 2002 as a bridge until fully compliant ACERT engines were introduced in 2003.

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

In a final report to the EPA filed during the third quarter of 2003, we identified 70,018 medium heavy-duty engines produced and sold prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,868 Mg of medium heavy-duty banked credits. This is 381 engines and 120 Mg less than had been identified at the end of 2002. The number of engines generating emissions credits in our final report to the EPA was lowered for a variety of reasons including a more detailed analysis of engines actually produced that were eligible to generate credits and the identification of engines shipped to customers outside the United States which were not eligible to generate emissions credits. During 2003, banked credits offset the NCPs on all but approximately 600 of the approximately 31,000 non-conforming medium heavy-duty engines we produced. We paid NCPs of $2,485 per engine, or $1.5 million, on the 600 medium heavy-duty engines produced in 2003 in excess of those for which we could use banked credits. We also identified 731 heavy-duty engines built prior to October 1, 2002, that generated banked credits totaling 969 Mg. This is 227 engines and 261 Mg less than had been identified at the end of 2002; the reasons for the reduction are similar to those resulting in the adjustments to medium heavy-duty engines and credits. Banked credits offset the NCPs on approximately 2,000 of the 45,000 non-conforming heavy-duty engines we built during 2003. We paid NCPs of approximately $3,555 per engine, or $153 million on the remaining 43,000 heavy-duty engines produced in 2003 in excess of those for which we could use banked credits.

We began production of medium heavy-duty ACERT engines that were fully-compliant with the EPA emissions standards in early 2003, and in mid-2003 began producing fully-compliant heavy-duty ACERT engines. During 2003, Caterpillar received certification from the EPA for its C7 and C9 medium heavy-duty ACERT engines and its C11, C13 and C15 heavy-duty ACERT engines. By the end of 2003 Caterpillar was producing all of these engine models, and as a result, does not expect to pay NCPs on engines built during 2004.

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

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

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

Our expense for NCPs was $40 million in 2002 and $153 million in 2003. NCP expense recorded in 2002 was based on our engineering estimates at that time of the expected results of EPA emissions testing that began and was completed in 2003. NCP expense recorded in 2003 reflects the results of the completed tests, including a reduction of approximately 3 percent to the NCP expense recorded for 2002. During the fourth quarter of 2003, we re-tested one configuration of our heavy-duty bridge engine models, averaging the results with an earlier test. Our 2003 NCP expense includes a $10 million fourth quarter benefit from the re-test related to all bridge engines of that configuration produced since October 2002, including $1.3 million for engines produced in the fourth quarter of 2002 and $7.4 million for engines produced during the first three quarters of 2003. For 2002, we paid NCPs on approximately 6,200 heavy-duty units and 7,200 medium heavy-duty units, and for 2003 we paid NCPs on approximately 43,000 heavy-duty units and 600 medium heavy-duty units.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). NCPs were deposited in an escrow account prior to completion of emissions testing for each engine model throughout 2003, and were paid to the EPA, either from the escrow account or directly, after completion of testing of a particular model. On January 30, 2004, Caterpillar paid NCPs to the EPA for engines built during the fourth quarter of 2003, ending its payments to the EPA for NCPs for engines built during 2002 and 2003. NCP expense for 2003 reflects this payment.

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

2002 (millions of dollars)		
Price (Engines sold x bridge price increase)	$	20
Incremental costs (Cost of additional materials and production costs)		(4)
NCPs (Engines sold x projected NCP per engine)		(40)
Net effect pre-tax	$	(24)
Tax		7
Net effect after tax	$	(17)

Aside from $115 million in customary research and development expenses, emissions standard changes negatively impacted our 2003 financial results by $46 million ($34 million after-tax). The net unfavorable impact of emission standard changes was greater in 2003 than in 2002 as significantly higher NCPs (approximately $153 million pre-tax), product cost increases and ramp-up production costs (approximately $84 million pre-tax), were partially offset by price increases for bridge and ACERT engines (approximately $191 million pre-tax). The following table reflects the 2003 impact of the emission standard changes:

2003 (millions of dollars)		
Price (Engines sold x bridge or ACERT price increase)	$	191
Incremental costs (Cost of additional materials and production costs)		(84)
NCPs (Engines sold x NCP per engine - banked credits)		(153)
Net effect pre-tax	$	(46)
Tax		12
Net effect after tax	$	(34)

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $29 million, of which $10 million was made in 2002 and $19 million in 2003. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

NCPs were approximately $3,500 per heavy-duty engine subject to NCPs, based on the results of the completed EPA testing. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, we implemented an additional price increase to truck manufacturers that purchase our heavy-duty engines, and on January 1, 2004, we implemented a price increase for medium heavy-duty ACERT engines. These increases are based on the additional value that we expect truck owners to receive from ACERT engines compared to engines of our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines in the future is dependent upon marketplace acceptance of these engines versus competitive alternatives.

Available Information

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

Current information -

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

Historical information -

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

Item 1A. Executive Officers of the Registrant as of December 31, 2003 (except as otherwise noted)

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years other than Caterpillar Inc. position currently held
Glen A. Barton (64)	Chairman and Chief Executive Officer (1999)[1]	• Group President (1990-1998)
James W. Owens (57)	Chairman and Chief Executive Officer (2004)[2]	• Group President (1995-2003) • Vice Chairman (2003-2004)
Vito H. Baumgartner (63)	Group President (2000)[1]	• Chairman, Caterpillar Overseas S.A. (1990-2004) • Vice President (1990-2000)
Douglas R. Oberhelman (50)	Group President (2001)	• Vice President (1995-2001)
Gerald L. Shaheen (59)	Group President (1998)	
Richard L. Thompson (64)	Group President (1995)	
Gérard R. Vittecoq (55)	Group President (2004)[3]	• Managing Director, Caterpillar Belgium S.A. (1998-2000) • Vice President (2000-2004)
Steven H. Wunning (52)	Group President (2004)[3]	• Vice President (1998-2004)
Ali M. Bahaj (50)	Vice President (2002)	• Director, Division Services, Engine Products Division (1998-2001) • Director, Business Development & Consulting Services (2001-2002)
Sidney C. Banwart (58)	Vice President (1998)	• Chief Information Officer (2001- present)
Michael J. Baunton (52)	Vice President (1998)	• President, Perkins Engine Company Limited (1998 - 01/2004)
James S. Beard (62)	Vice President (1990)	• President, Director and Principal Executive Officer, Caterpillar Financial Services Corporation (1987-present)
Mary H. Bell (43)	Vice President (2004)[3]	• Service Support Department Manager, Parts & Service Support Division (1999-2000) • Service Support Department Manager, Product Support Division (2000) • Dealer Capability Department Manager, Product Support Division (2000-2002) • Cat Distribution Services General Manager, Logistics Division (2002-2003)
Richard A. Benson (60)	Vice President (1989)	
James B. Buda (56)	Vice President, General Counsel and Secretary (2001)	• Associate General Counsel (1996-1999) • Associate General Counsel, UK (1999-2001)
Rodney L. Bussell (57)	Vice President (2001)	• General Manager, Large Engine Products & Fuel Systems Division (1998-2001)
Thomas A. Gales (55)	Vice President (2000)	• Managing Director, Caterpillar France, S.A. (1998-2000)
Stephen A. Gosselin (46)	Vice President (2002)	• Regional Engine Manager, Engine Products Division (1998-1999) • North American Distribution Manager, Engine Products Division (1999-2000) • Regional Manager, North American Commercial Division (2000-2002)
Hans A. Haefeli (45)	Vice President (2004)[3]	• Director & General Manager, Perkins Engines Peterborough Limited (1998-1999) • Managing Director Product Supply, Perkins Engines Company Limited (1999-2002) • Managing Director, Compact Power Systems Division (2001-2002) • General Manager, Building Construction Products Division (2002-2003) • President, Perkins Engine Company Limited (01/2004 to present)

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years other than Caterpillar Inc. position currently held
Donald M. Ings (55)	Vice President (1993)	
Richard P. Lavin (51)	Vice President (2001)	• Director, Corporate Human Relations (1998-1999) • Director, Compensation & Benefits (1999-2001)
Stuart L. Levenick (50)	Vice President (2000)	• General Manager, Commonwealth of Independent States (1998-2000) • Chairman, Shin Caterpillar Mitsubishi Ltd. (2000 - present)
Robert R. Macier (55)	Vice President (1998)	• President, Solar Turbines Incorporated (2002-present)
F. Lynn McPheeters (61)	Vice President and Chief Financial Officer (1998)	
Daniel M. Murphy (56)	Vice President (1996)	
Gerald Palmer (58)	Vice President (1992)	
James J. Parker (53)	Vice President (2001)	• Director, Electric Power (1998-2001)
Mark R. Pflederer (47)	Vice President (2004)[3]	• Engineering Manager, Building Construction Products Division (1996-1999) • Electronics & Electrical Business Unit Manager, Control Systems Products Division (1999-2001) • Electronics & Electrical Business Unit Manager, Component Products & Control Systems Division (2001-2003)
Edward J. Rapp (46)	Vice President (2000)	• Regional Manager, Caterpillar Overseas S.A. (1998-2000)
Christiano V. Schena (54)	Vice President (2002)	• Managing Director, Caterpillar Brasil Ltda. (1996-2000) • Managing Director, Caterpillar France S.A. (2000) • General Manager, EAME Product Development Division (2000-2002) • Managing Director, Building Construction Products Europe (2002)
William F. Springer (52)	Vice President (2002)	• President, Caterpillar Logistics (1998-2002)
Gary A. Stroup (54)	Vice President (1992)	• President, Solar Turbines Incorporated (1998-2002)
Sherril K. West (56)	Vice President (1995)[1]	
Donald G. Western (55)	Vice President (1995)	
David B. Burritt (48)	Controller (2002)	• Director, Strategy & Planning, Caterpillar Overseas S.A. (1998-1999) • General Manager, Strategic & Business Services - Europe, Caterpillar Overseas S.A. (1999-2001) • Corporate 6 Sigma Champion (2001-2002)
Kevin E. Colgan (51)	Treasurer (2001)	• Vice President, Caterpillar Financial Services Corporation (1997-2001)
[1] Retired effective January 31, 2004.		
[2] Effective January 31, 2004.		
[3] Effective January 1, 2004.		

Item 2. Properties.

General Information

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

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

Plant Closings
Information about charges relating to plant closings appears in Note 23 on page A-31 of the Appendix.

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

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

Changes in Fixed Assets
During the five years ended December 31, 2003, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

	Expenditures		Acquisitions			Disposals and Other	Net Increase (Decrease)
Year	U.S.	Outside U.S.	U.S.	Outside U.S.	Provision for Depreciation	Adjustments	During Period
1999	$ 950	$ 453	$ 3	$ 103	$ (888)	$ (196)	$ 425
2000	$ 1,067	$ 526	$ 0	$ 9	$ (969)	$ (62)	$ 571
2001	$ 1,345	$ 623	$ 2	$ 32	$ (1,070)	$ (280)	$ 652
2002	$ 1,030	$ 743	$ 15	$ 0	$ (1,199)	$ (146)	$ 443
2003	$ 1,000	$ 765	$ 0	$ 0	$ (1,332)	$ (189)	$ 244

At December 31, 2003, the net book value of properties located outside the United States represented about 40.7 percent of the net book value of all properties reflected in our consolidated financial position. Additional information about our investment in property, plant, and equipment appears in Note 1F on page A-9 and Note 7 on page A-15 of the Appendix.

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

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

Manufacturing

Inside the U.S.

California
- Gardena
- San Diego

Florida
- Jacksonville

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

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

Indiana
- Lafayette

Kansas
- Wamego

Kentucky
- Danville

Michigan
- Menominee
- Mt. Clemens

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

Mississippi
- Oxford

Missouri
- Boonville
- West Plains

North Carolina
- Clayton
- Franklin
- Morganton
- Sanford

Ohio
- Dayton[1]
- Marion

South Carolina
- Greenville
- Sumter

Tennessee
- Dyersburg
- Rockwood

Texas
- Houston
- Waco

Outside the U.S.

Australia
- Burnie
- Melbourne

Belgium
- Gosselies

Brazil
- Curitiba
- Piracicaba

Canada
- Laval
- Montreal

England
- Barwell
- Leicester
- Peterborough
- Peterlee
- Skinningrove
- Stafford
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock

Hungary
- Gödöllö

India
- Bangalore[2]
- Pondicherry
- Thiruvallur

Indonesia
- Jakarta

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

Japan
- Akashi[1]
- Sagamihara[1]

Mexico
- Monterrey
- Reynosa
- Saltillo
- Tijuana
- Torreon

The Netherlands
- s'-Hertogenbosch

Northern Ireland
- Larne
- Monkstown
- Springvale

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

Poland
- Janow Lubelski

Russia
- Tosno

South Africa
- Boksburg

Sweden
- Söderhamn

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

Remanufacturing and Overhaul

Inside the U.S.

Mississippi
- Corinth
- Prentiss County

Texas
- De Soto
- Mabank

Outside the U.S.

Australia
- Melbourne

Belgium
- Gosselies

Canada
- Edmonton

England
- Shrewsbury

Indonesia
- Bandung

Ireland
- Dublin

Malaysia
- Kuala Lumpur

Mexico
- Nuevo Laredo
- Tijuana
- Veracruz

Nigeria
- Port Harcourt

Item 3. Legal Proceedings.

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

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 (whole dollars) less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. At December 31, 2003, the past due receivable from Navistar regarding the foregoing was $132 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. At December 31, 2003, the past due receivables for the foregoing totaled $12 million. The pending complaint further alleges that Sturman Industries, Inc. and Sturman Engine Systems, Inc. colluded with Navistar to utilize technology that Sturman Industries, Inc. misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc., and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois, that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fourth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002, and claims that Caterpillar made certain fraudulent misrepresentations with respect to the availability of engines during this time period. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar denies International's claims and will vigorously contest them. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled for the third quarter of 2004 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

On August 30, 2002, a World Trade Organization (WTO) arbitration panel determined that the European Union (EU) may impose up to $4.04 billion per year in retaliatory tariffs if the U.S. tax code is not brought into compliance with an August 2001 WTO decision that found the extraterritorial tax (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. Since August 2002, the EU has developed a list of U.S. origin products on which the EU could impose tariffs as high as 100 percent of the value of the product. Negotiations among EU Member States, the European Commission, and the private sector over which products would be listed were intense. The EU finalized the list in December 2003 and stated that in March 2004 it will begin imposing retaliatory tariffs of 5 percent on certain U.S. origin goods. If imposed, the tariffs would increase 1 percentage point per month to a maximum of 17 percent after one year. The gradual increase in tariffs is designed to place increasing pressure on the U.S. government to bring its tax laws into compliance with its WTO obligations. Given the makeup of the final retaliation list, some Caterpillar parts and components will be subjected to these additional tariffs. Based on what we know today, we do not believe these tariffs will materially impact our financial results. The company has production facilities in the EU, Russia, Asia, and South America that would not be affected by a retaliatory tariff aimed at U.S. origin products. When the EU implements its proposed tariffs, increased pressure will be placed on Congress to repeal ETI, possibly during the current session. It is not possible to predict how the U.S. legislative process will affect the company's 2004 income tax liability, but based on what we know today, we do not believe the impact, if any, will be material.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information required by Item 5 is incorporated by reference from "Price Ranges" and "Number of Stockholders" on page A-55 and from "Dividends declared per share of common stock" on page A-45 of the Appendix.

Issuer Purchases of Equity Securities

Period	Total number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1-31, 2003	0	n/a	n/a	27,912,802 [1]
November 1-30, 2003	3,700,000	$72.94	3,700,000	24,774,885 [1]
December 1-31, 2003	1,750,000	$77.04	1,750,000	23,762,040 [1]
Total	**5,450,000**	**$74.26**	**5,450,000**	

[1] On October 8, 2003, the board of directors approved an extension of the share repurchase program (through October 2008) with the goal of reducing the company's outstanding shares to 320,000,000. Amount represents the shares outstanding at the end of the period less 320,000,000.

Non-U.S. Employee Stock Purchase Plans

We have 27 employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2003, those plans had approximately 8,160 participants in the aggregate. During the fourth quarter of 2003, a total of 71,390 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar Inc. common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" on page A-32, "Committed funds" on page A-44, and "Supplemental consolidating data" on pages A-51 through A-53 of the Appendix.

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

Information required by Item 7 is incorporated by reference from pages A-33 to A-54 of the Appendix.

SAFE HARBOR STATEMENT UNDER THE SECURITIES LITIGATION REFORM ACT OF 1995

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

World Economic Factors

A worldwide economic recovery is now underway and further strengthening should occur this year. Economic growth is expected to exceed 3.5 percent in 2004, or about 1 percentage point more than in 2003. Low interest rates initiated economic recoveries and low inflation rates likely will encourage central bankers to be cautious about implementing any interest rate hikes. If, however, central bankers decide to raise interest rates significantly, the recovery would be less robust than assumed, likely weakening machinery and engine sales.

The U.S. economy ended 2003 on a strong note and the continuation of low interest rates in 2004 should ensure a very good year for the economy. We project U.S. growth of at least 4.5 percent and the Canadian economy should rebound from 2003's slowdown, growing more than 3 percent in 2004. This environment should allow the recovery in Machinery and Engines sales that developed last year to strengthen further this year. Low interest rates, the tax cuts and the favorable impact of a weaker dollar have all helped the economy and our sales. Should any of these factors change substantially, such as a significant increase in interest rates, both economic growth and our sales probably would be weaker than assumed.

European economies recovered slowly in the last half of 2003 and current low interest rates should allow further strengthening this year. We expect the European economies will grow 2 percent in 2004, fast enough to allow some improvement in construction activity. Favorable energy prices, plus much higher commodity prices, will promote another year of good economic growth in both Africa/Middle East and the CIS. As a result, we project some improvement in EAME sales in 2004. However, the European recovery is fragile and developments such as a much stronger euro or modest interest rate hikes could cause economic growth to falter. In that case, the modest recovery in sales would be in jeopardy.

The Japanese economy has grown for seven consecutive quarters and our outlook assumes that measures employed by the Bank of Japan - zero interest rates, the maintenance of high levels of reserves in the banking system and the purchase of long-term government bonds - will allow this recovery to strengthen. We project economic growth of 3 percent in 2004, up more than ½ percentage point from 2003 and the best year since 1996. The economy remains vulnerable to any tightening in financial conditions and should that occur, the recovery could stall. Slower economic growth would further reduce our sales in that country and could have a negative impact on other economies, particularly those in the region.

Our outlook assumes that the Asia/Pacific region will again lead the world in economic growth, improving to over 6 percent growth in 2004. We expect China's booming economy will slow a bit in response to modest tightening in economic policies, but better growth in most other countries will more than pick up the slack. Strong domestic economies and low local interest rates will boost construction and the region's sizeable mining sector will benefit from higher prices. The principal risks that could disrupt economic growth and our sales are significant policy tightening in China and intensified trade frictions that slow exports from the region.

We expect Latin American economic growth to improve to about 3.5 percent in 2004, much better than the 1.5 percent rate experienced in 2003. We expect that the region will benefit from the worldwide economic recovery, reductions in local interest rates and a rebound in foreign direct investment inflows. Better economic growth should boost our sales; however, should the economic recovery not materialize as expected, our sales could continue to decline.

Commodity Prices

Commodities represent a significant sales opportunity, with prices and production as key drivers. Prices have improved sharply over production the past year and our outlook assumes continued growth in the world economy will cause metals prices to increase further in 2004. Any unexpected weakening in world industrial production, however, could cause prices to drop sharply to the detriment of our results.

While coals stocks are high and prices have been soft, our outlook assumes production and prices will improve in 2004. If coal production and prices do not improve, our results could be negatively affected.

Oil and natural gas prices have continued fairly high into 2004 due to strong demand and tight inventories. Our outlook assumes that increased production will ease shortages in both oil and natural gas, allowing prices to ease some. We do not yet view higher energy prices as a threat to economies since it is strong demand that is boosting prices. However, should significant supply cuts occur, such as from OPEC production cuts or political unrest in a major producing country, the resulting price spikes likely would slow economies, potentially with a depressing impact on our sales.

Monetary and Fiscal Policies

For most companies operating in a global economy, monetary and fiscal policies implemented in the U.S. and abroad could have a significant impact on economic growth, and accordingly, demand for a product. In general, higher than expected interest rates, reductions in government spending, higher taxes, significant currency devaluations, and uncertainty over key policies are some factors likely to lead to slower economic growth and lower industry demand.

While economic data are looking more favorable, central banks in most developed countries are still holding interest rates steady. Two (Reserve Bank of Australia and Bank of England) have implemented modest interest rate increases. Our outlook assumes that central banks will take great care to ensure that economic recoveries continue and that interest rates will remain low throughout 2004. Should central banks raise interest rates too aggressively, both economic growth and our sales could suffer.

Budget deficits in many countries have increased, which has limited the ability of governments to boost economies with tax cuts and more spending. Our outlook assumes that governments will not aggressively raise taxes and slash spending to deal with their budget imbalances. Such actions could disrupt growth and negatively affect sales to public construction.

Political Factors

Political factors in the United States and abroad have a major impact on global companies.

Our outlook assumes that there will be no significant military conflict in North Korea or the Middle East in the forecast period. Such a military conflict could severely disrupt sales into countries affected, as well as nearby countries.

Our outlook also assumes that there will be no major terrorist attacks. If there is a major terrorist attack, confidence could be undermined, causing a sharp drop in economic activities and our sales. Attacks in major developed economies would be the most disruptive.

Our outlook further assumes that efforts by countries to increase their exports will not result in retaliatory countermeasures by other countries to block such exports, particularly in the Asia/Pacific region.

Currency Fluctuations

The company has costs and revenues in many currencies and is therefore exposed to risks arising from currency fluctuations. Many currency positions are fairly closely balanced, which, along with the diversity of currency positions, helps diminish exchange rate risks.

The company's largest manufacturing presence is in the United States. So any unexpected strengthening of the dollar tends to raise the foreign currency value of costs and reduce our global competitiveness.

The stronger euro had a favorable impact on translating European sales into U. S. dollars for the full year. The outlook assumes similar benefits in the future. Should the euro collapse, our results could be negatively impacted.

Dealer Practices

The company sells primarily through an independent dealer network. Dealers carry inventories of both new and rental equipment and adjust those inventories based on their assessments of future needs. Such adjustments can impact our results either positively or negatively. The current outlook assumes dealers will reduce inventories slightly in 2004; more drastic reductions would adversely affect sales.

Other Factors

The rate of infrastructure spending, housing starts, commercial construction and mining play a significant role in the company's results. Our products are an integral component of these activities and as these activities increase or decrease in the United States or abroad, demand for our products may be significantly impacted.

The U.S. government is under pressure by the World Trade Organization to repeal extraterritorial (ETI) income tax benefits. Our outlook assumes that if ETI is repealed, we will not be materially impacted in 2004 due to the transition relief currently included in all bills under consideration by Congress.

Pursuant to a Consent Decree Caterpillar entered into with the EPA, the company was required to meet certain emission standards by October 2002. The Consent Decree provided for the possibility that diesel engine manufacturers may not be able to meet these standards exactly on that date, and allows companies to continue selling non-compliant engines if they pay NCPs on those engines. The company began shipping lower emission on-highway engines in October 2002 as a "bridge" until the fully compliant ACERT engines were introduced in 2003. These "bridge" engines required the payment of NCPs. At year-end 2003, Caterpillar was in production of all models of its medium heavy-duty and heavy-duty compliant ACERT engines. Therefore, our outlook for 2004 assumes that we will not pay NCPs beyond 2003.

Our outlook is also subject to assumptions regarding price increases and sales volumes. Our net price increase for heavy-duty on-highway bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. We implemented an additional price increase in 2003 to truck manufacturers that purchase our heavy-duty ACERT engines and implemented a price increase on January 1, 2004, for medium heavy-duty ACERT engines. These increases are based on the additional value that we expect truck owners to receive from ACERT engines compared to our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines is dependent upon marketplace acceptance of these engines versus competitive alternatives. While we estimate volume to the best of our ability, industry volume is an issue out of our control. If our assumptions regarding NCPs, market acceptance of the price increases and/or engine volume are not realized, company performance could be negatively impacted.

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

Results may be impacted positively or negatively by changes in the sales mix. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

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

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

Inherent in the operation of the Financial Products Division is the credit risk associated with its customers. The creditworthiness of each customer, and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events, and the sustained value of the underlying collateral. Additionally, interest rate movements create a degree of risk to our operations by affecting the amount of our interest payments and the value of our fixed rate debt. Our match funding policy manages interest rate risk by matching the interest rate profile (fixed rate or floating rate) of our debt portfolio with the interest rate profile of our receivables portfolio within certain parameters. To achieve our match funding objectives, we issue debt with similar interest rate profile to our receivables and also use interest rate swap agreements to manage our interest rate risk exposure to interest rate changes and in some cases to lower our cost of borrowed funds. If interest rates move upward more sharply than anticipated, our financial results could be negatively impacted. With respect to our insurance and investment management operations, changes in the equity and bond markets could cause an impairment of the value of our investment portfolio, thus requiring a negative adjustment to earnings.

In general, our results are sensitive to changes in economic growth, particularly those originating in construction, mining and energy. Developments reducing such activities also tend to lower our sales. In addition to the factors mentioned above, our results could be negatively impacted by any of the following:

- Any sudden drop in consumer or business confidence
- Delays in legislation needed to fund public construction
- Regulatory or legislative changes that slow activity in key industries; and/or
- Unexpected collapses in stock markets.

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

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

Information required by Item 7A appears in Note 1 under "Impairment of available-for-sale securities" on pages A-9 and A-10, Note 2 on pages A-11 and A-12, Note 17 on page A-22 and Note 18 on pages A-22 and A-23 of the Appendix. Other information required by Item 7A is incorporated by reference from page A-50 of the Appendix under "Sensitivity."

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is incorporated by reference from the Report of Independent Auditors on page A-3 and from the Financial Statements and Notes to Consolidated Financial Statements on pages A-4 through A-31 of the Appendix. Other information required by Item 8 is included in "Computation of Ratios of Profit to Fixed Charges" filed as Exhibit 12 to this Form 10-K.

Item 9A. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, the company's management, including the CEO and CFO, concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of this evaluation, there have been no significant changes in the company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal controls over financial reporting. Although the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote, management's evaluation provided reasonable assurance that these controls will be effective.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Identification of Directors and Business Experience

Information required by this Item is incorporated by reference from "Directors Up For Election This Year for Terms Expiring in 2007," "Directors Remaining in Office Until 2006," and "Directors Remaining in Office Until 2005" on pages 3 and 4 of the Proxy Statement.

Identification of Executive Officers and Business Experience
Information required by this Item appears in Item 1A of this Form 10-K.

Family Relationships
There are no family relationships between the officers and directors of the company. All officers serve at the pleasure of the board of directors and are regularly elected at a meeting of the board in April of each year.

Legal Proceedings
Information required by this Item is incorporated by reference from "Legal Proceedings" on page 8 of the Proxy Statement.

Identification of Audit Committee
Information required by this Item is incorporated by reference from "Board Meetings and Committees" on pages 5 through 7 of the Proxy Statement.

Audit Committee Financial Expert
Information required by this Item is incorporated by reference from "Board Meetings and Committees" on pages 5 through 7 of the Proxy Statement.

Shareholder Recommendation of Board Nominees
Information required by this Item is incorporated by reference from "Governance Committee Report" on pages 11 and 12 of the Proxy Statement.

Compliance with Section 16(a) of the Exchange Act
Information required by this Item relating to compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from "Section 16(a) Beneficial Ownership Reporting Compliance" on page 38 of the Proxy Statement.

Code of Ethics
Our Code of Worldwide Business Conduct, first published in 1974 and last amended in 2000, sets a high standard for honesty and ethical behavior by every employee, including the principal executive officer, principal financial officer, and principal accounting officer/controller. The Code is posted on our website at www.CAT.com under About CAT - Company Information and is filed as Exhibit 14 to this Form 10-K. To obtain a copy of the Code at no charge, submit a written request to the Company Secretary at 100 NE Adams Street, Peoria, Illinois 61629-7310. We will post on our website any required amendments to or waivers granted under our Code pursuant to SEC or New York Stock Exchange disclosure rules.

Item 11. Executive Compensation.

Information required by this item is incorporated by reference from "Director Compensation" on page 7, "Performance Graph" on page 14, "Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation" on pages 15 through 23, and "Executive Compensation Tables" on pages 24 through 26 of the Proxy Statement.

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

Information required by this item relating to security ownership of certain beneficial owners and management is incorporated by reference from "Caterpillar Stock Owned by Officers and Directors (as of December 31, 2003)" on page 13 and "Persons Owning More than Five Percent of Caterpillar Stock (as of December 31, 2003)" on page 14 of the Proxy Statement.

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

Equity Compensation Plan Information (as of December 31, 2003)			
	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	39,735,411	51.38	2,460,249
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	**39,735,411**	**51.38**	**2,460,249**

Item 13. Certain Relationships and Related Transactions.

Information required by this item is incorporated by reference from "Certain Related Transactions" on page 8 of the Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from "Audit Committee Report" on pages 8 through 10 and "Audit Fees" on page 11 of the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are incorporated by reference from the indicated pages of the Appendix:

1. Financial Statements:
   - Report of Independent Auditors (A-3)
   - Statement 1 - Results of Operations (A-4)
   - Statement 2 - Changes in Consolidated Stockholders' Equity (A-5)
   - Statement 3 - Financial Position (A-6)
   - Statement 4 - Statement of Cash Flow (A-7)
   - Notes to Consolidated Financial Statements (A-8 through A-31)

2. Financial Statement Schedules:
   - All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto incorporated by reference from the Appendix.

(b) There were 4 reports (dated October 8, October 16, December 10, and December 11, 2003) filed on Form 8-K pursuant to Item 5 and 1 report (dated October 16, 2003) filed on Form 8-K pursuant to Item 12 during the last quarter of 2003. Four additional reports (dated January 27, February 12, and two dated March 2, 2004) were filed on Form 8-K pursuant to Item 5 and one additional report (dated January 27, 2004) was filed on Form 8-K pursuant to Item 12. No financial statements were filed as part of those reports.

(c) Exhibits:

3.1	Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).
3.2	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock (incorporated by reference from Exhibit 2 to Form 8-A filed December 11, 1996).
3.3	Bylaws, amended and restated as of December 10, 2003.
4	Third Amended and Restated Rights Agreement dated as of June 12, 2003, between Caterpillar Inc. and Mellon Investor Services LLC (incorporated by reference from Exhibit 4 to Form 10-K/A for 2002 filed July 17, 2003).
10.1	Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of April 10, 2002 (incorporated by reference from Exhibit 10.1 to Form 10K for 2002 filed March 31, 2003).
10.2	Caterpillar Inc. 1987 Stock Option Plan, as amended and restated and Long Term Incentive Supplement, amended and restated as of December 31, 2000 (incorporated by reference from Exhibit 10.2 to Form 10-K for 2002 filed March 31, 2003). **
10.3	Supplemental Pension Benefit Plan, as amended and restated (incorporated by reference from Exhibit 10.3 to the Form 10-K for the year ended December 31, 1999).
10.4	Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.4 to Form 10-K for 2002 filed March 31, 2003).**
10.5	Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to Form 10-K for 2002 filed March 31, 2003).**
10.6	Directors' Deferred Compensation Plan, as amended and restated through April 12, 1999 (incorporated by reference from Exhibit 10.6 to the 1999 Form 10-K).**
10.7	Directors' Charitable Award Program (incorporated by reference from Exhibit 10(h) to the 1993 Form 10-K).**
10.8	Deferred Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.8 to Form 10-K for 2002 filed March 31, 2003).**
11	Computations of Earnings per Share (incorporated by reference from Note 16 on page A-21 of the Appendix).
12	Computation of Ratios of Earnings to Fixed Charges.
13	Annual Report to Security Holders attached as an Appendix to the company's 2004 Annual Meeting Proxy Statement.
14	Caterpillar Code of Worldwide Business Conduct.
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Auditors.
31.1	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of F. Lynn McPheeters, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and F. Lynn McPheeters, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Form 11-K for Caterpillar Foreign Service Employees' Stock Purchase Plan.

** Compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of this Form 10-K.

Form 10-K
SIGNATURES

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

CATERPILLAR INC.
(Registrant)

March 9, 2004 By: /s/ James B. Buda
James B. Buda, *Secretary*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the company and in the capacities and on the dates indicated.

March 9, 2004	/s/ James W. Owens (James W. Owens)	Chairman of the Board, Director and Chief Executive Officer
March 9, 2004	/s/ Douglas R. Oberhelman (Douglas R. Oberhelman)	Group President
March 9, 2004	/s/ Gerald L. Shaheen (Gerald L. Shaheen)	Group President
March 9, 2004	/s/ Richard L. Thompson (Richard L. Thompson)	Group President
March 9, 2004	/s/ Gerard R. Vittecoq (Gerard R. Vittecoq)	Group President
March 9, 2004	/s/ Steven H. Wunning (Steven H. Wunning)	Group President
March 9, 2004	/s/ F. Lynn McPheeters (F. Lynn McPheeters)	Vice President and Chief Financial Officer
March 9, 2004	/s/ David B. Burritt (David B. Burritt)	Controller and Chief Accounting Officer

March 9, 2004	/s/ W. Frank Blount (W. Frank Blount)	Director
March 9, 2004	/s/ John R. Brazil (John R. Brazil)	Director
March 9, 2004	/s/ John T. Dillon (John T. Dillon)	Director
March 9, 2004	/s/ Eugene V. Fife (Eugene V. Fife)	Director
March 9, 2004	/s/ Gail D. Fosler (Gail D. Fosler)	Director
March 9, 2004	/s/ Juan Gallardo (Juan Gallardo)	Director
March 9, 2004	/s/ David R. Goode (David R. Goode)	Director
March 9, 2004	/s/ Peter A. Magowan (Peter A. Magowan)	Director
March 9, 2004	/s/ William A. Osborn (William A. Osborn)	Director
March 9, 2004	/s/ Gordon R. Parker (Gordon R. Parker)	Director
March 9, 2004	/s/ Charles D. Powell (Charles D. Powell)	Director
March 9, 2004	/s/ Edward B. Rust, Jr. (Edward B. Rust, Jr.)	Director
March 9, 2004	/s/ Joshua I. Smith (Joshua I. Smith)	Director

CATERPILLAR INC.

BYLAWS

(as amended and restated as of December 10, 2003)

Article I

Offices

Section 1. Registered Office.

The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Other Offices.

The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

Article II

Stockholders

Section 1. Stockholder Meetings.

(a) Place of Meetings. Meetings of stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the board of directors.

(b) Annual Meeting.

(i) The annual meeting of stockholders shall be held on the second Wednesday in April in each year at a time designated by the board of directors, or at such a time and date as may be designated by the board.

(ii) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 45 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 60 days' notice of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the fifteenth (15th) day following the date on which such notice of the date of the annual meeting was mailed. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in the bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 1(b)(ii). The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 1, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(c) Special Meetings. Special meetings of the stockholders of this corporation for any purpose or purposes may be called at any time by the chairman of the board or the vice chairman, or by the board of directors pursuant to a resolution approved by a majority of the entire board of directors, but such special meetings may not be called by any other person or persons.

(d) Notice of Meetings. Notice of every meeting of the stockholders shall be given in the manner prescribed by law.

(e) Quorum. Except as otherwise required by law, the certificate of incorporation and these bylaws, the holders of not less than one-third of the shares entitled to vote at any meeting of the stockholders, present in person or by proxy, shall constitute a quorum and the act of the majority of such quorum shall be deemed the act of the stockholders. If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, date or time. If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then, except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum and all matters shall be determined by a majority of votes cast at such meeting.

Section 2. Determination of Stockholders Entitled to Vote.

To determine the stockholders entitled to notice of any meeting or to vote, the board of directors may fix in advance a record date as provided in Article VI, Section 1 hereof, or if no record date is fixed by the board a record date shall be determined as provided by law.

Section 3. Voting.

(a) Subject to the provisions of applicable law, and except as otherwise provided in the certificate of incorporation, each stockholder present in person or by proxy shall be entitled to one vote for each full share of stock registered in the name of such stockholder at the time fixed by the board of directors or by law as the record date of the determination of stockholders entitled to vote at a meeting.

(b) Every stockholder entitled to vote may do so in person or by one or more agents authorized by proxy. Such authorization may be in writing or by transmission of an electronic communication, as permitted by law and in accordance with procedures established for the meeting.

(c) Voting may be by voice or by ballot as the chairman of the meeting shall determine.

(d) In advance of any meeting of stockholders the board of directors may appoint one or more persons (who shall not be candidates for office) as inspectors of election to act at the meeting. If inspectors are not so appointed, or if an appointed inspector fails to appear or fails or refuses to act at a meeting, the chairman of any meeting of stockholders may, and on the request of any stockholder or his proxy shall, appoint inspectors of election at the meeting.

(e) Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

Article III

Board of Directors

Section 1. Election of Directors.

(a) Number. The authorized number of directors of the corporation shall be fixed from time to time by the board of directors but shall not be less than three (3). The exact number of directors shall be determined from time to time either by a resolution or bylaw duly adopted by the board of directors.

(b) Classes of Directors. The board of directors shall be and is divided into three classes: Class I, Class II and Class III, which shall be as nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting of stockholders following the annual meeting at which the director was elected; provided, however, that each initial director in Class I shall hold office until the annual meeting of stockholders in 1987; each initial director in Class II shall hold office until the annual meeting of stockholders in 1988; and each initial director in Class III shall hold office until the annual meeting of stockholders in 1989. Notwithstanding the foregoing provisions of this subsection (b), each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal.

(c) Newly Created Directorships and Vacancies. In the event of any increase or decrease in the authorized number of directors, the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the board of directors among the three classes of directors so as to maintain such classes as nearly equal in number as possible. No decrease in the number of directors constituting the board of directors shall shorten the term of any incumbent director. Newly created directorships resulting from any increase in the number of directors and any vacancies on the board of directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office (and not by stockholders), even though less than a quorum of the board of directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

(d) Nomination of Directors. Candidates for director shall be nominated either

(i) by the board of directors or a committee appointed by the board of directors or

(ii) by nomination at any such stockholders' meeting by or on behalf of any stockholder entitled to vote at such meeting provided that written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (1) with respect to an election to be held at an annual meeting of stockholders, ninety (90) days in advance of such meeting, and (2) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the board of directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(e) Removal. Any director may be removed from office without cause but only by the affirmative vote of the holders of not less than seventy-five percent (75%) of the outstanding stock of the corporation entitled to vote generally in the election of directors, voting together as a single class.

(f) Preferred Stock Provisions. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of stock issued by this corporation having a preference over the common stock as to dividends or upon liquidation, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, nominations, terms of removal and other features of such directorships shall be governed by the terms of Article FOURTH of the certificate of incorporation and the resolution or resolutions establishing such class or series adopted pursuant thereto and such directors so elected shall not be divided into classes pursuant to Article SIXTH of the certificate of incorporation unless expressly provided by such terms.

Section 2. Meetings of the Board of Directors.

(a) Regular Meetings. Regular meetings of the board of directors shall be held without call at the following times:

(i) 8:30 a.m. on the second Wednesday in February, April, June, August, October and December;

(ii) one-half hour prior to any special meeting of the stockholders, and immediately following the adjournment of any annual or special meeting of the stockholders.

Notice of all such regular meetings is hereby dispensed with.

(b) Special Meetings. Special meetings of the board of directors may be called by the chairman of the board, any two (2) directors or by any officer authorized by the board. Notice of the time and place of special meetings shall be given by the secretary or an assistant secretary, or by any other officer authorized by the board. Such notice shall be given to each director personally or by mail, messenger, telephone or telegraph at his business or residence address. Notice by mail shall be deposited in the United States mail, postage prepaid, not later than the third (3rd) day prior to the date fixed for the meeting. Notice by telephone or telegraph shall be sent, and notice given personally or by messenger shall be delivered, at least twenty-four (24) hours prior to the time set for the meeting. Notice of a special meeting need not contain a statement of the purpose of the meeting.

(c) Adjourned Meetings. A majority of directors present at any regular or special meeting of the board of directors, whether or not constituting a quorum, may adjourn from time to time until the time fixed for the next regular meeting. Notice of the time and place of holding an adjourned meeting shall not be required if the time and place are fixed at the meeting adjourned.

(d) Place of Meetings. Unless a resolution of the board of directors, or the written consent of all directors given either before or after the meeting and filed with the secretary, designates a different place within or without the State of Delaware, meetings of the board of directors, both regular and special, shall be held at the corporation's offices at 100 N.E. Adams Street, Peoria, Illinois.

(e) Participation by Telephone. Members of the board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another, and such participation shall constitute presence in person at such meeting.

(f) Quorum. At all meetings of the board one-third of the total number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action is approved by at least a majority of the required quorum for such meeting. Less than a quorum may adjourn any meeting of the board from time to time without notice.

Section 3. Action Without Meeting.

Any action required or permitted to be taken by the board of directors may be taken without a meeting if all members of the board consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the board.

Section 4. Compensation of Directors.

The directors may be paid such compensation for their services as the board shall from time to time determine. Directors who receive salaries as officers or employees of the corporation shall not receive additional compensation for their services as directors.

Section 5. Committees of the Board.

There shall be such committees of the board of directors each consisting of two or more directors with such authority, subject to applicable law, as a majority of the board shall by resolution determine. Committees of the board shall meet subject to the call of the chairman of each committee and shall prepare and file with the secretary minutes of their meetings. Unless a committee shall by resolution establish a different procedure, notice of the time and place of committee meetings shall be given by the chairman of the committee, or at his request by the chairman of the board or by the secretary or an assistant secretary. Such notice shall be given to each committee member personally or by mail, messenger, telephone or telegraph at his business or residence address at the times provided in subsection (b) of Section 2 of this Article for notice of special meetings of the board of directors. One-third of a committee but not less than two members shall constitute a quorum for the transaction of business. Except as a committee by resolution may determine otherwise, the provisions of Section 3 and of subsections (c), (d) and (e) of Section 2 of this Article shall apply, mutatis mutandis, to meetings of board committees.

Article IV

Officers

Section 1. Officers.

The officers of the corporation shall be a chairman of the board, who shall be the chief executive officer, a vice chairman, one or more group presidents, one or more vice presidents (one of whom shall be designated the chief financial officer), a secretary and a treasurer, together with such other officers as the board of directors shall determine. Any two or more offices may be held by the same person.

Section 2. Election and Tenure of Officers.

Officers shall be elected by the board of directors, shall hold office at the pleasure of the board, and shall be subject to removal at any time by the board. Vacancies in office may be filled by the board.

Section 3. Powers and Duties of Officers.

Each officer shall have such powers and duties as may be prescribed by the board of directors or by an officer authorized so to do by the board.

Section 4. Compensation of Officers.

The compensation of officers shall be determined by the board of directors; provided that the board may delegate authority to determine the compensation of any assistant secretary or assistant treasurer, with power to redelegate.

Article V

Indemnification

The corporation shall indemnify to the full extent permitted by, and in the manner permissible under, the laws of the State of Delaware any person made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director or officer of the corporation or any predecessor of the corporation, or served any other enterprise as a director or officer at the request of the corporation or any predecessor of the corporation.

The foregoing provisions of this Article V shall be deemed to be a contract between the corporation and each director and officer who serves in such capacity at any time while this bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

The foregoing rights of indemnification shall not be deemed exclusive of any other rights to which any director or officer may be entitled apart from the provisions of this Article.

The board of directors in its discretion shall have power on behalf of the corporation to indemnify any person, other than a director or officer, made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was an employee of the corporation.

Article VI

Miscellaneous

Section 1. Record Date.

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days prior to the date of such meeting nor more than sixty (60) days prior to any other action. If not fixed by the board, the record date shall be determined as provided by law.

(b) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board fixes a new record date for the adjourned meeting.

(c) Stockholders on the record date are entitled to notice and to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided by agreement or by applicable law.

Section 2. Stock Certificates.

(a) Every holder of shares in the corporation shall be entitled to have a certificate signed in the name of the corporation by the chairman of the board or the vice chairman or a vice president and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

(b) The corporation may issue a new share certificate or a new certificate for any other security in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate or the owner's legal representative to give the corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 3. Corporate Seal.

The corporation shall have a corporate seal in such form as shall be prescribed and adopted by the board of directors.

Section 4. Construction and Definitions.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws.

Section 5. Amendments.

Subject to the provisions of the certificate of incorporation, these bylaws may be altered, amended or repealed at any regular meeting of the stockholders (or at any special meeting thereof duly called for that purpose) by a majority vote of the shares represented and entitled to vote at the meeting; provided that in the notice of such special meeting notice of such purpose shall be given. Subject to the laws of the State of Delaware, the certificate of incorporation and these bylaws, the board of directors may by majority vote of those present at any meeting at which a quorum is present amend these bylaws, or enact such other bylaws as in their judgment may be advisable for the regulation of the conduct of the affairs of the corporation.

EXHIBIT 12

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

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES (Millions of dollars)

YEARS ENDED DECEMBER 31,

	2003	2002	2001	2000	1999
Profit	$ 1,099	$ 798	$ 805	$ 1,053	$ 946
Add:					
Provision for income taxes	384	314	359	439	448
Profit before taxes	1,483	1,112	1,164	1,492	1,394
Fixed charges:					
Interest and other costs related to borrowed funds[1]	720	805	948	988	835
Rentals at computed interest factors[2]	82	81	86	90	83
Total fixed charges:	802	886	1,034	1,078	918
Profit before provision for income taxes and fixed charges	$ 2,285	$ 1,998	$ 2,198	$ 2,570	$ 2,312
Ratio of profit to fixed charges	2.9	2.3	2.1	2.4	2.5

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

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

APPENDIX

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2003

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REPORT OF MANAGEMENT

The management of Caterpillar Inc. has prepared the accompanying financial statements for the years ended December 31, 2003, 2002 and 2001, and is responsible for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles, applying certain estimates and judgments as required.

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

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

The financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors, in accordance with auditing standards generally accepted in the United States of America. They have made similar annual audits since the initial incorporation of our company. Their role is to render an 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 six 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 auditors to review the activities of each and satisfy itself that each is properly discharging its responsibilities. Both the independent auditors and the internal auditors have free access to the Audit Committee and meet with it periodically, with and without management representatives in attendance, to discuss, among other things, their opinions as to the adequacy of internal controls and to review the quality of financial reporting.

Glen Barton

Chairman of the Board

F. L. McPheeters

Chief Financial Officer

January 27, 2004

REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying statements of consolidated financial position and the related statements of consolidated results of operations, changes in consolidated stockholders' equity and consolidated cash flow present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2003, 2002 and 2001, and the results of their operations and their cash flow for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP

Peoria, Illinois

January 27, 2004

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

	2003	2002	2001
Sales and revenues:			
Sales of Machinery and Engines	**$21,048**	$18,648	$19,027
Revenues of Financial Products	**1,715**	1,504	1,423
Total sales and revenues	**22,763**	20,152	20,450
Operating costs:			
Cost of goods sold	**16,945**	15,146	15,179
Selling, general and administrative expenses	**2,470**	2,094	2,140
Research and development expenses	**669**	656	696
Interest expense of Financial Products	**470**	521	657
Other operating expenses	**521**	411	467
Total operating costs	**21,075**	18,828	19,139
Operating profit	**1,688**	1,324	1,311
Interest expense excluding Financial Products	**246**	279	285
Other income (expense)	**35**	69	143
Consolidated profit before taxes	**1,477**	1,114	1,169
Provision for income taxes	**398**	312	367
Profit of consolidated companies	**1,079**	802	802
Equity in profit (loss) of unconsolidated affiliated companies	**20**	(4)	3
Profit	**$ 1,099**	$ 798	$ 805
Profit per common share	**$ 3.18**	$ 2.32	$ 2.35
Profit per common share — diluted[1]	**$ 3.13**	$ 2.30	$ 2.32
Weighted-average common shares (millions)	**345.2**	344.0	343.3
Weighted-average common shares — diluted (millions)[1]	**351.4**	346.9	347.1
Cash dividends declared per common share	**$ 1.420**	$ 1.400	$ 1.390

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

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 2 Caterpillar Inc.

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

(Dollars in millions)

	2003		2002		2001	
Common stock:						
Balance at beginning of year	**$ 1,034**		$ 1,043		$ 1,048	
Shares issued from treasury stock	**25**		(9)		(5)	
Balance at year-end	**1,059**		1,034		1,043	
Treasury stock:						
Balance at beginning of year	**$(2,669)**		$(2,696)		$(2,676)	
Shares issued: 2003 — 4,956,973; 2002 — 878,623; 2001 — 916,634	**160**		27		23	
Treasury shares purchased: 2003 — 5,450,000; 2001 — 937,000	**(405)**		—		(43)	
Balance at year-end	**(2,914)**		(2,669)		(2,696)	
Profit employed in the business:						
Balance at beginning of year	**7,849**		7,533		7,205	
Profit	**1,099**	**$1,099**	798	$ 798	805	$ 805
Dividends declared	**(498)**		(482)		(477)	
Balance at year-end	**8,450**		7,849		7,533	
Accumulated other comprehensive income:						
Foreign currency translation adjustment:						
Balance at beginning of year	**86**		(17)		55	
Aggregate adjustment for year	**262**	**262**	103	103	(72)	(72)
Balance at year-end	**348**		86		(17)	
Minimum pension liability adjustment — consolidated companies:						
Balance at beginning of year (net of tax of: 2003 — $383; 2002 — $82; 2001 — $1)	**(771)**		(161)		(1)	
Aggregate adjustment for year (net of tax of: 2003 — $77; 2002 — $301; 2001 — $81)	**(163)**	**(163)**	(610)	(610)	(160)	(160)
Balance at year-end (net of tax of: 2003 — $460; 2002 — $383; 2001 — $82)	**(934)**		(771)		(161)	
Minimum pension liability adjustment — unconsolidated affiliates:						
Balance at beginning of year	**(37)**		(41)		(31)	
Aggregate adjustment for year	**(11)**	**(11)**	4	4	(10)	(10)
Balance at year-end	**(48)**		(37)		(41)	
Derivative financial instruments:						
Balance at beginning of year (net of tax of: 2003 — $5; 2002 — $17)	**11**		(26)		—	
Gains/(losses) deferred during year (net of tax of: 2003 — $29; 2002 — $10; 2001 — $24)	**53**	**53**	15	15	(39)	(39)
(Gains)/losses reclassified to earnings during year (net of tax of: 2003 — $20; 2002 — $11; 2001 — $7)	**40**	**40**	22	22	13	13
Balance at year-end (net of tax of: 2003 — $54; 2002 — $4; 2001 — $17)	**104**		11		(26)	
Available-for-sale securities:						
Balance at beginning of year (net of tax of: 2003 — $17; 2002 — $13)	**(31)**		(24)		—	
Gains/(losses) deferred during year (net of tax of: 2003 — $12; 2002 — $16; 2001 — $14)	**23**	**23**	(29)	(29)	(26)	(26)
(Gains)/losses reclassified to earnings during year (net of tax of: 2003 — $11; 2002 — $12; 2001 — $1)	**21**	**21**	22	22	2	2
Balance at year-end (net of tax of: 2003 — $7; 2002 — $17; 2001 — $13)	**13**		(31)		(24)	
Total accumulated other comprehensive income	**(517)**		(742)		(269)	
Comprehensive income		**$1,324**		$ 325		$ 513
Stockholders' equity at year-end	**$ 6,078**		$ 5,472		$ 5,611	

See accompanying Notes to Consolidated Financial Statements.

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

	2003	2002	2001
Assets			
Current assets:			
Cash and short-term investments	**$ 342**	$ 309	$ 400
Receivables — trade and other	**3,666**	2,838	2,592
Receivables — finance	**7,605**	6,748	5,849
Deferred and refundable income taxes	**707**	781	434
Prepaid expenses	**1,424**	1,224	1,139
Inventories	**3,047**	2,763	2,925
Total current assets	**16,791**	14,663	13,339
Property, plant and equipment — net	**7,290**	7,046	6,603
Long-term receivables — trade and other	**82**	66	55
Long-term receivables — finance	**7,822**	6,714	6,267
Investments in unconsolidated affiliated companies	**800**	747	787
Deferred income taxes	**616**	711	927
Intangible assets	**239**	281	274
Goodwill	**1,398**	1,402	1,397
Other assets	**1,427**	1,117	936
Total assets	**$36,465**	$32,747	$30,585
Liabilities			
Current liabilities:			
Short-term borrowings:			
— Machinery and Engines	**$ 72**	$ 64	$ 219
— Financial Products	**2,685**	2,111	1,961
Accounts payable	**3,100**	2,269	2,123
Accrued expenses	**1,638**	1,620	1,419
Accrued wages, salaries and employee benefits	**1,802**	1,779	1,403
Dividends payable	**127**	120	120
Deferred and current income taxes payable	**216**	70	11
Long-term debt due within one year:			
— Machinery and Engines	**32**	258	73
— Financial Products	**2,949**	3,654	3,058
Total current liabilities	**12,621**	11,945	10,387
Long-term debt due after one year:			
— Machinery and Engines	**3,367**	3,403	3,492
— Financial Products	**10,711**	8,193	7,799
Liability for postemployment benefits	**3,172**	3,333	2,920
Deferred income taxes and other liabilities	**516**	401	376
Total liabilities	**30,387**	27,275	24,974
Contingencies (Note 21)			
Stockholders' equity			
Common stock of $1.00 par value:			
Authorized shares: 900,000,000			
Issued shares (2003, 2002 and 2001 — 407,447,312) at paid-in amount	**1,059**	1,034	1,043
Treasury stock (2003 — 63,685,272 shares; 2002 — 63,192,245 shares; and 2001 — 64,070,868 shares) at cost	**(2,914)**	(2,669)	(2,696)
Profit employed in the business	**8,450**	7,849	7,533
Accumulated other comprehensive income	**(517)**	(742)	(269)
Total stockholders' equity	**6,078**	5,472	5,611
Total liabilities and stockholders' equity	**$36,465**	$32,747	$30,585

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	2003	2002	2001
Cash flow from operating activities:			
Profit	**$ 1,099**	$ 798	$ 805
Adjustments for non-cash items:			
Depreciation and amortization	**1,347**	1,220	1,169
Other charges	**—**	—	153
Other	**(15)**	363	245
Changes in assets and liabilities:			
Receivables — trade and other	**(521)**	(50)	99
Inventories	**(286)**	162	(211)
Accounts payable and accrued expenses	**617**	164	(160)
Other — net	**(175)**	(291)	(113)
Net cash provided by operating activities	**2,066**	2,366	1,987
Cash flow from investing activities:			
Capital expenditures — excluding equipment leased to others	**(682)**	(728)	(1,100)
Expenditures for equipment leased to others	**(1,083)**	(1,045)	(868)
Proceeds from disposals of property, plant and equipment	**761**	561	356
Additions to finance receivables	**(17,146)**	(15,338)	(16,284)
Collections of finance receivables	**13,882**	11,866	12,367
Proceeds from sale of finance receivables	**1,760**	2,310	3,079
Investments and acquisitions	**(36)**	(294)	(405)
Other — net	**(17)**	(40)	(72)
Net cash used for investing activities	**(2,561)**	(2,708)	(2,927)
Cash flow from financing activities:			
Dividends paid	**(491)**	(481)	(474)
Common stock issued, including treasury shares reissued	**157**	10	6
Treasury shares purchased	**(405)**	—	(43)
Proceeds from long-term debt issued:			
— Machinery and Engines	**128**	248	681
— Financial Products	**5,274**	3,889	3,381
Payments on long-term debt:			
— Machinery and Engines	**(463)**	(225)	(354)
— Financial Products	**(3,774)**	(3,114)	(2,599)
Short-term borrowings — net	**87**	(102)	420
Net cash provided by financing activities	**513**	225	1,018
Effect of exchange rate changes on cash	**15**	26	(12)
Increase (decrease) in cash and short-term investments	**33**	(91)	66
Cash and short-term investments at beginning of period	**309**	400	334
Cash and short-term investments at end of period	**$ 342**	$ 309	$ 400

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

See accompanying Notes to Consolidated Financial Statements.

1. Operations and summary of significant accounting policies

A. Nature of operations

We operate in three principal lines of business:

(1) **Machinery** — A principal line of business which includes the design, manufacture and marketing of construction, mining, agricultural and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts. Also includes logistics services for other companies.

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

(3) **Financial Products** — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries. Cat Financial provides a wide range of financing alternatives for Caterpillar machinery and engines, Solar gas turbines, as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

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

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

Machines are distributed principally through a worldwide organization of dealers (dealer network), 56 located in the United States and 151 located outside the United States. Worldwide, these dealers serve 178 countries and operate 3,263 places of business, including 1,391 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 166 distributors located in 148 countries. Most of the electric power generation systems manufactured by FG Wilson are sold through a worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the 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 44 plants in the United States; 10 in the United Kingdom; eight in Italy; five in Mexico; four in China; three each in France, India and Northern Ireland; two each in Australia, Canada, Germany, Brazil and Japan; and one each in Belgium, Hungary, Indonesia, The Netherlands, Poland, Russia, South Africa and Sweden. Fourteen parts distribution centers are located in the United States and 12 are located outside the United States.

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

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% or are less than 20% owned and for which we have significant influence are accounted for by the equity method (see Note 8 on page A-15). We consolidate all variable interest entities where Caterpillar Inc. is the primary beneficiary.

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation. In the second quarter of 2003, we revised our policy regarding the classification of certain costs related to distributing replacement parts. Previously, these costs were included in selling, general and administrative expenses and now are included in cost of goods sold. This classification is more consistent with industry practice. The parts distribution costs include shipping and handling (including warehousing) along with related support costs such as information technology, purchasing and inventory management. Prior period amounts have been revised to conform to the new classification. In 2002 and 2001, the amounts reclassified from selling, general and administrative expenses to cost of goods sold were $437 million and $427 million, respectively. This amount was $443 million for 2003. The reclassification had no impact on operating profit.

C. Sales and revenue recognition

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

Our standard invoice terms are established by marketing region. The dealer is responsible for payment even if the product is not sold to an end customer and must make payment within the standard terms to avoid interest costs. Interest at or above prevailing market rates is charged on any past due balance. Interest is not forgiven. In 2003, 2002 and 2001, terms were extended to not more than one year for $54 million, $193 million and $224 million of receivables, respectively. For 2003, this amount represents less than 1% of consolidated sales. For 2002 and 2001, these amounts represent approximately 1% of consolidated sales.

Sales with payment terms of two months or more were as follows:

(Dollars in millions)	**2003**		2002		2001	
Payment Terms (months)	Sales	Percent of Sales	Sales	Percent of Sales	Sales	Percent of Sales
2	**$ 116**	**0.6%**	$ 62	0.3%	$ 28	0.2%
3	**27**	**0.1%**	118	0.6%	177	0.9%
4	**28**	**0.1%**	11	0.1%	6	0.0%
5	**594**	**2.8%**	447	2.4%	422	2.2%
6	**4,104**	**19.5%**	3,503	18.8%	4,056	21.3%
7-12	**671**	**3.2%**	465	2.5%	218	1.2%
	$5,540	**26.3%**	$ 4,606	24.7%	$ 4,907	25.8%

Revenues of Financial Products represent primarily finance and lease revenues of Cat Financial. Finance revenues are recognized over the term of the contract at a constant rate of return on the scheduled uncollected principal balance. Lease revenues are recognized in the period earned. Recognition of income is suspended when collection of future income is not probable. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed.

D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 80% of total inventories at December 31, 2003, 2002 and 2001.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $1,863 million, $1,977 million and $1,923 million higher than reported at December 31, 2003, 2002 and 2001, respectively.

E. Securitized receivables

When finance receivables are securitized, we retain interest in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. Gains or losses on the securitization are dependent on the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based on their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds, forward yield curves and discount rates (see Note 5 on pages A-13 to A-15).

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Depreciation on equipment leased to others, primarily for Financial Products, is computed using the straight-line method over the term of the lease. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term. In 2003, 2002 and 2001, Financial Products depreciation on equipment leased to others was $527 million, $415 million and $314 million, respectively, and was included in "Other operating expenses" in Statement 1. Amortization of purchased intangibles is computed using the straight-line method, generally over a period of 15 years or less. Accumulated amortization was $44 million, $47 million and $32 million at December 31, 2003, 2002 and 2001, respectively.

G. Foreign currency translation

The functional currency for most of our Machinery and Engines consolidated companies is the U.S. dollar. The functional currency for most of our Financial Products and equity basis companies is the respective local currency. Gains and losses resulting from the translation of foreign currency amounts to the functional currency are included in "Other income (expense)" in Statement 1. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in "Accumulated other comprehensive income."

H. Derivative financial instruments

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

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

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

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133). Please refer to Note 2 on pages A-11 to A-12 for more information on derivatives.

I. Impairment of available-for-sale securities

Available-for-sale securities are reviewed monthly to identify market values below cost of 20% or more. If a decline for a debt security is in excess of 20% for six months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities (SFAS 115)." After the six-month period, debt securities with declines from cost in excess of 20% are evaluated monthly for impairment. For equity securities, if a decline from cost of 20% or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

J. Income taxes

The provision for income taxes is determined using the asset and liability approach for accounting for income taxes. Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

K. Estimates in financial statements

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

L. Accounting changes

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

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by FIN 45, on January 1, 2003, we adopted the initial recognition and measurement provisions on a prospective basis for guarantees issued or modified after December 31, 2002. The adoption of the recognition/measurement provisions did not have any impact on our financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51." FIN 46 addresses consolidation by business enterprises of variable interest entities that have certain characteristics. Transferors to qualifying special-purpose entities and "grandfathered" qualifying special-purpose entities subject to the reporting requirements of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," are excluded from the scope of FIN 46. FIN 46 is applicable immediately to variable interest entities created or obtained after January 31, 2003 (none created or obtained in 2003). For variable interest entities, which we acquired before February 1, 2003, FIN 46 is applicable to us as of December 31, 2003. In December 2003, the FASB issued Interpretation No. 46 — revised 2003 (FIN 46R). We adopted FIN 46 and FIN 46R during 2003. The adoption of these interpretations did not have a material impact on our financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" to provide clarification on the financial accounting and reporting for derivative instruments and hedging activities and requires similar accounting treatment for contracts with comparable characteristics. The adoption of SFAS 149, effective primarily for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003, had no impact on our financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 addresses financial accounting and reporting for certain financial instruments with characteristics of both liabilities and equity. This statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. As required by SFAS 150, we adopted this new accounting standard effective July 1, 2003. The adoption of SFAS 150 did not have any impact on our financial statements.

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (revised 2003) "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132 (revised 2003) retains the disclosure requirements of SFAS 132, which it replaces, and addresses the need for additional annual disclosures related to a company's pensions and other postretirement benefits. SFAS 132 (revised 2003) does not change the measurement or recognition criteria of SFAS 87, "Employers' Accounting for Pensions," SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," or SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 132 (revised 2003) requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations and cash flows related to a company's pensions and other postretirement benefits. It also requires disclosure of the components of net periodic benefit cost recognized in interim periods and, if significantly different from previously disclosed amounts, the projected contributions to fund pension and other postretirement benefit plans. We adopted the disclosure requirements of SFAS 132 (revised 2003) in December 2003.

M. Stock based compensation

We use the intrinsic value method of accounting for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation expense is recognized in association with our options. We adopted the disclosure requirements of SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," in December 2002.

Pro forma net income and earnings per share were:

(Dollars in millions except per share data)	Years ended December 31, 2003	2002	2001
Net income, as reported	**$1,099**	$ 798	$ 805
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(69)**	(65)	(57)
Pro forma net income	**$1,030**	$ 733	$ 748
Profit per share of common stock:			
As reported:			
Basic	**$ 3.18**	$ 2.32	$ 2.35
Assuming dilution	**$ 3.13**	$ 2.30	$ 2.32
Pro forma:			
Basic	**$ 2.98**	$ 2.13	$ 2.18
Assuming dilution	**$ 2.93**	$ 2.13	$ 2.17

2. Derivative financial instruments and risk management

A. Adoption of SFAS 133

We adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and Financial Accounting Standards No. 138 effective January 1, 2001. Adoption of these new accounting standards resulted in cumulative after-tax reductions to profit and accumulated other comprehensive income of $2 million and $12 million, respectively, in the first quarter of 2001. The adoption also immaterially impacted both assets and liabilities recorded on the balance sheet. During 2002 and 2001, we reclassified $1 million and $5 million of the transition adjustment from accumulated other comprehensive income to current earnings, respectively.

B. Foreign currency exchange rate risk

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

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

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso or Singapore dollar forward or option contracts that exceed 90 days in duration. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts are undesignated.

As of December 31, 2003, $70 million of deferred net gains included in equity ("Accumulated other comprehensive income" in Statement 3), related to Machinery and Engines foreign currency contracts, is expected to be reclassified to current earnings ["Other income (expense)"] over the next twelve months. There were no circumstances where hedge treatment was discontinued during 2003, 2002 or 2001.

In managing foreign currency risk for our Financial Products operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our policy allows the use of foreign currency forward contracts to offset the risk of currency mismatch between our receivable and debt portfolio. All such foreign currency forward contracts are undesignated.

Gains/(losses) included in current earnings [Other income (expense)]:

(Millions of dollars)	2003	2002	2001
Machinery and Engines:			
On undesignated contracts	**$ (1)**	$ —	$ (2)
Due to changes in time and volatility value on options	**—**	$ (1)	$ —
Financial Products:			
On undesignated contracts	**$ (121)**	$ (96)	$ 43
	$ (122)	$ (97)	$ 41

Gains and losses on the Financial Products contracts above are substantially offset by balance sheet remeasurement and conversion gains and losses.

C. Interest rate risk

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

Machinery and Engines operations generally use fixed rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. During 2001, our Machinery and Engines operations liquidated all fixed-to-floating interest rate swaps. Deferred gains on liquidated fixed-to-floating interest rate swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt. We designate as cash flow hedges at inception of the contract all forward rate agreements. Designation as a hedge of the anticipated issuance of debt is performed to support hedge accounting. Machinery and Engines forward rate agreements are 100% effective.

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

Our policy allows us to issue floating-to-fixed, fixed-to-floating and floating-to-floating interest rate swaps to meet the "match funding" objective. We designate as fair value hedges, at inception of the contract, all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. As Financial Products fixed-to-floating interest rate swaps are 100% effective, gains on designated interest rate derivatives were offset completely by losses on hedged debt. Financial Products policy is to designate as cash flow hedges, at inception of the contract, most floating-to-fixed interest rate swaps. Designation as a hedge of the variability of cash flow is performed to support hedge accounting. During the second quarter of 2002, Financial Products liquidated four fixed-to-floating interest rate swaps. Deferred gains on these swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt.

Gains (losses) included in current earnings [Other income (expense)]:

(Millions of dollars)	**2003**	2002	2001
Fixed-to-floating interest rate swaps			
Machinery and Engines:			
Gain/(loss) on designated interest rate derivatives	**$ —**	$ —	$ 23
Gain/(loss) on hedged debt	**—**	—	(18)
Gain/(loss) on liquidated swaps	**6**	8	6
Financial Products:			
Gain/(loss) on designated interest rate derivatives	**(20)**	17	44
Gain/(loss) on hedged debt	**20**	(17)	(44)
Gain/(loss) on liquidated swaps — included in interest expense	**2**	1	—
Floating-to-fixed interest rate swaps			
Financial Products:			
Gain/(loss) due to ineffectiveness	**$ —**	$ —	$ (1)
	$ 8	$ 9	$ 10

As of December 31, 2003, $16 million of deferred net losses included in equity ("Accumulated other comprehensive income" in Statement 3), related to Financial Products floating-to-fixed interest rate swaps, is expected to be reclassified to current earnings ("Interest expense of Financial Products") over the next twelve months. There were no circumstances where hedge treatment was discontinued during 2003, 2002 or 2001 in either Machinery and Engines or Financial Products.

D. Commodity price risk

Commodity price movements create a degree of risk by affecting the price we must pay for certain raw material. Our policy is to use commodity forward and option contracts to manage the commodity risk and reduce the cost of purchased materials.

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

Our objective is to reduce the cost of purchased materials. Our policy allows us to enter commodity forward and option contracts to lock in the purchase price of the commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. Gains/(losses) on the undesignated contracts of $27 million, $1 million and $(8) million were recorded in current earnings ["Other income (expense)"] for 2003, 2002 and 2001, respectively.

3. Other income (expense)

(Millions of dollars)	Years ended December 31, **2003**	2002	2001
Investment and interest income	**$ 49**	$ 31	$ 96
Foreign exchange (losses) gains	**35**	13	(29)
Charge for early retirement of debt	**(55)**	—	—
Miscellaneous income	**6**	25	76
	$ 35	$ 69	$ 143

4. Income taxes

The components of profit before taxes were:

(Millions of dollars)	Years ended December 31, **2003**	2002	2001
U.S.	**$ 489**	$ 343	$ 741
Non-U.S.	**988**	771	428
	$1,477	$1,114	$1,169

Profit before taxes, as shown above, is based on the location of the entity to which such earnings are attributable. However, since such earnings are subject to taxation in more than one country, the income tax provision shown below as U.S. or non-U.S. may not correspond to the earnings shown above.

The components of the provision for income taxes were:

(Millions of dollars)	Years ended December 31, **2003**	2002	2001
Current tax provision:			
U.S. Federal	**$ 24**	$ (62)	$ 150
Non-U.S.	**196**	210	174
State (U.S.)	**10**	1	11
	$ 230	$ 149	$ 335
Deferred tax provision (credit):			
U.S. Federal	**182**	172	65
Non-U.S.	**(21)**	(20)	(34)
State (U.S.)	**7**	11	1
	168	163	32
Total provision for income taxes	**$ 398**	$ 312	$ 367

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

	Years ended December 31, **2003**	2002	2001
U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Benefit of foreign sales corporation/ extraterritorial income exclusion	**(4.9)%**	(4.4)%	(4.9)%
Non-U.S. subsidiaries taxed at other than 35%	**(4.0)%**	(3.4)%	(0.1)%
Other — net	**0.9 %**	0.8 %	1.4 %
Provision for income taxes	**27.0 %**	28.0 %	31.4 %

We paid income taxes of $55 million, $124 million and $379 million in 2003, 2002 and 2001, 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.

Certain subsidiaries operating in China qualify for holidays from income tax, which consist of a two-year full exemption from tax followed by a three-year 50% reduction in the applicable tax rate. The tax holiday begins the first year the subsidiary generates taxable income after utilization of any carryforward losses. The dollar effect in 2003 was $10 million or $.03 per share.

Deferred income tax assets and liabilities:

(Millions of dollars)	December 31, 2003	2002	2001
Deferred income tax assets:			
Postemployment benefits other than pensions	**$1,147**	$1,130	$1,112
Warranty reserves	**163**	204	186
Unrealized profit excluded from inventories	**242**	219	212
Tax carryforwards	**370**	230	130
Inventory valuation method	**37**	60	50
Pension	**—**	39	—
Other	**133**	128	275
	2,092	2,010	1,965
Deferred income tax liabilities:			
Capital assets	**(673)**	(538)	(437)
Pension	**(102)**	—	(182)
	(775)	(538)	(619)
Valuation allowance for deferred tax assets	**(37)**	(34)	(27)
Deferred income taxes — net	**$1,280**	$1,438	$1,319

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

(Millions of dollars)	2003	2002	2001
Assets:			
Deferred and refundable income taxes	**$ 702**	$ 777	$ 434
Deferred income taxes	**616**	711	927
	$1,318	$1,488	$1,361
Liabilities:			
Deferred and current income taxes payable	**$ 18**	$ 8	$ 6
Deferred income taxes and other liabilities	**20**	42	36
Deferred income taxes — net	**$1,280**	$1,438	$1,319

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.

As of December 31, 2003, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)

2004	2005	2006	2007	2008-2014	Unlimited	Total
$7	$9	$8	$13	$123	$528	$688

As of December 31, 2003, approximately $365 million of state tax net operating loss carryforwards were available. Of these, 82% expire after 2014.

As of December 31, 2003, approximately $148 million of regular foreign tax credits and $18 million of credit for increasing research activities were available to carry forward in the United States. Of the foreign tax credits, $108 million will expire in 2008, and $40 million will expire in 2009. The research credits will begin to expire in 2023.

5. Finance receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 3 are net of an allowance for credit losses. The average interest rate on these receivables was 6.3%, 7.1% and 8.7% for 2003, 2002 and 2001, respectively.

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. Some of these receivables are then securitized by Cat Financial into private-placement, revolving securitization facilities. Cat Financial services the dealer receivables, which are held in a securitization trust and receives an annual servicing fee of 1% of the average outstanding principal balance. Securitization of receivables is a cost-effective means of financing the business. Consolidated net discounts of $6 million, $10 million and $24 million were recognized on securitization of dealer receivables during 2003, 2002 and 2001, respectively, and are included in “Other income (expense)” in Statement 1. Significant assumptions used to estimate the fair value of dealer receivables securitized during 2003, 2002 and 2001 include a discount rate of 4.1%, 4.8% and 7.2%, respectively. These rates reflect declining market interest rates. Other assumptions include a one-month weighted-average maturity, a weighted-average prepayment rate of 0% and expected credit losses of 0% for 2003, 2002 and 2001. Expected credit losses are assumed to be 0% because dealer receivables have historically had no losses and none are expected in the future. The net dealer receivables retained were $1,550 million, $1,145 million and $772 million as of December 31, 2003, 2002 and 2001, respectively, and are included in “Receivables — finance” in Statement 3 and “Wholesale Notes” in Table I on page A-14.

During 2003, 2002 and 2001, Cat Financial securitized retail installment sale contracts and finance leases into public asset-backed securitization facilities. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2003, subordinated interests included $9 million in subordinated certificates, an interest in certain future cash flow (excess) with an initial fair value of $14 million and a reserve account with an initial fair value of $10 million. For 2002, subordinated interests included $8 million in subordinated certificates, an interest in certain future cash flow (excess) with an initial fair value of $11 million and a reserve account with an initial fair value of $10 million. For 2001, subordinated interests included $10 million in subordinated certificates, an interest in certain future cash flow (excess) with an initial fair value of $20 million and a reserve account with an initial fair value of $5 million. The company’s retained interests

TABLE I — Finance Receivables Information (Millions of dollars)

Contractual maturities of outstanding receivables:

Amounts Due In	Installment Contracts	Wholesale and Retail Finance Leases	Wholesale and Retail Notes	Total
	December 31, 2003			
2004	$ 1,848	$ 1,664	$ 3,704	$ 7,216
2005	1,310	1,136	918	3,364
2006	818	683	567	2,068
2007	399	345	303	1,047
2008	157	159	517	833
Thereafter	44	174	784	1,002
	4,576	4,161	6,793	15,530
Residual value	—	932	—	932
Less: Unearned income	287	467	40	794
Total	$ 4,289	$ 4,626	$ 6,753	$ 15,668

Impaired loans and leases:

	2003	2002	2001
Average recorded investment	**$ 321**	$ 292	$ 323
At December 31:			
Recorded investment	**$ 275**	$ 366	$ 259
Less: Impaired loans/finance leases for which there is no related allowance for credit losses (due to the fair value of underlying collateral)	**177**	233	167
Impaired loans/finance leases for which there is a related allowance for credit losses	**$ 98**	$ 133	$ 92

Allowance for credit loss activity:

	2003	2002	2001
Balance at beginning of year	**$ 207**	$ 177	$ 163
Provision for credit losses	**101**	109	97
Receivables written off	**(104)**	(103)	(82)
Recoveries on receivables previously written off	**22**	18	10
Other — net	**15**	6	(11)
Balance at end of year	**$ 241**	$ 207	$ 177

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

Cat Financial's net investment in financing leases:

	December 31, **2003**	2002	2001
Total minimum lease payments receivable	**$4,161**	$ 3,794	$ 3,607
Estimated residual value of leased assets:			
Guaranteed	**369**	306	272
Unguaranteed	**563**	604	682
	5,093	4,704	4,561
Less: Unearned income	**467**	479	514
Net investment in financing leases	**$4,626**	$ 4,225	$ 4,047

	2003 Dealer Receivables	**2003** Finance Receivables	2002 Dealer Receivables	2002 Finance Receivables	2001 Dealer Receivables	2001 Finance Receivables
Cash flow from securitizations:						
Proceeds from initial sales of receivables	**$ —**	**$ 661**	$ —	$ 614	$ —	$ 600
Proceeds from subsequent sales of receivables into revolving facility	**1,099**	**—**	1,696	—	2,479	—
Servicing fees received	**2**	**8**	3	7	5	6
Characteristics of securitized receivables:						
At December 31:						
Total securitized principal balance	**$ 240**	**$ 813**	$ 240	$ 726	$ 500	$ 616
Loans more than 30 days past due	**—**	**34**	—	32	—	31
Weighted average maturity (in months)	**1**	**27**	1	28	1	26
For the year ended December 31:						
Average securitized principal balance	**240**	**1,073**	324	619	504	836
Net credit losses	**—**	**6**	—	5	—	3

generally are subordinate to the investors' interests. Net gains of $22 million, $18 million and $21 million were recognized on these transactions in 2003, 2002 and 2001, respectively.

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

	2003	2002	2001
Discount rate	**5.0%**	4.8%	6.3%
Weighted-average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	1.0%	0.6%

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

	2003	2002	2001
Discount rate	**14.0%**	14.0%	13.6%
Weighted-average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	1.0%	0.6%

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

As of December 31, 2003, 2002 and 2001, the subordinated retained interests in the public securitizations totaled $73 million, $47 million and $51 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2003	2002	2001
Cash flow discount rates on subordinated tranches	**4.8-6.3%**	4.8-6.3%	6.3-6.9%
Cash flow discount rates on other retained interests	**13.6-14.0%**	13.6-14.0%	13.6%
Weighted-average maturity	**27 months**	29 months	27 months
Average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	1.0%	0.5%

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

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

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

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Investment in loans/finance leases on non-accrual status were $233 million and $370 million and past due over 90 days and still accruing were $25 million and $72 million as of December 31, 2003 and 2002, respectively.

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

Please refer to Table I on page A-14 for additional finance receivables information and Note 17 and Table III on pages A-22 to A-23 for fair value information.

6. Inventories

(Millions of dollars)	December 31, 2003	2002	2001
Raw materials	**$1,105**	$ 900	$ 954
Work-in-process	**377**	311	214
Finished goods	**1,381**	1,365	1,575
Supplies	**184**	187	182
	$3,047	$ 2,763	$2,925

We had long-term material purchase obligations of approximately $857 million at December 31, 2003.

7. Property, plant and equipment

(Dollars in millions)	Useful Lives (Years)	December 31, 2003	2002	2001
Land	—	**$ 149**	$ 149	$ 149
Buildings and land improvements	20-45	**3,006**	3,039	3,077
Machinery, equipment and other	3-10	**7,039**	7,015	6,658
Equipment leased to others	—	**3,648**	3,033	2,270
Construction-in-process	—	**487**	305	636
Total property, plant and equipment, at cost		**14,329**	13,541	12,790
Less: Accumulated depreciation		**7,039**	6,495	6,187
Property, plant and equipment — net		**$7,290**	$ 7,046	$6,603

We had commitments for the purchase or construction of capital assets of approximately $218 million at December 31, 2003.

Assets recorded under capital leases[1]:

(Millions of dollars)	December 31, 2003	2002	2001
Gross capital leases[2]	**$ 321**	$ 259	$ 444
Less: Accumulated depreciation	**213**	170	318
Net capital leases	**$ 108**	$ 89	$ 126

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

Equipment leased to others (primarily by Financial Products):

(Millions of dollars)	December 31, 2003	2002	2001
Equipment leased to others — at original cost	**$3,648**	$ 3,033	$ 2,270
Less: Accumulated depreciation	**1,074**	809	629
Equipment leased to others — net	**$2,574**	$ 2,224	$ 1,641

At December 31, 2003, scheduled minimum rental payments to be received for equipment leased to others were:

(Millions of dollars)

2004	2005	2006	2007	2008	After 2008
$565	$398	$237	$116	$47	$22

8. Investment in unconsolidated affiliated companies

The company's investment in affiliated companies accounted for by the equity method consists primarily of a 50% interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three-month lag, e.g., SCM results reflect the periods ending September 30) was as follows:

(Millions of dollars)	Years ended December 31, 2003	2002	2001
Results of Operations:			
Sales	**$2,946**	$ 2,734	$ 2,493
Cost of sales	**2,283**	2,168	1,971
Gross profit	**663**	566	522
Profit (loss)	**$ 48**	$ (1)	$ 9
Caterpillar's profit (loss)	**$ 20**	$ (4)	$ 3

(Millions of dollars)	December 31, 2003	2002	2001
Financial Position:			
Assets:			
Current assets	**$1,494**	$ 1,389	$1,451
Property, plant and equipment — net	**961**	1,209	986
Other assets	**202**	493	290
	2,657	3,091	2,727
Liabilities:			
Current liabilities	**$1,247**	$ 1,117	$1,257
Long-term debt due after one year	**343**	808	414
Other liabilities	**257**	249	281
	1,847	2,174	1,952
Ownership	**$ 810**	$ 917	$ 775

Caterpillar's investment in unconsolidated affiliated companies:

(Millions of dollars)	2003	2002	2001
Investment in equity method companies	**$ 432**	$ 437	$ 437
Plus: Investment in cost method companies	**368**	310	350
Investment in unconsolidated affiliated companies	**$ 800**	$ 747	$ 787

At December 31, 2003, consolidated "Profit employed in the business" in Statement 2 included $70 million representing undistributed profit of the unconsolidated affiliated companies. In 2003, 2002 and 2001, we received $25 million, $4 million and $4 million, respectively, in dividends from unconsolidated affiliated companies.

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

9. Intangible assets and goodwill

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

Intangible assets

(Millions of dollars)	**2003**	2002
Intellectual property	**$ 126**	$ 137
Pension-related	**157**	191
Total intangible assets — gross	**283**	328
Less: Accumulated amortization of intellectual property	**(44)**	(47)
Intangible assets — net	**$ 239**	$ 281

Amortization expense was $15 million and $13 million for 2003 and 2002, respectively.

Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

2004	2005	2006	2007	2008	Thereafter
$15	$14	$13	$12	$8	$20

During the years ended December 31, 2003 and 2002, no goodwill was acquired or impaired. During the year ended December 31, 2003, we disposed of assets with related goodwill of $3 million. No goodwill was disposed of during 2002. Goodwill amortization expense was $85 million for 2001. Excluding goodwill amortization expense, profit for 2001 was $863 million ($2.51 per share-basic, $2.49 per share-diluted).

10. Available-for-sale securities

Cat Insurance and Caterpillar Investment Management Ltd. had investments in certain debt and equity securities at December 31, 2003, 2002 and 2001, that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115) and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets" in Statement 3. Gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income" in Statement 3). Realized gains and losses on sales of investments are determined using the average cost method for debt instruments and the FIFO method for equity securities.

	December 31, 2003		
(Millions of dollars)	Cost Basis	Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 102	$ —	$ 102
Corporate bonds	288	3	291
Equity securities	191	21	212
	$ 581	$ 24	$ 605

	December 31, 2002		
(Millions of dollars)	Cost Basis	Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 89	$ —	$ 89
Corporate bonds	208	1	209
Equity securities	220	(51)	169
	$ 517	$ (50)	$ 467

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

Investments in an unrealized loss position that are not other-than-temporarily impaired

	December 31, 2003					
	Less than 12 months[1]		More than 12 months[1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	93	(2)	13	(1)	106	(3)
Equity securities	—	—	25	(1)	25	(1)
Total	$ 93	$ (2)	$ 38	$ (2)	$ 131	$ (4)

[1] Indicates length of time that individual securities have been in a continuous unrealized loss position.

The fair value of available-for-sale debt securities at December 31, 2003, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$ 7
Due after one year through five years	$229
Due after five years through ten years	$ 14
Due after ten years	$143

Proceeds from sales of investments in debt and equity securities during 2003, 2002 and 2001 were $329 million, $288 million and $246 million, respectively. Gross gains of $3 million, $9 million and $2 million and gross losses of $2 million, $2 million and $5 million have been included in current earnings as a result of these sales for 2003, 2002 and 2001, respectively.

During 2003 and 2002, we recognized pretax charges in accordance with the application of SFAS 115 for "other than temporary" declines in the market value of securities in the Cat Insurance and Caterpillar Investment Management Ltd. investment portfolios of $33 million and $41 million, respectively.

11. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our employees. Our defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement. Our defined contribution plans allow employees to contribute a portion of their salary to help save for retirement and, in certain cases, we provide a matching contribution.

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

Our U.S. postretirement health care plans provide for prescription drug benefits. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare part D. In accordance with FASB Staff Position FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" any measures of our accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the Act on the plans. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require us to change previously reported information.

We use a November 30th measurement date for our U.S. pension and other postretirement benefit plans and a September 30th measurement date for substantially all of our non-U.S. pension plans. Year-end asset and obligation amounts are disclosed as of the plan measurement dates.

A. Benefit obligations

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
(Millions of dollars)	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Change in benefit obligation:									
Benefit obligation, beginning of year	**$ 7,844**	$ 7,382	$ 6,921	**$ 1,517**	$ 1,229	$ 1,168	**$ 4,465**	$ 4,514	$ 3,869
Service cost	**122**	115	99	**43**	38	35	**70**	80	72
Interest cost	**554**	529	516	**83**	70	65	**298**	292	289
Business combinations	**—**	—	—	**—**	—	2	**—**	—	—
Plan amendments	**(27)**	—	2	**—**	—	2	**(6)**	(474)	16
Actuarial losses (gains)	**1,148**	395	389	**118**	135	(17)	**474**	340	528
Foreign currency exchange rates	**—**	—	—	**137**	100	21	**4**	2	2
Participant contributions	**—**	—	—	**10**	10	9	**25**	5	4
Benefits paid	**(648)**	(611)	(545)	**(72)**	(65)	(56)	**(326)**	(294)	(266)
Special termination benefits[1]	**—**	34	—	**—**	—	—	**—**	—	—
Benefit obligation, end of year	**$ 8,993**	$ 7,844	$ 7,382	**$ 1,836**	$ 1,517	$ 1,229	**$ 5,004**	$ 4,465	$ 4,514
Accumulated benefit obligation, end of year	**$ 8,379**	$ 7,482	$ 7,079	**$ 1,660**	$ 1,355	$ 1,107			
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate[2]	**6.2%**	7.0%	7.3%	**5.1%**	5.4%	5.7%	**6.1%**	7.0%	7.2%
Rate of compensation increase[2]	**4.0%**	4.0%	4.0%	**3.2%**	3.3%	3.3%	**4.0%**	4.0%	4.0%

(1) Amount recognized as expense in 2001 in conjunction with the U.S. salaried and management employee reduction. Please refer to Note 23 on page A-31 for additional information.

(2) End of year rates are used to determine net periodic cost for the subsequent year. See Note 11E on page A-19.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Millions of dollars)	One-percentage-point increase	One-percentage-point decrease
Effect on 2003 service and interest cost components of other postretirement benefit cost	$ 24	$ (22)
Effect on accumulated postretirement benefit obligation	$251	$(224)

B. Plan assets

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
(Millions of dollars)	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Change in plan assets:									
Fair value of plan assets, beginning of year	**$ 6,443**	$ 7,431	$ 8,203	**$ 1,024**	$ 1,050	$ 1,287	**$ 849**	$ 1,109	$ 1,324
Actual return on plan assets	**1,290**	(512)	(230)	**120**	(87)	(217)	**140**	(113)	(71)
Business combinations	**—**	—	—	**—**	—	2	**—**	—	—
Foreign currency exchange rates	**—**	—	—	**96**	72	12	**—**	—	—
Company contributions	**643**	135	3	**84**	44	13	**179**	142	118
Participant contributions	**—**	—	—	**10**	10	9	**25**	5	4
Benefits paid	**(648)**	(611)	(545)	**(72)**	(65)	(56)	**(326)**	(294)	(266)
Fair value of plan assets, end of year	**$ 7,728**	$ 6,443	$ 7,431	**$ 1,262**	$ 1,024	$ 1,050	**$ 867**	$ 849	$ 1,109

The asset allocation for our pension and other postretirement benefit plans at the end of 2003, 2002 and 2001, and the target allocation for 2004, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at Year End		
	2004	**2003**	2002	2001
U.S. pension:				
Equity securities	70%	**75%**	70%	72%
Debt securities	30%	**25%**	29%	27%
Real estate	—	**—**	1%	1%
Total	100%	**100%**	100%	100%
Non-U.S. pension:				
Equity securities	56%	**56%**	54%	60%
Debt securities	38%	**39%**	41%	36%
Real estate	6%	**4%**	3%	3%
Other	—	**1%**	2%	1%
Total	100%	**100%**	100%	100%
Other postretirement benefits:				
Equity securities	80%	**84%**	79%	79%
Debt securities	20%	**16%**	21%	21%
Total	100%	**100%**	100%	100%

Our target asset allocations reflect our investment strategy of maximizing the rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan.

Equity securities within plan assets include Caterpillar Inc. common stock in the amounts of:

(Millions of dollars)	U.S. Pension Benefits[1]			Other Postretirement Benefits		
	2003	2002	2001	**2003**	2002	2001
Caterpillar Inc. common stock	**$ 245**	$ 154	$ 153	**$ 2**	$ 1	$ 4

[1] Amounts represent 3% of total plan assets for 2003 and 2% for 2002 and 2001.

C. Funded status

The funded status of the plans, reconciled to the amount reported on the Statement of Financial Position, is as follows:

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
End of Year	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Fair value of plan assets	**$ 7,728**	$ 6,443	$ 7,431	**$ 1,262**	$ 1,024	$ 1,050	**$ 867**	$ 849	$ 1,109
Benefit obligations	**8,993**	7,844	7,382	**1,836**	1,517	1,229	**5,004**	4,465	4,514
Over (under) funded status	**(1,265)**	(1,401)	49	**(574)**	(493)	(179)	**(4,137)**	(3,616)	(3,405)
Amounts not yet recognized:									
Unrecognized prior service cost (benefit)	**202**	278	327	**31**	33	36	**(280)**	(283)	167
Unrecognized net actuarial loss	**2,518**	2,009	318	**677**	547	198	**1,381**	976	413
Unrecognized net obligation existing at adoption of SFAS 87	**—**	—	—	**6**	9	7	**—**	—	—
Contributions made after measurement date	**1**	—	—	**14**	22	4	**57**	20	17
Net amount recognized in financial position	**$ 1,456**	$ 886	$ 694	**$ 154**	$ 118	$ 66	**$(2,979)**	$ (2,903)	$ (2,808)
Components of net amount recognized in financial position:									
Prepaid benefit costs	**$ 1,136**	$ 1,071	$ 953	**$ 61**	$ 52	$ 34	**$ —**	$ —	$ —
Accrued benefit liabilities	**(548)**	(735)	(349)	**(127)**	(89)	(61)	**(2,979)**	(2,903)	(2,808)
Intangible assets	**127**	156	185	**30**	35	25	**—**	—	—
Liability for postemployment benefits	**(136)**	(361)	(233)	**(327)**	(279)	(37)	**—**	—	—
Accumulated other comprehensive income (pretax)	**877**	755	138	**517**	399	105	**—**	—	—
Net asset (liability) recognized	**$ 1,456**	$ 886	$ 694	**$ 154**	$ 118	$ 66	**$(2,979)**	$ (2,903)	$ (2,808)

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

(Millions of dollars)	U.S. Pension Benefits at Year-end 2003	2002	2001	Non-U.S. Pension Benefits at Year-end 2003	2002	2001
Projected benefit obligation	**$ (8,993)**	$ (7,844)	$ (3,311)	**$ (1,800)**	$ (1,497)	$ (1,211)
Accumulated benefit obligation	**$ (8,379)**	$ (7,482)	$ (3,289)	**$ (1,633)**	$ (1,338)	$ (1,093)
Fair value of plan assets	**$ 7,728**	$ 6,443	$ 2,743	**$ 1,216**	$ 995	$ 1,021

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

(Millions of dollars)	U.S. Pension Benefits at Year-end 2003	2002	2001	Non-U.S. Pension Benefits at Year-end 2003	2002	2001
Projected benefit obligation	**$ (3,785)**	$ (3,439)	$ (3,011)	**$ (1,761)**	$ (1,490)	$ (1,203)
Accumulated benefit obligation	**$ (3,751)**	$ (3,416)	$ (3,010)	**$ (1,601)**	$ (1,334)	$ (1,088)
Fair value of plan assets	**$ 3,083**	$ 2,345	$ 2,462	**$ 1,181**	$ 990	$ 1,015

The accumulated postretirement benefit obligation exceeds plan assets for all of our other postretirement benefit plans.

D. Expected cash flow

Information about the expected cash flow for the pension and other postretirement benefit plans follows:

(Millions of dollars)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Postretirement Benefits
Employer contributions:			
2004 (expected)	$ 500	$ 90	$ 340
Expected benefit payments:			
2004	630	60	340
2005	640	60	350
2006	650	70	360
2007	650	70	370
2008	660	70	380
2009-2013	3,400	400	1,920
Total	$ 6,630	$ 730	$ 3,720

The above table reflects the total benefits expected to be paid from the plan or from company assets and does not include the participants' share of the cost.

E. Net periodic cost

(Millions of dollars)	U.S. Pension Benefits 2003	2002	2001	Non-U.S. Pension Benefits 2003	2002	2001	Other Postretirement Benefits 2003	2002	2001
Components of net periodic benefit cost:									
Service cost	**$ 122**	$ 115	$ 99	**$ 43**	$ 38	$ 35	**$ 70**	$ 80	$ 72
Interest cost	**554**	529	516	**83**	70	65	**298**	292	289
Expected return on plan assets	**(680)**	(783)	(806)	**(94)**	(94)	(90)	**(88)**	(115)	(136)
Amortization of:									
Net asset existing at adoption of SFAS 87	**—**	—	—	**3**	(2)	(1)	**—**	—	—
Prior service cost[1]	**49**	50	49	**5**	5	5	**(47)**	(22)	21
Net actuarial loss (gain)	**27**	(1)	(34)	**14**	—	(1)	**36**	5	(9)
Total cost (benefit) included in results of operations	**$ 72**	$ (90)	$ (176)	**$ 54**	$ 17	$ 13	**$ 269**	$ 240	$ 237
Weighted-average assumptions used to determine net cost:									
Discount rate	**7.0%**	7.3%	7.8%	**5.4%**	5.7%	5.9%	**7.0%**	7.2%	7.8%
Expected return on plan assets[2]	**9.0%**	9.8%	10.0%	**7.1%**	7.6%	7.6%	**9.0%**	9.8%	10.0%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.3%**	3.3%	3.7%	**4.0%**	4.0%	4.0%

[1] Prior service costs are amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of employees expected to receive benefits from the plan amendment.
[2] The weighted-average rates for 2004 are 9.0% and 7.4% for U.S. and non-U.S. plans, respectively.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. To arrive at our expected long-term return, the amount added for active management was 1% for 2003, 2002 and 2001. A similar process is used to determine this rate for our non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate the 2003 benefit expense, we assumed an increase of 9.0% for 2003. This rate was assumed to decrease gradually to the ultimate health care trend rate of 4.5% in 2009. This rate represents 2.5% general inflation plus 2.0% additional health care inflation. Based on our recent expenses and our forecast of changes, we expect an increase of 8.5% during 2004 with no change to the ultimate trend rate.

F. 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.

G. Summary of long-term liability:

(Millions of dollars)	December 31, 2003	2002	2001
Pensions:			
U.S. pensions	$ 136	$ 361	$ 233
Non-U.S. pensions	327	279	37
Total pensions	463	640	270
Postretirement benefits other than pensions	2,638	2,614	2,578
Other postemployment benefits	71	79	72
	$3,172	$ 3,333	$2,920

H. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. In January 2003, we introduced a company match to our U.S. 401(k) plan. This plan allows eligible employees to contribute a portion of their salary to the plan on a tax-deferred basis, and we provide a matching contribution equal to 100% of employee contributions to the plan up to 6% of their compensation.

Various other U.S. and non-U.S. defined contribution plans allow eligible employees to contribute a portion of their salary to the plans and, in some cases, we provide a matching contribution to the funds.

Total company costs related to U.S. and non-U.S. defined contribution plans were the following:

(Millions of dollars)	2003	2002	2001
U.S. plans	$ 106	$ 28	$ 35
Non-U.S. plans	11	7	6
	$ 117	$ 35	$ 41

12. Short-term borrowings

(Millions of dollars)	December 31, 2003	2002	2001
Machinery and Engines:			
Notes payable to banks	$ 72	$ 64	$ 219
Financial Products:			
Notes payable to banks	183	174	126
Commercial paper	2,087	1,682	1,715
Other	415	255	120
	2,685	2,111	1,961
Total short-term borrowings	$2,757	$ 2,175	$2,180

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

	December 31, 2003	2002	2001
Notes payable to banks	6.5%	5.7%	5.6%
Commercial paper	2.1%	2.5%	2.5%
Other	2.3%	2.8%	3.4%

Please refer to Note 17 on page A-22 and Table III on page A-23 for fair value information on short-term borrowings.

13. Long-term debt

(Millions of dollars)	December 31, 2003	2002	2001
Machinery and Engines:			
Notes — 6.000% due 2003	$ —	$ —	$ 253
Notes — 6.550% due 2011	250	249	249
Debentures — 9.000% due 2006	208	209	211
Debentures — 6.000% due 2007	—	189	180
Debentures — 7.250% due 2009	315	318	321
Debentures — 9.375% due 2011	123	123	123
Debentures — 9.375% due 2021	236	236	236
Debentures — 8.000% due 2023	199	199	199
Debentures — 6.625% due 2028	299	299	299
Debentures — 7.300% due 2031	348	348	348
Debentures — 6.950% due 2042	249	249	—
Debentures — 7.375% due 2097	297	297	297
Medium-term notes	—	25	26
Capital lease obligations	611	538	467
Commercial paper supported by revolving credit agreements (Note 14)	45	—	130
Other	187	124	153
Total Machinery and Engines	3,367	3,403	3,492
Financial Products:			
Commercial paper supported by revolving credit agreements (Note 14)	$ 1,825	$ 1,825	$ 1,755
Medium-term notes	8,775	6,298	5,972
Other	111	70	72
Total Financial Products	10,711	8,193	7,799
Total long-term debt due after one year	$14,078	$ 11,596	$11,291

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

The 6% debentures due in 2007 were sold at significant original issue discounts ($144 million). This issue was carried net of the unamortized portion of its discount, which was amortized as interest expense over the life of the issue. These debentures had a principal at maturity of $250 million and an effective annual rate of 13.3%. The debentures were redeemed in August 2003.

We may redeem the 6.55% notes and the 7.25%, 6.625%, 7.3%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

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

The medium-term notes are offered on a continuous basis through agents and are primarily at fixed rates. At December 31, 2003, Machinery and Engines medium-term notes had a weighted average interest rate of 8.1% and mature in January 2004. Financial Products medium-term notes have a weighted average interest rate of 3.0% with remaining maturities up to 15 years at December 31, 2003.

The aggregate amounts of maturities of long-term debt during each of the years 2004 through 2008, including amounts due within one year and classified as current, are:

	December 31,				
(Millions of dollars)	2004	2005	2006	2007	2008
Machinery and Engines	$ 32	$ 62	$ 291	$ 33	$ 20
Financial Products	2,949	3,510	4,726	1,064	857
	$ 2,981	$ 3,572	$ 5,017	$ 1,097	$ 877

Interest paid on short-term and long-term borrowings for 2003, 2002 and 2001 was $718 million, $815 million and $1,009 million, respectively.

Please refer to Note 17 on page A-22 and Table III on page A-23 for fair value information on long-term debt.

14. Credit commitments

	December 31, 2003		
(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,675 (1)	$ 600 (1)	$4,075 (1)
Other external	1,549	683	866
Total credit lines available	6,224	1,283	4,941
Less: Global credit facility supporting commercial paper	3,957	45	3,912
Less: Utilized credit	255	72	183
Available credit	$2,012	$1,166	$ 846

(1) We have two global credit facilities with a syndicate of banks totaling $4,675 million available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. Based on management's allocation decision, which can be revised at any time during the year, the portion of the facility available to Cat Financial at December 31, 2003 was $4,075 million. The five-year facility of $2,125 million expires in September 2006. The 364-day facility of $2,550 million expires in September 2004. The facility expiring in September 2004 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2004 that would mature in September 2005.

Based on long-term credit agreements, $1,870 million, $1,825 million and $1,885 million of commercial paper outstanding at December 31, 2003, 2002 and 2001, respectively, was classified as long-term debt due after one year.

15. Capital stock

A. Stock options

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the Plan) providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. The Plan reserves 47 million shares of common stock for issuance (39 million under the Plan and 8 million under prior stock option plans). Options vest at the rate of one-third per year over the three year period following the date of grant, and have a maximum term of 10 years. Common shares issued under stock options, including treasury shares reissued, totaled 4,925,496 for 2003, 882,580 for 2002 and 693,444 for 2001.

The Plan grants options which have exercise prices equal to the average market price on the date of grant. As required by SFAS 148, a summary of the pro forma net income and profit per share amounts is shown in Item M of Note 1 on page A-11. 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 II on page A-22 for additional financial information on our stock options.

B. Restricted stock

The Plan permits the award of restricted stock to officers and other key employees. Prior to January 1, 2002, the plan also permitted awards to non-employee directors. During 2003, 2002 and 2001, officers and other key employees were awarded 42,210 shares, 52,475 shares and 143,686 shares, respectively, of restricted stock. Restricted shares (in phantom form) awarded to officers and other key employees totaled 4,425 and 8,450 in 2003 and 2002, respectively. During 2001, non-employee directors were granted an aggregate of 9,750 shares of restricted stock.

C. Stockholders' rights plan

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

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

16. Profit per share

Computations of profit per share:

(Dollars in millions except per share data)	**2003**	2002	2001
Profit for the period (A)	**$1,099**	$ 798	$ 805
Determination of shares (millions):			
Weighted average number of common shares outstanding (B)	**345.2**	344.0	343.3
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds at average market price	**6.2**	2.9	3.8
Average common shares outstanding for fully diluted computation (C)	**351.4**	346.9	347.1
Profit per share of common stock:			
Assuming no dilution (A/B)	**$ 3.18**	$ 2.32	$ 2.35
Assuming no dilution (A/C)	**$ 3.13**	$ 2.30	$ 2.32
Shares outstanding as of December 31 (in millions)	**343.8**	344.3	343.4

Stock options to purchase 27,881,279 and 19,886,054 shares of common stock at a weighted-average price of $54.34 and $55.79 were outstanding during 2002 and 2001, 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. In 2003, all stock options were included in the computation of diluted profit per share.

TABLE II — Financial Information Related to Capital Stock

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

	2003 Shares	**2003** Weighted-Average Exercise Price	2002 Shares	2002 Weighted-Average Exercise Price	2001 Shares	2001 Weighted-Average Exercise Price
Fixed Options:						
Outstanding at beginning of year	**38,721,364**	**$ 48.91**	32,295,230	$ 47.34	26,336,074	$ 44.49
Granted to officers and key employees	**8,418,100**	**$ 54.29**	8,050,864	$ 50.72	7,512,206	$ 53.53
Granted to outside directors	**56,000**	**$ 52.06**	52,000	$ 58.87	52,000	$ 45.51
Exercised	**(7,629,020)**	**$ 42.04**	(1,580,754)	$ 26.41	(1,273,361)	$ 23.64
Lapsed	**(66,772)**	**$ 50.18**	(95,976)	$ 50.28	(331,689)	$ 47.13
Outstanding at end of year	**39,499,672**	**$ 51.38**	38,721,364	$ 48.91	32,295,230	$ 47.34
Options exercisable at year-end	**23,650,987**	**$ 50.28**	23,909,130	$ 48.23	19,062,802	$ 45.74
Weighted-average fair value of options granted during the year	**$ 12.82**		$ 14.85		$ 14.56	

Stock options outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Exercise Prices	# Outstanding at 12/31/03	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	# Outstanding at 12/31/03	Weighted-Average Exercise Price
$26.77-$39.19	6,317,138	4.9	$36.11	6,317,138	$36.11
$43.75-$62.34	33,182,534	7.3	$54.29	17,333,849	$55.44
	39,499,672	6.9	$51.38	23,650,987	$50.28

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

	Grant Year **2003**	2002	2001
Dividend yield	**2.75%**	2.55%	2.49%
Expected volatility	**29.6%**	35.0%	30.1%
Risk-free interest rates	**2.52%**	4.13%	4.88%
Expected lives	**6 years**	5 years	5 years

17. Fair values of financial instruments

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

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

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

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

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

Short-term borrowings — carrying amount approximated fair value.

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

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

Please refer to Table III on page A-23 for the fair values of our financial instruments.

18. Concentration of credit risk

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

Trade receivables are primarily short-term receivables from independently owned and operated dealers which arise in the normal course of business. We perform regular credit evaluations of our dealers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer or customer 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, 2003, 2002 and 2001. 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, included in Other Assets in Statement 3, are comprised of investments which collateralize capital lease obligations (see Note 13) and investments of Cat Insurance supporting insurance reserve requirements.

Outstanding derivative instruments, with notional amounts totaling $8,625 million, $6,983 million and $5,872 million, and terms generally ranging up to five years, were held at December 31, 2003, 2002 and 2001, 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, 2003, 2002 and 2001, the exposure to credit loss was $336 million, $176 million and $80 million, respectively.

Please refer to Note 17 on page A-22 and Table III below for fair value information.

19. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $242 million, $240 million and $256 million for 2003, 2002 and 2001, respectively.

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

Years ended December 31,
(Millions of dollars)

2004	2005	2006	2007	2008	After 2008	Total
$194	$146	$118	$71	$54	$305	$888

20. Guarantees and product warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from the Dealer Capital Asset Trust (DCAT) in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third party dealers who sell Caterpillar equipment. These guarantees have terms ranging from one to four years and are secured primarily by dealer assets. At December 31, 2003 and 2002, the total amount outstanding under these guarantees was $380 million and $290 million, respectively, and the related book value was $5 million for 2003 and zero for 2002.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are developed using a 12-month rolling average of actual warranty payments. These rates are applied to the field population and dealer inventory to determine the liability.

(Millions of dollars)	**2003**	2002	2001
Warranty liability, January 1	**$ 693**	$ 652	$ 615
Payments	**(484)**	(494)	(478)
Provision for warranty	**413**	535	515
Warranty liability, December 31	**$ 622**	$ 693	$ 652

TABLE III — Fair Values of Financial Instruments

(Millions of dollars)	**2003** Carrying Amount	**2003** Fair Value	2002 Carrying Amount	2002 Fair Value	2001 Carrying Amount	2001 Fair Value	Reference #
Asset (Liability) at December 31							
Cash and short-term investments	**$ 342**	**$ 342**	$ 309	$ 309	$ 400	$ 400	Statement 3, Note 18
Long-term investments	**1,057**	**1,057**	874	874	791	791	Note 18
Foreign currency contracts	**167**	**167**	47	47	2	2	Note 2
Finance receivables — net (excluding finance type leases[1])	**13,881**	**13,915**	12,093	12,177	10,931	10,957	Note 5
Short-term borrowings	**(2,757)**	**(2,757)**	(2,175)	(2,175)	(2,180)	(2,180)	Note 12
Long-term debt (including amounts due within one year)							
Machinery and Engines	**(3,399)**	**(3,873)**	(3,661)	(4,185)	(3,565)	(3,749)	Note 13
Financial Products	**(13,660)**	**(13,846)**	(11,847)	(12,118)	(10,857)	(11,048)	Note 13
Interest rate swaps Financial Products —							
in a net receivable position	**87**	**87**	84	84	58	58	Note 2
in a net payable position	**(59)**	**(59)**	(85)	(85)	(71)	(71)	Note 2

[1] Excluded items have a net carrying value at December 31, 2003, 2002 and 2001 of $1,546 million, $1,369 million and $1,185 million, respectively.

21. Environmental and legal matters

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

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

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

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

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

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

In a final report to the EPA filed during the third quarter of 2003, we identified 70,018 medium heavy-duty engines produced and sold prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,868 Mg of medium heavy-duty banked credits. This is 381 engines and 120 Mg less than had been identified at the end of 2002. The number of engines generating emissions credits in our final report to the EPA was lowered for a variety of reasons including a more detailed analysis of engines actually produced that were eligible to generate credits and the identification of engines shipped to customers outside the United States which were not eligible to generate emissions credits. During 2003, banked credits offset the NCPs on all but approximately 600 of the approximately 31,000 non-conforming medium heavy-duty engines we produced. We paid NCPs of $2,485 per engine, or $1.5 million, on the 600 medium heavy-duty engines produced in 2003 in excess of those for which we could use banked credits. We also identified 731 heavy-duty engines built prior to October 1, 2002, that generated banked credits totaling 969 Mg. This is 227 engines and 261 Mg less than had been identified at the end of 2002; the reasons for the reduction are similar to those resulting in the adjustments to medium heavy-duty engines and credits. Banked credits offset the NCPs on approximately 2,000 of the 45,000 non-conforming heavy-duty engines we built during 2003. We paid NCPs of approximately $3,555 per engine, or $153 million on the remaining 43,000 heavy-duty engines produced in 2003 in excess of those for which we could use banked credits.

We began production of medium heavy-duty ACERT engines that were fully-compliant with the EPA emissions standards in early 2003, and in mid-2003 began producing fully-compliant heavy-duty ACERT engines. During 2003, Caterpillar received certification from the EPA for its C7 and C9 medium heavy-duty ACERT engines and its C11, C13 and C15 heavy-duty ACERT engines. By the end of 2003 Caterpillar was producing all of these engine models, and as a result, does not expect to pay NCPs on engines built during 2004.

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

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

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

Our expense for NCPs was $40 million in 2002 and $153 million in 2003. NCP expense recorded in 2002 was based on our engineering estimates at that time of the expected results of EPA emissions testing that began and was completed in 2003. NCP expense recorded in 2003 reflects the results of the completed tests, including a reduction of approximately 3% to the NCP expense recorded for 2002. During the fourth quarter of 2003, we re-tested one configuration of our heavy-duty bridge engine models, averaging the results with an earlier test. Our 2003 NCP expense includes a $10 million fourth-quarter benefit from the re-test related to all bridge engines of that configuration produced since October 2002, including $1.3 million for engines produced in the fourth quarter of 2002 and $7.4 million for engines produced during the first three quarters of 2003. For 2002, we paid NCPs on approximately 6,200 heavy-duty units and 7,200 medium heavy-duty units, and for 2003 we paid NCPs on approximately 43,000 heavy-duty units and 600 medium heavy-duty units.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). NCPs were deposited in an escrow account prior to completion of emissions testing for each engine model throughout 2003, and were paid to the EPA, either from the escrow account or directly, after completion of testing of a particular model. On January 30, 2004 Caterpillar paid NCPs to the EPA for engines built during the fourth quarter of 2003, ending its payments to the EPA for NCPs for engines built during 2002 and 2003. NCP expense for 2003 reflects this payment.

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

(Millions of dollars)	2002
Price (Engines sold × bridge price increase)	$ 20
Incremental costs	
(Cost of additional materials and production costs)	(4)
NCPs (Engines sold × projected NCP per engine)	(40)
Net effect pre-tax	$ (24)
Tax	7
Net effect after tax	$ (17)

Aside from $115 million in customary research and development expenses, emissions standard changes negatively impacted our 2003 financial results by $46 million ($34 million after-tax). The net unfavorable impact of emission standard changes was greater in 2003 than in 2002 as significantly higher NCPs (approximately $153 million pre-tax), product cost increases and ramp-up production costs (approximately $84 million pre-tax), were partially offset by price increases for bridge and ACERT engines (approximately $191 million pre-tax). The following table reflects the 2003 impact of the emission standard changes:

(Millions of dollars)	**2003**
Price (Engines sold × bridge or ACERT price increase)	**$191**
Incremental costs	
(Cost of additional materials and production costs)	**(84)**
NCPs (Engines sold × NCP per engine – banked credits)	**(153)**
Net effect pre-tax	**$(46)**
Tax	**12**
Net effect after tax	**$(34)**

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $29 million, of which $10 million was made in 2002 and $19 million in 2003. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

NCPs were approximately $3,500 per heavy-duty engine subject to NCPs, based on the results of the completed EPA testing. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, we implemented an additional price increase to truck manufacturers that purchase our heavy-duty engines, and on January 1, 2004, we implemented a price increase for medium heavy-duty ACERT engines. These increases are based on the additional value that we expect truck owners to receive from ACERT engines compared to engines of our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines in the future is dependent upon marketplace acceptance of these engines versus competitive alternatives.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. At December 31, 2003, the past due receivable from Navistar regarding the foregoing was $132 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. At December 31, 2003, the past due receivables for the foregoing totaled $12 million. The pending complaint further alleges that Sturman Industries, Inc., and Sturman Engine Systems, Inc., colluded with Navistar to utilize technology that Sturman Industries, Inc., misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc., and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois, that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fourth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet.

International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002, and claims that Caterpillar made certain fraudulent misrepresentations with respect to the availability of engines during this time period. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar denies International's claims and will vigorously contest them. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled for the third quarter of 2004 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

On August 30, 2002, a World Trade Organization (WTO) arbitration panel determined that the European Union (EU) may impose up to $4.04 billion per year in retaliatory tariffs if the U.S. tax code is not brought into compliance with an August 2001 WTO decision that found the extraterritorial tax (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. Since August 2002, the EU has developed a list of U.S. origin products on which the EU could impose tariffs as high as 100% of the value of the product. Negotiations among EU Member States, the European Commission and the private sector over which products would be listed were intense. The EU finalized the list in December 2003 and stated that in March 2004 it will begin imposing retaliatory tariffs of 5% on certain U.S. origin goods. If imposed, the tariffs would increase 1 percentage point per month to a maximum of 17% after one year. The gradual increase in tariffs is designed to place increasing pressure on the U.S. government to bring its tax laws into compliance with its WTO obligations. Given the makeup of the final retaliation list, some Caterpillar parts and components will be subjected to these additional tariffs. Based on what we know today, we do not believe these tariffs will materially impact our financial results. The company has production facilities in the EU, Russia, Asia and South America that would not be affected by a retaliatory tariff aimed at U.S. origin products. When the EU implements its proposed tariffs, increased pressure will be placed on Congress to repeal ETI, possibly during the current session. It is not possible to predict how the U.S. legislative process will affect the company's 2004 income tax liability, but based on what we know today, we do not believe the impact, if any, will be material.

22. Segment information

A. Basis for segment information

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

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

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

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page A-33.

B. Description of segments

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

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

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

EAME Marketing: Primarily responsible for marketing products (excluding *Power 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*.

Financing & Insurance Services: Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans.The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

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

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

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

All Other: Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; the design, manufacture and ongoing support of paving products; logistics services for other companies; service tools for Caterpillar dealers; and the remanufacture of Caterpillar engines and components and remanufacturing services for other companies.

C. Segment measurement and reconciliations

Please refer to Table IV on pages A-28 to A-30 for financial information regarding our segments. There are several accounting differences between our segment reporting and our GAAP-based external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit/(loss) and assets. The following is a list of the more significant accounting differences:

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables, property, plant and equipment.
- We account for intersegment transfers using a system of market-based prices. With minor exceptions, each of the profit centers either sells or purchases virtually all of its products to or from other profit centers within the company. Our high level of integration results in our internally reported sales being approximately double that of our consolidated, externally reported sales.
- Segment inventories and cost of sales are valued using a current cost methodology.
- Postretirement benefit expenses are split; segments are generally responsible for service and prior services costs, with the remaining elements of net periodic benefit cost included as a methodology difference.
- Interest expense is imputed (i.e., charged) to profit centers based on their level of accountable assets.
- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to Table IV on pages A-28 to A-30 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.

TABLE IV — Segment Information (Millions of dollars)

Business Segments:

	Machinery and Engines								Financing & Insurance Services	Total
	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Latin America Marketing	Power Products	North America Marketing	All Other	Total		
2003										
External sales and revenues	**$1,990**	**274**	**3,181**	**1,284**	**6,377**	**6,433**	**1,466**	**21,005**	**2,020**	**$23,025**
Intersegment sales and revenues	**$ 5**	**7,497**	**2,326**	**241**	**5,654**	**205**	**1,642**	**17,570**	**—**	**$17,570**
Total sales and revenues	**$1,995**	**7,771**	**5,507**	**1,525**	**12,031**	**6,638**	**3,108**	**38,575**	**2,020**	**$40,595**
Depreciation and amortization	**$ 13**	**205**	**63**	**24**	**292**	**—**	**80**	**677**	**530**	**$ 1,207**
Imputed interest expense	**$ 31**	**127**	**61**	**27**	**223**	**121**	**122**	**712**	**472**	**$ 1,184**
Accountable profit (loss)	**$ 115**	**538**	**177**	**62**	**(87)**	**177**	**350**	**1,332**	**339**	**$ 1,671**
Accountable assets at Dec. 31	**$ 637**	**2,127**	**1,114**	**548**	**3,795**	**2,198**	**2,251**	**12,670**	**20,234**	**$32,904**
Capital Expenditures	**$ 22**	**148**	**73**	**24**	**212**	**8**	**103**	**590**	**1,220**	**$ 1,810**
2002										
External sales and revenues	$ 1,652	217	2,825	1,261	5,800	5,571	1,257	18,583	1,779	$ 20,362
Intersegment sales and revenues	$ 4	6,755	1,981	182	4,989	152	1,585	15,648	—	$ 15,648
Total sales and revenues	$ 1,656	6,972	4,806	1,443	10,789	5,723	2,842	34,231	1,779	$ 36,010
Depreciation and amortization	$ 12	209	53	25	293	—	68	660	436	$ 1,096
Imputed interest expense	$ 26	142	59	28	222	98	125	700	539	$ 1,239
Accountable profit (loss)	$ 83	254	85	41	(145)	(4)	233	547	270	$ 817
Accountable assets at Dec. 31	$ 436	2,214	991	470	3,757	1,574	2,297	11,739	17,417	$ 29,156
Capital Expenditures	$ 13	179	65	13	236	2	80	588	1,177	$ 1,765
2001										
External sales and revenues	$ 1,405	207	2,844	1,452	5,890	5,874	1,244	18,916	1,717	$ 20,633
Intersegment sales and revenues	$ 12	7,195	2,020	146	5,659	219	1,779	17,030	1	$ 17,031
Total sales and revenues	$ 1,417	7,402	4,864	1,598	11,549	6,093	3,023	35,946	1,718	$ 37,664
Depreciation and amortization	$ 12	210	62	26	351	—	65	726	335	$ 1,061
Imputed interest expense	$ 23	140	57	29	219	112	119	699	672	$ 1,371
Accountable profit (loss)	$ (1)	340	106	35	45	(2)	195	718	347	$ 1,065
Accountable assets at Dec. 31	$ 441	2,444	925	565	3,694	1,369	2,290	11,728	15,437	$ 27,165
Capital Expenditures	$ 10	270	62	20	329	—	120	811	858	$ 1,669

Reconciliations:

Sales & Revenues	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2003				
Total external sales and revenues from business segments	**$ 21,005**	**$ 2,020**	**$ —**	**$ 23,025**
Other	**43**	**(125)**	**(180)[1]**	**(262)**
Total sales and revenues	**$ 21,048**	**$ 1,895**	**$ (180)**	**$ 22,763**
2002				
Total external sales and revenues from business segments	$ 18,583	$ 1,779	$ —	$ 20,362
Other	65	(101)	(174)[1]	(210)
Total sales and revenues	$ 18,648	$ 1,678	$ (174)	$ 20,152
2001				
Total external sales and revenues from business segments	$ 18,916	$ 1,717	$ —	$ 20,633
Other	111	(72)	(222)[1]	(183)
Total sales and revenues	$ 19,027	$ 1,645	$ (222)	$ 20,450

[1] Elimination of Financial Product revenues from Machinery and Engines.

Continued on Page A-29

TABLE IV Continued — Segment Information (Millions of dollars)

Reconciliations:

Profit before taxes

	Machinery and Engines	Financing & Insurance Services	Consolidated Total
2003			
Total accountable profit from business segments	**$ 1,332**	**$ 339**	**$ 1,671**
Corporate costs	**(337)**	**—**	**(337)**
Methodology differences:			
Inventory/cost of sales	**(182)**	**—**	**(182)**
Postretirement benefit expense	**(161)**	**—**	**(161)**
Financing costs	**377**	**—**	**377**
Other methodology differences	**27**	**32**	**59**
Other	**50**	**—**	**50**
Total profit before taxes	**$ 1,106**	**$ 371**	**$ 1,477**
2002			
Total accountable profit from business segments	$ 547	$ 270	$ 817
Corporate costs	18	—	18
Methodology differences:			
Inventory/cost of sales	(313)	—	(313)
Postretirement benefit expense	147	—	147
Financing costs	325	—	325
Other methodology differences	56	17	73
Other	47	—	47
Total profit before taxes	$ 827	$ 287	$ 1,114
2001			
Total accountable profit from business segments	$ 718	$ 347	$ 1,065
Corporate costs	(27)	—	(27)
Other charges not allocated to business segments	(153)	—	(153)
Methodology differences:			
Inventory/cost of sales	(106)	—	(106)
Postretirement benefit expense	206	—	206
Financing costs	223	—	223
Other methodology differences	(100)	(2)	(102)
Other	63	—	63
Total profit before taxes	$ 824	$ 345	$ 1,169

Assets

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2003				
Total accountable assets from business segments	**$ 12,670**	**$ 20,234**	**$ —**	**$ 32,904**
Items not included in segment assets:				
Cash and short-term investments	**220**	**122**	**—**	**342**
Intercompany trade receivables	**572**	**397**	**(969)**	**—**
Investment in affiliated companies	**325**	**—**	**—**	**325**
Investment in Financial Products	**2,547**	**—**	**(2,547)**	**—**
Deferred income taxes and prepaids	**2,736**	**77**	**(211)**	**2,602**
Intangible assets and other assets	**1,874**	**—**	**—**	**1,874**
Service center assets	**736**	**—**	**—**	**736**
Dealer receivables double counted in segment assets	**(2,352)**	**—**	**—**	**(2,352)**
Liabilities included in segment assets	**930**	**—**	**—**	**930**
Inventory methodology differences	**(1,463)**	**—**	**—**	**(1,463)**
Other	**415**	**169**	**(17)**	**567**
Total assets	**$ 19,210**	**$ 20,999**	**$ (3,744)**	**$ 36,465**

Continued on Page A-30

TABLE IV Continued — Segment Information (Millions of dollars)

Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Assets				
2002				
Total accountable assets from business segments	$ 11,739	$ 17,417	$ —	$ 29,156
Items not included in segment assets:				
Cash and short-term investments	146	163	—	309
Intercompany trade receivables	917	343	(1,260)	—
Investment in affiliated companies	283	—	—	283
Investment in Financial Products	1,961	—	(1,961)	—
Deferred income taxes and prepaids	2,698	75	(133)	2,640
Intangible assets and other assets	1,541	—	—	1,541
Service center assets	810	—	—	810
Dealer receivables double counted in segment assets	(1,857)	—	—	(1,857)
Liabilities included in segment assets	848	—	—	848
Inventory methodology differences	(1,590)	—	—	(1,590)
Other	493	149	(35)	607
Total assets	$ 17,989	$ 18,147	$ (3,389)	$ 32,747
2001				
Total accountable assets from business segments	$ 11,728	$ 15,437	$ —	$ 27,165
Items not included in segment assets:				
Cash and short-term investments	251	149	—	400
Intercompany trade receivables	405	355	(760)	—
Investment in affiliated companies	345	—	—	345
Investment in Financial Products	1,662	—	(1,662)	—
Deferred income taxes and prepaids	2,400	55	(74)	2,381
Intangible assets and other assets	1,445	—	—	1,445
Service center assets	844	—	—	844
Dealer receivables double counted in segment assets	(1,757)	—	—	(1,757)
Liabilities included in segment assets	853	—	—	853
Inventory methodology differences	(1,571)	—	—	(1,571)
Other	598	(101)	(17)	480
Total assets	$ 17,203	$ 15,895	$ (2,513)	$ 30,585

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2003	2002	2001
Machinery	**$13,678**	$11,975	$12,158
Engines	**7,370**	6,673	6,869
Financial Products	**1,715**	1,504	1,423
Total consolidated	**$22,763**	$20,152	$20,450

Information about Geographic Areas:

	Sales & Revenues[1]			Net property, plant and equipment December 31,		
	2003	2002	2001	**2003**	2002	2001
Inside United States	**$ 10,058**	$ 9,291	$ 10,033	**$ 4,315**	$ 4,524	$ 4,351
Outside United States	**12,705**	10,861	10,417	**2,975[2]**	2,522[2]	2,252[2]
Total	**$ 22,763**	$ 20,152	$ 20,450	**$ 7,290**	$ 7,046	$ 6,603

[1] Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.

[2] Amount includes $675 million, $680 million and $681 million of net property, plant and equipment located in the United Kingdom as of December 31, 2003, 2002 and 2001, respectively.

23. Other Charges

(Millions of dollars)	2001 Charge	Asset Impair-ments	2002 Activity*	12/31/02 Balance	2003 Activity	**12/31/03 Balance**
Challenger:						
Asset impairments	$ 32	$ (32)	$ —	$ —	$ —	**$ —**
Exit costs	49	—	(38)	11	(11)	**—**
	81	(32)	(38)	11	(11)	**—**
Shrewsbury:						
Asset impairments	16	(16)	—	—	—	**—**
Redundancy	10	—	(6)	4	(4)	**—**
Exit costs	4	—	(2)	2	(2)	**—**
	30	(16)	(8)	6	(6)	**—**
U.S. employment reduction	34	—	(34)	—	—	**—**
Other asset impairments	8	(8)	—	—	—	**—**
Total	$ 153	$ (56)	$ (80)	$ 17	$ (17)	**$ —**

*All amounts were paid in cash except for the U.S. employment reduction of $34 million which was reclassified to our pension accounts. Please refer to the Benefits Obligation Table in Note 11 on page A-17.

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

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

During 2003, the contracts related to the Challenger were terminated. The cost of these obligations was recognized as an exit cost in 2001 as the contracts provided no benefit to Caterpillar after the sale to AGCO. Contract cancellation costs were charged to the reserve, which was reduced to zero. There will be no future cash outlays related to these contracts. Also during 2003, the Shrewsbury exit plan was completed and remaining costs were charged to the reserve, which was also reduced to zero.

24. Selected quarterly financial results (unaudited)

(Dollars in millions except per share data)	2003 Quarter 1st	2nd	3rd	4th
Sales and revenues	**$ 4,821**	**$ 5,932**	**$ 5,545**	**$ 6,465**
Less: Revenues	**397**	**431**	**433**	**454**
Sales	**4,424**	**5,501**	**5,112**	**6,011**
Cost of goods sold	**3,630**	**4,329**	**4,143**	**4,843**
Gross margin	**794**	**1,172**	**969**	**1,168**
Profit	**129**	**399**	**222**	**349**
Profit per common share	**$ .37**	**$ 1.16**	**$ .64**	**$ 1.01**
Profit per common share — diluted	**$ .37**	**$ 1.15**	**$ .62**	**$ .97**

(Dollars in millions except per share data)	2002 Quarter 1st	2nd	3rd	4th
Sales and revenues	$ 4,409	$ 5,291	$ 5,075	$ 5,377
Less: Revenues	365	376	375	388
Sales	4,044	4,915	4,700	4,989
Cost of goods sold	3,307	3,974	3,798	4,067
Gross margin	737	941	902	922
Profit	80	200	213	305
Profit per common share	$ .23	$ .58	$ .62	$ .89
Profit per common share — diluted	$ .23	$ .58	$ .61	$ .88

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

Years ended December 31,	**2003**	2002	2001	2000	1999
Sales and revenues	**$22,763**	20,152	20,450	20,175	19,702
Sales	**$21,048**	18,648	19,027	18,913	18,559
Percent inside the United States	**44%**	45%	49%	50%	50%
Percent outside the United States	**56%**	55%	51%	50%	50%
Revenues	**$ 1,715**	1,504	1,423	1,262	1,143
Profit[1]	**$ 1,099**	798	805	1,053	946
Profit per common share[1][2]	**$ 3.18**	2.32	2.35	3.04	2.66
Profit per common share — diluted[1][3]	**$ 3.13**	2.30	2.32	3.02	2.63
Dividends declared per share of common stock	**$ 1.420**	1.400	1.390	1.345	1.275
Return on average common stockholders' equity[4]	**19.0%**	14.4%	14.4%	19.0%	17.9%
Capital expenditures:					
Property, plant and equipment	**$ 682**	728	1,100	928	913
Equipment leased to others	**$ 1,083**	1,045	868	665	490
Depreciation and amortization	**$ 1,347**	1,220	1,169	1,063	977
Research and development expenses	**$ 669**	656	696	649	626
As a percent of sales and revenues	**2.9%**	3.3%	3.4%	3.2%	3.2%
Wages, salaries and employee benefits	**$ 4,980**	4,360	4,272	4,029	4,044
Average number of employees	**67,828**	70,973	70,678	67,200	66,225
December 31,					
Total assets	**$36,465**	32,747	30,585	28,464	26,711
Long-term debt due after one year:					
Consolidated	**$14,078**	11,596	11,291	11,334	9,928
Machinery and Engines	**$ 3,367**	3,403	3,492	2,854	3,099
Financial Products	**$10,711**	8,193	7,799	8,480	6,829
Total debt:					
Consolidated	**$19,816**	17,683	16,602	15,067	13,802
Machinery and Engines	**$ 3,471**	3,725	3,784	3,427	3,317
Financial Products	**$16,345**	13,958	12,818	11,640	10,485

[1] As discussed in Note 9, in 2002 we changed the manner in which we account for goodwill and other intangible assets upon the adoption of SFAS 142.

[2] Computed on weighted-average number of shares outstanding.

[3] Computed on weighted-average number of shares outstanding diluted by assumed exercise of stock options, using the treasury stock method.

[4] Represents profit divided by average stockholders' equity (beginning of year stockholders' equity plus end of year stockholders' equity divided by two).

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Caterpillar had an excellent year. We took full advantage of the recovering capital goods market to make real progress on our growth objectives while continuing to lower ***Core Operating Costs***.* With a 13 percent sales and revenue increase this year, we are well on our way to achieving our growth target of $30 billion of sales and revenues in this decade. Our performance this year demonstrated to investors our commitment to deliver long-term profitable growth. In addition, we made significant progress on other key strategic initiatives. After an aggressive development program, we introduced ACERT® technology, earning Caterpillar the distinction of being the only engine manufacturer with a full line of 2004 EPA certified and compliant clean diesel engines.

Also in 2003, we supported our dealers' continued expansion of Cat Rental stores as they enhanced their position as the world's leading providers of rental equipment. We strengthened our long-term relationships in the Asia-Pacific region, expanding operations in China and India to serve the increasing demand in these important emerging markets. Amid this growth and change, we continued to embrace the discipline of ***6 Sigma***, which allowed Caterpillar people to develop process improvements and discover new ways to better serve our customers. As the company grows, we will continue to rely on the proven processes of 6 Sigma to create value and develop growth opportunities. As we move into 2004, we will continue our focus on 6 Sigma and profitable growth, reinforcing the positive changes in our culture that are making Caterpillar a better company.

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 22 on pages A-26 to A-27, 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 Note 22 and Table IV on pages A-26 to A-30 (see "Reconciliation of Machinery and Engines Sales by Geographic Region to External Sales by Marketing Segment" on page A-34). 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 percent owned).

Machinery — A principal line of business which includes the design, manufacture and marketing of construction, mining, agricultural and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts. Also includes logistics services for other companies.

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

Financial Products — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries. Cat Financial provides a wide range of financing alternatives for Caterpillar machinery and engines, Solar gas turbines, as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

*Glossary of terms included on pages A-40 to A-41; first occurrence of terms shown in bold italics.

2003 COMPARED WITH 2002

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	North America	EAME	Latin America	Asia/Pacific
2003					
Machinery	**$13,678**	**$ 7,310**	**$ 3,596**	**$ 928**	**$ 1,844**
Engines[1]	**7,370**	**3,222**	**2,356**	**793**	**999**
Financial Products[2]	**1,715**	**1,231**	**303**	**94**	**87**
	$22,763	**$11,763**	**$ 6,255**	**$ 1,815**	**$ 2,930**
2002					
Machinery	$11,975	$ 6,517	$ 3,156	$ 818	$ 1,484
Engines[1]	6,673	2,963	2,022	780	908
Financial Products[2]	1,504	1,116	257	55	76
	$20,152	$10,596	$ 5,435	$ 1,653	$ 2,468

[1] Does not include internal engine transfers of $1.358 billion and $1.286 billion in 2003 and 2002, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

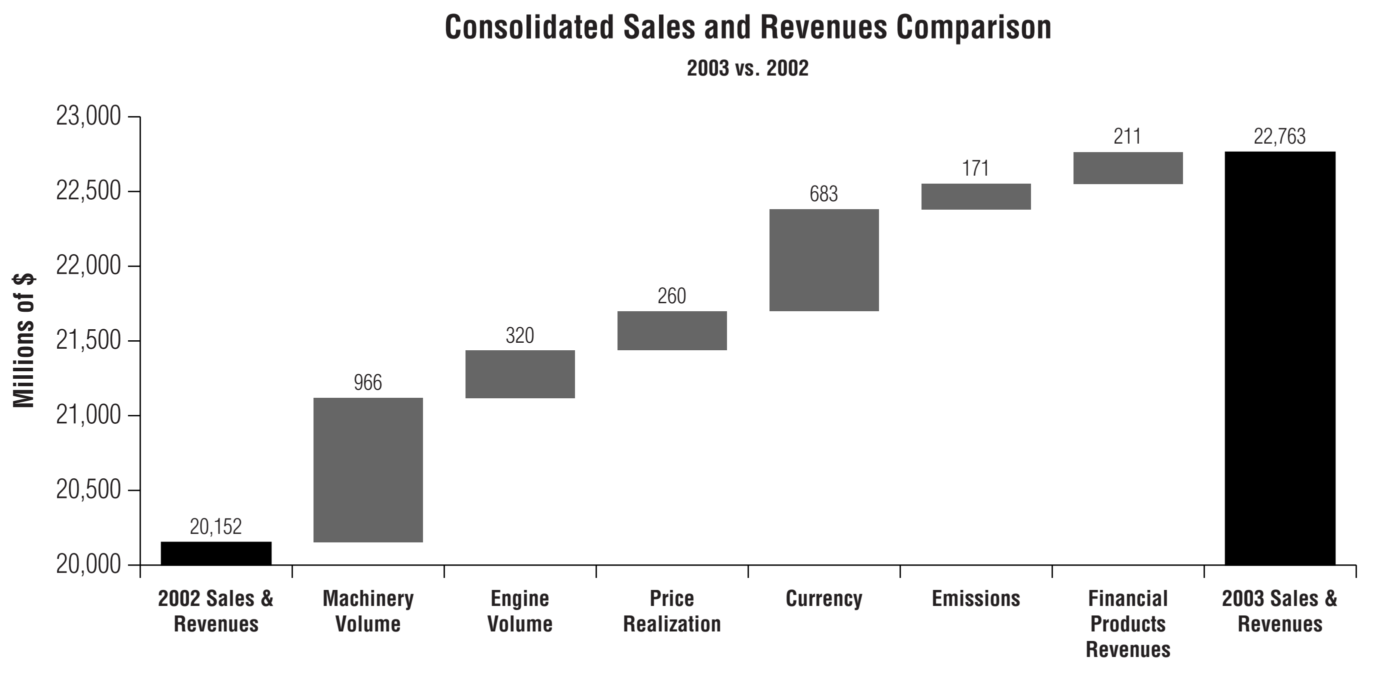
[2] Does not include revenues earned from Machinery and Engines of $180 million and $174 million in 2003 and 2002, respectively.

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

(Millions of dollars)	**2003**	2002	2001
North America Geographic Region	**$10,532**	$ 9,480	$10,260
Engine sales included in the Power Products segment	**(3,221)**	(2,968)	(3,463)
Company owned dealer sales included in the All Other segment	**(388)**	(350)	(438)
Other*	**(490)**	(591)	(485)
North America Marketing external sales	**$ 6,433**	$ 5,571	$ 5,874
EAME Geographic Region	**$ 5,952**	$ 5,178	$ 5,114
Power Products sales not included in the EAME Marketing segment	**(1,897)**	(1,613)	(1,750)
Other*	**(874)**	(740)	(520)
EAME Marketing external sales	**$ 3,181**	$ 2,825	$ 2,844
Latin America Geographic Region	**$ 1,721**	$ 1,598	$ 1,639
Power Products sales not included in the Latin America Marketing segment	**(667)**	(689)	(327)
Other*	**230**	352	140
Latin America Marketing external sales	**$ 1,284**	$ 1,261	$ 1,452
Asia/Pacific Geographic Region	**$ 2,843**	$ 2,392	$ 2,014
Power Products sales not included in the Asia/Pacific Marketing segment	**(592)**	(530)	(351)
Other*	**(261)**	(210)	(258)
Asia/Pacific Marketing external sales	**$ 1,990**	$ 1,652	$ 1,405

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

SALES AND REVENUES



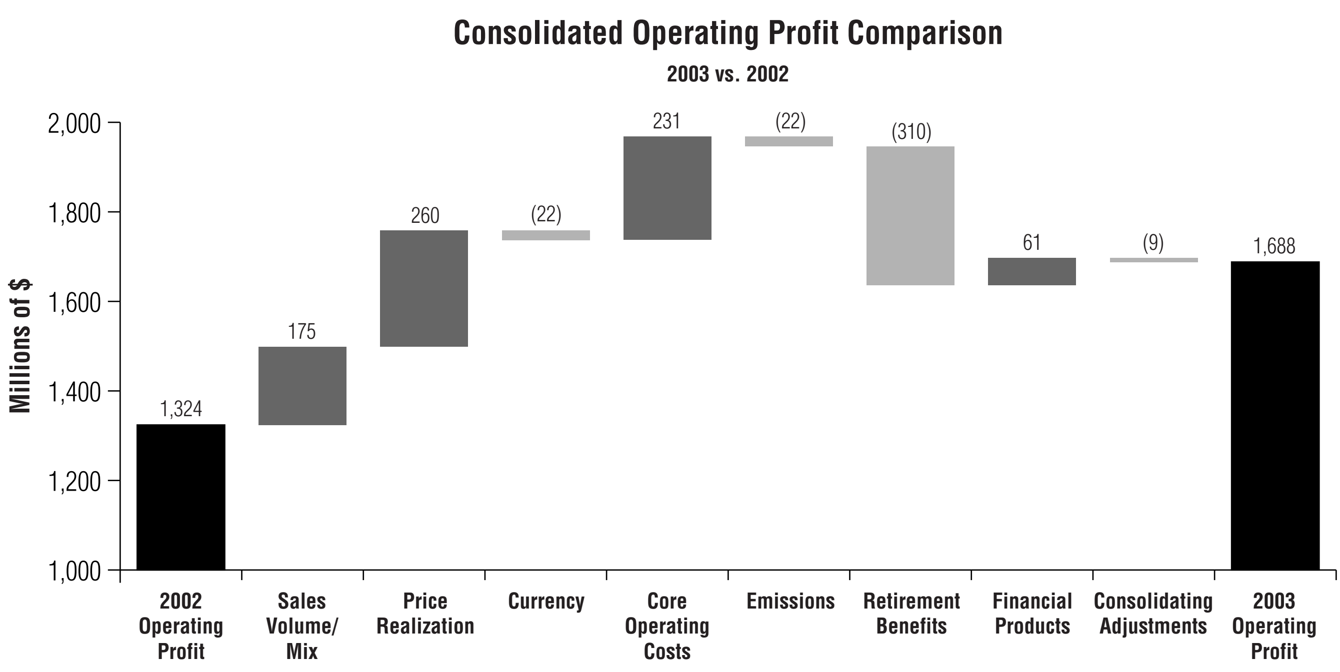
The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2002 (at left) and 2003 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues, if any, appear as downward stair steps with dollar amounts reflected in parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Machinery sales were $13.68 billion, an increase of $1.70 billion or 14 percent from 2002. Sales volume was up about 8 percent, the favorable impact of currency accounted for about 4 percent and improved ***Price Realization*** added about 2 percent. In North America, machinery sales increased 12 percent due mostly to higher volume and favorable price realization. Sales volume rose because of an 11 percent increase in dealer deliveries, the result of users (especially rental fleets) upgrading their fleets and a last half improvement in construction activity. Dealers also increased inventories to support higher delivery rates. ***EAME*** sales were up 14 percent due to the favorable impact of a stronger euro and improved price realization partially offset by lower sales volume due to weak economic conditions in Europe. In ***Latin America***, sales were up 13 percent, benefiting from increased dealer deliveries into mining and some building of dealer inventories in anticipation of higher end-user demand. Company sales in Asia/Pacific surged 24 percent as dealer deliveries increased significantly due to strong economies in the region.

Engines sales were $7.37 billion, an increase of $697 million or 10 percent from 2002. Sales volume was up about 5 percent, the favorable impact of currency accounted for about 3 percent and emissions-related price increases added about 2 percent. North American sales rose 9 percent due to improved emissions-related price increases for truck engines and higher volume in most key engine sectors. Engine sales in EAME rose 17 percent due to the favorable effects of ***Currency*** and higher sales into the Middle East. Sales in Latin America rose 2 percent with all of the gain coming from higher sales of truck and bus engines. Sales in Asia/Pacific rose 10 percent due to higher volume in almost all sectors as economic growth strengthened. Worldwide Caterpillar truck engine sales rose 19 percent with a significant improvement in emissions-related price realization and higher volume of 4 percent. Worldwide sales of electric power and industrial engines rose 10 and 8 percent, respectively, benefiting from the favorable effects of currency and slight industry growth. Worldwide sales into petroleum rose 4 percent due to higher demand for engines used in gas compression and higher North American land drilling activity. Sales to the marine sector rose 2 percent, helped by slightly higher industry demand and favorable effects of currency.

Financial Products revenues were $1.72 billion, an increase of $211 million or 14 percent from 2002. The increase was due primarily to the favorable impact of $223 million from continued growth of ***Earning Assets*** at Cat Financial and a $63 million increase in earned premiums on extended service contracts at Cat Insurance. These favorable items were partially offset by the $120 million impact of lower interest rates on new and existing finance receivables at Cat Financial.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2002 (at left) and 2003 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

The favorable profit impact of additional machinery and engine sales volume was partially offset by unfavorable sales mix resulting in a net positive impact of $175 million. The unfavorable sales mix was primarily due to lower sales of higher margin fuel system components to Navistar International Transportation Corporation ("Navistar") attributable to the imminent expiration of a long-term purchase contract in 2003 between Caterpillar and Navistar as well as higher sales of lower margin small diesel engines and compact construction equipment. Improved price realization reflected the favorable impact of modest price increases taken in January 2003 on most machines and parts. Material cost reductions and quality improvements reflected in lower warranty costs were partially offset by higher incentive compensation of about $140 million for a net improvement in core operating costs of $231 million. The higher incentive compensation benefits employees at all levels as corporate financial performance improves. This reflects the structure of our compensation plans where employees have a component of their pay tied to the performance of the company.

Partially offsetting the favorable items was $310 million of higher ***Retirement Benefits***. This increase was primarily due to the impact of previous poor performance of equity markets on pension plan assets and increased expense resulting from the introduction of a company match to our 401(k) plan in 2003.

Operating Profit Table

(Millions of dollars)	**2003**	2002
Machinery[1]	**$1,246**	$ 947
Engines[1]	**188**	175
Financial Products	**345**	284
Consolidating Adjustments	**(91)**	(82)
	$1,688	$1,324

[1] Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit for ***Machinery and Engines***.

Machinery operating profit increased 32 percent, or $299 million, from 2002. The favorable impact of improved price realization, higher sales volume (net of unfavorable sales mix) and lower core operating costs more than offset higher retirement benefits.

Engines operating profit increased 7 percent, or $13 million, from 2002 as lower core operating costs were almost entirely offset by higher retirement benefits and the unfavorable impact of ***Changes in Emissions Standards***. The favorable impact of volume was offset by negative sales mix resulting from lower sales of higher margin fuel system components as well as higher sales of lower margin small diesel engines.

Financial Products operating profit increased 21 percent, or $61 million, from 2002. The increase was primarily due to the impact of growth of earning assets of $59 million, higher fee income of $12 million and higher securitization income of $8 million at Cat Financial. These favorable items were partially offset by increased operating costs to support growth at Cat Financial.

OTHER PROFIT/LOSS ITEMS

Interest expense excluding Financial Products was $33 million lower compared to 2002 primarily due to lower average short-term and long-term borrowings.

Other income/expense was income of $35 million down from $69 million in 2002. The change was primarily due to a $55 million charge for early retirement of the $250 million 6 percent debentures due in 2007.

The provision for income taxes reflects an estimated annual tax rate of 27 percent for 2003 compared to 28 percent a year ago due to the geographic mix of profits and changes in the estimated tax benefits from export sales.

The equity in profit/loss of unconsolidated affiliated companies favorably impacted profit $24 million from 2002, due mostly to improved profitability of Shin Caterpillar Mitsubishi Ltd. resulting from improved export business into China and North America.

Supplemental Information

(Millions of dollars)	**2003**	2002	2001
Identifiable Assets:			
Machinery	**$ 11,565**	$ 10,689	$ 10,049
Engines	**7,645**	7,300	7,154
Financial Products	**20,999**	18,147	15,895
Consolidating Adjustments	**(3,744)**	(3,389)	(2,513)
Total	**$ 36,465**	$ 32,747	$ 30,585
Capital Expenditures:			
Machinery	**$ 386**	$ 393	$ 616
Engines	**278**	305	493
Financial Products	**1,101**	1,075	859
Total	**$ 1,765**	$ 1,773	$ 1,968
Depreciation and Amortization:			
Machinery	**$ 453**	$ 437	$ 424
Engines	**345**	348	411
Financial Products	**549**	435	334
Total	**$ 1,347**	$ 1,220	$ 1,169

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

OPERATING COST RECLASSIFICATION

In the second quarter, we revised our policy regarding the classification of certain costs related to distributing replacement parts. Previously, these costs were included in SG&A and now are included in cost of goods sold. This classification is more consistent with industry practice. The parts distribution costs include shipping and handling (including warehousing) along with related support costs such as information technology, purchasing and inventory management.

The amounts reclassified from SG&A expenses to cost of goods sold were $109 million and $437 million for the three months and twelve months ended December 31, 2002, respectively. These costs were $113 million and $443 million for the three months and twelve months ended December 31, 2003, respectively. The reclassification had no impact on operating profit.

Sales and Revenues

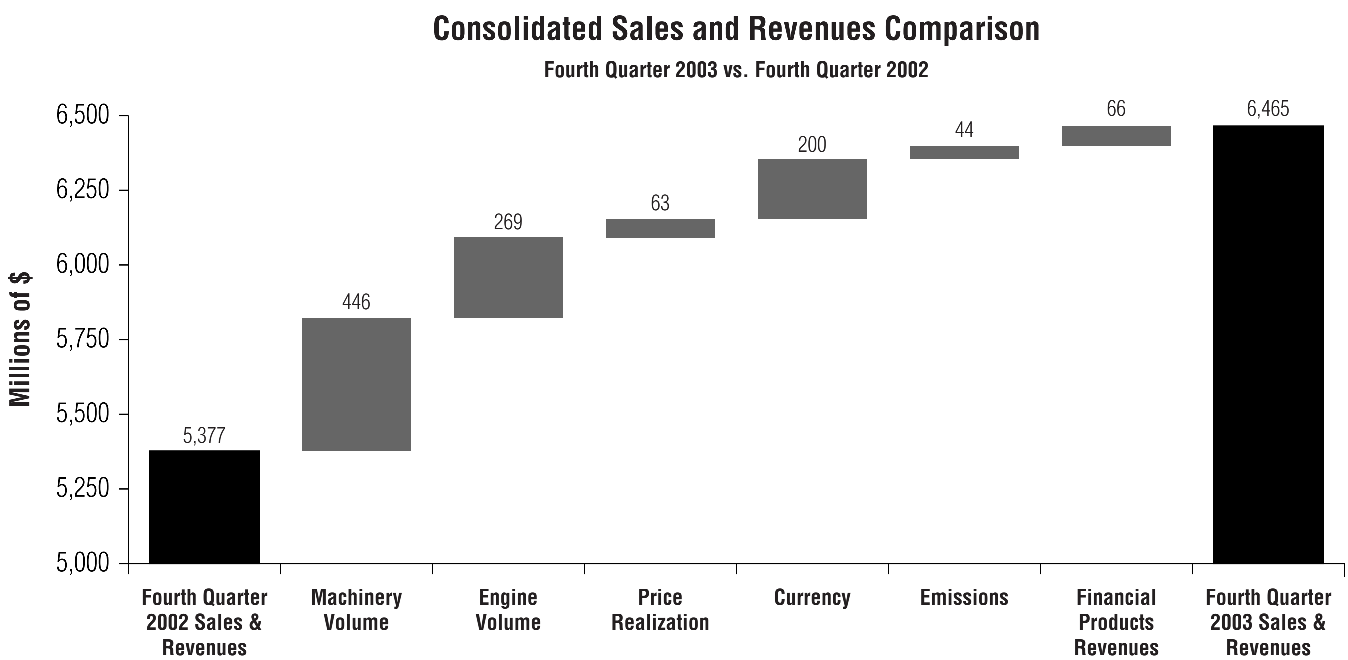
(Millions of dollars)	Total	North America	EAME	Latin America	Asia/Pacific
Fourth Quarter 2003					
Machinery	**$ 3,827**	**$ 2,088**	**$ 939**	**$ 291**	**$ 509**
Engines(1)	**2,184**	**876**	**703**	**300**	**305**
Financial Products(2)	**454**	**325**	**79**	**23**	**27**
	$ 6,465	**$ 3,289**	**$ 1,721**	**$ 614**	**$ 841**
Fourth Quarter 2002					
Machinery	$ 3,151	$ 1,643	$ 878	$ 186	$ 444
Engines(1)	1,838	728	589	270	251
Financial Products(2)	388	280	70	1	37
	$ 5,377	$ 2,651	$ 1,537	$ 457	$ 732

(1) Does not include internal engine transfers of $362 million and $316 million in fourth quarter 2003 and fourth quarter 2002, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

(2) Does not include revenues earned from Machinery and Engines of $47 million and $43 million in fourth quarter 2003 and fourth quarter 2002, respectively.

FOURTH QUARTER 2003 COMPARED WITH FOURTH QUARTER 2002

SALES AND REVENUES



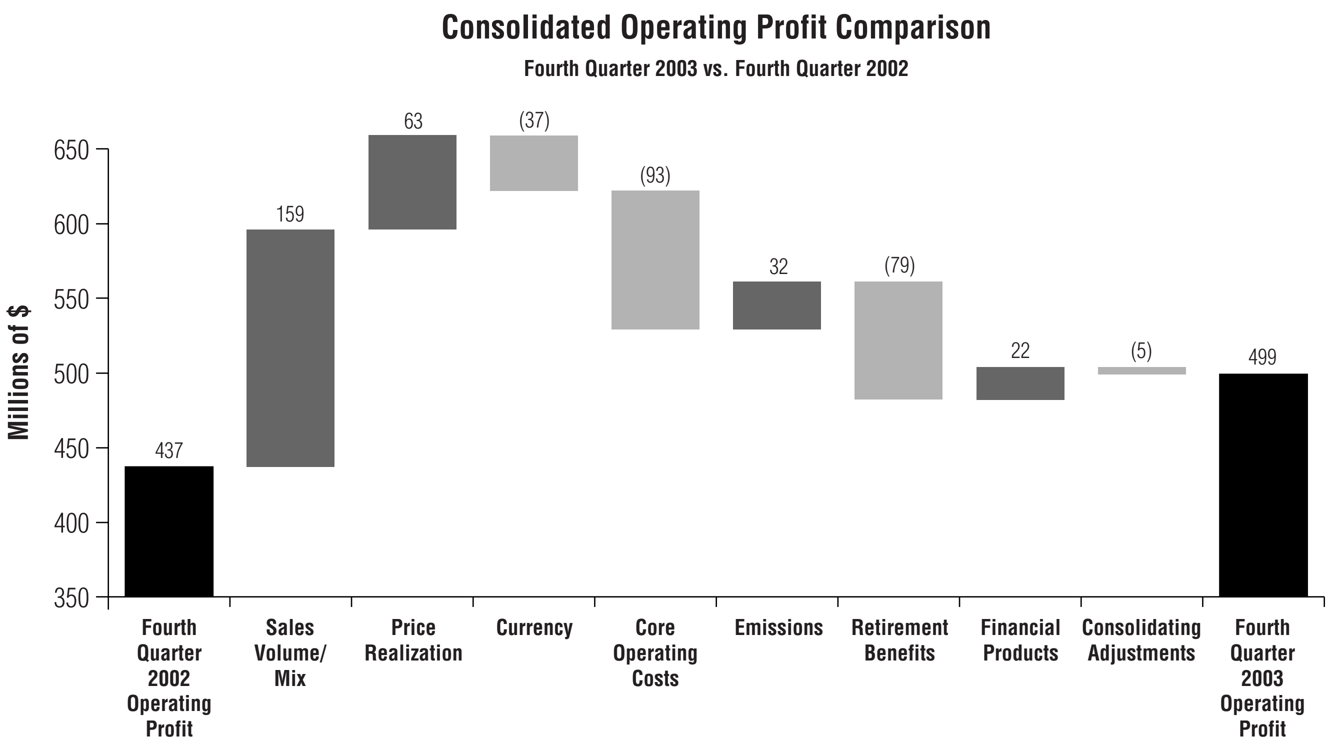
The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between fourth quarter 2002 (at left) and fourth quarter 2003 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues appear as downward stair steps with dollar amounts reflected in parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Machinery sales were $3.83 billion, an increase of $676 million or 21 percent from fourth quarter 2002. Sales volume was up about 14 percent, the favorable impact of currency accounted for about 4 percent and improved price realization added about 3 percent. North America had the strongest quarter of the year, with machinery sales 27 percent higher than fourth quarter 2002 due to higher sales volume and favorable price realization. Sales volume was up as a result of continued growth in dealer deliveries into construction, forestry, quarry and aggregates and a modest rebound in deliveries into coal mining. Sales in EAME increased 7 percent, the result of the favorable translation impact of a stronger euro, partially offset by a sales volume decline due to soft economic conditions in Europe. In Latin America, sales surged 56 percent. This gain reflects an increase in dealer inventories. Asia/Pacific sales were 15 percent higher than last year. Dealers added less to inventories than last year, offsetting some of the large gain in deliveries.

Engines sales were $2.18 billion, an increase of $346 million or 19 percent from fourth quarter 2002. Sales volume was up about 15 percent, the favorable impact of currency accounted for about 3 percent and improved emissions-related price increases (net of unfavorable price realization) added about 1 percent. Sales rose 20 percent in North America, 19 percent in EAME, 11 percent in Latin America and 22 percent in Asia/Pacific. The North American sales gain came from a doubling in quarterly sales of truck engines compared to last year's fourth quarter which was negatively impacted by truck manufacturers buying engines before the October 2002 engine emission regulations became effective. Sales in EAME rose due to the favorable effects of currency on engines sold into the electric power and industrial sectors and stronger industry demand for engines sold into the petroleum sector. In Latin America, higher sales of midrange truck engines and engines sold to the petroleum sector more than offset a 35 percent drop in sales to the electric power sector. Last year's fourth-quarter Latin American sales contained robust sales of large engines sold into Brazil to meet a hydroelectric power shortage. Stronger economic growth contributed to the increase in Asia/Pacific, where sales were higher in all major sectors. Sales into the global on-highway truck and bus engine sector doubled. Global sales of industrial and marine engines gained 15 and 7 percent, respectively, due to the favorable effects of currency and slight industry growth. Sales into the petroleum sector were up 6 percent. Global sales into the electric power sector were down 2 percent despite favorable effects of currency.

Financial Products revenues were $454 million, an increase of $66 million or 17 percent from fourth quarter 2002. The favorable impact of $56 million due to continued growth of earning assets at Cat Financial was partially offset by the $27 million impact of lower interest rates on new and existing finance receivables. Also, there was a $17 million increase in earned premiums on extended service contracts at Cat Insurance.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between fourth quarter 2002 (at left) and fourth quarter 2003 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Higher sales volume positively impacted operating profit but was partially offset by unfavorable sales mix primarily due to lower sales of higher margin fuel system components to Navistar attributable to the imminent expiration of a long-term purchase contract in 2003 between Caterpillar and Navistar, as well as higher sales of lower margin small diesel engines. Improved price realization of $63 million reflected the favorable impact of modest price increases taken in January 2003 on most machines and parts. The impact of changes in emission standards favorably impacted operating profit by $32 million as more ACERT product was introduced in the marketplace.

Partially offsetting the favorable items were $93 million higher core operating costs and $79 million of higher retirement benefits. The retirement benefits cost increase was primarily due to the impact of previous poor performance of equity markets on pension plan assets and increased expense resulting from the introduction of a company match to our 401(k) plan in 2003.

The increase in core operating costs reflects a lower than normal SG&A spending level in the fourth quarter 2002 due to stringent cost control reflective of business conditions, higher incentive compensation of $70 million which benefits employees at all levels, increased spending on product development programs, spending to support our volume growth and the unfavorable change of the gain/loss on disposition of assets. These unfavorable items were partially offset by the positive impact of continued material cost reductions and lower warranty costs.

Operating Profit Table

(Millions of dollars)	Fourth Quarter 2003	Fourth Quarter 2002
Machinery[1]	$ 367	$ 366
Engines[1]	70	26
Financial Products	87	65
Consolidating Adjustments	(25)	(20)
	$ 499	$ 437

[1] Caterpillar operations are highly integrated; therefore, the company uses a number of allocations to determine lines of business operating profit for Machinery and Engines.

Machinery operating profit was up $1 million compared to the fourth quarter 2002. The favorable impacts of higher volume and improved price realization were almost completely offset by higher core operating costs and retirement benefits. The increase in core operating costs was due to a lower than normal SG&A spending level in the fourth quarter 2002, higher incentive compensation, increased spending on product development programs, spending to support our volume growth and the unfavorable change of the gain/loss on disposition of assets. These unfavorable items were partially offset by the positive impact of continued material cost reductions and lower warranty costs.

Engines operating profit was up $44 million, or 169 percent, from fourth quarter 2002. The favorable impacts of higher volume (net of unfavorable sales mix) and meeting engine emissions standards with our ACERT technology were partially offset by lower price realization and higher retirement benefits.

Financial Products operating profit was up $22 million, or 34 percent, from fourth quarter 2002. The increase was primarily due to the impact of growth of earning assets of $11 million, decreased provision for credit losses of $8 million, and the favorable impact of $6 million due to lower interest rates (interest rates on debt decreased more than on the portfolio).

OTHER PROFIT/LOSS ITEMS

Interest expense excluding Financial Products was $19 million lower compared to fourth quarter 2002 primarily due to lower average long-term borrowings.

Other income/expense was income of $20 million compared with income of $51 million in fourth quarter 2002. The change was mostly due to the unfavorable impact of currency.

The provision for income taxes in the fourth quarter reflects an estimated annual tax rate of 27 percent for 2003 compared to 28 percent a year ago due to the geographic mix of profits and changes in the estimated tax benefits from export sales.

The equity in profit/loss of unconsolidated affiliated companies favorably impacted profit $3 million from fourth quarter a year ago, due in part to improved profitability of Shin Caterpillar Mitsubishi Ltd. resulting from improved export business into China and North America.

SUPPLEMENTAL INFORMATION

We are providing supplemental information including deliveries to users and dealer inventory levels. We sell the majority of our machines and engines to independently owned and operated dealers and original equipment manufacturers (OEMs) to meet the demands of their customers, the end users. Due to time lags between our sales and the deliveries to end users we believe this information will help readers better understand our business and the industries we serve. All information provided in the supplemental section is in ***Constant Dollars***.

Dealer New Machine Deliveries

Worldwide dealer deliveries of new machines to end users increased 6 percent from 2002. Asia/Pacific and North America accounted for the gain, mostly in deliveries into construction. Deliveries into mining declined despite some late-year recoveries resulting from higher metals prices.

Dealer machine deliveries in North America rose 11 percent in 2003, benefiting from an exceptionally strong 24 percent gain in the fourth quarter. Throughout the year, low interest rates and rising corporate profits encouraged users to upgrade fleets. Then, in the last half, deliveries benefited further from recoveries in construction and construction-related activities.

Deliveries into North American general construction were up 18 percent from 2002. Continued low mortgage interest rates caused housing starts to surge to a 25-year high and nonresidential building construction, largely retail and hotel, improved in the second half. Dealers delivered 17 percent more new machines into heavy construction, where both highway and sewer and water construction increased. Quarry and aggregate prices were higher than in 2002, driving a 5 percent gain in dealer deliveries into that industry. Lumber prices also increased, causing deliveries into forestry to increase 24 percent. Mining remained depressed, with dealer deliveries down 21 percent for the year. Although metals prices were up significantly and coal prices improved during the year, mining companies had not yet increased production by the end of the year.

In EAME, dealers delivered 5 percent fewer machines than in 2002. Europe, where most of the key economies were weak, accounted for most of the decline. Deliveries into Africa/Middle East also decreased, almost entirely in the United Arab Emirates. Deliveries in 2002 benefited from a large infrastructure project that was not repeated in 2003. In the CIS, dealer deliveries nearly doubled as a result of continued development in energy and mining, which benefited from higher oil and metals prices.

Deliveries of new machines into Latin America dropped 11 percent. Most economies grew slowly, resulting in weak construction activity. As a result, deliveries into construction industries decreased. In contrast, higher metals prices caused a significant increase in deliveries to metals mines and dealer inventories in-transit did increase in anticipation of future deliveries.

Dealer deliveries to end users in Asia/Pacific surged 25 percent. China, where the economy and construction industry boomed, accounted for over half the growth. Economic growth was also robust in many other countries, resulting in double-digit growth in dealer deliveries in Australia, India, Indonesia, Malaysia, South Korea and Thailand.

Dealer Inventories of New Machines

Worldwide dealer inventories at the end of 2003 were higher than a year earlier in all regions. Relative to dealer delivery rates, dealer inventories were lower than a year ago. The inventory to delivery ratio declined in all regions except Latin America.

Engine Deliveries to End Users and OEMs

Worldwide engine deliveries to end users and OEMs were up 1 percent in 2003. Stronger economic growth, higher corporate profits and rising business and investor confidence supported improving investment conditions in all commercial engine sectors. Truck engine deliveries rose 4 percent with all of the gain coming from midrange engines. Worldwide deliveries to end users in the petroleum and electric power sectors rose slightly (1 to 2 percent) with growth due to stronger industry demand. Global deliveries of industrial engines fell 4 percent mostly due to weak Western European economic growth and sluggish industry conditions. Worldwide marine engine deliveries fell 9 percent due to lower demand for large reciprocating engines used in workboats and ocean-going vessels.

In North America, engine deliveries to end users and OEMs were up 2 percent from 2002. Higher deliveries into the industrial, petroleum and on-highway truck sectors more than offset lower deliveries to the electric power and marine sectors. Engine deliveries to end users and OEMs in the industrial sector increased 22 percent caused by stronger industry demand as corporate profits and business investment recovered. Engines delivered to North American truck and bus manufacturers rose 4 percent with all of the growth caused by a 16 percent gain in demand for midrange engines. Caterpillar maintained its leadership position in the North American on-highway truck and bus industry. Deliveries of engines to the petroleum sector rose 5 percent, positively impacted by rising industry profits and more favorable investment trends. Deliveries of engines to the electric power sector declined 4 percent with weaker demand for turbines compared to last year when deliveries to various colleges and universities to meet future energy needs were abnormally strong. Deliveries of engines to the marine sector declined 20 percent due to lower demand for large reciprocating engines used in workboats.

In EAME, overall deliveries to end users and OEMs rose 2 percent, with higher deliveries to the electric power and petroleum sectors up 18 and 10 percent, respectively. EAME deliveries of reciprocating engines gained from particular industry strength in the Middle East. Deliveries to the Middle East strengthened due to favorable oil prices and revenues, steadily improving regional geopolitical confidence and reconstruction efforts. EAME deliveries of engines to the industrial and marine sectors fell 11 and 17 percent, respectively, caused by weak economic growth in Western Europe and lower industry demand for workboats and ocean-going vessels.

Deliveries to end users and OEMs in Latin America fell 17 percent as gains in deliveries to the on-highway truck, industrial and marine sectors were more than offset by weaker demand for engines delivered into the electric power and petroleum sectors. Deliveries of turbines and turbine services to the Latin American electric power sector rose sharply but not enough to offset much weaker deliveries of large reciprocating engines delivered into Brazil. Deliveries of large reciprocating engines rose sharply in 2002 when Brazil had significant hydroelectric power shortages but demand fell substantially after these power shortages disappeared.

Deliveries to end users and OEMs in Asia/Pacific were up 11 percent compared to last year led by a 31 percent gain in engine deliveries to the electric power sector. Improving economic growth and rising business investment supported growth in all sectors except petroleum. Asia/Pacific demand for large engines used in the petroleum sector weakened from last year's strong levels; last year key countries in Asia/Pacific made large investments in engines to increase their oil and gas development and production.

Dealer Inventories of Engines

Worldwide dealer engine inventories at year end were slightly above last year and slightly above normal compared to selling rates. North American and Latin American dealers aggressively worked their surplus electric power engine inventories down to normal levels. EAME dealer inventories rose significantly as dealers pre-positioned inventory to support expected Middle Eastern reconstruction efforts. Dealer inventories in Asia/Pacific rose slightly as delivery trends improved.

GLOSSARY OF TERMS

1. **Changes in Emissions Standards (Emissions)** — Generally, emissions describes the financial impacts of industry emission standard changes for on-highway truck and bus engines in North America. With respect to sales and revenues, emissions represents the impact of price increases. With respect to operating profit, emissions represents the net impact of price increases, production cost increases which include incremental ramp-up production costs and non-conformance penalties (NCPs).
2. **Consolidating Adjustments** — Eliminations of transactions between Machinery and Engines and Financial Products.
3. **Constant Dollars** — The dollar value of machine and engine deliveries adjusted for changes in price and currency.
4. **Core Operating Costs** — Machinery and Engines operating cost change adjusted for volume. It excludes currency, retirement benefits and emissions production cost increases, ramp-up production costs and NCPs.
5. **Currency** — With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impacts on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on the Financial Products line of business are included in the Financial Products portions of the respective analyses.

6. **EAME** — Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
7. **Earning Assets** — These assets consist primarily of total net finance receivables plus equipment on operating leases, less accumulated depreciation at Cat Financial. Net finance receivables represent the gross receivables amount less unearned income and the allowance for credit losses.
8. **Engines** — A principal line of business including the design, manufacture and marketing of engines for Caterpillar machinery, electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,600 to 19,500 horsepower (1 000 to 14 500 kilowatts).
9. **Financial Products** — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance) and their subsidiaries. Cat Financial provides a wide range of financing alternatives for Caterpillar machinery and engines, Solar gas turbines, as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.
10. **Latin America** — Geographic region including the Central American countries and Mexico.
11. **Machinery** — A principal line of business which includes the design, manufacture and marketing of construction, mining, agricultural and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, mining shovels, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders and related parts. Also includes logistics services for other companies.
12. **Machinery and Engines (M&E)** — Due to the highly integrated nature of operations, represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.
13. **Price Realization** — The impact of net price changes excluding emissions price increases and currency.
14. **Retirement Benefits** — Cost of defined benefit pension plans, defined contribution plans and retirement healthcare and life insurance.
15. **Sales Volume/Mix** — The net operating profit impact of changes in the quantities sold for machines, engines and parts combined with the net operating profit impact of changes in the relative weighting of machines, engines and parts sales with respect to total sales.
16. **6 Sigma** — On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through Black Belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement; it has become the way we work as teams to process business information, solve problems and manage our business successfully.

2002 COMPARED WITH 2001

For the full year, the company achieved sales and revenues of $20.15 billion compared to $20.45 billion in 2001. This decline of about 1 percent was due to lower sales volume of about $680 million, partially offset by the favorable impact of currency of about $150 million and improved price realization of about $150 million. The currency impact was due to the favorable impact of the weaker U.S. dollar on sales in other currencies, primarily the euro and Australian dollar.

Profit for the full year was $798 million or $2.30 per share, compared to $805 million or $2.32 per share, down less than 1 percent from 2001. Profit was favorably impacted by the absence of the $97 million after-tax charge recorded in 2001 for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions. The combined effect of favorable price realization and net favorable currency of approximately $250 million was more than offset by lower sales volume and related manufacturing inefficiencies.

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

MACHINERY AND ENGINES

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

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

Operating Profit Table

(Millions of dollars)	2002	2001
Machinery	$ 947	$ 854
Engines	175	353
	$1,122	$1,207*

*Includes $153 million of charges for the sale of the Challenger agricultural tractor line, plant closing and consolidations and costs for planned employment reductions. These charges were split $98 million and $55 million to Machinery and Engines, respectively.

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

Machinery operating profit increased $93 million, or 11 percent from 2001. Operating profit was favorably impacted by the absence of the $98 million charge for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions. The favorable profit impact of price realization, net impact of currency and lower SG&A expenses were more than offset by the profit impact of lower sales volume and related manufacturing inefficiencies.

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

Engine operating profit decreased $178 million, or 50 percent from 2001. Operating profit was favorably impacted by the absence of the $55 million charge for the sale of the Challenger agricultural tractor line, plant closing and consolidations and cost for planned employment reductions. Increased turbine and on-highway truck and bus engine volumes and improved price realization improved operating profit by approximately $140 million. These favorable items were more than offset by the profit impact of lower sales volume of large reciprocating engines, volume-related manufacturing inefficiencies and nonconformance penalties for on-highway truck and bus engines.

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

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

Other income/expense improved by $82 million year-over-year primarily due to the absence of foreign currency losses and lower expenses related to the sales of receivables to Cat Financial.

FINANCIAL PRODUCTS

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

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

INCOME TAXES

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

UNCONSOLIDATED AFFILIATED COMPANIES

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

OTHER CHARGES

In December 2001, we signed an agreement with AGCO to sell the design, assembly and marketing of the new MT Series of Caterpillar's Challenger high-tech farm tractors during the first quarter of 2002. By selling the Challenger we will avoid the substantial new investment in distribution that would be required to make this product profitable. The sale will also provide our distribution network the expanded line of agricultural products it needs to be successful. A total charge of $81 million was recognized for the Challenger sale. These charges reflect the provisions of the agreement with AGCO and are comprised of the following:

- $32 million for write-downs of land, buildings and equipment at our DeKalb, Illinois, facility to fair market value based on the negotiated contract price with AGCO.
- $49 million for exit costs. The contract with AGCO requires that we complete the design of the new Challenger tractor, ensure a successful market launch and pay for the remaining capital assets required for the production of the tractor. These amounts reflect our estimate of costs

to fulfill our contract obligations and will be incurred in 2002. Also included in exit costs are contractual obligations that will remain after the sale to AGCO but will provide no benefit to Caterpillar. These obligations range from one to seven years.

In December 2001, we announced plans to cease production of diesel engines at the Perkins Engines Shrewsbury, England, plant by the end of 2002. Production will be reallocated to other Caterpillar engine facilities to better leverage technology and capacity. Upon closure of the plant, we expect an annual benefit to cost of goods sold of approximately $16 million. This represents lower overhead and other fixed manufacturing expenses as the production moves to other existing Caterpillar locations. A total charge of $30 million was recognized for the closing and comprised the following:

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

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

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

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

During 2003, the contracts related to the Challenger were terminated. Contract cancellation costs were charged to the reserve, which was reduced to zero. There will be no future cash outlays related to these contracts. Also during 2003, the Shrewsbury exit plan was completed and remaining costs were charged to the reserve, which was also reduced to zero.

Other Charges

(Millions of dollars)	2001 Charge	Asset Impairments	2002 Activity*	12/31/02 Balance	2003 Activity	**12/31/03 Balance**
Challenger:						
Asset impairments	$ 32	$ (32)	$ —	$ —	$ —	**$ —**
Exit costs	49	—	(38)	11	(11)	**—**
	81	(32)	(38)	11	(11)	**—**
Shrewsbury:						
Asset impairments	16	(16)	—	—	—	**—**
Redundancy	10	—	(6)	4	(4)	**—**
Exit costs	4	—	(2)	2	(2)	**—**
	30	(16)	(8)	6	(6)	**—**
U.S. employment reduction	34	—	(34)	—	—	**—**
Other asset impairments	8	(8)	—	—	—	**—**
Total	$ 153	$ (56)	$ (80)	$ 17	$ (17)	**$ —**

*All amounts were paid in cash except for the U.S. employment reduction of $34 million which was reclassified to our pension accounts. Please refer to the Benefits Obligation Table in Note 11 on page A-17.

LIQUIDITY & CAPITAL RESOURCES

Sources of funds

The company generates its capital resources primarily through operations. Consolidated operating cash flow was $2.07 billion for 2003, a decrease of $300 million from 2002. This decrease reflects an increase in pension contributions of $523 million ($720 million in 2003 compared with $197 million in 2002) that more than offset increased profits of $301 million. The pension contributions were made with existing cash resources. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our "Outlook" on page A-54.

Total debt as of December 31, 2003 was $19.8 billion, an increase of $2.13 billion from year-end 2002. Debt related to Machinery and Engines decreased $254 million. Two $250 million debt retirements were partially offset by increases in capital lease obligations of $73 million and other long-term debt of $63 million. Debt related to Financial Products increased $2.39 billion due to financing a higher amount of assets at Cat Financial. We have two global credit facilities with a syndicate of banks totaling $4,675 million available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. Based on Management's allocation decision, which can be revised at any time during the year, the portion of the facility available to Cat Financial at December 31, 2003 was $4,075 million. The five-year facility of $2,125 million expires in September 2006. The 364-day facility of $2,550 million expires in September 2004. The facility expiring in September 2004 has a provision which allows Caterpillar or Cat Financial to obtain a one-year loan in September 2004 that would mature in September 2005. Our total credit commitments as of December 31, 2003 were:

(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facility	$4,675	$ 600	$4,075
Other external	1,549	683	866
Total credit lines available	6,224	1,283	4,941
Less: Global credit facility supporting commercial paper	3,957	45	3,912
Less: Utilized credit	255	72	183
Available credit	$2,012	$1,166	$ 846

We also generate funding through the securitization of receivables. In 2003, we generated $1,099 million and $693 million, of capital resources from the securitization of trade and finance receivables, respectively.

We do not generate material funding through structured finance transactions.

Committed funds

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

(Millions of dollars)	2004	2005	2006	2007	2008	After 2008	Total
Long-term debt:							
Machinery and Engines	$ 32	$ 62	$ 291	$ 33	$ 20	$ 2,350	$ 2,788
Financial Products	2,949	3,510	4,726	1,064	857	554	13,660
Total long-term debt	2,981	3,572	5,017	1,097	877	2,904	16,448
Capital leases	29	29	29	29	30	983	1,129
Operating leases	194	146	118	71	54	305	888
Postretirement obligations(1)	930	450	460	570	480	2,420	5,310
Purchase obligations:							
Accounts payable(2)	3,100	—	—	—	—	—	3,100
Purchase orders(3)	2,634	—	—	—	—	—	2,634
Other contractual obligations(4)	83	104	106	96	—	468	857
Total purchase obligations	5,817	104	106	96	—	468	6,591
Other long-term liabilities(5)	65	67	27	22	19	32	232
Total contractual obligations	$10,016	$ 4,368	$ 5,757	$1,885	$ 1,460	$ 7,112	$30,598

(1) Amounts represent expected contributions to our pension and other postretirement benefit plans through 2013.
(2) Amount represents invoices received and recorded as liabilities in 2003, but scheduled for payment in 2004. These represent short-term obligations made in the ordinary course of business.
(3) Amount represents contractual obligations for material and services on order at December 31, 2003 but not yet delivered. These represent short-term obligations made in the ordinary course of business.
(4) Amounts represent long-term commitments entered into with key suppliers for minimum purchases quantities.
(5) Amounts represent contractual obligations related to software license contracts, IT consulting contracts and outsourcing contracts for benefit plan administration and software system support.

Machinery and Engines

After contributing $720 million to our pension plans, Machinery and Engines operating cash flow was $1.43 billion. The strong cash flow allowed funding for our capital expenditures, increased dividend payments and the share repurchase program while improving the strength of our financial position. Pursuant to the share repurchase program authorized by the Board of Directors in October 2003, $405 million was spent to purchase 5.45 million shares during the fourth quarter. There were 344 million shares outstanding at the end of 2003. The goal of the share repurchase program, which expires in October 2008, is to reduce the company's outstanding shares to 320 million. In the first quarter, $250 million in long-term debt was retired using available cash resources. In the third quarter, the early retirement of our $250 million 6 percent debentures due in 2007 was made using available cash and low interest commercial paper. Capital expenditures, excluding equipment leased to others, during 2003 were $654 million, a decrease of $39 million from 2002 due to tight controls on spending.

Financial Products

Operating cash flow was $639 million for 2003, compared with $649 million for 2002. The decrease was due to higher working capital requirements, largely offset by increased profit. Cash used to purchase equipment leased to others was $1.07 billion during 2003 compared to $1.04 billion for 2002. In addition, net cash used for finance receivables was $1.50 billion for 2003, compared to $1.16 billion for 2002.

Financial Products total borrowings were $16.34 billion at December 31, 2003, an increase of $2.39 billion from December 31, 2002, and primarily comprised $11.72 billion of medium-term notes, $3.91 billion of commercial paper, $415 million of money market funds, $183 million of short-term notes payable to banks, $110 million of long-term notes payable to banks and $7 million of loans from a company-owned partnership. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At December 31, 2003, finance receivables past due over 30 days were 2.5%, compared with 3.5% at December 31, 2002. The allowance for credit losses was 1.49% of finance receivables, net of unearned income, at December 31, 2003, compared to 1.47% at December 31, 2002. Receivables written off due to uncollectibility in 2003, net of recoveries on receivables previously written off, were $82 million.

Financial Products was in compliance with all debt covenants at December 31, 2003.

Dividends paid per common share

Quarter	**2003**	2002	2001
First	**$ .350**	$ .350	$ .340
Second	**.350**	.350	.340
Third	**.350**	.350	.350
Fourth	**.370**	.350	.350
	$1.420	$1.400	$1.380

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, and reserves for warranty, product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

Residual values for leased assets — Determined based on the product, specifications, application and hours of usage. Each product has its own model for evaluation that includes market value cycles and forecasts. Consideration is also given to the amount of assets that will be returned from lease during a given time frame. Residual values could decline due to economic factors, obsolescence or other adverse circumstances.

Fair market values for goodwill impairment tests — Determined for each reporting unit by discounting projected cash flow for five years and adding a year-five residual value based upon a market Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) multiple. The estimated fair value could be impacted by changes in interest rates, growth rates, costs, capital expenditures and market conditions.

Warranty reserve — Determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are developed using a 12-month rolling average of actual warranty expense. These rates are applied to the field population and dealer inventory to determine the reserve. Warranty payments may differ from those estimated if actual claim rates are higher or lower than our historical rates.

Product liability and insurance loss reserve — Determined based upon reported claims in process of settlement and actuarial estimates for losses incurred but not reported. Loss reserves, including incurred but not reported reserves, are based on estimates and ultimate settlements may vary significantly from such estimates due to increased claims frequency or severity over historical levels.

Postretirement benefits — Primary actuarial assumptions are determined as follows: (See Tables on pages A-49 to A-50 for Sensitivity information for these assumptions.)

- The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.
- The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, November 30. A similar process is used to determine the assumed discount rate for our non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and expense.
- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.
- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g. technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

Post-sale discount reserve — The company extends numerous merchandising programs that provide discounts to dealers as products are sold to end users. The reserve is determined based on historical data adjusted for known changes in merchandising programs. Discounts paid may differ from those estimated if actual program usage is higher or lower than our historical or expected rates.

Credit loss reserve — The allowance for credit losses is evaluated on a regular basis and adjusted based upon management's best estimate of probable losses inherent in our finance receivables. In estimating probable losses, we review accounts that are past due, non-performing, or in bankruptcy. We also review accounts that may be at risk using information available about the customer, such as financial statements, news reports, and published credit ratings. We also use general information regarding industry trends and the general economic environment. Using an estimate of current fair market value of collateral and factoring in credit enhancements, such as additional collateral and third party guarantees, we arrive at an estimated loss for specific accounts and estimate an additional amount for the remainder of the finance receivables based upon historical trends. Adverse economic conditions or other factors that might cause deterioration of the financial health of our customers could change the timing and level of payments received and thus necessitate a change in our estimated losses.

Income tax reserve — Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that certain positions are likely to be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. Significant judgment is required in evaluating our tax reserves. Our reserves are adjusted in light of changing facts and circumstances, such as the progress of our tax audits. Our income tax expense includes the impact of reserve provisions and changes to reserves that we consider appropriate, as well as related interest. Unfavorable settlement of any particular issue would require use of our cash. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments.

EMPLOYMENT

At December 31, 2003, Caterpillar's worldwide employment was 69,169 compared with 68,990 one year ago. Excluding the impact of acquiring a controlling interest in Hindustan Powerplus Ltd. and increases to support our growing Caterpillar Logistics operations — which combined added approximately 1,100 employees — employment was down about 900.

Full-Time Employees at Year End

	2003	2002	2001
Inside U.S.	**35,260**	36,463	38,664
Outside U.S.	**33,909**	32,527	33,340
Total	**69,169**	68,990	72,004
By Region:			
North America	**35,486**	36,667	38,879
EAME	**20,547**	21,302	22,246
Latin America	**8,533**	7,143	7,012
Asia/Pacific	**4,603**	3,878	3,867
Total	**69,169**	68,990	72,004

OTHER MATTERS

ENVIRONMENTAL AND LEGAL MATTERS

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

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

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

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

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

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

In a final report to the EPA filed during the third quarter of 2003, we identified 70,018 medium heavy-duty engines produced and sold prior to October 2002 that yielded emissions below the applicable standard for that period, resulting in 20,868 Mg of medium heavy-duty banked credits. This is 381 engines and 120 Mg less than had been identified at the end of 2002. The number of engines generating emissions credits in our final report to the EPA was lowered for a variety of reasons including a more detailed analysis of engines actually produced that were eligible to generate credits and the identification of engines shipped to customers outside the United States which were not eligible to generate emissions credits. During 2003, banked credits offset the NCPs on all but approximately 600 of the approximately 31,000 non-conforming medium heavy-duty engines we produced. We paid NCPs of $2,485 per engine, or $1.5 million, on the 600 medium heavy-duty engines produced in 2003 in excess of those for which we could use banked credits. We also identified 731 heavy-duty engines built prior to October 1, 2002, that generated banked credits totaling 969 Mg. This is 227 engines and 261 Mg less than had been identified at the end of 2002; the reasons for the reduction are similar to those resulting in the adjustments to medium heavy-duty engines and credits. Banked credits offset the NCPs on approximately 2,000 of the 45,000 non-conforming heavy-duty engines we built during 2003. We paid NCP's of approximately $3,555 per engine, or $153 million on the remaining 43,000 heavy-duty engines produced in 2003 in excess of those for which we could use banked credits.

We began production of medium heavy-duty ACERT engines that were fully-compliant with the EPA emissions standards in early 2003, and in mid-2003 began producing fully-compliant heavy-duty ACERT engines. During 2003, Caterpillar received certification from the EPA for its C7 and C9 medium heavy-duty ACERT engines and its C11, C13 and C15 heavy-duty ACERT engines. By the end of 2003 Caterpillar was producing all of these engine models, and as a result, does not expect to pay NCPs on engines built during 2004.

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

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

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

Our expense for NCPs was $40 million in 2002 and $153 million in 2003. NCP expense recorded in 2002 was based on our engineering estimates at that time of the expected results of EPA emissions testing that began and was completed in 2003. NCP expense recorded in 2003 reflects the results of the completed tests, including a reduction of approximately 3 percent to the NCP expense recorded for 2002. During the fourth quarter of 2003, we re-tested one configuration of our heavy-duty bridge engine models, averaging the results with an earlier test. Our 2003 NCP expense includes a $10 million fourth-quarter benefit from the re-test related to all bridge engines of that configuration produced since October 2002, including $1.3 million for engines produced in the fourth quarter of 2002 and $7.4 million for engines produced during the first three quarters of 2003. For 2002, we paid NCPs on approximately 6,200 heavy-duty units and 7,200 medium heavy-duty units, and for 2003 we paid NCPs on approximately 43,000 heavy-duty units and 600 medium heavy-duty units.

Aside from $142 million in customary research and development expenses, emissions standard changes negatively impacted our 2002 financial results by $24 million ($17 million after tax) as NCPs ($40 million pre-tax), product cost increases and ramp-up production costs ($4 million pre-tax) were partially offset by price increases for these engines ($20 million pre-tax). NCPs were deposited in an escrow account prior to completion of emissions testing for each engine model throughout 2003, and were paid to the EPA, either from the escrow account or directly, after completion of testing of a particular model. On January 30, 2004, Caterpillar paid NCPs to the EPA for engines built during the fourth quarter of 2003, ending its payments to the EPA for NCPs for engines built during 2002 and 2003. NCP expense for 2003 reflects this payment.

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

(Millions of dollars)	2002
Price (Engines sold × bridge price increase)	$ 20
Incremental costs	
(Cost of additional materials and production costs)	(4)
NCPs (Engines sold × projected NCP per engine)	(40)
Net effect pre-tax	$ (24)
Tax	7
Net effect after tax	$ (17)

Aside from $115 million in customary research and development expenses, emissions standard changes negatively impacted our 2003 financial results by $46 million ($34 million after-tax). The net unfavorable impact of emission standard changes was greater in 2003 than in 2002 as significantly higher NCPs (approximately $153 million pre-tax), product cost increases and ramp-up production costs (approximately $84 million pre-tax), were partially offset by price increases for bridge and ACERT engines (approximately $191 million pre-tax). The following table reflects the 2003 impact of the emission standard changes:

(Millions of dollars)	**2003**
Price (Engines sold × bridge or ACERT price increase)	**$191**
Incremental costs	
(Cost of additional materials and production costs)	**(84)**
NCPs (Engines sold × NCP per engine — banked credits)	**(153)**
Net effect pre-tax	**$(46)**
Tax	**12**
Net effect after tax	**$(34)**

In addition to the above, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects is $29 million, of which $10 million was made in 2002 and $19 million in 2003. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

NCPs were approximately $3,500 per heavy-duty engine subject to NCPs, based on the results of the completed EPA testing. Our net price increase for heavy-duty bridge engines was successfully implemented on October 1, 2002; this increase was competitive with price increases implemented by other engine manufacturers on that date. With the introduction of ACERT engines in 2003, we implemented an additional price increase to truck manufacturers that purchase our heavy-duty engines, and on January 1, 2004, we implemented a price increase for medium heavy-duty ACERT engines. These increases are based on the additional value that we expect truck owners to receive from ACERT engines compared to engines of our competitors as a result of better fuel economy, less maintenance and greater durability. The ultimate net price increase we are able to achieve for our ACERT engines in the future is dependent upon marketplace acceptance of these engines versus competitive alternatives.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. At December 31, 2003, the past due receivable from Navistar regarding the foregoing was $132 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. At December 31, 2003, the past due receivables for the foregoing totaled $12 million. The pending complaint further alleges that Sturman Industries, Inc., and Sturman Engine Systems, Inc., colluded with Navistar to utilize technology that Sturman Industries, Inc., misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc., and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois, that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fourth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International further claims that Caterpillar improperly restricted the supply of heavy-duty engines to International from June through September 2002, and claims that Caterpillar made certain fraudulent misrepresentations with respect to the availability of engines during this time period. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar filed an answer denying International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar denies International's claims and will vigorously contest them. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled for the third quarter of 2004 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

On August 30, 2002, a World Trade Organization (WTO) arbitration panel determined that the European Union (EU) may impose up to $4.04 billion per year in retaliatory tariffs if the U.S. tax code is not brought into compliance with an August 2001 WTO decision that found the extraterritorial tax (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constitute an export subsidy prohibited by the WTO Agreement on Subsidies and Countervailing Measures. Since August 2002, the EU has developed a list of U.S. origin products on which the EU could impose tariffs as high as 100 percent of the value of the product. Negotiations among EU Member States, the European Commission and the private sector over which products would be listed were intense. The EU finalized the list in December 2003 and stated that in March 2004 it will begin imposing retaliatory tariffs of 5 percent on certain U.S. origin goods. If imposed, the tariffs would increase 1 percentage point per month to a maximum of 17 percent after one year. The gradual increase in tariffs is designed to place increasing pressure on the U.S. government to bring its tax laws into compliance with its WTO obligations. Given the makeup of the final retaliation list, some Caterpillar parts and components will be subjected to these additional tariffs. Based on what we know today, we do not believe these tariffs will materially impact our financial results. The company has production facilities in the EU, Russia, Asia and South America that would not be affected by a retaliatory tariff aimed at U.S. origin products. When the EU implements its proposed tariffs, increased pressure will be placed on Congress to repeal ETI, possibly during the current session. It is not possible to predict how the U.S. legislative process will affect the company's 2004 income tax liability, but based on what we know today, we do not believe the impact, if any, will be material.

POSTRETIREMENT BENEFITS

In 2003 we recognized a net pension expense of $126 million compared with a benefit of $73 million in 2002. The increase in expense was primarily a result of the impact of lower plan assets due to previous poor performance of the equity market, lower long-term return assumptions on pension plan assets and a lower assumed discount rate. SFAS 87, "Employers' Accounting for Pensions" requires companies to use an expected long-term rate of return for computing current year pension expense. Differences between the actual and expected returns are amortized into future earnings as actuarial gains and losses. At the end of 2003, unrecognized actuarial losses of $3.20 billion primarily reflect a declining discount rate and lower than expected returns on our pension plan assets.

Other postretirement benefit expense was $269 million in 2003, up $29 million from 2002. The increase in expense is the result of inflation on health care costs, a lower long-term return assumption on plan assets and a lower assumed discount rate. The increase in expense was partially offset by changes to our U.S. benefit plans implemented during the second quarter of 2002 (full year of benefit recognition in 2003 versus eight months in 2002). The plan changes included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare part B premiums and significant reductions in retiree life insurance. In total, these changes lowered our existing benefit obligation by approximately $475 million, which will be amortized into earnings over seven years (the average remaining service period of employees affected by the plan changes) or $68 million per year. In addition to this amortization, our ongoing annual expense will decrease approximately $45 million from the plan changes. A benefit of $112 million reflecting the full year impact of the plan changes was recognized in 2003 versus a benefit of $75 million in 2002. Unrecognized actuarial losses for other postretirement plans were $1.38 billion at the end of 2003. These losses reflect a declining discount rate, higher than expected benefit costs, lower than expected plan asset returns and an increase in expected health care inflation.

The unrecognized actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes and other factors that impact these expenses. If actual experience is as assumed, we will be required to recognize significant actuarial losses in future periods as a result of declining interest rates, previous equity market performance and health care inflation. These losses will be amortized on a straight-line basis over the remaining service period of active employees expected to receive benefits under the benefit plans.

SFAS 87 requires the recognition of an Additional Minimum Liability if the market value of plan assets is less than the accumulated benefit obligation as of the measurement date. Based on these values, the company increased the Additional Minimum Liability by $206 million in the fourth quarter of 2003. This resulted in a decrease in Accumulated Other Comprehensive Income (a component of Shareholder's Equity on the Statement of Financial Position) of $163 million after tax. During 2003, the company made cash contributions of $644 million to its U.S. defined benefit pension plans, which make up approximately 85 percent of the company's total pension liability. The company continues to have adequate liquidity resources to fund plans, as it deems necessary. Future changes to the Additional Minimum Liability will be dependent on several factors including actual returns on our pension plan assets, company contributions, benefit plan changes and our assumed discount rate.

Although we have no ERISA funding requirements in 2004, we currently expect to make about $500 million of voluntary contributions to fund our U.S. pension plans. We also currently expect to make $90 million of contributions to certain non-U.S. pension plans during 2004. We have adequate liquidity resources to fund both U.S. and non-U.S. plans.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effects of a one-percentage point change in our primary actuarial assumptions on 2003 benefit costs and year-end obligations is included in the table below.

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions (included in the following table) on 2003 pension and other postretirement benefits costs and obligations:

	2003 Benefit Cost		Year-end Benefit Obligation	
(Millions of dollars)	One percentage-point increase	One percentage-point decrease	One percentage-point increase	One percentage-point decrease
Pension benefits:				
Assumed discount rate	$ (53)	$ 88	$(1,207)	$1,388
Expected rate of compensation increase	41	(37)	219	(211)
Expected long-term rate of return on plan assets	(86)	86	—	—
Other postretirement benefits:				
Assumed discount rate	(17)	39	(429)	471
Expected rate of compensation increase	1	(1)	3	(3)
Expected long-term rate of return on plan assets	(10)	10	—	—
Assumed health care cost trend rate	45	(36)	242	(217)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	**6.2%**	7.0%	7.3%	**5.1%**	5.4%	5.7%	**6.1%**	7.0%	7.2%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.2%**	3.3%	3.3%	**4.0%**	4.0%	4.0%
Weighted-average assumptions used to determine net cost:									
Discount rate	**7.0%**	7.3%	7.8%	**5.4%**	5.7%	5.9%	**7.0%**	7.2%	7.8%
Expected return on plan assets	**9.0%**	9.8%	10.0%	**7.1%**	7.6%	7.6%	**9.0%**	9.8%	10.0%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.3%**	3.3%	3.7%	**4.0%**	4.0%	4.0%
Health care cost trend rates at year end:									
Health care trend rate assumed for next year							**8.5%**	9.0%	11.0%
Rate that the cost trend rate gradually declines to							**4.5%**	4.5%	4.5%
Year that the cost trend rate reaches ultimate rate							**2009**	2009	2009

SENSITIVITY

Foreign Exchange Rate Sensitivity

Based on the anticipated and firmly committed cash inflow and outflow for our Machinery and Engines operations for the next 12 months and the foreign currency derivative instruments in place at year end, a hypothetical 10 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2004 cash flow for our Machinery and Engines operations by $9 million. Last year, similar assumptions and calculations yielded a potential $39 million adverse impact on 2003 cash flow. We determine our net exposures by calculating the difference in cash inflow and outflow by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

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

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

Interest Rate Sensitivity

For our Machinery and Engines operations, we have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt. However, we currently do not have any interest rate swaps. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2004 pretax earnings of Machinery and Engines by $4 million. Last year, similar assumptions and calculations yielded a potential $2 million adverse impact on 2003 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt.

For our Financial Products operations, we use interest rate derivative instruments primarily to meet our match funding objectives and strategies. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect the 2004 pretax earnings of Financial Products by $18 million. Last year, similar assumptions and calculations yielded a potential $15 million adverse impact on 2003 pretax earnings. To estimate the impact of interest rate sensitivity on our income, we compute the difference in baseline and sensitized interest expense over the next 12 months. We determine the baseline interest expense by applying a market interest rate to the unmatched portion of our debt portfolio. The unmatched portion of our debt is an estimate of fixed-rate assets funded by floating-rate liabilities. We incorporate the effects of interest rate swap agreements in the estimate of our unmatched debt. We determine the sensitized interest expense by adding 100 basis points to the market interest rate applied to baseline interest expense and apply this rate to the unmatched debt. Our analysis assumes no new fixed-rate assets were extended and no further action was taken to alter our current interest rate sensitivity.

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

SUPPLEMENTAL CONSOLIDATING DATA

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

Consolidated — Caterpillar Inc. and its subsidiaries.

Machinery and Engines — The Machinery and Engines data contained in the schedules on pages A-51 to A-53 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Regulation G. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

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

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

Pages A-51 to A-53 reconcile Machinery and Engines with Financial Products on the Equity Basis to Caterpillar Inc. Consolidated financial information.

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

(Millions of dollars)

				Supplemental consolidating data								
	Consolidated			Machinery and Engines[1]			Financial Products			Consolidating Adjustments		
	2003	2002	2001	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Sales and revenues:												
Sales of Machinery and Engines	**$ 21,048**	$ 18,648	$ 19,027	**$ 21,048**	$ 18,648	$ 19,027	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Revenues of Financial Products	**1,715**	1,504	1,423	**—**	—	—	**1,895**	1,678	1,645	**(180)[2]**	(174)[2]	(222)[2]
Total sales and revenues	**22,763**	20,152	20,450	**21,048**	18,648	19,027	**1,895**	1,678	1,645	**(180)**	(174)	(222)
Operating costs:												
Cost of goods sold	**16,945**	15,146	15,179	**16,945**	15,146	15,179	**—**	—	—	**—**	—	—
Selling, general and administrative expenses	**2,470**	2,094	2,140	**2,009**	1,739	1,802	**538**	430	389	**(77)[3]**	(75)[3]	(51)[3]
Research and development expenses	**669**	656	696	**669**	656	696	**—**	—	—	**—**	—	—
Interest expense of Financial Products	**470**	521	657	**—**	—	—	**482**	538	685	**(12)[4]**	(17)[4]	(28)[4]
Other operating expenses	**521**	411	467	**(9)**	(15)	143	**530**	426	324	**—**	—	—
Total operating costs	**21,075**	18,828	19,139	**19,614**	17,526	17,820	**1,550**	1,394	1,398	**(89)**	(92)	(79)
Operating profit	**1,688**	1,324	1,311	**1,434**	1,122	1,207	**345**	284	247	**(91)**	(82)	(143)
Interest expense excluding Financial Products	**246**	279	285	**259**	279	285	**—**	—	—	**(13)**	—	—
Other income (expense)	**35**	69	143	**(69)**	(16)	(98)	**26**	3	98	**78[5]**	82[5]	143[5]
Consolidated profit before taxes	**1,477**	1,114	1,169	**1,106**	827	824	**371**	287	345	**—**	—	—
Provision for income taxes	**398**	312	367	**286**	204	239	**112**	108	128	**—**	—	—
Profit of consolidated companies	**1,079**	802	802	**820**	623	585	**259**	179	217	**—**	—	—
Equity in profit (loss) of unconsolidated affiliated companies	**20**	(4)	3	**16**	(12)	(4)	**4**	8	7	**—**	—	—
Equity in profit of Financial Products' subsidiaries	**—**	—	—	**263**	187	224	**—**	—	—	**(263)[6]**	(187)[6]	(224)[6]
Profit	**$ 1,099**	$ 798	$ 805	**$ 1,099**	$ 798	$ 805	**$ 263**	$ 187	$ 224	**$ (263)**	$ (187)	$ (224)

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

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

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

[4] Elimination of interest expense recorded between Financial Products and Machinery and Engines.

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

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

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

			Supplemental consolidating data					
	Consolidated		Machinery and Engines[1]		Financial Products		Consolidating Adjustments	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Assets								
Current assets:								
Cash and short-term investments	**$ 342**	$ 309	**$ 220**	$ 146	**$ 122**	$ 163	**$ —**	$ —
Receivables — trade and other	**3,666**	2,838	**2,993**	2,712	**1,642**	1,386	**(969)[2]**	(1,260)[2]
Receivables — finance	**7,605**	6,748	**—**	—	**7,605**	6,748	**—**	—
Deferred and refundable income taxes	**707**	781	**645**	718	**62**	63	**—**	—
Prepaid expenses	**1,424**	1,224	**1,403**	1,252	**27**	7	**(6)[3]**	(35)[3]
Inventories	**3,047**	2,763	**3,047**	2,763	**—**	—	**—**	—
Total current assets	**16,791**	14,663	**8,308**	7,591	**9,458**	8,367	**(975)**	(1,295)
Property, plant and equipment — net	**7,290**	7,046	**4,682**	4,848	**2,608**	2,198	**—**	—
Long-term receivables — trade and other	**82**	66	**81**	66	**1**	—	**—**	—
Long-term receivables — finance	**7,822**	6,714	**—**	—	**7,822**	6,714	**—**	—
Investments in unconsolidated affiliated companies	**800**	747	**426**	398	**374**	349	**—**	—
Investments in Financial Products subsidiaries	**—**	—	**2,547**	1,961	**—**	—	**(2,547)[4]**	(1,961)[4]
Deferred income taxes	**616**	711	**819**	832	**19**	12	**(222)[5]**	(133)[5]
Intangible assets	**239**	281	**230**	277	**9**	4	**—**	—
Goodwill	**1,398**	1,402	**1,398**	1,402	**—**	—	**—**	—
Other assets	**1,427**	1,117	**719**	614	**708**	503	**—**	—
Total assets	**$ 36,465**	$ 32,747	**$ 19,210**	$ 17,989	**$ 20,999**	$ 18,147	**$ (3,744)**	$ (3,389)
Liabilities								
Current liabilities:								
Short-term borrowings	**$ 2,757**	$ 2,175	**$ 72**	$ 64	**$ 3,160**	$ 2,906	**$ (475)[6]**	$ (795)[6]
Accounts payable	**3,100**	2,269	**3,078**	2,334	**243**	151	**(221)[7]**	(216)[7]
Accrued expenses	**1,638**	1,620	**857**	840	**802**	806	**(21)[8]**	(26)[8]
Accrued wages, salaries and employee benefits	**1,802**	1,779	**1,788**	1,762	**14**	17	**—**	—
Dividends payable	**127**	120	**127**	120	**—**	—	**—**	—
Deferred and current income taxes payable	**216**	70	**166**	35	**50**	35	**—**	—
Deferred liability	**—**	—	**—**	—	**259**	259	**(259)[9]**	(259)[9]
Long-term debt due within one year	**2,981**	3,912	**32**	258	**2,949**	3,654	**—**	—
Total current liabilities	**12,621**	11,945	**6,120**	5,413	**7,477**	7,828	**(976)**	(1,296)
Long-term debt due after one year	**14,078**	11,596	**3,367**	3,403	**10,711**	8,193	**—**	—
Liability for postemployment benefits	**3,172**	3,333	**3,172**	3,333	**—**	—	**—**	—
Deferred income taxes and other liabilities	**516**	401	**473**	368	**264**	165	**(221)[5]**	(132)[5]
Total liabilities	**30,387**	27,275	**13,132**	12,517	**18,452**	16,186	**(1,197)**	(1,428)
Contingencies								
Stockholders' equity								
Common stock	**1,059**	1,034	**1,059**	1,034	**890**	837	**(890)[4]**	(837)[4]
Treasury stock	**(2,914)**	(2,669)	**(2,914)**	(2,669)	**—**	—	**—**	—
Profit employed in the business	**8,450**	7,849	**8,450**	7,849	**1,495**	1,232	**(1,495)[4]**	(1,232)[4]
Accumulated other comprehensive income	**(517)**	(742)	**(517)**	(742)	**162**	(108)	**(162)[4]**	108[4]
Total stockholders' equity	**6,078**	5,472	**6,078**	5,472	**2,547**	1,961	**(2,547)**	(1,961)
Total liabilities and stockholders' equity	**$ 36,465**	$ 32,747	**$ 19,210**	$ 17,989	**$ 20,999**	$ 18,147	**$ (3,744)**	$ (3,389)

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

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

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

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

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

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

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

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

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

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

	Consolidated		Supplemental consolidating data: Machinery and Engines[1]		Supplemental consolidating data: Financial Products		Supplemental consolidating data: Consolidating Adjustments	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Cash flow from operating activities:								
Profit	**$ 1,099**	$ 798	**$ 1,099**	$ 798	**$ 263**	$ 187	**$ (263)[2]**	$ (187)[2]
Adjustments for non-cash items:								
Depreciation and amortization	**1,347**	1,220	**798**	785	**549**	435	**—**	—
Undistributed profit of Financial Products	**—**	—	**(263)**	(187)	**—**	—	**263[3]**	187[3]
Charges	**—**	—	**—**	—	**—**	—	**—**	—
Other	**(15)**	363	**(12)**	251	**20**	98	**(23)[4]**	14[4]
Changes in assets and liabilities:								
Receivables — trade and other	**(521)**	(50)	**(376)**	125	**(250)**	(138)	**105[4]**	(37)[4]
Inventories	**(286)**	162	**(286)**	162	**—**	—	**—**	—
Accounts payable and accrued expenses	**617**	164	**674**	114	**(4)**	25	**(53)[4]**	25[4]
Other — net	**(175)**	(291)	**(207)**	(352)	**61**	42	**(29)[4]**	19[4]
Net cash provided by operating activities	**2,066**	2,366	**1,427**	1,696	**639**	649	**—**	21
Cash flow from investing activities:								
Capital expenditures — excluding equipment leased to others	**(682)**	(728)	**(654)**	(693)	**(28)**	(35)	**—**	—
Expenditures for equipment leased to others	**(1,083)**	(1,045)	**(10)**	(5)	**(1,073)**	(1,040)	**—**	—
Proceeds from disposals of property, plant and equipment	**761**	561	**133**	88	**628**	473	**—**	—
Additions to finance receivables	**(17,146)**	(15,338)	**—**	—	**(17,146)**	(15,338)	**—**	—
Collections of finance receivables	**13,882**	11,866	**—**	—	**13,882**	11,866	**—**	—
Proceeds from sale of finance receivables	**1,760**	2,310	**—**	—	**1,760**	2,310	**—**	—
Net intercompany borrowings	**—**	—	**376**	(571)	**53**	14	**(429)[5]**	557[5]
Investments and acquisitions	**(36)**	(294)	**(18)**	(24)	**(18)**	(270)	**—**	—
Other — net	**(17)**	(40)	**(23)**	(14)	**(47)**	(62)	**53[6]**	36[6]
Net cash used for investing activities	**(2,561)**	(2,708)	**(196)**	(1,219)	**(1,989)**	(2,082)	**(376)**	593
Cash flow from financing activities:								
Dividends paid	**(491)**	(481)	**(491)**	(481)	**—**	—	**—**	—
Common stock issued, including treasury shares reissued	**157**	10	**157**	10	**53**	36	**(53)[6]**	(36)[6]
Treasury shares purchased	**(405)**	—	**(405)**	—	**—**	—	**—**	—
Net intercompany borrowings	**—**	—	**(53)**	(14)	**(376)**	571	**429[5]**	(557)[5]
Proceeds from long-term debt issued	**5,402**	4,137	**128**	248	**5,274**	3,889	**—**	—
Payments on long-term debt	**(4,237)**	(3,339)	**(463)**	(225)	**(3,774)**	(3,114)	**—**	—
Short-term borrowings — net	**87**	(102)	**(37)**	(155)	**124**	53	**—**	—
Net cash provided by (used for) financing activities	**513**	225	**(1,164)**	(617)	**1,301**	1,435	**376**	(593)
Effect of exchange rate changes on cash	**15**	26	**7**	35	**8**	12	**—[7]**	(21)[7]
Increase (decrease) in cash and short-term investments	**33**	(91)	**74**	(105)	**(41)**	14	**—**	—
Cash and short-term investments at beginning of period	**309**	400	**146**	251	**163**	149	**—**	—
Cash and short-term investments at end of period	**$ 342**	$ 309	**$ 220**	$ 146	**$ 122**	$ 163	**$ —**	$ —

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

(2) Elimination of Financial Products profit after tax due to equity method of consolidation.

(3) Non-cash adjustment for the undistributed earnings from Financial Products.

(4) Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

(5) Net proceeds and payments to/from Machinery and Engines and Financial Products.

(6) Change in investment and common stock related to Financial Products.

(7) Elimination of the effect of exchange on intercompany balances.

OUTLOOK

SALES AND REVENUES OUTLOOK

For the year 2004, we project company sales and revenues will increase about 12 percent compared to 2003. Machinery and Engines volume is expected to increase about 10 percent with the remainder coming from Financial Products revenues and improved price realization.

A worldwide economic recovery is now underway and we expect further strengthening in 2004. Global economic growth should exceed 3.5 percent in 2004, or about 1 percentage point higher than in 2003.

Record, or near-record, low interest rates initiated economic recoveries in 2003 and we expect interest rates will remain low throughout 2004. Most economies have considerable excess capacity, and inflation is generally within central bank targets. We expect that central bankers will be cautious about taking any actions that could jeopardize recoveries.

This environment should further benefit our businesses. Low interest rates and rising profits are expected to continue to encourage users to replace existing equipment. Low interest rates should also allow another strong year for housing construction. Nonresidential construction, which tends to parallel overall economic growth, should continue to improve. Metals mining had only a scattered recovery in 2003, but we expect that recent increases in metals prices will cause this industry's recovery to strengthen and broaden in 2004.

North America (United States and Canada)

The U. S. economy ended 2003 on a strong note and the continuation of low interest rates in 2004 should ensure a very good year for the economy. We project U. S. growth of at least 4.5 percent and the Canadian economy should rebound from 2003's slowdown, growing more than 3 percent in 2004.

We estimate that Machinery and Engines sales will increase about 18 percent in 2004. Continued low interest rates should allow further growth in construction and higher coal and metals prices should trigger substantial recoveries in mining. Petroleum and natural gas sales should continue to benefit from favorable energy prices.

EAME

European economies recovered slowly in the last half of 2003 and current low interest rates should allow further strengthening. We expect the European economies to grow 2 percent in 2004, fast enough to allow some improvement in construction activity. Favorable energy prices, plus much higher commodity prices, should result in another year of good economic growth in both Africa/Middle East and the CIS.

We estimate that Machinery and Engines sales in EAME will rise about 6 percent in 2004. Higher volume should account for about 5 percent of the increase while the ongoing favorable impact of the strong euro and improved price realization are expected to contribute the remaining 1 percent increase in sales.

Latin America

We expect economic growth will improve to about 3.5 percent in 2004 compared to 1.5 percent experienced in 2003. The region should benefit from the worldwide economic recovery and reductions in local interest rates. Foreign direct investment is also expected to recover in 2004. As a result of stronger economies, we project that sales of Machinery and Engines will be up about 5 percent in 2004.

Asia/Pacific

This region is expected to again lead the world in economic growth, improving to over 6 percent in 2004. China's booming economy should slow a bit in response to modest tightening in economic policies. This is expected to be more than offset by better growth in most other countries. Despite rising trade frictions targeted at the region, most countries should be able to increase exports as a result of faster world economic growth.

We expect sales of Machinery and Engines to increase around 7 percent in 2004. Strong domestic economies and low local interest rates are expected to boost construction and the region's sizable mining sector should benefit from higher commodity prices.

Financial Products

We expect growth in Financial Products for 2004, with revenues expected to increase approximately 10 percent versus 2003 primarily due to higher average earning assets in 2004 (beginning earning assets and new financing activity will both be higher in 2004 versus 2003). New financing activity growth is primarily due to expected improvement in Machinery and Engines sales and other growth initiatives.

PROFIT OUTLOOK

We expect 2004 profit per share to be up about 40 percent compared to 2003. The year will benefit from higher volume and the favorable impact of our ACERT technology. We anticipate an increase in retirement benefits of about $250 million, which we expect to offset with improved price realization and lower core operating costs.

* * *

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 27, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS ■

SUPPLEMENTAL STOCKHOLDER INFORMATION

Shareholder Services:

Stock Transfer Agent
Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-3315
phone: (866) 203-6622 (U.S. and Canada)
(201) 329-8660 (Outside U.S. and Canada)
hearing impaired:
(800) 231-5469 (U.S. and Canada)
(201) 329-8354 (Outside U.S. and Canada)
Internet home page: www.melloninvestor.com

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

Stock Purchase Plan:

Current shareholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Stock Transfer Agent. Current shareholders can get more information on the program from our Stock Transfer Agent using the contact information provided above. Non-shareholders can request program materials by calling: (800) 842-7629 (United States and Canada) or (201) 329-8660 (outside the United States and Canada). The Investor Services Program materials are available on-line from Mellon's website or linked from www.CAT.com/dspp.

Investor Relations:

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

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

Common Stock (NYSE: CAT)

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

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

	2003		2002	
Quarter	**High**	**Low**	High	Low
First	**$53.30**	**$41.24**	$59.99	$46.75
Second	**$58.25**	**$48.98**	$59.62	$45.90
Third	**$73.97**	**$53.10**	$49.40	$36.33
Fourth	**$84.95**	**$68.90**	$50.84	$33.75

Number of Stockholders: Stockholders of record at year end totaled 38,440, compared with 38,200 at the end of 2002. Approximately 68.35% of our issued shares are held by institutions and banks, 23.97% by individuals, and 7.68% by Caterpillar benefit plans.

Employees' investment and profit-sharing plans acquired 2,052,151 shares of Caterpillar stock in 2003. Investment plans, for which membership is voluntary, held 23,106,120 shares for employee accounts at 2003 year end. Profit-sharing plans, in which membership is automatic for most U.S. and Canadian employees in eligible categories, held 424,417 shares at 2003 year end.

Company Information:

Current information:

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

Historical information:

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

Annual Meeting:

On Wednesday, April 14, 2004, at 1:30 p.m., Central Time, the Annual Meeting of Stockholders will be held at the Northern Trust Building, Chicago, Illinois. Requests for proxies are being sent to stockholders with this report mailed on or about March 1, 2004.

Internet:

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

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

DIRECTORS AND OFFICERS

Directors/Committee Membership (as of December 31, 2003)				
	Audit	**Compensation**	**Governance**	**Public Policy**
Glen A. Barton[1]				
W. Frank Blount	✔		✔	
John R. Brazil		✔		✔*
John T. Dillon	✔		✔*	
Eugene V. Fife	✔*			✔
Gail D. Fosler		✔		✔
Juan Gallardo		✔		✔
David R. Goode	✔		✔	
Peter A. Magowan		✔		✔
William A. Osborn		✔*	✔	
James W. Owens[2]				
Gordon R. Parker	✔		✔	
Charles D. Powell		✔		✔
Edward B. Rust, Jr.	✔		✔	
Joshua I. Smith			✔	✔
* Chairman of Committee				

OFFICERS

Glen A. Barton[1]	Chairman and CEO
James W. Owens[2]	Chairman and CEO
Vito H. Baumgartner[1]	Group President
Douglas R. Oberhelman	Group President
Gerald L. Shaheen	Group President
Richard L. Thompson	Group President
Gérard R. Vittecoq[3]	Group President
Steven H. Wunning[3]	Group President
Ali M. Bahaj	Vice President
Sidney C. Banwart	Vice President
Michael J. Baunton	Vice President
James S. Beard	Vice President
Mary H. Bell[3]	Vice President
Richard A. Benson	Vice President
James B. Buda	Vice President, General Counsel and Secretary
Rodney L. Bussell	Vice President
Thomas A. Gales	Vice President
Stephen A. Gosselin	Vice President
Hans A. Haefeli[3]	Vice President
Donald M. Ings	Vice President
Richard P. Lavin	Vice President
Stuart L. Levenick	Vice President
Robert R. Macier	Vice President
F. Lynn McPheeters	Vice President, Chief Financial Officer
Daniel M. Murphy	Vice President
Gerald Palmer	Vice President
James J. Parker	Vice President
Mark R. Pflederer[3]	Vice President
Edward J. Rapp	Vice President
Christiano V. Schena	Vice President
William F. Springer	Vice President
Gary A. Stroup	Vice President
Sherril K. West[1]	Vice President
Donald G. Western	Vice President
David B. Burritt	Controller
Kevin E. Colgan	Treasurer
Robin D. Beran	Assistant Treasurer
Tinkie E. Demmin	Assistant Secretary
Laurie J. Huxtable	Assistant Secretary

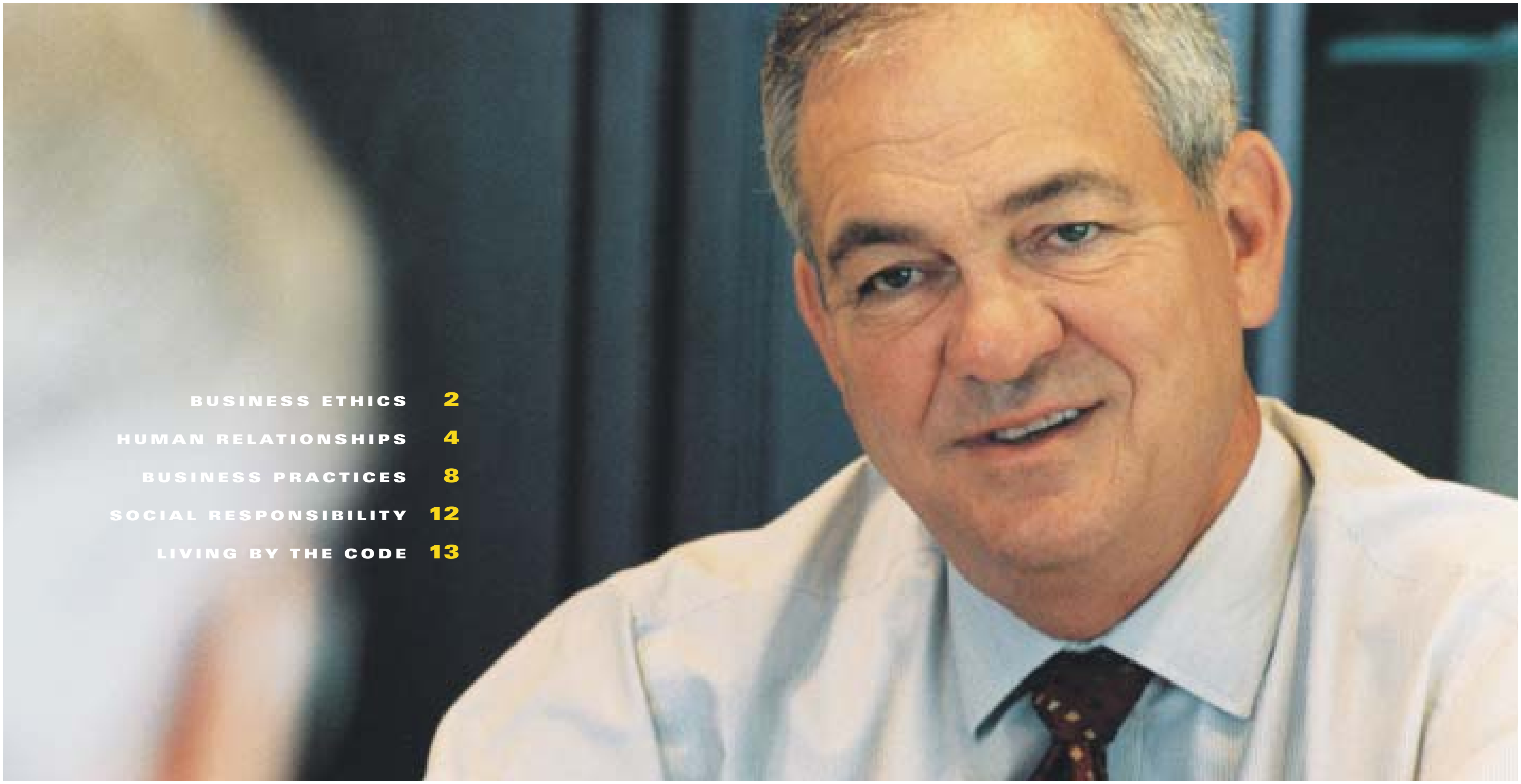
Note: All director/officer information is as of December 31, 2003, except as noted.

[1]*Retired effective January 31, 2004.*
[2]*Effective January 31, 2004.*
[3]*Effective January 1, 2004.*

CODE OF WORLDWIDE BUSINESS CONDUCT

working with *integrity*

CATERPILLAR®



No document Caterpillar has published is more important than our Code of Worldwide Business Conduct. From time to time we may revise its words to reflect our constantly evolving enterprise, but the Code's basic principle — our integrity — has never changed.

Caterpillar's reputation for integrity is a fundamental part of our heritage and one of our most valuable assets. Integrity encompasses all that defines and sustains us as a company — the values we believe in, the high ethical standards we live by, our honesty and behavior in dealing with others, and our commitment to deliver on the promises we make to customers, shareholders, and each other. In great measure, we at Caterpillar have achieved our worldwide leadership position by upholding our reputation for integrity. We will continue to lead only if we keep that reputation intact.

As employees, we must always be aware that every decision we make, everything we do, can affect the reputation of our company, and in turn, our own lives and livelihood. We take the Code very seriously — any departure from its principles is unacceptable. Every employee must, therefore, strive to maintain the high standards of business ethics and personal integrity our Code requires.

At the same time, we must recognize that the Code does not provide a set of rules to cover every situation or challenge we may face. Rather, the principles in the Code serve as guidance for each of us in making sound, ethical decisions in the best interest of Caterpillar. We should all understand the principles laid out in this document, guide our individual behavior by them, and in doing so set an example for others to follow.

Glen Barton, *Chairman*

working with *integrity*

working with *integrity*

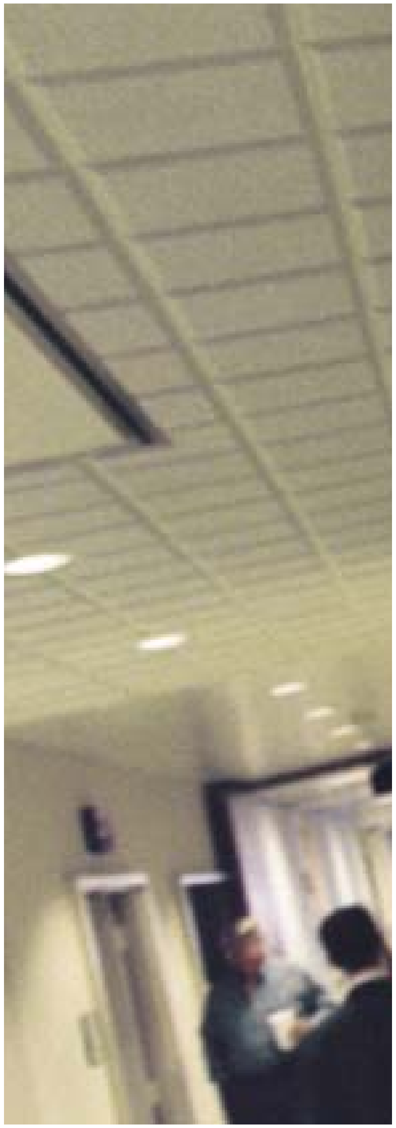
business *ethics*

As Caterpillar employees, we believe in the importance of working and living according to strong ethical values. The words used to describe Caterpillar values may vary somewhat across our company, but without exception every value we hold has a common foundation — *integrity.*

It's that simple. If we do any less, we put Caterpillar's name and our reputation for integrity at risk.

As employees, we must guide our conduct by our personal integrity. Our company's shareholders, customers, dealers, those with whom we do business and our fellow employees must be able to trust what we say and to believe that we will always keep our word. In short, the ethical performance of the enterprise reflects the ethical performance of the men and women who work here.

As a company and as individuals, we hold ourselves to the highest standard of integrity and ethical behavior: *We must always tell the truth.* We must promise only what we can reasonably expect to deliver. We must strive to keep our commitments. We must not engage in activities that create, or even appear to create, conflict between our personal interests and the interests of the company.



business *ethics*

human *relationships*

Caterpillar's continued success requires that we continually seek ways to do our jobs and make our products and services better. Using our individual skills and talents, we must each take personal responsibility for meeting our shared goals and keeping our commitments. We must always consider an *"enterprise point of view"* that promotes the best results for our company as a whole.

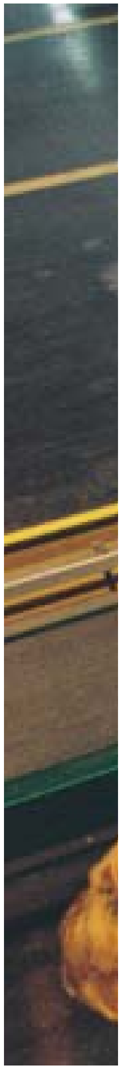
Employee Relationships

FAIR AND EQUITABLE TREATMENT

Caterpillar employees expect our work environment to promote personal achievement, continual learning, and a feeling of self-worth. We build and maintain a productive, motivated workforce by treating all employees fairly and equitably. We respect and recognize the contributions of employees and other stakeholders. We will select and place employees on the basis of their qualifications for the work to be performed — without regard to their race, religion, national origin, color, gender, age, and/or physical or mental disability. We expect to conduct our business in such a way that employees will not feel the need for representation by unions or other third parties. Where employees have chosen such representation, or been required by law to do so, we will pursue an honest, business-like approach in working with those representatives.

JOB PERFORMANCE

Caterpillar selects and places employees based on their personal qualifications and skills for the job. We ask employees to give their best efforts, learn from their successes and setbacks, and pursue opportunities to improve their performance on their own initiative, as well as through continual learning programs offered by the company. We encourage self-development and will assist employees in mastering their current jobs and improving their job skills. We reward employees based on the quality of the work they do and the contributions they make to Caterpillar.



human *relationships*

DIVERSITY

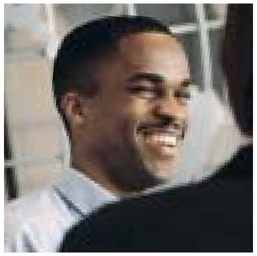
Diversity is the variety of unique skills, abilities, experiences and cultural backgrounds that enables people to achieve superior business and personal results. We know that, in all its forms, diversity brings many benefits to Caterpillar — ways of thinking and approaches to decision making that can strengthen the company and make us more successful. We value highly the differences among individuals, and we welcome diversity within our workforce. We support and obey laws that prohibit discrimination everywhere we do business. We are committed to ensuring opportunities for all employees to develop their abilities and contribute to Caterpillar's success.

RESPECT FOR OTHERS

The full value of each individual's contribution can be realized only when we treat one another with the respect, trust and dignity we ourselves expect. Caterpillar promotes a working environment free of intimidation and harassment. As individual employees, we have the right to expect a positive working environment, along with the responsibility to speak out and ask for change if we observe conduct that runs contrary to this principle.

EMPLOYEE HEALTH AND SAFETY

We actively promote the health and safety of employees with policies and practical programs that help individuals safeguard themselves and their coworkers. We believe a healthy, productive workforce contributes significantly to Caterpillar's performance and success. As employees, we take many precautions to prevent illness or injury, and we make appropriate changes in our behavior or work environment that will contribute to improving the health and safety of ourselves and others.



PRIVACY OF PERSONAL INFORMATION

We respect the personal privacy of employees. We safeguard the security and confidentiality of company records containing personal information in accordance with the laws under which we operate. We collect and record only accurate, factual, job-related information needed for business purposes and for complying with legal requirements. Access to such information is made available only to those who have a legitimate business need for it when permitted by law.

Relationships with Others

The company's strength and longevity are the result of our ability to sustain long-lasting, mutually rewarding relationships with our customers, dealers, suppliers, investors, and others with whom we do business. We continuously work to strengthen these relationships — to listen, learn, and innovate — through conscientious, trustworthy behavior and constant attention to the results and quality of our work.

CUSTOMER RELATIONSHIPS

We have built a reputation for excellence by listening to our customers, understanding their needs, and delivering products and services that help them succeed. Our customers expect the best from Caterpillar, and each of us must ensure that our individual decisions and actions contribute to a positive perception of the company, enhance our customers' satisfaction, and promote their loyalty. We aim to deliver the highest possible value in the products and services we offer to our customers. Our commitment to continuous improvement in all we do makes that possible.

DEALER RELATIONSHIPS

Caterpillar dealers serve as a critical link between our company and our customers worldwide. We rely on our dealers to participate with us as partners in building and maintaining the long-standing customer relationships that have made Caterpillar successful. We work constantly with our dealers to provide products, services, and support solutions necessary to satisfy customer needs worldwide.

INVESTOR RELATIONSHIPS

Caterpillar grows by constantly promoting the long-term interests of our owners — the shareholders. We strive to do this through sustained growth and profitability. We keep investors, creditors, securities trading markets, employees, and the general public informed on a timely basis through public release of relevant information about our company. In releasing information about Caterpillar, we make every effort to ensure that full disclosure is made to everyone without preference or favoritism to any individual or group of investors.

SUPPLIER AND OTHER RELATIONSHIPS

Caterpillar works with many other companies and organizations. We seek strong, mutually rewarding business relationships with those who can enhance the quality of our products and services. We look for suppliers and business allies who demonstrate strong values and ethical principles and who support our commitment to quality. We avoid those who violate the law or fail to comply with the sound business practices we promote. No supplier is required to buy Caterpillar products in order to compete for business or to continue as a supplier. We encourage fair competition among our potential suppliers, contractors, and other vendors, and deal equitably and reasonably with all.

business *practices*

We know that we can achieve long-term business success only when everyone involved behaves honestly and responsibly. We guide our business practices by this principle and expect everyone who does business with us to do the same.

Worldwide Business Practices

As a global company, we understand that there are many differing economic and political philosophies and forms of government throughout the world. We acknowledge the wide diversity that exists among the social customs and cultural traditions of the many countries in which we operate. We respect such differences, and to the extent that we can do so in keeping with the principles of our Code of Conduct, we will maintain the flexibility to adapt our business practices to them. We will leverage our global experience to achieve the best results for the enterprise.

Ownership and Investment

Caterpillar investments must be compatible with social and economic priorities, local laws, customs, and traditions of the countries where we do business. In all cases, our conduct should promote acceptance and respect for our company. We also expect that our host countries will recognize our need for stability, growth, and business success, and that they will honor their agreements, including those relating to rights and properties of citizens of other nations.

Competitive Conduct

Caterpillar believes that fair competition is fundamental to free enterprise. In relationships with competitors, dealers, suppliers, and customers, we must avoid arrangements that restrict our ability to compete with others. There must be no arrangements or understandings with competitors affecting prices, terms upon which products are sold, or the number and type of products manufactured or sold.

Caterpillar supports laws that prohibit restraint of trade, unfair practices, or abuse of economic power, and we intend to abide by them. We trust that governments will make and apply such laws clearly and uniformly. At the same time, we believe that regardless of who makes them, laws may at times be subject to constructive criticism and change.

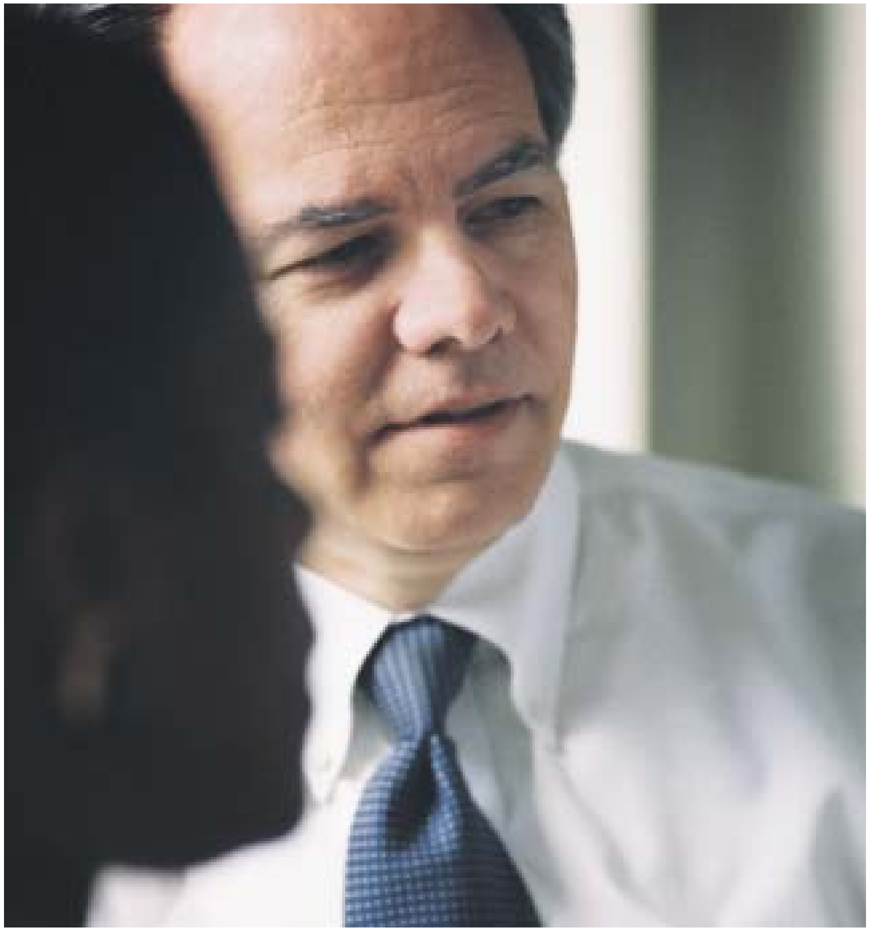
Improper Payments

In dealing with public officials, other corporations, and private citizens, we firmly adhere to ethical business practices. We will not seek to influence others, either directly or indirectly, by paying bribes or kickbacks, or by any other measure that is unethical or will tarnish our reputation for honesty and integrity. Even the appearance of such conduct must be avoided.

We will avoid payment of gratuities or "tips" to public officials to expedite or obtain routine governmental actions, except where such practices are lawful and customary. In such cases, payments must be limited to customary amounts. We also do not accept gifts, favors, or entertainment that obligate or appear to obligate us to act in any way contrary to the law or our own ethical business practices.

Safeguarding Assets

To remain competitive and to serve the interests of our shareholders, Caterpillar goes to extraordinary lengths to preserve, protect, and responsibly use all of our assets. This includes tangible as well as intangible assets, such as our brands, trade secrets, technology, business information, and intellectual capital. As Caterpillar employees, we have a personal responsibility to safeguard our company's assets from loss, theft, or misuse, and to use every available means — electronic, technical, physical, procedural, and legal — to protect these assets at all times.



INTELLECTUAL ASSETS

We consider every piece of information we own an asset. Some of it we share with others through advertising, product documentation, news releases, and public financial reporting. Everything else — including trade secrets, confidential financial information, new product development plans, and other sensitive corporate and personal information — we protect through careful attention to interpersonal communication, the secure use of all communications media and, where appropriate, legally enforceable agreements.

TRADE SECRETS

We will not make unauthorized disclosure of trade secrets or other sensitive information belonging to the company, our customers, dealers or suppliers — either during employment by Caterpillar or thereafter. While Caterpillar may hire individuals who have knowledge and experience in various technical areas, we do not employ people as a means of gaining access to trade secrets and sensitive information of others.

Electronic Communication

Electronic communication technology plays a vital role in how we conduct our business every day. Access to the Internet and use of Caterpillar intranet systems, e-mail, telephone, and fax machines, have become increasingly important. The company maintains this technology for legitimate business activities by authorized individuals, and to support a positive, professional business climate. As employees, we are expected to use such technology responsibly and professionally at all times.

Financial Reports and Accounting Records

Investors, creditors, and others have a legitimate interest in our company's financial and accounting information. The integrity of Caterpillar financial reporting and accounting records is based on validity, accuracy, and completeness of basic information supporting entries to the company's books of account. We will ensure every accounting or financial entry accurately reflects that which is described by the supporting information. We expect employees involved in creating, processing, or recording such information to be personally responsible for its integrity. The same standards of integrity that apply to external financial reporting also apply to the financial statements that are used as internal management tools.

Inside Information

Inside information may be defined as information about our company not known to the public. Such information — certain financial data, technical materials, and future plans for example — may have significant value to others and therefore must always be kept confidential.

Anyone who has "material" undisclosed information about Caterpillar must not use it for personal gain or provide it to others. Information is "material" if an investor would consider it important in making an investment in Caterpillar or in another organization. A Caterpillar employee who has undisclosed information about a supplier, customer, or competitor should not trade in that company's stock. We expect all employees, their families, and others whose relationships with Caterpillar give them access to such information to comply with these principles.

social *responsibility*

Caterpillar accepts the responsibilities of global citizenship. Wherever we conduct business or invest our resources around the world, we know that our commitment to financial success must also take into account social, economic, political, and environmental priorities. We believe that our success should also contribute to the quality of life and the prosperity of communities where we work and live.

Environmental Stewardship

As a company, we strive to contribute toward a global environment in which all people can work safely and live healthy, productive lives, now and in the future. We understand that our products and services must support sustainable development of global resources and that they are expected to conform to applicable regulations and standards wherever they are sold. We establish and adhere to environmentally sound policies and practices in product design, engineering, and manufacturing, and we are committed to providing our customers with products that are both safe and reliable. We educate and encourage our customers to use the products they purchase from us in environmentally responsible ways. We offer leadership and financial support to industry and community initiatives that share our commitment to the environment.

Community Relationships

As individuals and as a company, we contribute significant time and resources to promoting the health, welfare, and economic stability of our communities around the world. We encourage all employees to participate in community activities that promote the common good.

Political Participation

We encourage employees to participate in public matters and political processes according to their individual beliefs. The company supports committees aimed at encouraging political contributions by individuals and, from time to time — with the approval of the Chairman — may make political contributions as laws allow.

Public Communication

Caterpillar prospers not only by our customers' acceptance of our products and services, but also by the public's acceptance of our conduct. As a company, we respond to public inquiries — including those from the news media, governments, and others — with prompt, courteous, honest answers through members of our executive leadership and employees who are authorized to speak publicly on behalf of Caterpillar.

working with *integrity*

living by the *code*

Further information about company policies is contained in Caterpillar Policy Letters which can be found on the Caterpillar Intranet at the Chairman's Corner at *http://csd.corp.cat.com/chairman/.*

Without the commitment of all Caterpillar employees to guide their professional and personal behavior according to our Code of Conduct, its principles become only words. Each of us must accept personal responsibility to read the Code, understand what it means, and apply it consistently. If you need more guidance to do that, or simply have a question about the Code, you can ask your supervisor or manager, or you can contact the Office of Business Practices for assistance. You can find information about the Office of Business Practices on the Caterpillar Intranet at *http://buspractices.corp.cat.com.*

As Caterpillar employees, we each have a responsibility to report any circumstances or actions that violate, or appear to violate, the principles of the Code of Conduct. Such communication is confidential, and employees will not be subject to reprisal for raising a concern or reporting in good faith actions that they feel may violate the law or the Code. You can make such a report to your supervisor, local business unit management, or to the Office of Business Practices.

Each year, senior company managers are asked to affirm their knowledge and understanding of the Code of Conduct and to report any events or activities that might cause an impartial observer to conclude that the Code hasn't been followed. These reports should be sent to the Director, Office of Business Practices, and will be held in confidence.

Each of us is expected to guide our behavior by the Caterpillar Code of Worldwide Business Conduct at all times. When we behave ethically, honestly, and in the best interest of Caterpillar as the Code requires, we help ensure that our worldwide reputation for integrity will endure.

OFFICE OF BUSINESS PRACTICES:
***Helpline:* 800 300-7898 ▪ *Confidential Fax:* 309 494-4818**
***Website:* http://buspractices.corp.cat.com**

working with *integrity*

No document Caterpillar has published is more important than our Code of Worldwide Business Conduct. From time to time we may revise its words to reflect our constantly evolving enterprise, but the Code's basic principle — our integrity — has never changed.

Glen Barton

YECX0001-03

Revised Edition October 1, 2000

EXHIBIT 21

CATERPILLAR INC.
SUBSIDIARIES AND AFFILIATES
(as of December 31, 2003)

Name of Company	Where Organized
10G LLC	Delaware
A.S.V., Inc.	Minnesota
Ace Power Embilipitiya Private Limited	Sri Lanka
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
Advanced Filtration Systems Inc.	Delaware
Aiwa Co., Ltd.	Japan
All Parts International Inc.	Delaware
Amberly Investments	New Zealand
Anchor Coupling Inc.	Delaware
Aquila Mining Systems Ltd.	Canada
Arch Development Fund I L.P.	Delaware
Asia Power Systems (Tianjin) Ltd.	China
AsiaTrak (Tianjin) Ltd.	China
ASIMCO International Casting (Shanxi) Co. Ltd.	China
Bio-Energy Partners	Illinois
Bitelli S.p.A.	Italy
CAE Co., Ltd.	Japan
Carter Machinery Company, Incorporated	Delaware
Carter Rental, Inc.	Virginia
Cat Redistribution Services Corporation	Japan
Caterpillar (Africa) (Proprietary) Limited	South Africa
Caterpillar (Bermuda) Funding Company	Bermuda
Caterpillar (Bermuda) Funding Parent Company	Bermuda
Caterpillar (Bermuda) Holding Company	Bermuda
Caterpillar (Bermuda) Investments Funding Company	Bermuda
Caterpillar (Bermuda) Investments Parent Company	Bermuda
Caterpillar (Bermuda) Ltd.	Bermuda
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Thailand) Limited	Thailand
Caterpillar (U.K.) Limited	England
Caterpillar (Xuzhou) Design Center Ltd.	China
Caterpillar Americas Co.	Delaware
Caterpillar Americas Funding Inc.	Delaware
Caterpillar Americas Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Americas SARL	Switzerland
Caterpillar Americas Services Co.	Delaware
Caterpillar Arrendadora Financiera, S.A. de C.V.	Mexico
Caterpillar Asia Limited	Hong Kong
Caterpillar Asia Pacific L.P.	Bermuda
Caterpillar Asia Pte. Ltd.	Singapore

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

Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH & Co. KG	Germany
Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Netherlands B.V.	Netherlands
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. z o.o.	Poland
Caterpillar Financial Services S.A.	Switzerland
Caterpillar Financial Services Verwaltungs GmbH	Germany
Caterpillar Financial Services Yugen Kaisya	Japan
Caterpillar Fomento Comercial Ltda.	Brazil
Caterpillar Forest Products Inc.	Delaware
Caterpillar Formacion Tecnica, S. L.	Spain
Caterpillar France S.A..	France
Caterpillar GB, L.L.C.	Delaware
Caterpillar Global Mining Pty. Ltd.	Australia
Caterpillar Group Limited	England and Wales
Caterpillar Group Services S.A.	Belgium
Caterpillar Holding (France) S.A.R.L.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Spain, S.L.	Spain
Caterpillar Holdings Australia Pty. Ltd.	Australia
Caterpillar Hungary Component Manufacturing Company Ltd.	Hungary
Caterpillar Impact Products Limited	United Kingdom
Caterpillar India Private Limited	India
Caterpillar Industrial Inc.	Ohio
Caterpillar Institute (Vic-Tas) Pty Ltd	Australia
Caterpillar Institute (WA) Pty Ltd	Australia
Caterpillar Insurance Co. Ltd.	Bermuda
Caterpillar Insurance Company	Missouri
Caterpillar Insurance Holdings Inc.	Delaware
Caterpillar Insurance Services Corporation	Tennessee
Caterpillar International Finance plc	Ireland
Caterpillar International Holding S.A.R.L.	Switzerland
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Leasing L.L.C.	Delaware
Caterpillar International Services Corporation	Nevada
Caterpillar International Services del Peru S.A.	Peru
Caterpillar Investment Management Ltd.	Delaware
Caterpillar Investments	England and Wales
Caterpillar Latin America Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Latin America Services de Puerto Rico, S. en C.	Puerto Rico
Caterpillar Latin America Servicios de Chile Limitada	Chili
Caterpillar Latin Americas Services, S.R.L.	Costa Rica
Caterpillar Leasing (Thailand) Limited	Thailand
Caterpillar Leasing Chile, S.A.	Chile
Caterpillar Leasing GmbH	Germany

Caterpillar Logistics Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Client Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Client Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics France SAS	France
Caterpillar Logistics FT Services (UK) Limited	England and Wales
Caterpillar Logistics FT Services Canada Ltd.	Canada
Caterpillar Logistics FT Services Inc.	Delaware
Caterpillar Logistics FT Services LLC	Delaware
Caterpillar Logistics NV	Belgium
Caterpillar Logistics Services (France) SARL	France
Caterpillar Logistics Services (Tianjin) Ltd.	China
Caterpillar Logistics Services (UK) Limited	England and Wales
Caterpillar Logistics Services China Limited	China
Caterpillar Logistics Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Services Germany GmbH & Co. KG	Germany
Caterpillar Logistics Services Germany Verwaltungs GmbH	Germany
Caterpillar Logistics Services International NV	Belgium
Caterpillar Logistics Services Polska Sp. z o.o.	Poland
Caterpillar Logistics Services Spain, S.A.	Spain
Caterpillar Logistics Services, Inc.	Delaware
Caterpillar Logistics Services-Egypt Ltd.	Egypt
Caterpillar Logistics Technology Services (UK) Limited	England and Wales
Caterpillar Logistics Technology Services LLC	Delaware
Caterpillar Marine Asia Pacific Pte. Ltd.	Singapore
Caterpillar Materiels Routiers S.A.	France
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren Rostock GmbH	Germany
Caterpillar Motoren Verwaltungs-GmbH	Germany
Caterpillar New Zealand Depositary Company	Netherlands
Caterpillar New Zealand Funding Company	Netherlands
Caterpillar New Zealand Investments Company	New Zealand
Caterpillar New Zealand Securities Company	Bermuda
Caterpillar North America S.A.R.L.	New Zealand
Caterpillar NZ Funding LLC	Delaware
Caterpillar NZ Funding Parent Limited	Netherlands
Caterpillar of Australia Pty. Ltd.	Australia
Caterpillar of Canada Corporation	Canada
Caterpillar of Delaware, Inc.	Delaware
Caterpillar Overseas Credit Corporation S.A.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas S.A.	Switzerland
Caterpillar Paving Products Inc.	Oklahoma
Caterpillar Paving Products Xuzhou Ltd.	China
Caterpillar Pension Trust Limited	England and Wales
Caterpillar Poland Sp. z o.o.	Poland
Caterpillar Power Systems Inc.	Delaware
Caterpillar Power Systems y Compañia Limitada	Nicaragua
Caterpillar Power Ventures Corporation	Delaware

Caterpillar Power Ventures Europe B.V.	Netherlands
Caterpillar Power Ventures International Mauritius Ltd.	Mauritius
Caterpillar Power Ventures International, Ltd.	Bermuda
Caterpillar Product Development S.A.R.L.	Switzerland
Caterpillar Product Services Corporation	Missouri
Caterpillar Redistribution Services Inc.	Delaware
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Securities Inc.	Delaware
Caterpillar Services Limited	Delaware
Caterpillar Servicios Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Skinningrove Limited	England and Wales
Caterpillar Special Services Belgium SPRL	Belgium
Caterpillar Switchgear Holding Inc.	Georgia
Caterpillar Torreon S. de R.L. de C.V.	Mexico
Caterpillar Tosno, L.L.C.	Russia
Caterpillar Transmissions France SARL	France
Caterpillar Trimble Control Technologies LLC	Delaware
Caterpillar UK Employee Trust Limited	England and Wales
Caterpillar UK Holdings Limited	England and Wales
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools Canada Ltd.	Canada
Caterpillar Work Tools GmbH & Co. KG	Germany
Caterpillar Work Tools Verwaltungs-GmbH	Germany
Caterpillar Work Tools, Inc.	Kansas
Caterpillar World Trading Corporation	Delaware
Caterpillar World Trading of Europe S.A.R.L.	Switzerland
Caterpillar Xuzhou Ltd.	China
Caterpillar/SCB Investments LP	Delaware
Caterpillar/SCB Receivables Finance LP	Nevada
Catsub I, Inc.	Oregon
Celerity Energy of Colorado LLC	Colorado
Celerity Energy of New Mexico LLC	New Mexico
Central Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Centre de Distribution de Wallonie SA	Belgium
CFRC/CFMC Investments, LLC	Delaware
Charlton Leasing Limited	Belgium
Clean World Co.	Japan
CM Logistics Services Co., Ltd.	Japan
CM Rental Hokkaido Co., Ltd.	Japan
CM Rental Kinki Co., Ltd.	Japan
CM Rental Tokai Co., Ltd.	Japan
Cramo Holding AB	Sweden
Depositary (Bermuda) Limited	Bermuda
Dia Rental Hokuriku Co., Ltd.	Japan
Diamond Office Management Co., Ltd.	Japan
Dynamic Automation Systems Pty. Ltd.	Australia
East Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan

Easytop Limited	England and Wales
EDC European Excavator Design Center GmbH & Co. KG	Germany
EDC European Excavator Design Center Verwaltungs GmbH	Germany
Elektrocieplawnia Starahowice Sp. z o.o.	Poland
Elphinstone Commercial Services Ltd.	Canada
EMC Testing Inc.	Delaware
Endeavour Caterpillar New Zealand Finance Company	New Zealand
Energy Services International Group, Ltd.	Delaware
Energy Services International Limited	Bermuda
Energyst B.V.	Netherlands
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Enteco Servicos S. de R.L. de C.V.	Mexico
F.G. Wilson (Engineering) Limited	Northern Ireland
F.G. Wilson (Proprietary) Limited	South Africa
F.G. Wilson (USA) L.L.C.	Delaware
F.G. Wilson Generators India Private Limited	India
F.G. Wilson Incorporated	Delaware
FCC Equipment Financing, Inc.	Singapore
Federal Financial Services LLC	Delaware
Financieringsmaatschappij Bolier B.V.	Netherlands
Firefly Energy Inc.	Delaware
FMS Equipment Rentals Inc.	Delaware
Forchester del Peru S.R.L.	Peru
Forchester do Brasil Ltda.	Brazil
Forchester International S.A.	Uruguay
Germanischer Lloyd AG	Germany
GFCM Servicios, S.A. de C.V.	Mexico
Grupo Financiero Caterpillar Mexico, S.A. de C.V.	Mexico
Guangzhou MaK Diesel Engine Limited Company	China
Hama-rental Co.	Japan
Hindustan Powerplus Limited	India
Hokkaido Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Hokken Service Co.	Japan
Hydropro S.r.l.	Italy
Inmobiliaria Conek, S.A.	Mexico
Intelligent Switchgear Organization LLC	Delaware
Ironmart LLC	Delaware
IronPlanet.com, Inc.	Delaware
JHT Holdings, Inc.	Delaware
Jigsaw Investors Corp.	Ontario
Jupiter Power (Cambodia) Co., Ltd.	Cambodia
Jupiter Power Asia Co., Ltd.	Cambodia
Jupiter Power Holdings Ltd.	Bermuda
Kasargod Power Corporation Private Limited	India
Kiden Lease Co., Ltd.	Japan
K-Lea Co., Ltd.	Japan
Laminex V.o.F.	Netherlands
Let's Co., Ltd.	Japan
M.O.P.E.S.A. Motores Power, S.A.	Mexico

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

Pioneer Distribution, Inc.	South Carolina
Pioneer Machinery LLC	Delaware
PMHC LLC	Delaware
PointGuard LLC	Delaware
Przedsiebiorstwem Energetyki Cieplncj (Bugaj)	Poland
R.V.K. Energy Private Limited	India
Rapidparts Inc.	Delaware
Rapisarda Industries Srl	Italy
Rega Kyushu Co., Ltd.	Japan
Rex World Co., Ltd.	Japan
Sabre Engines Limited	England
Sanko Rental Co.	Japan
SCM Akashi General Services Co., Ltd.	Japan
SCM Operator Training Co., Ltd.	Japan
SCM Sagami Engineering Co., Ltd.	Japan
SCM Sagami General Services Co., Ltd.	Japan
SCM System Service Co., Ltd.	Japan
Servtech Limited	Ireland
Shin Caterpillar Mitsubishi Ltd.	Japan
Societe de Electricite d Bibane	Tunisia
Solar Turbines Canada Ltd./Ltee.	Canada
Solar Turbines Europe S.A.	Belgium
Solar Turbines Incorporated	Delaware
Solar Turbines International Company	Delaware
Solar Turbines Overseas Pension Scheme Limited	Guernsey
Solar Turbines Services Company	California
Solar Turbines Services Nigeria Limited	Nigeria
Solar Turbines UK Limited	England and Wales
SPL Software Alliance LLC	Delaware
STI Capital Company	Delaware
Suryachakra Power Corporation Private Limited	India
Tech Itoh Co., Ltd.	Japan
Tecnologia Modificada, S.A. de C.V.	Mexico
The Heartland Community Development Corporation	Illinois
Tohoku Rental Service Co., Ltd.	Japan
Tokyo Rental Co., Ltd.	Japan
Tone Lease Co.	Japan
Tunnel Rental Co., Ltd.	Japan
Turbinas Solar de Venezuela, C.A.	Venezuela
Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turboservices SDN BHD	Malaysia
Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England
UK Partners Limited Partnership	Ontario
VALA (UK) LP	United Kingdom
VALA C.V.	Netherlands
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands

West Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
West Kanto Rental Co., Ltd.	Japan
Wright Equipment Company (Proprietary) Limited	South Africa
Yeep Co.	Japan

EXHIBIT 23

PRICEWATERHOUSECOOPERS

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 2-43929, as amended, 2-90123, as amended, 2-97450, as amended, 33-3718, as amended, 33-8003, 33-14116, 33-37353, 33-39280, 33-40598, 333-03609, 333-32853, 333-32851, 333-41464, 333-98197, and 333-111355) and Form S-3 (Nos. 33-46194, 333-22041, 333-43133, 333-43983, 333-57512, and 333-71468) of Caterpillar Inc. (the Company) of our report dated January 27, 2004 relating to the consolidated financial statements, which appears on page A- 3 of the Appendix to the Company's 2004 Annual Meeting Proxy Statement, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 9, 2004

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, James W. Owens, certify that:

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

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

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

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

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 9, 2004	/s/ James W. Owens	Chairman of the Board and Chief Executive Officer
	(James W. Owens)	

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, F. Lynn McPheeters, certify that:

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

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

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

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

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

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

March 9, 2004	/s/ F. Lynn McPheeters	Chief Financial Officer
	(F. Lynn McPheeters)	

EXHIBIT 32

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

In connection with the annual report of Caterpillar Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

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

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

March 9, 2004	/s/ James W. Owens (James W. Owens)	Chairman of the Board and Chief Executive Officer
March 9, 2004	/s/ F. Lynn McPheeters (F. Lynn McPheeters)	Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Caterpillar Inc. and will be retained by Caterpillar Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

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

Commission File No. 1-768

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN
(Full title of the Plan)

CATERPILLAR INC.
(Name of issuer of the securities held pursuant to the Plan)

100 NE Adams Street, Peoria, Illinois 61629
(Address of principal executive offices)

REQUIRED INFORMATION

Item 1.
The audited statement of assets available for plan benefits as of the end of the latest fiscal year of the Plan is attached hereto as Exhibit A.

Item 2.
The audited statement of changes in assets available for plan benefits for the latest fiscal year of the Plan is attached hereto as Exhibit B.

Item 3.
The statements required by Items 1 and 2 have been prepared in accordance with the applicable financial reporting requirements of ERISA.

Item 4.
The Consent of Independent Accountants is attached hereto as Exhibit C.

SIGNATURES

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

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN

CATERPILLAR INC. (Issuer)

March 9, 2004

By: /s/ F. Lynn McPheeters
Name: F. Lynn McPheeters
Title: Vice President and Chief Financial Officer

Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan

Financial Statements
December 31, 2003 and 2002

PRICEWATERHOUSECOOPERS

Report of Independent Auditors

To the Participants, Investment Plan Committee
and Benefits Funds Committee of the Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan

In our opinion, the accompanying statement of assets available for benefits and the related statement of changes in assets available for benefits present fairly, in all material respects, the assets available for benefits of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan (the "Plan") at December 31, 2003 and 2002, and the changes in assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further discussed in Note 3 to the financial statements, during 2003, management of Caterpillar Inc., the Plan's sponsor, decided to terminate the Plan effective December 31, 2003.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 2, 2004

EXHIBIT A

Caterpillar Inc.
Foreign Service Employees'
Stock Purchase Plan
Statement of Assets Available for Benefits
Years Ended December 31, 2003 and 2002

	2003	2002
Investment in Caterpillar Inc. common stock	$ 2,154,218	$ 1,028,098
Participant contributions receivable	12,374	9,232
Employer contributions receivable	12,456	4,985
Assets available for benefits	$ 2,179,048	$ 1,042,315

The accompanying notes are an integral part of the financial statements

EXHIBIT B

Caterpillar Inc.
Stock Purchase Plan
Statement of Changes in Assets Available for Benefits
For the Years Ended December 31, 2003 and 2002

	2003	2002
Contributions:		
Participants	$ 147,102	$ 108,471
Employer	147,102	58,491
Total contributions	294,204	166,962
Investment income (loss):		
Dividends	33,484	32,206
Net appreciation (depreciation) in fair value of common stock	911,645	(137,944)
Net investment gain (loss)	945,129	(105,738)
Deductions:		
Participant withdrawals	(102,600)	(394,508)
Increase (Decrease) in net assets available for benefits	1,136,733	(333,284)
Net assets available for benefits:		
Beginning of year	1,042,315	1,375,599
End of year	$ 2,179,048	$ 1,042,315

The accompanying notes are an integral part of the financial statements

1. Plan description

The following description of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan ("the Plan") provides only general information. Employees should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a contributory defined contribution plan established by Caterpillar Inc. (the "Company") to enable eligible U.S. Foreign Service Employees of the Company and its subsidiaries (the "participating employers") to acquire ownership interests in the Company through purchases of its common stock. As further discussed in Note 3, the Plan has been terminated effective December 31, 2003.

Participation

Generally, U.S. Foreign Service Employees of the participating employers who meet certain age, service and citizenship or residency requirements, and are ineligible to make contributions under the Employees' Investment Plan adopted by the Company, are eligible to participate in the Plan. Participation commences upon an eligible employee filing an application with the Investment Plan Committee. Participating eligible employees (the "participants") may acquire ownership interests in the Company through purchases of its common stock.

Participant accounts

The Plan maintains two accounts for each participant. The participant's account is credited with the participant's contribution. The employer account of each participant is credited with the employer's contribution. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested accounts.

Contributions

Participant contributions are made through after-tax payroll deductions based on a percentage (2%-6%) of total earnings as elected by the participant. Participants with 25 or more years of service with the employers may contribute an additional 1%-4% of earnings.

In 2002, employer contributions were 50%, 66-2/3% or 80% of participant contributions (up to 6% of earnings), based on the participant's years of service. Effective January 1, 2003, employer contributions are equal to 100 percent of the employee contributions up to a maximum of 6 percent of base pay contributed by the employee.

Investment programs

Contributions are invested entirely in Caterpillar Inc. common stock. Cash dividends and other cash proceeds with respect to the Company shares held in the accounts of a participant shall be credited to such accounts and shall be reinvested in Company Shares as soon as practicable after the close of the calendar month in which received in the same manner as an employer contribution for such stock.

Vesting and distribution provisions

Participants are immediately fully vested at all times in participant and employer contributions and earnings thereon.

A participant may elect at any time to withdraw all Company shares in his participant account and employer account. All fractional interests in Company shares are distributed in cash.

Administration

The Plan is administered by the Investment Plan Committee, which is responsible for nonfinancial matters, and the Benefits Funds Committee, which is responsible for financial aspects of the Plan. Caterpillar Inc. and the Benefit Funds Committee have entered into trust agreements with The Northern Trust Company to receive contributions, administer the assets of the Plan and distribute participant withdrawals pursuant to the Plan.

Risks and uncertainties

The Plan provides solely for investments in the Company's common stock. Investment securities are exposed to various risks, including market risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

2. Summary of significant accounting policies

Basis of accounting

The Plan's accounts are maintained on the accrual basis of accounting.

Investments

The Plan's investments are stated at fair value. Caterpillar Inc. common stock is valued at quoted market prices. Dividends are recorded on the ex-dividend date. The Plan presents in the statement of changes in assets available for benefits the change in fair value of the Plan's investments which consists of the realized gains and losses and the unrealized appreciation/(depreciation) on those investments. Purchases and sales of securities are reported on a trade date basis.

	2003		2002	
	Shares	Dollars	Shares	Dollars
Beginning balance	22,487	$ 1,028,098	26,000	$ 1,358,497
Purchases	4,931	283,591	3,533	169,847
Dividends reinvested	567	33,484	666	32,206
Withdrawals	(2,042)	(102,600)	(7,712)	(394,508)
Net appreciation		911,645		(137,944)
Ending balance	25,943	$ 2,154,218	22,487	$ 1,028,098

Contributions
Contributions to the Plan are made directly to the trust and shares are immediately purchased by the trust on the open market.

Administrative expenses
Administrative costs, including trustee fees and certain investment costs, are paid by the Company.

Withdrawals
Withdrawals are recorded when paid.

Use of estimates in the preparation of financial statements
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and benefit payments. Actual results could differ from those estimates.

3. Plan termination

During 2003, the management of Caterpillar Inc., the Plan sponsor, approved the termination of the Plan effective December 31, 2003. All assets were transferred from the Trust into individual brokerage accounts for the participants on January 15, 2004.

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Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 2-43929, as amended) of Caterpillar Inc. of our report dated March 2, 2004 relating to the financial statements of the Caterpillar Foreign Services Employees' Stock Purchase Plan, which appear in this Form 11-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Peoria, Illinois
March 9, 2004

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