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, 2006

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	37-0602744
(State or other jurisdiction of incorporation)	(IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois	61629
(Address of principal executive offices)	(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 NYSE Arca*
Preferred Stock Purchase Rights	Chicago Stock Exchange New York Stock Exchange NYSE Arca*
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
5.3% Debentures due September 15, 2035	New York Stock Exchange

* Caterpillar voluntarily delisted from NYSE Arca (formerly Pacific Exchange) in January 2007

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

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [✓] No [ ]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [✓]

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. [✓]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one): Large accelerated filer [✓] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [✓]

As of June 30, 2006, there were 655,748,473 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 executive officers may be affiliates) was approximately $48,350,000,000.

As of December 31, 2006, there were 645,808,176 shares of common stock of the Registrant outstanding.

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	2007 Annual Meeting Proxy Statement (Proxy Statement) expected to be filed with the Securities and Exchange Commission (SEC) on April 17, 2007 but not later than June 30, 2007 (within 120 days after the end of the calendar year).
Parts I, II, IV	General and Financial Information for 2006 containing the information required by SEC Rule 14a-3 for an annual report to security holders filed as Exhibit 13 to this Form 10-K.

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PART I

Item 1. Business.

General
The company was originally organized as Caterpillar Tractor Co. in 1925 in the State of California. In 1986, the company reorganized as Caterpillar Inc. in the State of Delaware. As used herein, the term "Caterpillar," "we," "us," "our," or "the company" refers to Caterpillar Inc. and its subsidiaries unless designated or identified otherwise.

Principal Lines of Business / Nature of Operations
We operate in three principal lines of business:

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

2. Engines— A principal line of business including the design, manufacture, marketing and sales 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. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to over 16 000 kilowatts). Turbines range from 1,600 to 20,500 horsepower (1 200 to 15 000 kilowatts).

3. Financial Products— A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers 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. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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 nine reportable segments for financial reporting purposes. Information about our reportable segments, including geographic information, appears in Note 24 – "Segment information" of Exhibit 13.

Other information about our operations in 2006 and outlook for 2007, including risks associated with foreign operations is incorporated by reference from – "Management's Discussion and Analysis" of Exhibit 13.

Company Strengths
Caterpillar is the leader in construction and mining equipment, and diesel and natural gas engines and industrial gas turbines in our size range. The company is also a leading services provider through Cat Financial, Caterpillar Logistics Services Inc. and Caterpillar Remanufacturing Services Inc. Annual sales and revenues are $41.517 billion, making Caterpillar the largest manufacturer in our industry. Caterpillar is also a leading U.S. exporter. Through a global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For over 80 years, the Caterpillar name has been associated with the highest level of quality products and services. More information is available at www.CAT.com.

Competitive Environment

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

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

Machinery

The competitive environment for Caterpillar's machinery business consists of some global competitors and many regional and specialized local competitors. Examples of global competitors include but are not limited to Komatsu Ltd., Volvo Construction Equipment (part of the Volvo Group AB), CNH Global N.V., Hitachi Construction Machinery Co., Terex Corporation, JCB and Ingersoll-Rand Company Limited. Each have varying numbers of product lines that compete with Caterpillar product lines, and each have varying degrees of regional focus. John Deere Construction and Forestry Division (part of Deere & Co.), for example, has numerous product lines that compete with Caterpillar primarily in North America and Latin America. Others, like Ingersoll-Rand, offer a limited range of products that compete against Caterpillar, but do compete globally.

During 2006, global industry demand continued to be strong and most competitors experienced increased sales and operating profit. Also in 2006, off-highway emissions regulations in Europe, North America and Japan required Caterpillar and its competitors to introduce products with emissions-compliant engines in a certain horsepower range. In some cases, competitors also timed product upgrades to coincide with these emissions requirements. The overall competitive environment in the machinery business continues to be intense, and the overall financial health of the industry continues to improve.

Caterpillar's logistics business provides integrated supply chain services for Caterpillar and over 60 other companies worldwide. It competes with global, regional and local competitors, including companies such as DHL and UPS. The unit has grown rapidly since its inception in 1987, and the contract logistics industry is expected to continue to grow at rates above that of the global economy as a whole.

Progress Rail (a newly acquired business) has achieved a leading market position in North America as a provider of a broad range of products and services for both railroad rolling stock and the railroad track infrastructure and a supplier of reconditioned and remanufactured railroad freight car and locomotive components. Progress Rail leverages its extensive network of plant and service facilities to provide customers high quality products and services with lower shipping costs and faster turnaround times. These elements, along with Progress Rail's ability to source a substantial volume of reconditionable parts to its railcar and locomotive remanufacturing operations, provide Progress Rail with a sustainable cost advantage and competitive prices for its customers.

Engines

Caterpillar operates in a very competitive engine/turbine manufacturing and packaging environment. The company manufactures diesel, heavy fuel and natural gas reciprocating engines for the on- and off-highway markets, and provides industrial turbines and turbine related services for oil and gas and power generation applications. Caterpillar designs, manufactures, assembles and distributes electrical generator sets and compression packages that can be customized with a wide range of ancillary equipment and performance options to create fully integrated electric power and compression systems.

The competitive environment for off-highway engines/turbines and generator sets consists of a few global competitors who compete in a variety of Caterpillar's markets, and a larger set of companies who compete in a limited size range and/or application. Principal global competitors include, but are not limited to, Cummins Inc., MTU Friedrichshafen and MTU Detroit Diesel (both part of Tognum GmbH) and Wartsila Corp. Other competitors, such as John Deere Power Systems (part of Deere & Co.), Siemens Power Generation (part of Siemens AG), General Electric Company and Volvo Penta (part of Volvo Group AB) compete in a portion of Caterpillar's markets. An additional set of competitors, including Generac Power Systems, Inc., Kohler Co. and others, are packagers who source engines and/or other components from domestic and international suppliers, and market products regionally and internationally through a variety of distribution channels.

In the North American on-highway heavy-duty and mid-range diesel engine markets, competitors include, but are not limited to, Cummins Inc., Detroit Diesel Corp. and Mercedes-Benz (both part of DaimlerChrysler AG), Navistar International Corp. and Volvo Group AB. On-highway diesel engine competitors in overseas markets include, but are not limited to, Mercedes-Benz and Mitsubishi Fuso Truck & Bus Corp. (both part of Daimler Chrysler AG), Iveco Motors (part of Fiat S.p.A), MAN AG, Scania AB and Volvo Group AB. Some of these competitors are truck and/or bus manufacturers with proprietary diesel engines who also offer engines from independent manufacturers such as Caterpillar. During 2006, on-highway engine competitors worked to meet strong global demand for their products while, in North America, preparing to meet tightening January 1, 2007, United States Environmental Protection Agency (EPA) emissions requirements.

During 2006, Caterpillar continued in its leadership position in the North American on-highway truck market. Since the introduction of its five engine models with ACERT® Technology beginning in 2003, the company has shipped over 450,000 ACERT engines into the North American on-highway truck market and continued to maintain its leadership position in this market. Customer acceptance of Caterpillar ACERT engine performance, quality and reliability is strong, as evidenced by an unprecedented sixth J.D. Power and Associates Award.

Caterpillar received EPA certification for the C7, C13 and C15 ACERT engines in November 2006. The C9 ACERT engine EPA application was recently submitted, and certification is expected in early 2007.

Caterpillar also continued to focus investment and resources on leveraging ACERT Technology into off-road markets, as well as into more of its engine platforms. The building blocks for ACERT Technology are very flexible and scaleable and are being applied as needed based on engine platform and application. From October 2004 through year-end 2006, the company has shipped over 30,000 Caterpillar machines powered by engines with ACERT Technology. A line of ACERT industrial, electric power and marine engines has been released to further leverage the technology throughout Caterpillar's businesses and engine platforms. Caterpillar was the first company to offer a full line of Tier 3/Stage IIIA emissions compliant off-highway engines.

Our 2007 on-highway ACERT engines have been validated in the field to meet the new emissions regulations while maintaining the fuel economy and durability characteristics of our current on-highway engines. The 2007 production engines began shipping in January with volumes to increase throughout the year. The ACERT Technologies in this product were expanded to include the aftertreatment system. Caterpillar Environmental Technologies Mexico, S. de R.L. de C.V. was formed to design and manufacture the diesel particulate filter (DPF).

We believe ACERT provides Caterpillar a valuable foundation now and in the future to meet emissions and performance requirements, and we plan to continue investing in developing and leveraging ACERT Technology systems and components.

Caterpillar's remanufacturing business provides services for a variety of products and services to Caterpillar and other external clients. The remanufacturing business competes on a regional basis with similarly sized or smaller companies. The company launched the remanufacturing business in the 1970s with engines/turbines and is now one of the world's largest remanufacturers, processing more than two million units annually and recycling more than 100 million pounds of remanufactured products each year. The business continues to grow at rates well above that of the global economy as a whole.

Financial Products

Cat Financial, incorporated in Delaware, is a wholly owned finance subsidiary of Caterpillar. Cat Financial's primary business is to provide retail financing alternatives for Caterpillar products to customers and Caterpillar dealers around the world. Such retail financing is primarily comprised of financing of Caterpillar equipment, machinery and engines. In addition, Cat Financial also provides financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. In addition to retail financing, Cat Financial provides wholesale financing to Caterpillar dealers and purchases short-term dealer receivables from Caterpillar. The various financing plans offered by Cat Financial are designed to increase the opportunity for sales of Caterpillar products and generate financing income for Cat Financial. A significant portion of Cat Financial's activities is conducted in North America. However, Cat Financial has additional offices and subsidiaries in Asia, Australia, Europe and Latin America.

For 25 years, Cat Financial has been providing financing in the various markets in which it participates, contributing to its knowledge of asset values, industry trends, product structuring and customer needs.

In certain instances, Cat Financial's operations are subject to supervision and regulation by state, federal and various foreign governmental authorities, and may be subject to various laws and judicial and administrative decisions imposing various 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 a borrower's credit experience.

Cat Financial's retail financing leases and installment sale contracts (totaling 60 percent*) include:

- Tax leases that are classified as either operating or finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, Cat Financial is considered the owner of the equipment (17 percent*).
- Finance (non-tax) leases where the lessee is considered the owner of the equipment during the term of the lease, and the agreement either requires or allows the customer to purchase the equipment for a fixed price at the end of the term (17 percent*).
- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structured payments over time (25 percent*).
- Governmental lease-purchase plans in the United States that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivables include:

- Loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing (19 percent*).

Wholesale notes receivables, finance leases and installment sale contracts (totaling 21 percent*) include:

- Inventory/rental programs which provide assistance to dealers by financing their inventory, rental fleets and rental facilities (5 percent*).
- Short-term dealer receivables that Cat Financial purchases from Caterpillar and subsidiaries at a discount (16 percent*).

*Indicates the percentage of Cat Financial's total portfolio at December 31, 2006. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 8 – "Finance Receivables" of Exhibit 13.

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 Inc.; CitiCapital, a business unit of Citigroup; General Electric Capital Corporation and local banks and finance companies. In addition, many of our manufacturing competitors 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 respond to these competing 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. 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 that addresses interest rate risk by aligning the interest rate profile (fixed rate or floating rate) of its debt portfolio with the interest rate profile of its receivable portfolio (loans and leases with customers and dealers) within predetermined ranges on an ongoing basis. In connection with that policy, Cat Financial issues debt with a similar interest rate profile to its receivables, and also uses interest rate swap agreements to manage its interest rate risk exposure to interest rate changes and in some cases to lower its cost of borrowed funds. For more information regarding match funding, please see Note 3 – "Derivative financial instruments and risk management" of Exhibit 13.

In managing foreign currency risk for Cat Financial's operations, the objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. This policy allows the use of foreign currency forward and option contracts to address the risk of currency mismatch between the receivable and debt portfolios. None of these foreign currency forward and option contracts are designated as a hedge.

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. Transaction processing time and supporting technologies continue to drive Cat Financial in its efforts to respond quickly to customers and improve internal processing efficiencies. We believe Cat Financial's web-based Cat Financ*Express*SM transaction processing and information tool currently available in the United States, France, Canada and Australia provides Cat Financial a competitive advantage in those areas. Cat Financ*Express* collects information on-line to provide finance quotes and credit decisions and then prints the related documents, all in a very short time frame.

Caterpillar Insurance Company, a wholly owned subsidiary of 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 49 states and the District of Columbia, and as such, is regulated in those jurisdictions as well. The State of Missouri acts as the lead regulatory authority and monitors the company's 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 Life Insurance Company, a wholly owned subsidiary of Caterpillar, 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 life and accident and health insurance business in 24 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. The company also provides stop loss insurance protection to a Missouri VEBA trust used to fund medical claims of salaried retirees of Caterpillar under the voluntary benefit plan.

Caterpillar Insurance Co. Ltd., a wholly owned subsidiary of Cat Insurance is a captive insurance 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.

Caterpillar Product Services Corporation, a wholly owned subsidiary of Cat Insurance, is a warranty company domiciled in Missouri. It conducts a machine extended service contract program in Italy, France and Germany and also provides machine extended warranty reimbursement protection to dealers in those countries.

Caterpillar Insurance Services Corporation, a wholly owned subsidiary of Cat Holdings, is a Tennessee insurance brokerage company licensed in all 50 states and the District of Columbia. It provides brokerage services for all property and casualty and life and health lines of business.

Cat Holdings provides protection for claims under the following programs:

- Contractual Liability Insurance to Caterpillar dealers and Original Equipment Manufacturers (OEMs) for extended service contracts (parts and labor) offered by third party dealers and OEMs.
- Reinsurance for the worldwide cargo risks of Caterpillar products.
- Contractors' Equipment physical damage insurance for equipment manufactured by Caterpillar which is leased, rented or sold by third party dealers.
- Insurance for Caterpillar general liability, employer's liability, auto liability and property insurance.
- Brokerage services for property and casualty and life and health business.

Cat Power Ventures, a wholly owned subsidiary of Caterpillar, primarily invested equity and took ownership interests in power generation projects throughout the world that utilize Caterpillar power generation equipment. In some cases, these projects also utilize construction and operations and maintenance services that are provided by other Caterpillar subsidiaries. Cat Power Ventures has investments in power projects in Poland, the Dominican Republic and Tunisia and has created direct and indirect subsidiaries and affiliates to hold these investments. In December 2005, the company decided that it would no longer invest equity in power generation projects. As a result, Cat Power Ventures will not make any new equity investments in power generation projects and will sell its project investment portfolio. We expect these sales to be completed and for Cat Power Ventures to have ceased operations by the end of 2007.

Business Developments in 2006

In 2006, the company continued to focus on execution of our Vision 2020 strategy that was introduced in 2005. Through Vision 2020, we established key enterprise goals for 2010 grouped under the “3Ps” of people, performance and profitable growth. Our people goals include a highly engaged workforce and world-class safety. The performance goals are related to improved quality and market leadership in every major product group we serve. The profitable growth goals include a 2010 sales and revenues target.

Performance and Strategy

2006 marked the fourth straight year of double-digit profit growth and the third consecutive year of record sales and profit for Caterpillar, including 2006 sales and revenues of $41.517 billion and profit of $3.537 billion, or $5.17 per share.

In November 2006, the company’s Chairman and CEO, Jim Owens, updated analysts and investors on execution of the company’s strategy. Highlights of the update included: line of sight to $50+ billion of sales and revenues by 2010; profit per share growth in a range of 15 to 20 percent through 2010; strong cash flow through the end of the decade to fund continued growth and reward stockholders with continued dividend growth; strong internal focus on safety, quality and velocity with implementation of the Caterpillar Production System; continued focus on products, technology, and product support to deliver the best value to customers; and continued growth in the company’s less cyclical service-related businesses.

In October 2006, the company announced plans to realign core manufacturing operations and to focus product design expertise on key industry segments. To achieve these goals, the company created three new divisions: the U.S. Operations Division; the Heavy Construction and Mining Division and the Infrastructure Development Division. The new divisions resulted from restructuring what was known as Wheel Loaders & Excavators Division, Track-Type Tractors Division, and Mining & Construction Equipment Division. The new alignment will maximize the company's manufacturing synergies and support the company's vision for unmatched quality, velocity and safety.

Sustainability

In 2006, the company released its first-ever Sustainability Report to highlight the company's efforts in sustainable development and its commitment to make sustainable development a "strategic area of improvement" in its new enterprise strategy. The company was selected as a member of the Dow Jones Sustainability World Index (DJSI World) for the sixth consecutive year. DJSI uses a best-in-class approach designed to identify best practices across the economic, social and environmental dimensions of corporate sustainability.

In November 2006, the company received certification from the U.S. Environmental Protection Agency (EPA) for the company's C7, C13 and C15 engines equipped with ACERT Technology for 2007. This technology positions the company to meet future EPA emissions regulations and provides a long-term emissions solution for the global on-highway engine market. ACERT Technology relies on four basic systems — emissions air management, precision combustion, advanced electronics and effective aftertreatment. These four systems work to decrease particulate matter, oxides of nitrogen and hydrocarbon emissions, while preserving the engine's reliability and durability, which keep owning and operating costs low.

Customer acceptance of Cat engines is reflected in the company's unprecedented sixth J.D. Power and Associates Award, which the company received in 2006 for "Highest Customer Satisfaction With Vocational Heavy Duty Diesel Engines." No other engine manufacturer has ever won this customer feedback award, which measures customer satisfaction through J.D. Power's annual survey of vehicle owners who operate in typically rugged vocations and use vehicles such as dump trucks or garbage trucks.

Growth in China

In 2006, the company made progress toward its commitment to continue expansion of our business in China in support of our overall enterprise strategy and Vision 2020. Caterpillar held "CONEXPO Asia 2006," an international trade show for the construction industry, at the China National Agricultural Exhibition Center in Beijing. Also, the company relocated its Asia Pacific Operations headquarters from Tokyo, Japan, to Beijing, China. These activities support operational and sales success in China, which is a critical success factor for the company's long-term growth and profitability.

The company further expanded its business in China by signing an investment agreement with the Suzhou Industrial Park Administrative Committee to begin construction of a new wheel loader manufacturing facility in the Suzhou Industrial Park in China's Jiangsu province. The company also signed a letter of intent with China's National Development and Reform Commission (NDRC) through which Caterpillar and NDRC will promote the development of China's remanufacturing industry. As part of the letter of intent, the company will provide expertise to assist NDRC and Chinese research institutions in supporting the development of the remanufacturing industry in China. The company and NDRC also agreed to form a Joint Working Group on Remanufacturing Programs to discuss matters related to the remanufacturing cooperation program in detail and to coordinate and promote further cooperation by both parties in sustainable manufacturing and other areas.

Caterpillar (China) Machinery Components Co., Ltd. in Wuxi began shipping hose and coupling assemblies in 2006, with valve production for SEM-built wheel loaders and Xuzhou-built motor graders scheduled to begin in late 2007.

Cat Logistics opened a new China Distribution Center in the Lingang Industrial Area in Shanghai. The distribution center provides parts for the company's dealers in China and expanded parts distribution to dealers in Korea and Mongolia.

Solar Turbines and China National Offshore Oil Corporation (CNOOC) signed a long-term strategic agreement between the two companies. Under terms of the strategic agreement, Solar Turbines will be a CNOOC preferred aftermarket supplier for goods and services for Solar Gas Turbines equipment.

Acquisitions/Alliances

In 2006, the company continued its efforts to profitably grow its business. These efforts include the following:

- The company announced plans to significantly increase the number of Cat-branded machines available to the Caterpillar dealer network for marketing to the forestry industry. Pursuant to the agreement with alliance partner Blount International, Inc. (Blount), the company is replacing the current Timberking™ brand name with the Caterpillar® and Cat® brands. The Timberking line includes products manufactured by both the company and Blount and sold exclusively through the company's dealers.
- The company acquired Progress Rail for $1.0 billion in cash, stock and assumption of debt. Progress Rail is based in Albertville, Alabama, and is a leading provider of remanufactured locomotive and railcar products and services to the North American railroad industry. The rail aftermarket services business is a strong fit with the company's strategic direction and leverages the company's remanufacturing capability. The acquisition provided excellent diversified growth to the company, enhancing its ability to deliver attractive profitability throughout the business cycles. Progress Rail offers a full range of reconditioned and remanufactured railcar components, rail and track products, railcar and locomotive repair, rail welding, maintenance of way equipment and railcar dismantling.
- As part of the company's plan to improve operational excellence in Asia, the company completed the acquisition of a former joint venture engine operation in India. The joint venture was originally formed in 1988 as Hindustan PowerPlus Limited. It is now a wholly owned subsidiary of the company and has been renamed Caterpillar Power India Private Limited. The acquisition aligns operations in India more closely with the other power systems groups that are part of the global Caterpillar family.

Acquisitions

Information related to acquisitions appears in Note 25 – "Alliances and Acquisitions" of Exhibit 13.

Order Backlog

The dollar amount of backlog believed to be firm was approximately $14.5 billion at December 31, 2006, and $12.2 billion at December 31, 2005. Of the total backlog, approximately $1.9 billion at December 31, 2006, and $1.7 billion at December 31, 2005, 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 independent dealers (dealer network), 54 located in the United States and 128 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,576 places of business, including 1,639 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in their products. Some of the reciprocating engines manufactured by Perkins Engines Company Limited (Perkins) also are sold through a worldwide network of 132 distributors located in 181 countries. Most of the electric power generation systems manufactured by FG Wilson are sold through a worldwide network of 200 dealers located in 180 countries.

These dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal businesses. Turbines and large marine and large power generation reciprocating engines are sold through sales forces employed by the company. At times, these employees are assisted by independent sales representatives.

The company's relationship with each of its independent dealers 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 service territory. 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 its intellectual property and to provide warranty and technical support to the dealer. The agreement further grants the dealer a non-exclusive license to use the company's trademarks, service marks and brand names. In some instances a separate trademark agreement exists between the company and a dealer.

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 service territory. 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 provide for termination 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 2006, 2005 and 2004, we spent $1,347 million, $1,084 million and $928 million, or 3.2 percent, 3.0 percent and 3.1 percent of our sales and revenues, respectively, on our research and development programs.

Employment

As of December 31, 2006, we employed 94,593 persons of whom 45,884 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 48,709 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, 2006, there were 14,315 U.S. hourly production employees who were covered by collective bargaining agreements with various labor unions. The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) represents 12,085 Caterpillar employees under a six-year central labor agreement that will expire March 1, 2011. The International Association of Machinists (IAM) represents 2,036 employees under labor agreements that expire on April 30, 2012, and May 23, 2010.

Outside the United States, the company enters into 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 54 percent of consolidated sales for 2006, 53 percent for 2005 and 54 percent for 2004.

Environmental Matters

We strive to be a global leader in sustainability, and we promote enterprise-wide commitment to sustainable development consistent with our business goals, in line with our Vision 2020 strategy.

The company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies or others. The amount recorded for environmental remediation is not material and is included in Statement 2 – "Consolidated Financial Position at December 31 - *Accrued Expenses*" of Exhibit 13.

We cannot reasonably estimate costs at sites in the very early stages of remediation. Currently, we have a few sites in the very early stages of remediation, and there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all sites in the aggregate, will be required.

Available Information

The company files electronically with the Securities and Exchange Commission (SEC) required reports on Form 8-K, Form 10-Q, Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; and registration statements on Forms S-3 and S-8, as necessary; and any other form or report as required. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site (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 or furnished 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, Worldwide Code of Conduct, and other corporate governance information are available on our Internet site (www.CAT.com/governance), or upon written request to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

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 facsimile 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. Business Risk Factors

The statements in this section describe the most significant risks to our business and should be considered carefully in conjunction with the – "Management's Discussion and Analysis" of Exhibit 13. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995. The discussion and analysis in this Form 10-K and in our 2006 Annual Report to Stockholders that are forward-looking and involve uncertainties that could significantly impact results. From time to time, we also provide forward-looking statements in other materials we issue to the public or in the form of oral presentation to the public. Forward-looking statements give current expectations or forecasts of future events about the company. You can identify these statements by the fact they do not relate to historical or current facts and by the use of words such as "believe," "expect," "estimate," "anticipate," "will be," "should," "plan," "project," "intend," and similar words or expressions that identify forward-looking statements made on behalf of Caterpillar.

In particular, these forward-looking statements include statements relating to future actions, prospective products, products' approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, the outcome of contingencies and financial results. The statements are based on assumptions or on known or unknown risks and uncertainties. Although, we believe we have been prudent in our assumptions, we cannot guarantee the realization of these statements. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could materially differ from past results and those anticipated, estimated or projected. Uncertainties include factors that affect international businesses, as well as matters specific to the company and the markets it serves.

The company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You may however consult any further related disclosures we make in our Form 10-Q or any Form 8-K reports to the SEC.

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. These are factors that, individually or in the aggregate, we believe could make our actual results differ materially from expected and past results. You should note it is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of risks and uncertainties.

Changes in Government Monetary and Fiscal Policies

Most countries have established central banks to regulate monetary systems and influence economic activities, generally by adjusting interest rates. Interest rate changes affect overall economic growth, which alter demand for residential and nonresidential structures, energy and mined products, which in turn affect sales of our products that serve these activities. Also, interest rates affect customers' abilities to finance machine purchases and can change the optimal time to keep machines in a fleet. Our outlooks typically include assumptions about interest rates in a number of countries. Interest rates higher than those assumptions could result in lower sales than anticipated.

Government policies on taxes and spending affect our businesses. Throughout the world, government spending finances much infrastructure development, such as highways, airports, sewer and water systems, and dams. Tax regulations determine depreciation lives and the amount of money users can retain, both of which influence investment decisions. Developments more unfavorable than anticipated, such as declines in government revenues, decisions to reduce public spending or increases in taxes, could negatively impact our results.

Government can also impact international trade and investment through a variety of policies, such as import quotas, inspections, capital controls or tariffs. Developments worse than anticipated in the outlook, which could include lower import quotas, more detailed inspections or higher tariffs, could negatively impact our results.

Environmental Regulations

Our facilities and operations are subject to increasingly stringent environmental laws and regulations, including laws and regulations governing emissions to air, discharges to water and the generation, handling, storage, transportation, treatment and disposal of general, non-hazardous and hazardous waste materials. While we believe we are in compliance in all material respects with these environmental laws and regulations, we cannot ensure that we will not be adversely affected by costs, liabilities or claims with respect to existing or subsequently acquired operations, under present laws and regulations or those that may be adopted or imposed in the future. Compliance with all aforementioned existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

Particularly our engines are subject to extensive statutory and regulatory requirements governing emissions and noise, including standards imposed by the EPA, state regulatory agencies in the U.S. and other various regulatory agencies around the world. Although current compliance with all existing emissions and noise requirements has not had a material effect on our capital expenditures, earnings or competitive position, governments may set new standards that could impact our operations in ways that are difficult to anticipate with accuracy. Thus, significant changes in standards, or the adoption of new standards, have the potential to impact our results negatively.

Changes in Economic Conditions of Industries We Serve

The energy and mining industries are major users of our machines and engines. Decisions to purchase our machines and engines are dependent upon performance of these industries. If demand of output in these industries increases, the demand for our products would likely increase and vice versa. Prices of commodities in these industries are frequently volatile and change in response to economic growth, commodity inventories and any disruptions in production. We assume certain prices for key commodities in preparing our outlooks. Commodity prices lower than those assumed have the potential to negatively impact our sales.

The rates of infrastructure spending, housing starts, and commercial construction, play a significant role in our results. Our products are an integral component of these activities, and as these activities increase or decrease in the U.S. or abroad, demand for our products may be significantly impacted.

Changes in Price and Significant Shortages of Component Products

We are a significant user of steel and many commodities required for the manufacture of our products. So, increases in the prices of such commodities likely would boost costs higher than expected, negatively impacting profits.

We rely on suppliers to secure component products, particularly steel, required for the manufacture of our products. A disruption in deliveries from our suppliers or decreased in availability of such components or commodities could have an adverse affect on our ability to meet our commitments to customers or increase our operating costs. We believe our source of supply of raw materials will be generally sufficient for our need in the foreseeable future. However, our results of operations or financial condition could be negatively impacted should the supply turn out to be insufficient for our operations.

Currency Fluctuations

The reporting currency for our financial statements is the U.S. dollar. Certain of our assets, liabilities, expenses and revenues, are denominated in currencies other than the U.S. dollar. To prepare our consolidated financial statements, we must translate those assets, liabilities, expenses and revenues into U.S. dollars at the applicable exchange rates. As a result, increases and decreases in the value of the U.S. dollar vis-à-vis other currencies or vice versa will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. This could have significant impact on our results if such increase or decrease in the value of the U.S. dollar or other currencies is substantial.

Dealer/Original Equipment Manufacturers Sourcing Practices

We sell finished products through an independent dealer network or directly to OEMs. Both carry inventories of finished products as part of ongoing operations and adjust those inventories based on their assessments of future needs. Such adjustments can impact our results either positively or negatively.

In particular, some of our engine customers are truck manufacturers or OEMs that manufacture or could in the future manufacture engines for their own products. Despite their engine manufacturing abilities, these customers have chosen to outsource certain types of engine production to us due to the quality of our engine products and in order to reduce costs, eliminate production risks and maintain company focus. However, we cannot assure that these customers will continue to outsource engine manufacture in the future. Increased levels of production insourcing by these customers could result from a number of factors, such as shifts in our customers' business strategies, acquisition by a customer of another engine manufacturer, the inability of third-party suppliers to meet specifications and the emergence of low-cost production opportunities in foreign countries. A significant reduction in the level of engine production outsourcing from our truck manufacturers or OEM customers could significantly impact our revenues and, accordingly, have a material adverse effect on our business, results of operations and financial condition.

Disease Epidemics

Historical data shows that major flu epidemics often caused sharp drops in economic output. Such epidemics are difficult to forecast, either in their occurrence or in their impact. So, such an event would have the potential to impact our results more unfavorably than we would assume in our outlooks.

Impact of Acquisitions
We may from time to time engage in acquisitions involving some potential risks, including failure to successfully integrate and realize the expected benefits of such acquisitions. For example, with any past or future acquisitions, there is the possibility that:

- the business culture of the acquired business may not match well with our culture;
- technological and product synergies, economies of scale and cost reductions may not occur as expected;
- the company may acquire or assume unexpected liabilities;
- unforeseen difficulties may arise in integrating operations and systems;
- the company may fail to retain and assimilate employees of the acquired business;
- higher than expected finance costs due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations; and
- the company may experience problems in retaining customers and integrating customer bases.

Failure to continue implementing the company's acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

Competition
We operate in a highly competitive environment, and our outlook depends on a forecast of the company's share of industry sales predicated on our ability to compete with others in the marketplace. The company competes on the basis of product performance, customer service, quality and price. There can be no assurance that our product will be able to compete successfully with these other companies. Thus, our share of industry sales could be reduced due to aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, our failure to price our products 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 remains competitive from a pricing standpoint. Our 2007 sales outlook assumes that the price increases announced for January 2007 hold in the marketplace. While we expect that the environment will continue to absorb these price actions, changes in marketplace acceptance would negatively impact our results. Moreover, additional price discounting to maintain our competitive position could result in lower than anticipated realization.

In addition, our results and ability to compete 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.

Litigation and Contingency
We face an inherent business risk of exposure to various types of claims and lawsuits. We are involved in various intellectual property, product liability, product warranty, environmental claims and lawsuits, including other legal proceedings that arise in the ordinary course of our business. Although, it is not possible to predict with certainty the outcome of every claim and lawsuit and the range of probable loss, we believe these lawsuits and claims will not individually or in the aggregate have a material impact on our results. However, we could in the future incur judgments or enter into settlements of lawsuits and claims that could have a material adverse effect on our results of operations in any particular period. In addition, while we maintain insurance coverage with respect to certain claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims.

As required by U.S. generally accepted accounting principles, we establish reserves based on our assessment of such contingencies. Subsequent developments in legal proceedings, may affect our assessment and estimates of the loss contingency recorded as a reserve requiring us to make additional materials payments, which could result in an adverse effect on our results of operations.

Risks to Global Operations

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including countries with political and economic instability, exposing our business operations to certain political and economic risks inherent in operating in some countries. These risks include:

- changes in regulations; imposition of currency restrictions and other restraints;
- imposition of burdensome tariffs and quotas;
- national and international conflict, including terrorist acts; and
- economic downturns, political instability and war or civil unrest may severely disrupt economic activity in affected countries.

As a normal practice, we do not assume such events in our outlooks unless already happening when the outlook is issued. So the occurrence of one of these events has the potential to negatively impact our results.

Risks to Financial Services Segment

Inherent in the operation of Cat Financial 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 addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of our debt portfolio with the interest rate profile of our receivables portfolio (loans and leases with customers and dealers) within pre-determined ranges on an ongoing basis. To achieve our match funding objectives, we issue debt with a 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.

Market Acceptance of Products

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our dealers, OEMs and customers. This is dependent on a number of factors including our ability to manage and maintain key dealer relationships and our ability to develop effective sales, advertising and marketing programs. In addition, our continued success is dependent on leading-edge innovation, with respect to both products and operations. This means we must be able to obtain patents that lead to the development of products that appeal to our consumers across the world. Failure to continue to deliver quality and competitive products to the marketplace, or to predict market demands for, or gain market acceptance of, our products, could have material impact on our business.

Item 1B. Unresolved Staff Comments of December 31, 2006.

Not applicable.

Item 1C. Executive Officers of the Registrant as of December 31, 2006.

	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years if other than Caterpillar Inc. position currently held
James W. Owens (60)	Chairman and Chief Executive Officer (2004)	• Group President (1995-2003) • Vice Chairman (2003-2004)
Stuart L. Levenick (53)	Group President (2004)	• Chairman, Shin Caterpillar Mitsubishi Ltd. (2000-2004) • Vice President (2000-2004)
Douglas R. Oberhelman (53)	Group President (2001)	
Gerald L. Shaheen (62)	Group President (1998)	
Gérard R. Vittecoq (58)	Group President (2004)	• Vice President (2000-2004)
Steven H. Wunning (55)	Group President (2004)	• Vice President (1998-2004)
James B. Buda (59)	Vice President, General Counsel and Secretary (2001)	
David B. Burritt (51)	Vice President and Chief Financial Officer (2004)	• Corporate 6 Sigma Champion (2001-2002) • Controller (2002 - 2004)
Bradley M. Halverson (46)	Controller (2004)	• Business Resource Manager, Large Power Systems Division (2002) • Corporate Business Development Manager, Corporate Services Division (2002-2004)

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 manufacturing of both. In addition, several plants are involved in the manufacturing 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 our Technical Center (as described below) 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 one to ten 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.

Headquarters and Other Key Offices

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. Cat Logistics 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, 2006, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

Year	Expenditures U.S.	Expenditures Outside U.S.	Acquisitions U.S.	Acquisitions Outside U.S.	Provision for Depreciation	Disposals and Other Adjustments	Net Increase (Decrease) During Period
2002	$ 1,030	$ 743	$ 15	$ 0	$ (1,199)	$ (151)	$ 438
2003	$ 1,000	$ 765	$ 0	$ 0	$ (1,332)	$ (191)	$ 242
2004	$ 1,212	$ 902	$ 10	$ 44	$ (1,366)	$ (371)	$ 431
2005	$ 1,383	$ 1,032	$ 0	$ 0	$ (1,444)	$ (665)	$ 306
2006	$ 1,621	$ 1,054	$ 298	$ 0	$ (1,554)	$ (556)	$ 863

At December 31, 2006, the net book value of properties located outside the United States represented about 33.6 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 1 – "Operations and summary of significant accounting policies" and Note 10 – "Property, plant and equipment" of Exhibit 13.

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.

Inside the U.S.

Alabama
- Montgomery
- Albertville[3]

California
- Gardena
- San Diego
- Mohave
- Rocklin

Colorado
- Pueblo

Florida
- Jacksonville

Georgia
- Alpharetta
- Griffin
- Jefferson
- LaGrange
- Patterson
- Toccoa
- Thomasville

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

Indiana
- East Chicago
- Lafayette

Kansas
- Lawrence
- Wamego

Kentucky
- Corbin
- Danville
- Decoursey
- Louisville

Louisiana
- New Orleans

Michigan
- Menominee

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

Mississippi
- Corinth
- Oxford
- Prentiss County

Missouri
- Boonville
- Kansas City
- West Plains

Nebraska
- Lincoln
- Sidney
- South Morrill

North Carolina
- Clayton
- Franklin
- Morganton
- Sanford

Ohio
- Dayton[1]

Pennsylvania
- Steelton

South Carolina
- Greenville
- Jackson
- Lexington
- Newberry
- Summerville
- Sumter

Tennessee
- Knoxville
- Dyersburg

Texas
- Channelview
- De Soto
- Forth Worth
- Mabank
- San Antonio
- Sherman
- Waco
- Waskom

Virginia
- Roanoke

Wyoming
- Laramie

Outside the U.S.

Australia
- Burnie
- Melbourne
- Wivenhoe

Belgium
- Gosselies

Brazil
- Curitiba
- Parana
- Piracicaba

Canada
- Edmonton
- Montreal
- *Surrey*
- *Winnipeg*

England
- Barwell
- Desford
- Ferndown
- Peterborough
- Peterlee
- Skinningrove
- Stafford
- Rushden
- Shrewsbury
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Grenoble
- Rantigny
- Chaumont[1]

Germany
- Kiel
- Rostock

Hungary
- Gödöllö

India
- Bangalore[2]
- Pondicherry
- Thiruvallur

Indonesia
- Bandung[2]
- Jakarta

Italy
- Anagni
- Atessa
- Bazzano
- Fano
- Frosinone
- Jesi
- Marignano
- Milan
- Minerbio

Japan
- Akashi[1]
- Sagamihara[1]

Malaysia
- Kuala Lumpur[1]

Mexico
- Monterrey
- Reynosa
- Santa Catarina
- Saltillo
- Tijuana
- Nuevo Laredo
- Veracruz
- Torreon

The Netherlands
- Almere
- s'-Hertogenbosch

Nigeria
- Port Harcourt[2]

Northern Ireland
- Larne
- Monkstown
- Springvale

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

Poland
- Janow Lubelski
- Radom[1]
- Sosnowiec

Russia
- Tosno

Scotland
- Aberdeen

South Africa
- Boksburg

Switzerland
- Riazzino

Tunisia
- Sfax

[1]Facility of affiliated company (50 percent or less owned)
[2]Facility of partially owned subsidiary (more than 50 percent, less than 100 percent)
[3] Headquarters of Progress Rail. Other significant Progress Rail facilities are included in the above list

Item 3. Legal Proceedings.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues or intellectual property rights. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of probable loss, we believe that these unresolved legal actions will not individually or in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On August 24, 2006, Caterpillar announced the settlement of all current and pending litigation between Navistar International Corporation (Navistar), the parent company of International Truck and Engine Corporation, and Caterpillar. As part of the litigation settlement, Caterpillar received an up-front cash payment and a three-year promissory note from Navistar. Based on Caterpillar's receivable balances related to the Navistar litigation at the time of settlement, the settlement resulted in a pre-tax charge to Caterpillar of approximately $70 million in the third quarter.

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Kruse seeks monetary damages, injunctive relief and a finding that the alleged infringement by Caterpillar was willful. Caterpillar denies Kruse's allegations, believes they are without merit and filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. The counterclaim filed by Caterpillar is pending, and no trial date is currently scheduled. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

In November 2004, the U.S. Environmental Protection Agency (EPA) alleged that Caterpillar had constructed a facility in Emporia, Kansas, that failed to comply with Section 112(g)(2)(B) of the federal Clean Air Act. Caterpillar sold the Emporia, Kansas facility in December 2002. This matter has been settled and terminated by Consent Decree entered on June 12, 2006, in the United States District Court for the District of Kansas, and Caterpillar's payment of a civil penalty of $300,000 on June 14, 2006. Accordingly, in the opinion of our management, this matter is closed and did not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On June 26, 2006, the UK Environment Agency filed a claim against Caterpillar Logistics Services (UK) Ltd. (CLS) before the Leicester & Rutland Magistrates Court in Leicestershire, UK. The complaint alleged that CLS failed to follow UK regulations in connection with the handling and disposal of special waste (primarily batteries) from January through September 2005. On August 17, 2006, CLS was fined £7,763 (approximately $15,000), thereby concluding the matter.

The World Trade Organization (WTO) previously found that the transitional and grandfathering provisions for extraterritorial income exclusion (ETI), under the American Jobs Creation Act of 2004, did not satisfy the United States' obligation to "withdraw" prohibited export subsidies. The WTO result allowed the European Union to impose already authorized sanctions on certain U.S. origin goods beginning May 16, 2006. The Tax Increase Prevention and Reconciliation Act of 2005, signed by President Bush on May 17, 2006, repealed the grandfathering provisions for ETI. In response, the European Union Trade Commissioner announced the cancellation of sanctions ending the dispute. We were not materially impacted by this resolution.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

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

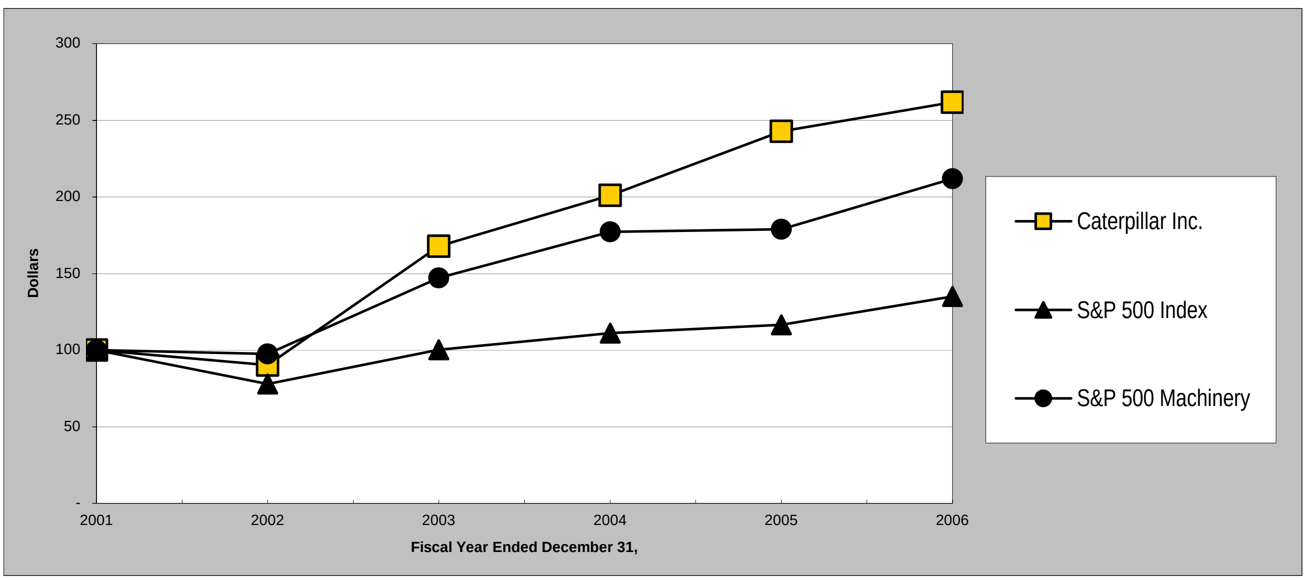
Information required by Item 5 is incorporated by reference from – "Management's Discussion and Analysis" and "Supplemental Stockholder Information" of Exhibit 13.

Performance Graph

CATERPILLAR INC.

Total Cumulative Stockholder Return for
Five-Year Period Ending December 31, 2006

The graph below shows the cumulative stockholder return assuming an investment of $100 on December 31, 2001, and reinvestment of dividends issued thereafter.



	2001	2002	2003	2004	2005	2006
Caterpillar Inc.	$ 100.00	$ 90.13	$ 167.78	$ 201.07	$ 242.73	$ 261.80
S&P 500	$ 100.00	$ 77.92	$ 100.25	$ 111.14	$ 116.59	$ 135.00
S&P 500 Machinery	$ 100.00	$ 97.54	$ 147.22	$ 177.20	$ 178.92	$ 211.90

Non-U.S. Employee Stock Purchase Plans

We have 30 employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2006, those plans had approximately 12,700 participants in the aggregate. During the fourth quarter of 2006, approximately 90,500 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 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.

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, 2006	2,433,000	$ 61.64	2,433,000	8,634,518 [1]
November 1-30, 2006	3,320,000	60.23	3,320,000	5,583,743 [1]
December 1-31, 2006	-	-	-	5,808,176 [1]
Total	5,753,000	$ 60.82	5,753,000	

[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. The share repurchase program goal was adjusted for the stock split announced on June 8, 2005, to reflect an adjusted goal of 640,000,000 shares outstanding by October 2008. Amount represents the shares outstanding at the end of the period covered by this report less 640,000,000. In February 2007, the Board of Directors authorized a $7.50 billion stock repurchase program over the next five years, expiring on December 31, 2011.

Other Purchases of Equity Securities

Period	Total number of Shares Purchased[1]	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, 2006	428	$ 66.88	N/A	N/A
November 1-30, 2006	6,730	60.55	N/A	N/A
December 1-31, 2006	--	--	N/A	N/A
Total	7,158	$ 60.93		

[1] Represents shares delivered back to issuer for the payment of taxes resulting from the exercise of stock options by employees and Directors.

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the – "Five-year Financial Summary" and "Management's Discussion and Analysis" of Exhibit 13.

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

Information required by Item 7 is incorporated by reference from – "Management's Discussion and Analysis" of Exhibit 13.
This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our discussion of cautionary statements and significant risks to the company's business under Item 1A. (Risk Factors and Cautionary Factors That May Affect Future Results) of this Form 10-K.

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

Information required by Item 7A appears in Note 1 – "Operations and summary of significant accounting policies," Note 3 – "Derivative financial instruments and risk management," Note 19 – "Fair values of financial instruments" and Note 20 – "Concentration of credit risk" of Exhibit 13. Other information required by Item 7A is incorporated by reference from – "Management's Discussion and Analysis" of Exhibit 13.

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is incorporated by reference from the - "Report of Independent Registered Public Accounting Firm" and from the – "Financial Statements and Notes to Consolidated Financial Statements" of Exhibit 13. Other information required by Item 8 is included in "Computation of Ratios of Earnings to Fixed Charges" filed as Exhibit 12 to this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures
Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures; as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting
The management of Caterpillar Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2006, the company's internal control over financial reporting was effective based on those criteria.

Management has excluded Progress Rail Services from our assessment of internal control over financial reporting as of December 31, 2006 because we acquired Progress Rail Services on June 19, 2006. Progress Rail Services is a wholly owned subsidiary of Caterpillar Inc. whose total assets and total revenues represent three percent and two percent, respectively, of the related consolidated financial statement amount as of and for the year ended December 31, 2006.

Our management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The report appears under – "Report of Independent Registered Public Accounting Firm" of Exhibit 13.

Changes in Internal Control over Financial Reporting

During the last fiscal quarter, there has been no significant change in the company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information.

Not Applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Identification of Directors and Business Experience

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

Identification of Executive Officers and Business Experience

Information required by this Item appears in Item 1C 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 elected annually at a meeting of the board.

Legal Proceedings Involving Officers and Directors

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

Audit Committee Financial Expert

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

Identification of Audit Committee

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

Stockholder Recommendation of Board Nominees

Information required by this Item is incorporated by reference from the 2007 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 of 1934 is incorporated by reference from the 2007 Proxy Statement.

Code of Ethics

Our Worldwide Code of Conduct (Code), first published in 1974 and most recently amended in 2005, 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/governance and is incorporated by reference as Exhibit 14 to this Form 10-K. To obtain a copy of the Code at no charge, submit a written request to the Corporate 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 the 2007 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 the 2007 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, 2006)

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	69,381,778	38.6046	37,354,150
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	69,381,778	38.6046	37,354,150

[1] Column (a) excludes any cash payments in-lieu-of stock.

Item 13. Certain Relationships and Related Transactions.

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from the 2007 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are incorporated by reference from the indicated pages of Exhibit 13:

1. Financial Statements:
    - Report of Independent Registered Public Accounting Firm
    - Statement 1 - Results of Operations
    - Statement 2 - Financial Position
    - Statement 3 - Changes in Consolidated Stockholders' Equity
    - Statement 4 - Statement of Cash Flow
    - Notes to Consolidated Financial Statements

2. Financial Statement Schedules:
    - All schedules are omitted because the required information is shown in the financial statements or the notes thereto incorporated by reference from Exhibit 13 or considered to be immaterial.

(b) 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 Bylaws, amended and restated as of February 11, 2004 (incorporated by reference from Exhibit 3.3 to the Form 10-Q filed for the quarter ended March 31, 2004).

4.1 Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997.

4.2 First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.3 Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.4 Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.5 Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).

4.6 Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented.

10.1 Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of August 18, 2004 (incorporated by reference from Exhibit 10.1 to Form 10-K for 2004 filed February 24, 2005).

10.2 Caterpillar Inc. 2006 Long-Term Incentive Plan as amended and restated through June 14, 2006.

10.3 Supplemental Pension Benefit Plan, as amended and restated January 2003 (incorporated by reference from Exhibit 10.3 to Form 10-K for 2004 filed February 24, 2005).

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).

10.5 Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the 2002 Form 10-K).

10.6 Directors' Deferred Compensation Plan, as amended and restated through January 1, 2005.

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 February 16, 2005 (incorporated by reference as Exhibit 10.8 to the 2005 Form 10-K).

11 Computations of Earnings per Share.

12 Computation of Ratios of Earnings to Fixed Charges.

13 General and Financial Information for 2006 containing the information required by SEC Rule 14a-3 for an annual report to security holders.

14 Caterpillar Worldwide Code of Conduct (incorporated by reference from Exhibit 14 to the 2005 Form 10-K).

21 Subsidiaries and Affiliates of the Registrant.

23 Consent of Independent Registered Public Accounting Firm.

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 David B. Burritt, Vice President and 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 David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Annual CEO certification to the New York Stock Exchange for 2006 fiscal year.

99.2 Annual CEO certification for the NYSE Arca for 2006 fiscal year.

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)

February 23, 2007	By: *|s/James B. Buda*	
	James B. Buda, *Secretary*	

February 23, 2007	*/s/James W. Owens* (James W. Owens)	Chairman of the Board, Director and Chief Executive Officer
February 23, 2007	*/s/Stuart L. Levenick* (Stuart L. Levenick)	Group President
February 23, 2007	*/s/Douglas R. Oberhelman* (Douglas R. Oberhelman)	Group President
February 23, 2007	*/s/Gerald L. Shaheen* (Gerald L. Shaheen)	Group President
February 23, 2007	*/s/Gerard R. Vittecoq* (Gerard R. Vittecoq)	Group President
February 23, 2007	*/s/Steven H. Wunning* (Steven H. Wunning)	Group President
February 23, 2007	*/s/David B. Burritt* (David B. Burritt)	Vice President and Chief Financial Officer
February 23, 2007	*/s/Bradley M. Halverson* (Bradley M. Halverson)	Controller and Chief Accounting Officer

February 23, 2007	*/s/W. Frank Blount* (W. Frank Blount)	Director
February 23, 2007	*/s/John R. Brazil* (John R. Brazil)	Director
February 23, 2007	*/s/Daniel M. Dickinson* (Daniel M. Dickinson)	Director
February 23, 2007	*/s/John T. Dillon* (John T. Dillon)	Director
February 23, 2007	*/s/Eugene V. Fife* (Eugene V. Fife)	Director
February 23, 2007	*/s/Gail D. Fosler* (Gail D. Fosler)	Director
February 23, 2007	*/s/Juan Gallardo* (Juan Gallardo)	Director
February 23, 2007	*/s/David R. Goode* (David R. Goode)	Director
February 23, 2007	*/s/Peter A Magowan* (Peter A. Magowan)	Director
February 23, 2007	*/s/William A. Osborn* (William A. Osborn)	Director
February 23, 2007	*/s/Charles D. Powell* (Charles D. Powell)	Director
February 23, 2007	*/s/Edward B. Rust, Jr.* (Edward B. Rust, Jr.)	Director
February 23, 2007	*/s/Joshua I. Smith* (Joshua I. Smith)	Director

Exhibit 4.6

TRI-PARTY AGREEMENT

This TRI-PARTY AGREEMENT (this "Instrument"), dated as of November 2, 2006, by and among CATERPILLAR INC., a Delaware corporation (the “Company”), CITIBANK, N.A., a national banking association duly organized and existing under the laws of the United States of America, (the "Prior Trustee") and U. S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America (the "Successor Trustee").

WITNESSETH

WHEREAS, the Company and the Prior Trustee entered into the Indenture dated as of May 1, 1987, as amended and supplemented (the "Indenture"), providing for the issuance of the securities listed on Exhibit A hereto (the "Securities"); and

WHEREAS, the Prior Trustee has been acting as Trustee, Security Registrar and Paying Agent (“Trustee”) under the Indenture; and

WHEREAS, Section 610 of the Indenture provides that the Trustee may resign at any time by giving notice to the Company; and

WHEREAS, Section 610 of the Indenture further provides that in case the Trustee shall resign, the Company may appoint a successor Trustee; and

WHEREAS, Section 611 of the Indenture further provides that the successor Trustee shall be qualified under the provisions of Section 608 of the Indenture; and

WHEREAS, Section 611 of the Indenture further provides that any successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to the Company and to the Prior Trustee an instrument accepting such appointment, thereupon the removal of the Prior Trustee shall become effective and the Successor Trustee without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties and responsibilities of the Prior Trustee;

NOW, THEREFORE, pursuant to the Indenture and in consideration of the covenants herein contained, it is agreed as follows (words and phrases not otherwise defined in this Instrument having the definitions given thereto in the Indenture):

1. Pursuant to the terms of the Indenture, the Prior Trustee has notified the Company that the Prior Trustee is resigning as Trustee, Security Registrar and Paying Agent under the Indenture effective November 6, 2006 and upon the acceptance of appointment by the Company of a Successor Trustee as evidenced by the signing of this instrument (the "Effective Date").

2. Effective as of the Effective Date, the Prior Trustee hereby assigns, transfers, delivers and confirms to the Successor Trustee all of its rights, title and interest under the Indenture and all of its rights, title, interests, capacities, privileges, duties and responsibilities as Trustee, Security Registrar and Paying Agent under the Indenture, except as set forth in paragraph 19 hereof.

3. The Prior Trustee agrees to execute and deliver such further instruments and shall take such further actions as the Successor Trustee or the Company may reasonably request so as to more fully and certainly vest and confirm in the Successor Trustee all of the rights, title, interests, capacities, privileges, duties and responsibilities hereby assigned, transferred, delivered and confirmed to the Successor Trustee, including, without limitation, the execution and delivery of any instruments required to assign all liens in the name of the Successor Trustee.

4. Effective as of the Effective Date, the Company hereby accepts the resignation of the Prior Trustee and the Company appoints the Successor Trustee as Successor Trustee under the Indenture; and the Company confirms to the Successor Trustee all of the rights, title, interest, capacities, privileges, duties and responsibilities of the Trustee, Security Registrar and Paying Agent under the Indenture except as set forth in paragraph 19 hereof.

5. The Company agrees to execute and deliver such further instruments and to take such further action as the Successor Trustee may reasonably request so as to more fully and certainly vest and confirm in the Successor Trustee all the rights, title, interests, capacities, privileges, duties and responsibilities hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

6. Effective as of the Effective Date, the Successor Trustee hereby accepts its appointment as Successor Trustee, Security Registrar and Paying Agent under the Indenture and shall be vested with all of the rights, title, interests, capacities, privileges, duties and responsibilities of the Trustee, Security Registrar and Paying Agent under the Indenture.

7. The Successor Trustee hereby represents that it is qualified and eligible under the provisions of Sections 608 and 609 of the Indenture to be appointed Successor Trustee and hereby accepts the appointment as Successor Trustee and agrees that upon the signing of this Instrument it shall become vested with all the rights, title, interest, capacities, privileges, duties and responsibilities of the Prior Trustee with like effect as if originally named as Trustee, Security Registrar and Paying Agent under the Indenture.

8. The Successor Trustee shall cause notice of the removal, appointment and acceptance effected hereby to be given to the owners of the Securities.

9. Effective as of the Effective Date, the Successor Trustee shall serve as Trustee, Security Registrar and Paying Agent as set forth in the Indenture at its designated corporate trust office set forth in paragraph 13 hereof.

10. The Prior Trustee hereby represents and warrants to the Successor Trustee that:

    a) To the best of its knowledge no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default has occurred and is continuing under the Indenture.

    b) No covenant or condition contained in the Indenture has been waived by the Prior Trustee or to the best of its knowledge by the holders of the percentage in aggregate principal amount of the Securities required by the Indenture to effect any such waiver.

    c) There is no action, suit or proceeding pending or, to its knowledge, threatened against the Prior Trustee before any court or governmental authority arising out of any action or omission by the Prior Trustee as Trustee, Security Registrar and Paying Agent under the Indenture.

    d) As of the Effective Date, the Prior Trustee holds no moneys in any fund or account established by it as Trustee, Security Registrar and Paying Agent under the Indenture.

11. Each of the parties hereto hereby represents and warrants for itself that as of the date hereof, and the Effective Date:

    a) it has power and authority to execute and deliver this Instrument and to perform its obligations hereunder, and all such action has been duly and validly authorized by all necessary proceedings on its part; and

    b) this Instrument has been duly authorized, executed and delivered by it, and constitutes a legal, valid and binding agreement enforceable against it in accordance with its terms, except as the enforceability of this Instrument may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditor's rights or by general principles of equity limiting the availability of equitable remedies.

12. The parties hereto agree that this Instrument does not constitute an assumption by the Successor Trustee of any liability of the Prior Trustee arising out of any actions or inaction by the Prior Trustee under the Indenture.

13. The parties hereto agree that as of the Effective Date, all references to the Prior Trustee as Trustee, Security Registrar or Paying Agent in the Indenture shall be deemed to refer to the Successor Trustee. From and after the Effective Date, all notices, certificates or payments which were required by the terms of the Indenture and Securities to be given or paid to the Prior Trustee, as Trustee, Security Registrar and Paying Agent, shall be given or paid to:

    U.S. Bank National Association
    Attn: Corporate Trust Services
    EP-MN-WS3C
    60 Livingston Avenue
    St. Paul, MN 55107-1419

14. The removal, appointment and acceptance effected hereby shall become effective as of the opening of business on the Effective Date.

15. This Instrument shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof.

16. This Instrument may be executed in any number of counterparts, each of which shall be an original, but which counterpart, shall together constitute but one and the same instrument.

17. Nothing contained in this Instrument shall in any way affect the obligations or rights of the Company or the Prior Trustee. This Instrument shall be binding upon and inure to the benefit of the Company, the Prior Trustee and the Successor Trustee and their respective successors and assigns.

18. All fees paid to the Prior Trustee in advance but unearned for the period from and after the Effective Date shall be credited to any current fees owed the Prior Trustee with balance, if any, remitted to the Company and the fees payable by the Company on and after the Effective Date under the Indenture shall henceforth be invoiced by and paid to the Successor Trustee at such address and account as shall hereafter be provided by the Successor Trustee to the Company.

19. This Instrument does not constitute a waiver or assignment by the Prior Trustee of any compensation, reimbursement, expenses or indemnity to which it is or may be entitled pursuant to the Indenture. The Company acknowledges its obligation set forth in Section 607 of the Indenture to indemnify the Prior Trustee for, and to hold the Prior Trustee harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Prior Trustee and arising out of or in connection with the acceptance or administration of the trust evidenced by the Indenture (which obligation shall survive the execution hereof).

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed by their duly authorized officers, all as of the date and year first above written.

CATERPILLAR INC., as Company

By: /s/ James B. Buda
Name James B. Buda
Title: Vice President and Secretary

CITIBANK, N.A., as Prior Trustee

By: /s/ Wafaa Orfy
Name Wafaa Orfy
Title: Vice President

U. S. BANK NATIONAL ASSOCIATION, as Successor Trustee

By: /s/ Raymond S. Haverstock
Name Raymond S. Haverstock
Title: Vice President

Exhibit A

ISSUE DESCRIPTION	CUSIP	OUTSTANDING	INTEREST DUE
9.375 DEBS due 3/15/2021	149123AZ4	$ 120,272,000	3/15 and 9/15
9.375% DEBS due 8/15/2011	149123BC4	$ 123,275,000	2/15 and 8/15
8% DEBS due 2/15/2023	149123BD2	$ 82,154,000	2/15 and 8/15
7.25% SEN DEBS due 2009	149123BG5	$ 300,000,000	3/15 and 9/15
7-3/8% DEBS due 3/1/2097	149123 BE0	$ 300,000,000	3/1 and 9/1
6.625% DEBS due 7/15/2028	149123 BF7	$ 300,000,000	1/15 and 7/15
6.55% NOTES due 2011	149123 BH3	$ 250,000,000	5/1 and 11/1
7.30% DEBS due 2031	149123 BJ9	$ 350,000,000	5/1 and 11/1
6.95% DEBS due 2042	149123 BK6	$ 250,000,000	5/1 and 11/1
5.30% DEBS due 2035	149123 BL4	$ 307,320,000	3/15 and 9/15
5.70% NOTES due 2016	149123 BM2	$ 500,000,000	2/15 and 8/15
6.05% DEBS due 2036	149123 BN0	$ 750,000,000	2/15 and 8/15
	TOTAL	**$ 3,633,021,000**	

Exhibit 10.2

CATERPILLAR INC.

2006 LONG-TERM INCENTIVE PLAN

(Amended and Restated through First Amendment)

Caterpillar Inc.
2006 Long-Term Incentive Plan
(Amended and Restated through First Amendment)

Section 1.
Establishment, Objectives and Duration

1.1. ***Establishment.*** Subject to the approval of the stockholders of Caterpillar Inc., a Delaware corporation (the "Company"), the Company has established the Caterpillar Inc. 2006 Long-Term Incentive Plan (the "Plan"), as set forth herein. The Plan supersedes and replaces all prior equity and non-equity long-term incentive compensation plans or programs maintained by the Company; provided that, any prior plans of the Company shall remain in effect until all awards granted under such prior plans have been exercised, forfeited, canceled, expired or otherwise terminated in accordance with the terms of such grants.

1.2. ***Purpose.*** The Plan is intended to provide certain present and future employees and Directors cash-based incentives, stock-based incentives and other equity interests in the Company thereby giving them a stake in the growth and prosperity of the Company and encouraging the continuance of their services with the Company or its Subsidiaries.

1.3. ***Effective Date***. The Plan is effective as of the later of (a) the date the Plan is adopted by the Board or (b) the date the Company's stockholders approve the Plan (the "Effective Date"). The Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Certificate of Incorporation or Bylaws of the Company.

1.4. ***Duration.*** The Plan shall remain in effect, subject to the right of the Company's Board of Directors to amend or terminate the Plan at any time pursuant to Section 16, until all Shares subject to the Plan shall have been purchased or granted according to the Plan's provisions. However, in no event may an Award be granted under the Plan on or after the tenth anniversary of the Effective Date. Upon termination of the Plan, no Awards may be granted but Awards previously granted shall remain outstanding in accordance with the terms of the Plan and the applicable Award Document.

Section 2.
Definitions and Construction

When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be given the meaning ascribed to it in this Section unless a clearly different meaning is required by the context. The following words and phrases shall have the following meanings:

2.1. ***"Award"*** means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Shares or Performance Units.

2.2. ***"Award Document"*** means any agreement, contract, or other written instrument that evidences an Award granted to the Participant under the Plan and sets forth the terms and provisions applicable to such Award.

2.3. ***"Award Gain"*** means (a) with respect to a given Option exercise, the product of (X) the excess of the Fair Market Value of a Share on the date of exercise over the Option Price times (Y) the number of shares as to which the Option was exercised at that date, and (b) with respect to any other settlement of an Award granted to the Participant, the Fair Market Value of the cash or Shares paid or payable to the Participant (regardless of any elective deferral pursuant to Section 13) less any cash or the Fair Market Value of any Shares or property (other than an Award that would have itself then been forfeitable hereunder and excluding any payment of tax withholding) paid by the Participant to the Company as a condition of or in connection such settlement.

2.4. ***"Board"*** means the Board of Directors of the Company.

2.5. ***"Cause"*** means, except as otherwise provided in an Award Document, a willful engaging in gross misconduct materially and demonstrably injurious to the Company. For this purpose, "willful" means an act or omission in bad faith and without reasonable belief that such act or omission was in or not opposed to the best interests of the Company.

2.6. ***"Change of Control"*** means the occurrence of any of the following events: (a) any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 15 percent or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders; (b) during any period of two consecutive years, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board; (c) the stockholders of the Company approve a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (d) Company stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

2.7. ***"Code"*** means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation thereto.

2.8. ***"Committee"*** means the Compensation Committee of the Board, appointed to administer the Plan, as provided in Section 3.

2.9. ***"Company"*** means Caterpillar Inc., a Delaware corporation, and any successor to such entity as provided in Section 18.

2.10. ***"Director"*** means any individual who is a member of the Board.

2.11. ***"Disability"*** means, unless otherwise provided for in an employment, change of control or similar agreement in effect between the Participant and the Company or a Subsidiary or in an Award Document, (a) in the case of an Employee, the Employee qualifying for long-term disability benefits under any long-term disability program sponsored by the Company or Subsidiary in which the Employee participates, and (b) in the case of a Director, the inability of the Director to engage in any substantial gainful business activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than 12 months, as determined by the Committee, based upon medical evidence.

2.12. ***"Effective Date"*** means the date specified in Section 1.3.

2.13. ***"Employee"*** means any employee of the Company or any Subsidiary.

2.14. ***"Exchange Act"*** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.15. *“__Fair Market Value__”* means, as of any given date, the fair market value of a Share on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any date shall be the mean between the high and low prices at which the Share is traded on the New York Stock Exchange for that date or, if no prices are reported for that date, the prices on the next preceding date for which prices were reported. Notwithstanding the foregoing, unless otherwise determined by the Committee, for purposes of Section 6.5(d) of the Plan, Fair Market Value means the actual price at which the Shares used to acquire Shares are sold.

2.16. *“__Family Member__”* means any (a) child; (b) stepchild; (c) grandchild; (d) parent; (e) stepparent; (f) grandparent; (g) spouse; (h) former spouse; (i) sibling; (j) niece; (k) nephew; (l) mother-in-law; (m) father-in-law; (n) son-in-law; (o) daughter-in-law; (p) brother-in-law; or (q) sister-in-law of the Participant (including adoptive relationships). Family Member also shall mean any person sharing in the Participant’s household (other than a tenant or an employee).

2.17. *“__Good Reason__”* means, except as otherwise provided in an Award Document, the occurrence of any of the following circumstances (unless such circumstances are fully corrected by the Company before a Participant’s termination of employment):

(a) the Company’s assignment of any duties materially inconsistent with the Participant’s position within the Company, or which have a significant adverse alteration in the nature or status of the responsibilities of the Participant’s employment; or

(b) a material reduction by the Company in the Participant’s annual base salary, unless such reduction is part of a compensation reduction program affecting all similarly situated management employees.

2.18. *“__Incentive Stock Option__”* or *“__ISO__”* means the right to purchase Shares pursuant terms and conditions that provide that such right will be treated as an incentive stock option within the meaning of Code Section 422, as described in Section 6.

2.19. *“__Long Service Separation__”* means, except as otherwise provided in an Award Document, a termination of employment with the Company or a Subsidiary after the attainment of age 55 and the completion of ten or more years of service with the Company and/or its Subsidiaries.

2.20. *“__Named Executive Officer__”* means a Participant who is one of the group of covered employees as defined in the regulations promulgated under Code Section 162(m), or any successor provision or statute.

2.21. *“__Nonqualified Stock Option__”* or *“__NQSO__”* means the right to purchase Shares pursuant to terms and conditions that provide that such right will not be treated as an Incentive Stock Option, as described in Section 6.

2.22. *“__Option__”* means an Incentive Stock Option or a Nonqualified Stock Option, as described in Section 6.

2.23. *“__Option Price__”* means the per share price of a Share available for purchase pursuant to an Option.

2.24. *“__Participant__”* means an Employee, prospective Employee, Director, beneficiary or any other person who has outstanding an Award granted under the Plan, and includes those former Employees and Directors who have certain post-termination rights under the terms of an Award granted under the Plan.

2.25. *“__Performance-Based Exception__”* means the exception for performance-based compensation from the tax deductibility limitations of Code Section 162(m).

2.26. *“__Performance Period__”* means the time period during which performance goals must be achieved with respect to an Award, as determined by the Committee.

2.27. *"Performance Share"* means an Award granted to a Participant, as described in Section 9.

2.28. *"Performance Unit"* means an Award granted to a Participant, as described in Section 9.

2.29. *"Period of Restriction"* means the period during which the transfer of Shares of Restricted Stock is limited in some way, and the Shares are subject to a substantial risk of forfeiture, as provided in Section 8.

2.30. *"Permitted Transferee"* means any one or more of the following: (a) Family Members; (b) a trust in which the Participant and/or Family Members have more than fifty percent of the beneficial interest; (c) a foundation in which the Participant and/or Family Members control the management of the assets; or (d) any other entity in which the Participant and/or Family Members own more than fifty percent of the voting interests.

2.31. *"Plan"* means the Caterpillar Inc. 2006 Long-Term Incentive Plan, as set forth herein.

2.32. *"Restricted Stock"* means an Award granted to a Participant pursuant to Section 8.

2.33. *"Section 16 Officer"* means any Employee who is considered an officer of the Company for purposes of Section 16 of the Exchange Act.

2.34. *"Share"* or *"Shares"* means shares of common stock of the Company.

2.35. *"Stock Appreciation Right"* or *"SAR"* means an Award, granted alone or in connection with a related Option, designated as an SAR, pursuant to the terms of Section 7.

2.36. *"Subsidiary"* means any corporation, partnership, joint venture, affiliate, or other entity in which the Company is at least a majority-owner of all issued and outstanding equity interests or has a controlling interest.

2.37. *"Tandem SAR"* means a SAR that is granted in connection with a related Option pursuant to Section 7, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be forfeited).

2.38. *"Non-Tandem SAR"* means a SAR that is granted independently of any Options, as described in Section 7.

Section 3.
Administration

3.1. *Plan Administration*. The Committee, or any other committee appointed by the Board, shall administer the Plan. The Committee or other committee appointed to administer the Plan shall consist of not less than two non-Employee Directors of the Company, within the meaning of Rule 16b-3 of the Exchange Act and not less than two outside directors, within the meaning of Code Section 162(m). The Board may, from time to time, remove members from, or add members to, the Committee. Members of the Board shall fill any vacancies on the Committee. Acts of a majority of the Committee at a meeting at which a quorum is present, or acts reduced to or approved in writing by unanimous consent of the members of the Committee, shall be valid acts of the Committee.

3.2. *__Authority of the Committee__*. Except as limited by law or by the Certificate of Incorporation or Bylaws of the Company, and subject to the provisions herein, the Committee shall have full power to select Employees, prospective Employees and Directors who shall participate in the Plan; determine the sizes and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan; construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend, or waive rules and regulations for the Plan's administration; and amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the sole discretion of the Committee as provided in the Plan and subject to Section 16. Further, the Committee shall make all other determinations, which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate the authority granted to it herein.

3.3. *__Electronic Administration__*. The Committee may, in its discretion, utilize a system for complete or partial electronic administration of the Plan and may replace any written documents described in the Plan with electronic counterparts, as appropriate.

3.4. *__Decisions Binding__*. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Section 4.
Shares Subject to the Plan and Maximum Awards

4.1. *__Shares Available for Awards__*.

(a) The Shares available for Awards may be either authorized and unissued Shares or Shares held in or acquired for the treasury of the Company. The aggregate number of Shares that may be issued or used for reference purposes under the Plan or with respect to which Awards may be granted shall not exceed twenty million (20,000,000) Shares, subject to adjustment as provided in Section 4.3. In addition, seventeen million six hundred thousand (17,600,000) Shares authorized but unissued pursuant to the Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan shall be reserved and available for grant under the Plan. Notwithstanding the foregoing, the aggregate number of Shares with respect to which ISOs may be granted shall not exceed the number specified above, and provided further, that up to an aggregate of twenty percent (20%) of the authorized Shares under the Plan may be issued with respect to Awards of Restricted Stock and up to an aggregate of twenty percent (20%) of the authorized Shares under the Plan may be issued with respect to Awards of Performance Shares.

(b) Upon:

(i) a payout of a Non-Tandem SAR or Tandem SAR in the form of cash;

(ii) a cancellation, termination, expiration, forfeiture, or lapse for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Options, or the termination of a related Option upon exercise of the corresponding Tandem SAR) of any Award; or

(iii) payment of an Option Price or payout of any Award with previously acquired Shares or by withholding Shares which otherwise would be acquired on exercise or issued upon such payout,

the number of Shares underlying any such Award that were not issued as a result of any of the foregoing actions shall again be available for the purposes of Awards under the Plan. In addition, in the case of any Award granted in substitution for an award of a company or business acquired by the Company or a Subsidiary, Shares issued or issuable in connection with such substitute Award shall not be counted against the number of Shares reserved under the Plan, but shall be available under the Plan by virtue of the Company's assumption of the plan or arrangement of the acquired company or business.

4.2. *__Individual Participant Limitations__*. Unless and until the Committee determines that an Award to a Named Executive Officer shall not be designed to comply with the Performance-Based Exception, the following rules shall apply to grants of such Awards under the Plan:

(a) Subject to adjustment as provided in Section 4.3, the maximum aggregate number of Shares (including Options, SARs, Restricted Stock and Performance Shares to be paid out in Shares) that may be granted in any one fiscal year to a Participant shall be 800,000 Shares.

(b) Except as otherwise provided in Section 7.5(b) regarding SAR exercise, the maximum aggregate cash payout (including Performance Units and Performance Shares paid out in cash) with respect to Awards granted in any one fiscal year that may be made to any Participant shall be $5 million.

4.3. *__Adjustments in Authorized Shares__*. In the event of any change in corporate capitalization, such as a stock split, or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368) or any partial or complete liquidation of the Company, an adjustment shall be made in the number and class of Shares available for Awards, the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan and the number of Shares set forth in Sections 4.1 and 4.2, to prevent dilution or enlargement of rights. Such adjustment shall be made in a manner determined by the Committee, in its sole discretion, to be appropriate and equitable; provided, however, that (a) no such adjustment shall cause an increase in the fair value of an Award for purposes of Statement of Financial Accounting Standards No. 123 (revised 2004) or any successor thereto; and (b) the number of Shares subject to any Award shall always be a whole number by rounding any fractional Share (up or down) to the nearest whole Share.

Section 5.
Eligibility and Participation

5.1. *__Eligibility__*. Persons eligible to participate in the Plan include all current and future Employees (including officers), persons who have been offered employment by the Company or a Subsidiary (provided that such prospective Employee may not receive any payment or exercise any right relating to an Award until such person begins employment with the Company or Subsidiary), and Directors, as determined by the Committee.

5.2. *__Participation__*. Subject to the provisions of the Plan, the Committee shall determine and designate, from time to time, the Employees, prospective Employees, and Directors to whom Awards shall be granted, the terms of such Awards, and the number of Shares subject to such Award.

5.3. *__Foreign Participants__*. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 4 of the Plan.

Section 6.
Stock Options

6.1. *Grant of Options.*

(a) *Option Grant.* Subject to the terms and provisions of the Plan, Options may be granted to one or more Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee, in its sole discretion. The Committee may grant either Nonqualified Stock Options or (in the case of Options granted to Employees) Incentive Stock Options, and shall have complete discretion in determining the number of Options of each granted to each Participant, subject to the limitations of Section 4. Each Option grant shall be evidenced by a resolution of the Committee approving the Option grant.

(b) *Award Document.* All Options shall be evidenced by an Award Document. The Award Document shall specify the Option Price, the term of the Option, the number of Shares subject to the Option, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan. The Award Document shall also specify whether the Option is to be treated as an ISO within the meaning of Code Section 422. If such Option is not designated as an ISO, such Option shall be a NQSO.

6.2. *Option Price*. The Committee shall designate the Option Price for each Share subject to an Option under the Plan, provided that such Option Price shall not be less than 100% of the Fair Market Value of Shares subject to an Option on the date the Option is granted, and which Option Price may not be subsequently changed by the Committee except pursuant to Section 4.3. With respect to a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, the Option Price of Shares subject to an ISO shall be at least 110% of the Fair Market Value of such Shares on the ISO's grant date.

6.3. *Term of Options*. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant, but in no event shall be exercisable later than the 10th anniversary of the grant date. Notwithstanding the foregoing, with respect to ISOs, in the case of a Participant who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of the stock of the Company or any Subsidiary, no such ISO shall be exercisable *later than the fifth anniversary of the grant date.*

6.4. *Exercise of Options*. Options granted under this Section 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant, and shall be set forth in the applicable Award Document. Notwithstanding the preceding sentence, the Fair Market Value of Shares to which ISOs are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) may not exceed $100,000. Any ISOs that become exercisable in excess of such amount shall be deemed NQSOs to the extent of such excess. If the Award Document does not specify the time or times at which the Option shall first become exercisable, such an Option shall become fully vested and exercisable by the Participant on the third anniversary of the grant date.

6.5. *Payment*. Options granted under this Section 6 shall be exercised by the delivery of a notice of exercise to the Company (or its designated agent(s)), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price upon exercise of any Option shall be payable to the Company in full either:

(a) in cash or its equivalent, or

(b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price, or

(c) by cashless exercise through delivery of irrevocable instructions to a broker to promptly deliver to the Company the amount of proceeds from a sale of shares having a Fair Market Value equal to the purchase price.

6.6. *Termination of Employment or Service as a Director*. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the Option or Options following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) Long Service Separation, Death or Disability. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the Option is not exercisable, all Shares covered by his or her Options shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the Option.

(b) Termination for Cause. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all Options granted to such Participant shall expire immediately and all rights to purchase Shares (vested or nonvested) under the Options shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all Options shall remain exercisable until the earlier of (i) the remainder of the term of the Option, or (ii) 60 days from the date of such termination. In such circumstance, the Option shall only be exercisable to the extent that it was exercisable as of such termination date and shall not be exercisable with respect to any additional Shares.

6.7. Restrictions on Shares. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Section 6 as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state or foreign securities laws applicable to such Shares.

6.8. Transferability of Options.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

(b) Nonqualified Stock Options. NQSOs may only be transferred in accordance with this Section 6.8(b).

(i) Except as otherwise provided in paragraph (ii) below or in an Award Document, no NQSO shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(ii) NQSOs (whether vested or unvested) held by (A) Participants who are Section 16 Officers; (B) Participants who are Directors; or (C) any Participants who previously held the positions in clauses (A) and (B) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. NQSOs (whether vested or unvested) held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order only to Permitted Transferees upon the prior written approval of the Company's Director of Compensation + Benefits.

Section 7.
Stock Appreciation Rights

7.1. *Grant of SARs*.

(a) *SAR Grant*. Subject to the terms and provisions of the Plan, SARs may be granted to Participants in such number, upon such terms and provisions, and at any time and from time to time, as determined by the Committee in its sole discretion. The Committee may grant Non-Tandem SARs, Tandem SARs, or any combination of these forms of SARs. The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Section 4) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs. The Committee shall designate, at the time of grant, the grant price of a Non-Tandem SAR, which grant price shall not be less than 100% of the Fair Market Value of a Share on the grant date of the SAR. The grant price of Tandem SARs shall equal the Option Price of the related Option. Grant prices of SARs shall not subsequently be changed by the Committee, except pursuant to Section 4.3.

(b) *Award Document*. All SARs shall be evidenced by an Award Document. The Award Document shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

7.2. *Term of SARs*. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that unless otherwise designated by the Committee, such term shall not exceed ten years from the grant date.

7.3. Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than 100% of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.4. Exercise of Non-Tandem SARs. Non-Tandem SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.5. Payment of SAR Amount.

(a) Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The excess of the Fair Market Value of a Share on the date of exercise over the grant price; by

(ii) The number of Shares with respect to which the SAR is exercised.

(b) Unless otherwise provided in the Award Document, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. If, and to the extent that the payment upon SAR exercise is made in cash, such cash payment shall not be subject to the limitation of Section 4.2(b).

7.6. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which a Participant shall have the right to exercise the SAR or SARs following termination of his or her employment with the Company or any Subsidiary or following termination of his or her service as a Director. Such provisions need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for such termination, including, but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such provisions, the following provisions shall apply:

(a) Long Service Separation, Death or Disability. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates by reason of Long Service Separation, death or Disability, to the extent that the SARs are not exercisable, all of his or her SARs shall immediately become fully vested and shall remain exercisable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 months from the date of such termination. In the case of the Participant's death, the Participant's beneficiary or estate may exercise the SAR.

(b) Termination for Cause. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for Cause, all SARs shall expire immediately and all rights thereunder shall cease upon such termination.

(c) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director terminates for any reason other than Long Service Separation, death, Disability, or for Cause, all SARs shall remain exerciseable until the earlier of (i) the remainder of the term of the SAR, or (ii) 60 days from the date of such termination. In such circumstance, the SAR shall only be exercisable to the extent it was exercisable as of such termination date and shall not be exercisable with respect to any additional SARs.

7.7. Transferability of SARs. SARs may only be transferred in accordance with this Section 7.7.

(a) Except as otherwise provided in paragraph (b) below or in an Award Document, no SAR shall be assignable or transferable by a Participant other than by will, by the laws of descent and distribution or pursuant to a Domestic Relations Order (as such term is defined in Section 414(p)(1)(B) of the Code).

(b) SARs held by (i) Participants who are Section 16 Officers; (ii) Participants who are Directors; or (iii) any Participants who previously held the positions in clauses (i) and (ii) may be transferred by gift or by domestic relations order to one or more Permitted Transferees. SARs held by all other Participants and by Permitted Transferees may be transferred by gift or by domestic relations order to Permitted Transferees only upon the prior written approval of the Company's Director of Compensation and Benefits.

(c) Notwithstanding the foregoing, with respect to a Tandem SAR granted in connection with an ISO, no such Tandem SAR may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

Section 8.
Restricted Stock

8.1. Grant of Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Participants in such amounts as the Committee shall determine.

(b) Award Document. All shares of Restricted Stock shall be evidenced by an Award Document. The Award Document shall specify the Period or Periods of Restriction (consistent with the next sentence), the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine pursuant to Section 8.3 or otherwise, and which shall not be inconsistent with the terms and provisions of the Plan. Shares of Restricted Stock not in excess of five percent of the number of shares that may be issued with respect to Awards of Restricted Stock, as provided in Section 4.1, may have a Period or Periods of Restriction as determined by the Committee in its sole discretion, and any other shares of Restricted Stock shall have a Period of Restriction, as determined by the Committee, that shall not lapse in any respect until on or after the third anniversary of the grant date. If no Period of Restriction is set forth in the Award Document, the transfer and any other restrictions shall lapse (i) to the extent of one-third of the Shares (rounded to the nearest whole) covered by the Restricted Stock Award on the third anniversary of the grant date, (ii) to the extent of two-thirds of the Shares (rounded to the nearest whole) covered by the Restricted Stock Award on the fourth anniversary of the grant date, and (iii) to the extent of 100% of the Shares covered by the Restricted Stock Award on the fifth anniversary of the grant date.

8.2. Other Restrictions. Subject to Section 10 herein, the Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including without limitation, a requirement that Shares will not be issued until the end of the applicable Period of Restriction, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, restrictions based upon the achievement of specific performance goals (Company-wide, Subsidiary-wide, divisional, and/or individual), time-based restrictions on vesting, which may or may not be following the attainment of the performance goals, sales restrictions under applicable shareholder agreements or similar agreements, and/or restrictions under applicable Federal or state securities laws. The Company shall retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied. Except as otherwise provided in this Section 8 or in any Award Document, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction.

8.3. Voting Rights. Unless otherwise designated by the Committee at the time of grant, Participants to whom Shares of Restricted Stock have been granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.

8.4. Dividends and Other Distributions. Unless otherwise designated by the Committee at the time of grant, Participants holding Shares of Restricted Stock granted hereunder shall be credited with regular cash dividends paid with respect to the underlying Shares while they are so held during the Period of Restriction. The Committee may apply any restrictions to the dividends that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Shares of Restricted Stock granted to a Named Executive Officer is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Shares of Restricted Stock, such that the dividends and/or the Shares of Restricted Stock maintain eligibility for the Performance-Based Exception. In the event that any dividend constitutes a derivative security or an equity security pursuant to the rules under Section 16 of the Exchange Act, such dividend shall be subject to a vesting period equal to the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid.

8.5. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive unvested Shares of Restricted Stock following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all Shares of Restricted Stock issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of employment including; but not limited to, termination of employment for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants; provided, however that, except in the cases of terminations connected with a Change of Control and terminations by reason of death or Disability, the vesting of Shares of Restricted Stock that qualify for the Performance-Based Exception and that are held by Named Executive Officers shall not occur before the time they otherwise would have, but for the employment termination. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) Death and Disability. Unless the Award qualifies for the Performance-Based Exception, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated due to death or Disability, all Shares of Restricted Stock of such Participant shall immediately become fully vested on the date of such termination and any restrictions shall lapse.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated for any reason other than death or Disability all Shares of Restricted Stock that are unvested at the date of termination shall be forfeited to the Company.

8.6. Acceleration of Vesting. Notwithstanding anything in this Section 8 to the contrary, the Committee, in its sole discretion, shall have the authority to accelerate the vesting of Shares of Restricted Stock at any time.

8.7. Transferability. Except as provided in this Section 8, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, voluntarily or involuntarily, until the end of the applicable Period of Restriction established by the Committee and specified in the Award Document, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Award Document. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

Section 9.
Performance Units and Performance Shares

9.1. Grant of Performance Units/Shares.

(a) Grant of Performance Unit/Shares. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee, which shall not be inconsistent with the terms and provisions of the Plan and shall be set forth in an Award Document.

(b) Award Document. All Performance Units and Performance Shares shall be evidenced by an Award Document. The Award Document shall specify the initial value of the Award, the performance goals and the Performance Period, as the Committee shall determine, and which are not inconsistent with the terms and provisions of the Plan.

9.2. Value of Performance Units/Shares. Each Performance Unit shall have an initial value (which may be $0) that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the grant date. The Committee shall set performance goals in its sole discretion which, depending on the extent to which they are met will determine the number and/or value of Performance Units and/or Performance Shares that will be paid out to the Participant. For purposes of this Section 9, the time period during which the performance goals must be met shall be called a Performance Period. Performance Shares not in excess of five percent of the number of shares that may be issued with respect to Awards of Performance Shares, as provided in Section 4.1, may have a Performance Period as determined by the Committee in its sole discretion, and any other Performance Shares shall have a Performance Period, as determined by the Committee, of not less than one year.

9.3. Earning of Performance Units/Shares. Subject to the terms of the Plan, after the applicable Performance Period has ended, the holder of Performance Units and/or Performance Shares shall be entitled to receive payout on the number and value of Performance Units and/or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved, as established by the Committee.

9.4. Form and Timing of Payment of Performance Units/Shares. Except as provided below, payment of earned Performance Units and/or Performance Shares shall be made in a single lump sum as soon as reasonably practicable following the close of the applicable Performance Period. Subject to the terms of the Plan, the Committee, in its sole discretion, may pay earned Performance Units and/or Performance Shares in the form of cash or in Shares (or in a combination thereof) which have an aggregate Fair Market Value equal to the value of the earned Performance Units and/or Performance Shares at the close of the applicable Performance Period. Such Shares may be granted subject to any restrictions deemed appropriate by the Committee. At the sole discretion of the Committee, Participants may be entitled to receive any dividends declared with respect to Shares which have been earned in connection with grants of Performance Units and/or Performance Shares which have been earned, but not yet distributed to Participants.

9.5. Termination of Employment or Service as a Director. The Committee, in its sole discretion, shall set forth in the applicable Award Document the extent to which the Participant shall have the right to receive payment for Performance Units and/or Performance Shares following termination of the Participant's employment with the Company and/or its Subsidiaries or termination of service as a Director. Such provisions need not be uniform among all Performance Units and/or Performance Shares granted pursuant to the Plan, and may reflect distinctions based on the reasons for such termination including; but not limited to, termination for Cause or for Good Reason, or reasons relating to the breach or threatened breach of restrictive covenants. Subject to Section 15, in the event that a Participant's Award Document does not set forth such termination provisions, the following termination provisions shall apply:

(a) Long Service Separation, Death or Disability. Subject to Section 15, if a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period due to Long Service Termination, death or Disability, the Participant shall receive a prorated payout of the Performance Units and/or Performance Shares, unless the Committee determines otherwise. The prorated payout shall be determined by the Committee, shall be based upon the length of time that the Participant held the Performance Units and/or Performance Shares during the Performance Period, and shall further be adjusted based on the achievement of the preestablished performance goals. Unless the Committee determines otherwise in the event of a termination due to death, Disability or Long Service Separation, payment of earned Performance Units and/or Performance Shares shall be made at the same time as payments are made to Participants who did not terminate employment during the applicable Performance Period.

(b) Other Termination. If a Participant's employment with the Company and/or any Subsidiary or service as a Director is terminated during a Performance Period for any reason other than Long Service Termination, death or Disability all Performance Units and/or Performance Shares shall be forfeited by the Participant to the Company.

9.6. Nontransferability. Except as otherwise provided in a Participant's Award Document, Performance Units and/or Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Document, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

Section 10.
Performance Measures

10.1. Performance Measures. Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Section 10, the attainment of which may determine the degree of payout and/or vesting with respect to Awards to Named Executive Officers that are designed to qualify for the Performance-Based Exception, the performance goals to be used for purposes of such grants shall be established by the Committee in writing and stated in terms of the attainment of specified levels of or percentage changes in any one or more of the following measurements: (a) revenue; (b) primary or fully-diluted earnings per Share; (c) earnings before interest, taxes, depreciation, and/or amortization; (d) pretax income; (d) cash flow from operations; (e) total cash flow; (f) return on equity; (g) return on invested capital; (h) return on assets; (i) net operating profits after taxes; (j) economic value added; (k) total stockholder return; (l) return on sales; or (m) any individual performance objective which is measured solely in terms of quantifiable targets related to the Company or the Company's business; or any combination thereof. In addition, such performance goals may be based in whole or in part upon the performance of the Company, a Subsidiary, division and/or other operational unit under one or more of such measures.

10.2. Performance Procedures. The degree of payout and/or vesting of such Awards designed to qualify for the Performance-Based Exception shall be determined based upon the written certification of the Committee as to the extent to which the performance goals and any other material terms and conditions precedent to such payment and/or vesting have been satisfied. The Committee shall have the sole discretion to adjust the determinations of the degree of attainment of the preestablished performance goals; provided, however, that the performance goals applicable to Awards which are designed to qualify for the Performance-Based Exception, and which are held by Named Executive Officers, may not be adjusted so as to increase the payment under the Award (the Committee shall retain the sole discretion to adjust such performance goals upward, or to otherwise reduce the amount of the payment and/or vesting of the Award relative to the pre-established performance goals). In the event that applicable tax and/or securities laws change to permit Committee sole discretion to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards which shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and, thus, which use performance measures other than those specified above.

Section 11.
Award Forfeitures

11.1. Forfeiture of Options and Other Awards. Each Award granted hereunder shall be subject to the following additional forfeiture conditions, to which the Participant, by accepting an Award hereunder, agrees. If any of the events specified in Section 11.2 occurs (a "Forfeiture Event"), all of the following forfeitures will result:

(a) The unexercised portion of any Option, whether or not vested, and any other Award not then settled (except for an Award that has not been settled solely due to an elective deferral pursuant to Section 13 by the Participant and otherwise is not forfeitable in the event of any termination of service of the Participant) will be immediately forfeited and canceled upon the occurrence of the Forfeiture Event; and

(b) The Participant will be obligated to repay to the Company, in cash, within five business days after demand is made therefor by the Company, the total amount of Award Gain (as defined herein) realized by the Participant upon each exercise of an Option or settlement of an Award (regardless of any elective deferral pursuant to Section 13) that occurred on or after (i) the date that is six months before the occurrence of the Forfeiture Event, if the Forfeiture Event occurred while the Participant was employed by the Company or a Subsidiary, or (ii) the date that is six months before the date the Participant's employment by, or service as a Director with the Company or a Subsidiary terminated, if the Forfeiture Event occurred after the Participant ceased to be so employed.

11.2. Events Triggering Forfeiture. The forfeitures specified in Section 11.1 will be triggered upon the occurrence of any one of the following Forfeiture Events at any time during the Participant's employment by or service as a Director with the Company or a Subsidiary or during the one-year period following termination of such employment or service:

(a) Non-Solicitation. The Participant, for his or her own benefit or for the benefit of any other person, company or entity, directly or indirectly, (i) induces or attempts to induce or hires or otherwise counsels, induces or attempts to induce or hire or otherwise counsel, advise, encourage or solicit any person to leave the employment of or the service for the Company or any Subsidiary, (ii) hires or in any manner employs or retains the services of any individual employed by or providing services to the Company or any Subsidiary as of the date of his or her termination of employment, or employed by or providing services to the Company or any Subsidiary subsequent to such termination, (iii) solicits, pursues, calls upon or takes away, any of the customers of the Company or any Subsidiary, (iv) solicits, pursues, calls upon or takes away, any potential customer of the Company or any Subsidiary that has been the subject of a bid, offer or proposal by the Company or any Subsidiary, or of substantial preparation with a view to making such a bid, proposal or offer, within six months before such Participant's termination of employment with the Company or any Subsidiary, or (v) otherwise interferes with the business or accounts of the Company or any Subsidiary.

(b) Confidential Information. The Participant discloses to any person or entity or makes use of any "confidential or proprietary information" (as defined below in this subparagraph (b)) for his or her own purpose or for the benefit of any person or entity, except as may be necessary in the ordinary course of employment with or other service to the Company or any Subsidiary. Such "confidential or proprietary information" of the Company or any Subsidiary, includes, but is not limited to, the design, development, operation, building or manufacturing of products manufactured and supplied by the Company and its Subsidiaries, the identity of the Company's or any Subsidiary's customers, the identity of representatives of customers with whom the Company or any Subsidiary has dealt, the kinds of services provided by the Company or any Subsidiary to customers and offered to be performed for potential customers, the manner in which such services are performed or offered to be performed, the service needs of actual or prospective customers, pricing information, information concerning the creation, acquisition or disposition of products and services, customer maintenance listings, computer software and hardware applications and other programs, personnel information, information identifying, relating to or concerning investors in the Company or any Subsidiary, joint venture partners of the Company or any Subsidiary, business partners of the Company or any Subsidiary or other entities providing financing to the Company or any Subsidiary, real estate and leasing opportunities, communications and telecommunications operations and processes, zoning and licensing matters, relationships with, or matters involving, landlords and/or property owners, and other trade secrets.

11.3. Agreement Does Not Prohibit Competition or Other Participant Activities. Although the conditions set forth in this Section 11 shall be deemed to be incorporated into an Award, the Plan does not thereby prohibit the Participant from engaging in any activity, including but not limited to competition with the Company and its Subsidiaries. Rather, the non-occurrence of the Forfeiture Events set forth in Section 11.2 is a condition to the Participant's right to realize and retain value from his or her compensatory Awards, and the consequence under the Plan if the Participant engages in an activity giving rise to any such Forfeiture Event are the forfeitures specified herein. This provision shall not preclude the Company and the Participant from entering into other written agreements concerning the subject matter of Sections 11.1 and 11.2 and, to the extent any terms of this Section 11 are inconsistent with any express terms of such agreement, this Section 11 shall not be deemed to modify or amend such terms.

11.4. Committee Discretion. The Committee may, in its sole discretion, waive in whole or in part the Company's right to forfeiture under this Section 11, but no such waiver shall be effective unless evidenced by a writing signed by a duly authorized officer of the Company. In addition, the Committee may impose additional conditions on Awards, by inclusion of appropriate provisions in the Award Document. Nothing contained herein shall require the Committee to enforce the forfeiture provisions of this Section 11. Failure to enforce these forfeiture provisions against any individual shall not be construed as a waiver of the Company's right to forfeiture under this Section 11.

Section 12.
Beneficiary Designation

12.1. Beneficiary Designations. Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

Section 13.
Deferrals

13.1. Deferrals. The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant upon the exercise of any Option or by virtue of the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals. All such deferrals (and rules and procedures) shall be consistent with Code Section 409A and any other applicable law.

Section 14.
Rights and Obligations of Parties

14.1. No Guarantee of Employment or Service Rights. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary.

14.2. Temporary Absence. For purposes of the Plan, temporary absence from employment because of illness, vacation, approved leaves of absence, and transfers of employment among the Company and its Subsidiaries, shall not be considered to terminate employment or to interrupt continuous employment.

14.3. Participation. No Employee or Director shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

14.4. Right of Setoff. The Company or any Subsidiary may, to the extent permitted by applicable law, deduct from and set off against any amounts the Company or Subsidiary may owe to the Participant from time to time, including amounts payable in connection with any Award, owed as wages, fringe benefits, or other compensation owed to the Participant, such amounts as may be owed by the Participant to the Company, although the Participant shall remain liable for any part of the Participant's payment obligation not satisfied through such deduction and setoff. By accepting any Award granted hereunder, the Participant agrees to any deduction or setoff under this Section 14.

14.5. Section 83(b) Election. No election under Section 83(b) of the Code (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made, unless expressly permitted by the terms of the Award Document or by action of the Committee in writing before the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

14.6. Disqualifying Disposition Notification. If any Participant shall make any disposition of Shares delivered pursuant to the exercise of an Incentive Stock Option under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten days thereof.

Section 15.
Change of Control

15.1. Change of Control. If a Participant's employment or service with the Company and/or any Subsidiary terminates either without Cause or for Good Reason within the 12 month period following a Change of Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable, and shall remain exercisable throughout their entire term;

(b) Any Period of Restriction and other restrictions imposed on Restricted Stock shall lapse; and

(c) Unless otherwise specified in an Award Document, the maximum payout opportunities attainable under all outstanding Awards of Performance Units and Performance Shares shall be deemed to have been fully earned for the entire Performance Period(s) as of the effective date of the Change of Control. The vesting of all such Awards shall be accelerated as of the effective date of the Change of Control, and in full settlement of such Awards, there shall be paid out in cash to Participants within 30 days following the effective date of the Change of Control the maximum of payout opportunities associated with such outstanding Awards.

Section 16.
Amendment, Modification, and Termination

16.1. Amendment, Modification, and Termination. The Board may amend, suspend or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders or Participants; provided, however, that any amendment to the Plan shall be submitted to the Company's stockholders for approval not later than the earliest annual meeting for which the record date is after the date of such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted and the Board may otherwise, in its sole discretion, determine to submit other amendments to the Plan to stockholders for approval; and provided further, that, without the written consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any outstanding Award. The Committee shall have no authority to waive or modify any other Award term after the Award has been granted to the extent that the waived or modified term was mandatory under the Plan.

Section 17.
Withholding

17.1. Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the Plan.

17.2. Share Withholding. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, the withholding requirement shall be satisfied by the Company withholding Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which would be imposed on the transaction.

Section 18.
Miscellaneous

18.1. Unfunded Plan. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. No such funding shall be established that would cause an amount to be taxable under Code Section 409A before it is received by a Participant or cause an amount to be subject to additional tax under such Section.

18.2. Forfeitures; Fractional Shares. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

18.3. Compliance with Code Section 162(m). The Company intends that Options and SARs granted to Named Executive Officers and other Awards designated as Awards to Named Executive Officers shall constitute qualified "performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder, unless otherwise determined by the Committee at the time of allocation of an Award. Accordingly, the terms of Sections 4.2, 6, 7, 8.5, 8.6, 9 and 10, including the definitions of Named Executive Officer and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Named Executive Officer with respect to a fiscal year that has not yet been completed, the Committee may, in its discretion, extend the terms of such Sections to any Participant that the Committee deems appropriate. If any provision of the Plan or any Award Document relating to a Performance Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person sole discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.

18.4. Gender and Number; Headings. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural. Headings are included for the convenience of reference only and shall not be used in the interpretation or construction of any such provision contained in the Plan.

18.5. Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.6. Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect merger, consolidation, purchase of all or substantially all of the business and/or assets of the Company or otherwise.

18.7. Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.8. Securities Law Compliance. With respect to "insiders," transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. An "insider" includes any individual who is, on the relevant date, an officer, Director or more than 10% beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

18.9. Governing Law. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Illinois without regard to the conflict of law provisions thereof.

Exhibit 10.6

CATERPILLAR INC.
DIRECTORS' DEFERRED COMPENSATION PLAN

(Amended and Restated as of January 1, 2005)

CATERPILLAR INC.
DIRECTORS' DEFERRED COMPENSATION PLAN

(Amended and Restated as of January 1, 2005)

PREAMBLE

Previously, Caterpillar Inc. (the "Company") adopted the Caterpillar Inc. Directors' Deferred Compensation Plan (the "Plan") to provide members of its Board of Directors with an opportunity to defer the payment of compensation. The Plan has been amended and/or restated on a number of occasions with the most recent amendment and restatement being effective as of April 12, 1999. By execution of this document, the Company amends and restates the Plan effective as of January 1, 2005 to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

ARTICLE I
DEFINITIONS

1.1 General. When a word or phrase appears in the Plan with the initial letter capitalized, and the word or phrase does not begin a sentence, the word or phrase shall generally be a term defined in this Article I. The following words and phrases used in the Plan with the initial letter capitalized shall have the meanings set forth in this Article I, unless a clearly different meaning is required by the context in which the word or phrase is used or the word or phrase is defined for a limited purpose elsewhere in the Plan document:

(a) "Board" means the Board of Directors of the Company, or any authorized committee of the Board.

(b) "C+B Officer" means the Company's Director of Compensation + Benefits.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(d) "Company" means Caterpillar Inc., and, to the extent provided in Section 9.7 (Successors) below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

(e) "Company Share Equivalent Account" means the hypothetical investment fund described in Section 5.4 (Special Company Share Equivalent Account Provisions).

(f) "Company Stock" means common stock issued by the Company.

(g) "Compensation" means the cash remuneration payable from time to time to a Director for services as a Director. Compensation shall include such remuneration attributable to annual fees, fees payable for attendance at meetings and fees payable for other services performed for or on behalf of the Company. Compensation shall not include expense reimbursements. Compensation also shall not include equity and equity-equivalent grants or gains realized on the sale of shares, the exercise or other disposition of options, or similar transactions related to equity equivalents.

(h) "Deferral Account" means the bookkeeping account maintained under the Plan to record amounts deferred under Section 3.3 (Deferrals).

(i) **"Deferral Agreement"** means the deferral agreement(s) described in Section 3.1 (Deferral Agreement) that are entered into by a Participant pursuant to the Plan.

(j) **"Deferrals"** means the deferrals made by a Participant in accordance with Section 3.3 (Deferrals).

(k) **"Director"** means a member of the Board.

(l) **"Disability" or "Disabled"** means that a Participant (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer.

(m) **"Distribution Election Form"** means the election form by which a Participant elects the manner in which his accounts shall be distributed pursuant to Section 6.3 (Form of Distribution).

(n) **"Effective Date"** means January 1, 2005.

(o) **"Interest Fund"** means the hypothetical investment fund described in Section 5.3 (Special Interest Fund Provisions).

(p) **"Investment Funds"** means the Interest Fund and the Caterpillar Share Equivalent Account.

(q) **"Key Employee"** means a "key employee" as defined in Section 416(i) of the Code without regard to Section 416(i)(5).

(r) **"Participant"** means a Director who affirmatively elects to participate in the Plan pursuant to Section 2.1 (Eligibility).

(s) **"Plan"** means the Caterpillar Inc. Directors' Deferred Compensation Plan, as set forth herein.

(t) **"Plan Administrator"** means the C+B Officer. The Plan Administrator may delegate his authority hereunder in his sole and absolute discretion.

(u) **"Plan Year"** means the calendar year.

(v) **"Separation from Service"** means separation from service as determined in accordance with any regulations, rulings or other guidance issued by the Department of the Treasury pursuant to Section 409A(a)(2)(A)(i) of the Code, as it may be amended or replaced from time to time.

(w) "Unforeseeable Emergency" means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For purposes of the Plan, an "Unforeseeable Emergency" shall not include a Participant's need to send his or her child to college or a Participant's desire to purchase a home.

(x) "Valuation Date" means, except as otherwise provided herein, the last day of each month of the Plan Year.

1.2 Construction. The masculine gender, when appearing in the Plan, shall include the feminine gender (and vice versa), and the singular shall include the plural, unless the Plan clearly states to the contrary. Headings and subheadings are for the purpose of reference only and are not to be considered in the construction of the Plan. If any provision of the Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect. All of the provisions of the Plan shall be construed and enforced according to the laws of the State of Illinois and shall be administered according to the laws of such state, except as otherwise required by ERISA, the Code, or other Federal law.

ARTICLE II
ELIGIBILITY

2.1 Eligibility. Any Director who is not an Employee of the Company or any of its affiliates is eligible to participate in the Plan. An eligible Director shall elect to participate in the Plan by completing a Deferral Agreement as provided in Section 3.1 (Deferral Agreement).

ARTICLE III
DEFERRALS

3.1 Deferral Agreement. In order to make Deferrals, a Participant must complete a Deferral Agreement in the form prescribed by the Plan Administrator. In the Deferral Agreement, the Participant shall agree to reduce his Compensation in exchange for Deferrals. The Deferral Agreement shall be delivered to the Plan Administrator (or his designee) by the time specified in Section 3.2 (Timing of Deferral Elections). An election made by a Participant pursuant to a Deferral Agreement shall be irrevocable with respect to the Plan Year covered by the election. Notwithstanding the foregoing, the Plan Administrator may permit a Participant to revoke an election if the Participant has experienced an Unforeseeable Emergency, but only to the extent that revoking the election would help the Participant meet the related emergency need.

3.2 Timing of Deferral Elections.

(a) General Rule. Deferral Agreements shall be completed by the Director and delivered to the Plan Administrator prior to the beginning of the Plan Year in which the Compensation to be deferred is otherwise payable to the Director. The Deferral Agreement will remain in effect from year-to-year until changed by the Participant in accordance with the preceding sentence. The Plan Administrator, in his discretion, may require an earlier time by which the election to defer Compensation must be completed.

(b) Initial Deferral Election. For the Plan Year in which a Director first becomes eligible to participate in the Plan (but only if the Director has never been eligible to participate in another "account balance plan," other than a separation pay plan, of the Company or an affiliate that is aggregated with the Plan under Section 409A of the Code), the Director may elect to make Deferrals and with respect to services to be performed subsequent to the date of the election by completing and delivering a Deferral Agreement within 30 days after the date the Director becomes eligible to participate in the Plan.

3.3 Amount of Deferrals. Any Participant may elect to defer, pursuant to a Deferral Agreement, the receipt of 50% to 100% (designated in whole percentages) of the Compensation otherwise payable to the Participant by the Company in any Plan Year. The amount deferred pursuant to this Section 3.3 shall be allocated to the Deferral Account maintained for the Participant.

ARTICLE IV
VESTING

4.1 Vesting. Subject to Section 9.1 (Participant's Rights Unsecured), each Participant shall at all times be fully vested in all amounts credited to or allocable to his Deferral Account and his rights and interest therein shall not be forfeitable for any reason.

ARTICLE V
INVESTMENT OF ACCOUNTS

5.1 Adjustment of Accounts. Except as otherwise provided elsewhere in the Plan, as of each Valuation Date, each Participant's Accounts will be adjusted to reflect deferrals under Article III (Deferrals) and the positive or negative rate of return on the Investment Funds selected by the Participant pursuant to Section 5.2(b) (Investment Direction - Participant Directions). The rate of return will be credited or charged in accordance with policies applied uniformly to all Participants.

5.2 Investment Direction.

(a) Investment Funds. Each Participant may direct the hypothetical investment of amounts credited to his Plan accounts in the Investment Funds.

(b) Participant Directions. Each Participant may direct that all of the amounts attributable to his accounts be invested in either the Company Share Equivalent Account or Interest Fund or may direct that fractional (percentage) increments of his accounts be invested in the Company Share Equivalent Account and Interest Fund as he shall desire in accordance with such procedures as may be established by the Plan Administrator.

(c) Changes and Intra-Fund Transfers. Participant investment directions may be changed, and amounts may be transferred between the Investment Funds, in accordance with the procedures established by the Plan Administrator. The designation will remain in effect until changed by the timely submission of a new designation.

(d) Default Selection. In the absence of any designation, a Participant will be deemed to have directed the investment of his accounts in the Interest Fund.

(e) Impact of Election. The Participant's selection of Investment Funds shall serve only as a measurement of the value of the Participant's Accounts pursuant to Section 5.1 (Adjustment of Accounts) and this Section 5.2. Neither the Company nor the Plan Administrator is required to actually invest a Participant's accounts in accordance with the Participant's selections.

(f) Investment Performance. Accounts shall be adjusted on each Valuation Date to reflect investment gains and losses as if the accounts were invested in the hypothetical Investment Funds selected by the Participants in accordance with this Section 5.2 and charged with any and all reasonable expenses as provided in paragraph (g) below. The earnings and losses determined by the Plan Administrator in good faith and in his discretion pursuant to this Section shall be binding and conclusive on the Participant, the Participant's beneficiary and all parties claiming through them.

(g) Charges. The Plan Administrator may (but is not required to) charge Participants' accounts for the reasonable expenses of administration including, but not limited to, carrying out and/or accounting for investment instructions directly related to such accounts.

5.3 Special Interest Fund Provisions.

(a) General. The Interest Fund shall accrue interest at a rate equal to (i) prior to January 1, 2007, the base corporate lending rate (sometimes referred to as the "prime rate") applicable to commercial lending customers of Citibank, N.A., New York, New York (or any successor thereto); or (ii) from and after January 1, 2007, the rate on U.S. Treasury Notes with a maturity of ten years. Such interest shall accrue and compound quarterly and be determined as of the last business day of each calendar quarter.

(b) Installment Distributions Commencing Prior to January 1, 2007. Notwithstanding the provisions of Section 5.3(a) (Special Interest Fund Provisions – General) to the contrary, if a Participant elected to receive installment distributions pursuant to Section 6.3 (Form of Distribution) and such distributions commenced on or before December 31, 2006, interest shall accrue to such Participants' accounts at a rate equal to the base corporate lending rate (sometimes referred to as the "prime rate") applicable to commercial lending customers of Citibank, N.A., New York, New York (or any successor thereto).

5.4 Special Company Share Equivalent Account Provisions.

(a) General. A Participant's interest in the Company Share Equivalent Account shall be expressed in whole and fractional hypothetical units of the Company Share Equivalent Account. As a general matter, the Company Share Equivalent Account shall track an investment in Company Stock and shall generally reflect share ownership for events such as stock splits. Dividend equivalents will accrue to the Company Share Equivalent Account quarterly and will be reinvested. Because investment in the Company Share Equivalent Account is investment in a hypothetical account, there shall be no voting or similar rights associated therewith. The units shall be determined by dividing the amount of deferred into the Company Share Equivalent Account (or dividends credited) by the average of the high and low prices of Company Stock on the New York Stock Exchange on the date of such deferral or dividend credit (or the next succeeding trading day if there is no trading on that date).

(b) Investment Directions. A Participant's ability to direct investments into or out of the Company Share Equivalent Account shall be subject to such procedures as the Plan Administrator may prescribe from time to time to assure compliance with Rule 16b-3 promulgated under Section 16(b) of the Securities Exchange Act of 1934, as amended, and other applicable requirements. Such procedures also may limit or restrict a Participant's ability to make (or modify previously made) deferral and distribution elections pursuant to Articles III and VI, respectively. In furtherance, and not in limitation, of the foregoing, to the extent a Participant acquires any interest in an equity security under the Plan for purposes of Section 16(b), the Participant shall not dispose of that interest within six months, unless specifically exempted by Section 16(b) or any rules or regulations promulgated thereunder.

(c) Compliance with Securities Laws. Any election by a Participant to hypothetically invest any amount in the Company Share Equivalent Account, and any elections to transfer amounts from or to the Company Share Equivalent Account to or from any other Investment Fund, shall be subject to all applicable securities law requirements, including but not limited to the last sentence of paragraph (b) next above and Rule 16b-3 promulgated by the Securities Exchange Commission. To the extent that any election violates any securities law requirement, or the Company's stock trading policies and procedures, the election shall be void.

(d) Compliance with Company Trading Policies and Procedures. Any election by a Participant to hypothetically invest any amount in the Company Share Equivalent Account, and any elections to transfer amounts from or to the Company Share Equivalent Account to or from the other Investment Fund, shall be subject to all Company Stock trading policies promulgated by the Company. To the extent that any election violates any such trading policy or procedures, the election shall be void.

ARTICLE VI
DISTRIBUTIONS

6.1 Limitation on Right to Receive Distribution. A Participant (or the Participant's beneficiary in the case of the Participant's death) shall not be entitled to receive a distribution prior to the first to occur of the following events:

(a) The Participant's Separation from Service, or, in the case of a Participant who is a Key Employee, the date which is six months after the Participant's Separation from Service;

(b) The date the Participant becomes Disabled;

(c) The Participant's death;

(d) A specified time (or pursuant to a fixed schedule) specified at the date of deferral of compensation;

(e) An Unforeseeable Emergency; or

(f) To the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company.

The provisions of this Section 6.1 are intended to impose restrictions on distributions. This Section 6.1 does not describe the instances in which distributions will be made. Rather, distributions will be made only if and when permitted both by this Section 6.1 and another provision of the Plan.

6.2 General Right to Receive Distribution. Following a Participant's Separation from Service or Disability, the Participant's Plan accounts will be distributed to the Participant at the time and in the manner provided in Sections 6.5 (Timing of Distribution) and 6.3 (Form of Distribution).

6.3 Form of Distribution. Accounts shall be distributed in cash in a single lump sum payment or in up to ten annual installments. Distributions shall be subject to such uniform rules and procedures as may be adopted by the Plan Administrator from time to time. The method of payment shall be selected by the Participant in the initial Distribution Election Form (which may be contained in and be a part of a Deferral Agreement) submitted by the Participant to the Plan Administrator on entry into the Plan.

6.4 Amount of Distribution. The amount distributed to a Participant shall equal the sum of the vested amounts credited to the Participant's accounts as of the Valuation Date immediately preceding the date of the distribution. Amounts invested in the Company Share Equivalent Account shall be based on the fair market value of the Company Stock on the relevant Valuation Date determined pursuant to uniform and non-discriminatory rules established by the Plan Administrator.

6.5 Timing of Distribution. Funds will be distributed (or in the case of installment distributions, such installments shall commence) as soon as practicable after the January 1 coincident with or next following the Participant's Separation from Service (but not sooner than the six-month anniversary of such Separation in the case of a Key Employee). Notwithstanding the foregoing, in the event that Separation from Service occurs due to death or Disability, funds may be distributed in a lump sum as soon as practicable after Separation from Service.

6.6 Payment Upon Death.

(a) If a Participant should die before receiving a full distribution of his Plan accounts, distribution shall be made to the beneficiary designated by the Participant. If a Participant has not designated a beneficiary, or if no designated beneficiary is living on the date of distribution, such amounts shall be distributed to the Participant's estate.

(b) Timing and Form of Payment to Beneficiary.

(i) Payments Commenced at Time of Death. If, at the time of the Participant's death, installment payments of the Participant's accounts has commenced pursuant to this Article VI, such payments shall continue to the Participant's beneficiary in the same time and the same form as if the Participant has remained alive until the last installment payment was scheduled to be made.

(ii) Payments Not Commenced at Time of Death. If, at the time of the Participant's death, payments of the Participant's accounts has not commenced pursuant to this Article VI, the distributions made pursuant to this Section 6.7 shall be made to the Participant's beneficiary in accordance with the then current and valid distribution election made by the Participant (or, in the absence of such a distribution election, in accordance with the "default" provisions of Section 6.3 (Form of Distribution)).

6.7 Payment Upon Unforeseeable Emergency. Notwithstanding any provision of the Plan to the contrary, if a Participant incurs an Unforeseeable Emergency, the Participant may elect to make a withdrawal from the adjusted balance of the Participant's account. Distribution shall only be made on account of Unforeseeable Emergency if, as determined under regulations of the Secretary of the Treasury, the amounts distributed with respect to an emergency do not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved:

(a) through reimbursement or compensation by insurance or otherwise;

(b) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or

(c) by cessation of deferrals under the Plan.

A Participant who wishes to receive a distribution pursuant to this Section 6.8 shall apply for such distribution to the Plan Administrator and shall provide information to the Plan Administrator reasonably necessary to permit the Plan Administrator to determine whether an Unforeseeable Emergency exists and the amount of the distribution reasonably needed to satisfy the emergency need.

6.8 De Minimis Distribution. Subject to Section 6.5 (Timing of Distribution) regarding Key Employees, if a Participant incurs a Separation from Service and as of the "payment date," the value of the Participant's accounts is $10,000.00 or less, the Participant's accounts shall be distributed to the Participant in a single lump sum regardless of any elections made by the Participant pursuant to Section 6.3 (Form of Distribution). For purposes of this Section 6.9, the "payment date" shall be the date on which the Participant's accounts are distributed pursuant to this Section 6.9. In no event shall the "payment date" be later than the later of (a) December 31 of the Plan Year in which the Participant's Separation of Service occurs and (b) the date which is two and one-half months immediately following the Participant's Separation from Service.

6.9 Withholding. All distributions will be subject to all applicable tax and withholding requirements.

6.10 Ban on Acceleration of Benefits. Notwithstanding any other provision of the Plan to the contrary, neither the time nor the schedule of any payment under the Plan may be accelerated except as provided in regulations or other guidance issued by the Internal Revenue Service or the Department of the Treasury.

ARTICLE VII
ADMINISTRATION OF THE PLAN

7.1 General Powers and Duties.

(a) General. The Plan Administrator shall perform the duties and exercise the powers and discretion given to him in the Plan document and by applicable law and his decisions and actions shall be final and conclusive as to all persons affected thereby. The Company and the Adopting Affiliates shall furnish the Plan Administrator with all data and information that the Plan Administrator may reasonably require in order to perform his functions. The Plan Administrator may rely without question upon any such data or information.

(b) Disputes. Any and all disputes that may arise involving Participants or beneficiaries shall be referred to the Plan Administrator and his decision shall be final. Furthermore, if any question arises as to the meaning, interpretation or application of any provisions of the Plan, the decision of the Plan Administrator shall be final.

(c) Agents. The Plan Administrator may engage agents, including recordkeepers, to assist him and he may engage legal counsel who may be counsel for the Company. The Plan Administrator shall not be responsible for any action taken or omitted to be taken on the advice of such counsel, including written opinions or certificates of any agent, counsel, actuary or physician.

(d) Insurance. At the C+B Officer's request, the Company shall purchase liability insurance to cover the C+B Officer in his activities as the Plan Administrator.

(e) Allocations. The Plan Administrator is given specific authority to allocate responsibilities to others and to revoke such allocations. When the Plan Administrator has allocated authority pursuant to this paragraph, the Plan Administrator is not to be liable for the acts or omissions of the party to whom such responsibility has been allocated.

(f) Records. The Plan Administrator shall supervise the establishment and maintenance of records by its agents, the Company and each Adopting Affiliate containing all relevant data pertaining to any person affected hereby and his or her rights under the Plan. In addition, the Plan Administrator may, in its discretion, establish a system for complete or partial electronic administration of the Plan and may replace any written documents described in the Plan with electronic counterparts as it deems appropriate.

(g) Interpretations. The Plan Administrator, in his sole discretion, shall interpret and construe the provisions of the Plan (and any underlying documents or policies).

(h) Electronic Administration. The Plan Administrator shall have the authority to employ alternative means (including, but not limited to, electronic, internet, intranet, voice response or telephonic) by which Participants may submit elections, directions and forms required for participation in, and the administration of, the Plan. If the Plan Administrator chooses to use these alternative means, any elections, directions or forms submitted in accordance with the rules and procedures promulgated by the Plan Administrator will be deemed to satisfy any provision of the Plan calling for the submission of a written election, direction or form.

(i) Accounts. The Plan Administrator shall combine the various accounts of a Participant if he deems such action appropriate. Furthermore, the Plan Administrator shall divide a Participant's accounts into sub-accounts if he deems such action appropriate.

The foregoing list of powers and duties is not intended to be exhaustive, and the Plan Administrator shall, in addition, exercise such other powers and perform such other duties as he may deem advisable in the administration of the Plan, unless such powers or duties are expressly assigned to another pursuant to the provisions of the Plan.

ARTICLE VIII
AMENDMENT

8.1 Amendment. The Company reserves the right to amend the Plan when, in the sole discretion of the Company, such amendment is advisable.

8.2 Effect of Amendment. Any amendment of the Plan shall apply prospectively only and shall not directly or indirectly reduce the balance of any Plan account as of the effective date of such amendment.

8.3 Termination. The Company expressly reserves the right to terminate the Plan. In the event of termination, the Company shall specify whether termination will change the time at which distributions are made; provided that any acceleration of a distribution is consistent with Section 409A of the Code. In the absence of such specification, the timing of distributions shall be unaffected by termination.

ARTICLE IX
GENERAL PROVISIONS

9.1 Participant's Rights Unsecured. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any distributions hereunder. The right of a Participant or his or her designated beneficiary to receive a distribution hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a designated beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to a Participant's accounts hereunder shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. Nothing in this Section shall preclude the Company from establishing a "Rabbi Trust," but the assets in the Rabbi Trust must be available to pay the claims of the Company's general creditors in the event of the Company's insolvency.

9.2 No Guaranty of Benefits. Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

9.3 Section 409A Compliance. The Company intends that the Plan meet the requirements of Section 409A of the Code and the guidance issued thereunder. The Plan shall be construed and interpreted in a manner consistent with that intention.

9.4 Spendthrift Provision. No interest of any person or entity in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor shall any such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims in bankruptcy proceedings. This Section shall not preclude arrangements for the withholding of taxes from deferrals, credits, or benefit payments, arrangements for the recovery of benefit overpayments, arrangements for the transfer of benefit rights to another plan, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

9.5 Domestic Relations Orders. Notwithstanding the provisions of Section 9.4 (Spendthrift Provision) to the contrary and to the extent permitted by law, the amounts payable pursuant to the Plan may be assigned or alienated pursuant to a "Domestic Relations Order" (as such term is defined in Section 414(p)(1)(B) of the Code).

9.6 Incapacity of Recipient. If the Plan Administrator is served with a court order holding that a person entitled to a distribution under the Plan is incapable of personally receiving and giving a valid receipt for such distribution, the Plan Administrator shall postpone payment until such time as a claim therefore shall have been made by a duly appointed guardian or other legal representative of such person. The Plan Administrator is under no obligation to inquire or investigate as to the competency of any person entitled to a distribution. Any payment to an appointed guardian or other legal representative under this Section shall be a payment for the account of the incapacitated person and a complete discharge of any liability of the Company and the Plan therefore.

9.7 Successors. The Plan shall be binding upon the successors and assigns of the Company and upon the heirs, beneficiaries and personal representatives of the individuals who become Participants hereunder.

9.8 Limitations on Liability. Notwithstanding any of the preceding provisions of the Plan, neither the Plan Administrator, the Company, nor any individual acting as the Plan Administrator's, or the Company's employee, agent, or representative shall be liable to any Participant, former Participant, beneficiary or other person for any claim, loss, liability or expense incurred in connection with the Plan.

EXHIBIT 11

CATERPILLAR INC.
AND ITS SUBSIDIARIES

COMPUTATIONS OF EARNINGS PER SHARE
FOR THE YEARS ENDED DECEMBER 31,

(Dollars in millions except per share data)

	2006	2005	2004
Profit for the period (A):	$ 3,537	$ 2,854	$ 2,035
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	658.7	678.4	684.5
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	25.1	27.4	22.9
Average common shares outstanding for fully diluted computation (C)	683.8	705.8	707.4
Profit per share of common stock:			
Assuming no dilution (A/B)	$ 5.37	$ 4.21	$ 2.97
Assuming full dilution (A/C)	$ 5.17	$ 4.04	$ 2.88
Shares outstanding as of December 31 (in millions)	645.8	670.9	685.9

EXHIBIT 12

CATERPILLAR INC.
AND CONSOLIDATED SUBSIDIARIES

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

YEARS ENDED DECEMBER 31,

	2006	2005	2004	2003	2002
Earnings [(1)]	$ 4,890	$ 3,910	$ 2,714	$ 1,488	$ 1,120
Plus: Interest expense	1,297	1,028	754	720	806
One-third of rental expense [(2)]	105	85	74	65	67
Adjusted Earnings	6,292	5,023	3,542	2,273	1,993
Fixed charges:					
Interest expense	1,297	1,028	754	720	806
Capitalized interest	10	11	8	5	11
One-third of rental expense [(2)]	105	85	74	65	67
Total fixed charges	$ 1,412	$ 1,124	$ 836	$ 790	$ 884
Ratio of earnings to fixed charges	4.5	4.5	4.2	2.9	2.3

(1) Pretax income from continuing operations before adjustment for minority interests and equity investments' profit

(2) Considered to be representative of interest factor in rental expense

EXHIBIT 13

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2006

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Caterpillar Inc. (company) is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2006, the company's internal control over financial reporting was effective based on those criteria.

Management has excluded Progress Rail Services from our assessment of internal control over financial reporting as of December 31, 2006 because we acquired Progress Rail Services on June 19, 2006. Progress Rail Services is a wholly owned subsidiary of Caterpillar Inc. whose total assets and total revenues represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Our management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4.

James W. Owens
Chairman of the Board
and Chief Executive Officer

David B. Burritt
Vice President and
Chief Financial Officer

February 22, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PRICEWATERHOUSECOOPERS

To the Board of Directors and Stockholders of Caterpillar Inc.:

We have completed integrated audits of Caterpillar Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated statement of financial position and the related statements of consolidated results of operations, changes in stockholders' equity, and cash flow, including pages A-5 through A-38, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2006, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 1L to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation and the manner in which it accounts for defined benefit pension and other postretirement plans in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-3, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Progress Rail Services from its assessment of internal control over financial reporting as of December 31, 2006 because Progress Rail Services was acquired by Caterpillar Inc. in a purchase business combination during 2006. We have also excluded Progress Rail Services from our audit of internal control over financial reporting. Progress Rail Services is a wholly owned subsidiary of Caterpillar Inc. whose total assets and total revenues represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

PricewaterhouseCoopers LLP

Peoria, Illinois
February 22, 2007

STATEMENT 1 — Caterpillar Inc.

Consolidated Results of Operations for the Years Ended December 31

(Dollars in millions except per share data)

	2006	2005	2004
Sales and revenues:			
Sales of Machinery and Engines	**$38,869**	$34,006	$28,336
Revenues of Financial Products	**2,648**	2,333	1,970
Total sales and revenues	**41,517**	36,339	30,306
Operating costs:			
Cost of goods sold	**29,549**	26,558	22,497
Selling, general and administrative expenses	**3,706**	3,190	2,926
Research and development expenses	**1,347**	1,084	928
Interest expense of Financial Products	**1,023**	768	524
Other operating expenses	**971**	955	747
Total operating costs	**36,596**	32,555	27,622
Operating profit	**4,921**	3,784	2,684
Interest expense excluding Financial Products	**274**	260	230
Other income (expense)	**214**	377	253
Consolidated profit before taxes	**4,861**	3,901	2,707
Provision for income taxes	**1,405**	1,120	731
Profit of consolidated companies	**3,456**	2,781	1,976
Equity in profit (loss) of unconsolidated affiliated companies	**81**	73	59
Profit	**$ 3,537**	$ 2,854	$ 2,035
Profit per common share	**$ 5.37**	$ 4.21	$ 2.97
Profit per common share — diluted[1]	**$ 5.17**	$ 4.04	$ 2.88
Weighted-average common shares outstanding (millions)			
— Basic	**658.7**	678.4	684.5
— Diluted[1]	**683.8**	705.8	707.4
Cash dividends declared per common share	**$ 1.15**	$ .96	$ .80

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

See accompanying notes to Consolidated Financial Statements.

STATEMENT 2
Consolidated Financial Position at December 31
(Dollars in millions)

	2006	2005	2004
Assets			
Current assets:			
Cash and short-term investments	**$ 530**	$ 1,108	$ 445
Receivables — trade and other	**8,168**	7,526	7,463
Receivables — finance	**6,804**	6,442	5,182
Deferred and refundable income taxes	**733**	255	330
Prepaid expenses and other current assets	**507**	2,146	1,369
Inventories	**6,351**	5,224	4,675
Total current assets	**23,093**	22,701	19,464
Property, plant and equipment — net	**8,851**	7,988	7,682
Long-term receivables — trade and other	**860**	1,037	764
Long-term receivables — finance	**11,531**	10,301	9,903
Investments in unconsolidated affiliated companies	**562**	565	517
Deferred income taxes	**1,949**	857	742
Intangible assets	**387**	424	315
Goodwill	**1,904**	1,451	1,450
Other assets	**1,742**	1,745	2,258
Total assets	**$50,879**	$47,069	$43,095
Liabilities			
Current liabilities:			
Short-term borrowings:			
Machinery and Engines	**$ 165**	$ 871	$ 93
Financial Products	**4,990**	4,698	4,064
Accounts payable	**4,085**	3,412	3,524
Accrued expenses	**2,923**	2,617	2,261
Accrued wages, salaries and employee benefits	**938**	1,601	1,543
Customer advances	**921**	454	503
Dividends payable	**194**	168	141
Deferred and current income taxes payable	**575**	528	259
Long-term debt due within one year:			
Machinery and Engines	**418**	340	6
Financial Products	**4,043**	4,159	3,525
Total current liabilities	**19,252**	18,848	15,919
Long-term debt due after one year:			
Machinery and Engines	**3,694**	2,717	3,663
Financial Products	**13,986**	12,960	12,174
Liability for postemployment benefits	**5,879**	3,161	3,126
Deferred income taxes and other liabilities	**1,209**	951	746
Total liabilities	**44,020**	38,637	35,628
Commitments and contingencies (Notes 22 and 23)			
Stockholders' equity			
Common stock of $1.00 par value:			
Authorized shares: 900,000,000			
Issued shares (2006, 2005 and 2004 — 814,894,624) at paid-in amount	**2,465**	1,859	1,231
Treasury stock (2006 — 169,086,448 shares; 2005 — 144,027,405 shares and 2004 — 129,020,726 shares) at cost	**(7,352)**	(4,637)	(3,277)
Profit employed in the business	**14,593**	11,808	9,937
Accumulated other comprehensive income	**(2,847)**	(598)	(424)
Total stockholders' equity	**6,859**	8,432	7,467
Total liabilities and stockholders' equity	**$50,879**	$47,069	$43,095

See accompanying notes to Consolidated Financial Statements.

STATEMENT 3 — Caterpillar Inc.

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

(Dollars in millions)

				Accumulated other comprehensive income				
	Common stock	Treasury stock	Profit employed in the business	Foreign currency translation	Pension & other post-retirement benefits[1]	Derivative financial instruments	Available-for-sale securities	Total
Balance at December 31, 2003	$ 1,059	$ (2,914)	$ 8,450	$ 348	$ (982)	$ 104	$ 13	$ 6,078
Profit	—	—	2,035	—	—	—	—	2,035
Foreign currency translation	—	—	—	141	—	—	—	141
Minimum pension liability adjustment, net of tax of $25	—	—	—	—	(59)	—	—	(59)
Derivative financial instruments								
Gains (losses) deferred, net of tax of $60	—	—	—	—	—	111	—	111
(Gains) losses reclassified to earnings, net of tax of $56	—	—	—	—	—	(105)	—	(105)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $3	—	—	—	—	—	—	6	6
(Gains) losses reclassified to earnings, net of tax of $1	—	—	—	—	—	—	(1)	(1)
Comprehensive Income								2,128
Dividends declared	—	—	(548)	—	—	—	—	(548)
Common shares issued from treasury stock for stock-based compensation: 12,216,618	94	176	—	—	—	—	—	270
Tax benefits from stock-based compensation	78	—	—	—	—	—	—	78
Shares repurchased: 13,866,800	—	(539)	—	—	—	—	—	(539)
Balance at December 31, 2004	1,231	(3,277)	9,937	489	(1,041)	110	18	7,467
Profit	—	—	2,854	—	—	—	—	2,854
Foreign currency translation	—	—	—	(187)	—	—	—	(187)
Minimum pension liability adjustment, net of tax of $36	—	—	—	—	107	—	—	107
Derivative financial instruments								
Gains (losses) deferred, net of tax of $1	—	—	—	—	—	(3)	—	(3)
(Gains) losses reclassified to earnings, net of tax of $46	—	—	—	—	—	(89)	—	(89)
Available-for-sale securities								
Gains (losses) deferred, net of tax of $3	—	—	—	—	—	—	3	3
(Gains) losses reclassified to earnings, net of tax of $1	—	—	—	—	—	—	(5)	(5)
Comprehensive Income								2,680
Dividends declared	—	—	(645)	—	—	—	—	(645)
Common shares issued from treasury stock for stock-based compensation: 18,912,521	156	324	—	—	—	—	—	480
Tax benefits from stock-based compensation	134	—	—	—	—	—	—	134
Shares repurchased: 33,919,200	—	(1,684)	—	—	—	—	—	(1,684)
Impact of 2–for–1 stock split	338	—	(338)	—	—	—	—	—
Balance at December 31, 2005	1,859	(4,637)	11,808	302	(934)	18	16	8,432
Profit	**—**	**—**	**3,537**	**—**	**—**	**—**	**—**	**3,537**
Foreign currency translation	**—**	**—**	**—**	**169**	**—**	**—**	**—**	**169**
Minimum pension liability adjustment, net of tax of $97	**—**	**—**	**—**	**—**	**229**	**—**	**—**	**229**
Derivative financial instruments								
Gains (losses) deferred, net of tax of $40	**—**	**—**	**—**	**—**	**—**	**73**	**—**	**73**
(Gains) losses reclassified to earnings, net of tax of $26	**—**	**—**	**—**	**—**	**—**	**(43)**	**—**	**(43)**
Available-for-sale securities								
Gains (losses) deferred, net of tax of $8	**—**	**—**	**—**	**—**	**—**	**—**	**17**	**17**
(Gains) losses reclassified to earnings, net of tax of $12	**—**	**—**	**—**	**—**	**—**	**—**	**(23)**	**(23)**
Comprehensive Income								**3,959**
Incremental adjustment to adopt SFAS 158, net of tax of $1,494	**—**	**—**	**—**	**—**	**(2,671)**	**—**	**—**	**(2,671)**
Dividends declared	**—**	**—**	**(752)**	**—**	**—**	**—**	**—**	**(752)**
Common shares issued from treasury stock for stock-based compensation: 15,207,055	**73**	**341**	**—**	**—**	**—**	**—**	**—**	**414**
Stock-based compensation expense	**137**	**—**	**—**	**—**	**—**	**—**	**—**	**137**
Tax benefits from stock-based compensation	**170**	**—**	**—**	**—**	**—**	**—**	**—**	**170**
Shares repurchased: 45,608,000	**—**	**(3,208)**	**—**	**—**	**—**	**—**	**—**	**(3,208)**
Shares issued for Progress Rail Services, Inc. acquisition: 5,341,902	**226**	**152**	**—**	**—**	**—**	**—**	**—**	**378**
Balance at December 31, 2006	**$ 2,465**	**$ (7,352)**	**$14,593**	**$ 471**	**$ (3,376)**	**$ 48**	**$ 10**	**$ 6,859**

[1] Pension and other postretirement benefits includes the aggregate adjustment for minimum pension liability for unconsolidated companies of $(6) million, $11 million and $0 million and the ending balances of $(43) million, $(37) million and $(48) million for the years 2006, 2005 and 2004, respectively.

See accompanying notes to Consolidated Financial Statements.

STATEMENT 4
Consolidated Statement of Cash Flow for the Years Ended December 31
(Millions of dollars)

	2006	2005	2004
Cash flow from operating activities:			
Profit	**$ 3,537**	$ 2,854	$ 2,035
Adjustments for non-cash items:			
Depreciation and amortization	**1,602**	1,477	1,397
Other	**197**	(20)	(113)
Changes in assets and liabilities:			
Receivables — trade and other	**(89)**	(908)	(7,616)
Inventories	**(827)**	(568)	(1,391)
Accounts payable and accrued expenses	**670**	532	1,457
Other assets — net	**(235)**	(866)	337
Other liabilities — net	**944**	612	(97)
Net cash provided by (used for) operating activities	**5,799**	3,113	(3,991)
Cash flow from investing activities:			
Capital expenditures — excluding equipment leased to others	**(1,593)**	(1,201)	(926)
Expenditures for equipment leased to others	**(1,082)**	(1,214)	(1,188)
Proceeds from disposals of property, plant and equipment	**572**	637	486
Additions to finance receivables	**(10,522)**	(10,334)	(8,930)
Collections of finance receivables	**8,094**	7,057	6,216
Proceeds from sale of finance receivables	**1,067**	900	700
Collections of retained interests in securitized trade receivables	**—**	—	5,722
Investments and acquisitions (net of cash acquired)	**(513)**	(13)	(290)
Proceeds from sale of partnership investment	**—**	—	290
Proceeds from release of security deposit	**—**	530	—
Proceeds from sale of available-for-sale securities	**539**	257	408
Investments in available-for-sale securities	**(681)**	(338)	(609)
Other — net	**323**	194	198
Net cash provided by (used for) investing activities	**(3,796)**	(3,525)	2,077
Cash flow from financing activities:			
Dividends paid	**(726)**	(618)	(534)
Common stock issued, including treasury shares reissued	**414**	482	317
Treasury shares purchased	**(3,208)**	(1,684)	(539)
Excess tax benefit from stock-based compensation	**169**	—	—
Proceeds from debt issued (original maturities greater than three months):			
— Machinery and Engines	**1,445**	574	55
— Financial Products	**9,824**	14,000	10,435
Payments on debt (original maturities greater than three months):			
— Machinery and Engines	**(839)**	(654)	(78)
— Financial Products	**(9,536)**	(10,966)	(8,612)
Short-term borrowings (original maturities three months or less) — net	**(136)**	19	830
Net cash provided by (used for) financing activities	**(2,593)**	1,153	1,874
Effect of exchange rate changes on cash	**12**	(78)	143
Increase (decrease) in cash and short-term investments	**(578)**	663	103
Cash and short-term investments at beginning of period	**1,108**	445	342
Cash and short-term investments at end of period	**$ 530**	$ 1,108	$ 445

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.

Non-cash activities:

On June 19, 2006, Caterpillar acquired 100 percent of the equity in Progress Rail Services, Inc. A portion of the acquisition was financed with 5.3 million shares of Caterpillar stock with a fair value of $379 million as of the acquisition date. See Note 25 for further discussion.

In 2005, $116 million of 9.375% debentures due in 2021 and $117 million of 8.00% debentures due in 2023 were exchanged for $307 million of 5.300% debentures due in 2035 and $23 million of cash. The $23 million of cash is included in payments on debt.

Trade receivables of $6,786 million were exchanged for retained interests in securitized trade receivables in 2004. See Note 6 for further discussion.

See accompanying notes to Consolidated Financial Statements.

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, marketing and sales of construction, mining and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telehandlers, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and service of rail-related products.

(2) **Engines** — A principal line of business including the design, manufacture, marketing and sales 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. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to over 16 000 kilowatts). Turbines range from 1,600 to 20,500 horsepower (1 200 to 15 000 kilowatts).

(3) **Financial Products** — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers 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. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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), 54 located in the United States and 128 located outside the United States. Worldwide, these dealers serve 182 countries and operate 3,576 places of business, including 1,639 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 132 distributors located in 181 countries along with 3,500 supporting dealers. Most of the electric power generation systems manufactured by FG Wilson are sold through a worldwide network of 200 dealers located in 180 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 the company. At times, these employees are assisted by independent sales representatives.

Manufacturing activities of the Machinery and Engines lines of business are conducted in 74 plants in the United States; 12 in the United Kingdom; nine in Italy; eight in Mexico; seven in China; four each in Canada and France; three each in Australia, Brazil, India, Northern Ireland, and Poland; two each in Germany, Indonesia, Japan, and The Netherlands; and one each in Belgium, Hungary, Malaysia, Nigeria, Russia, Scotland, South Africa, Switzerland and Tunisia. Thirteen parts distribution centers are located in the United States and 14 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 11). 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.

Shipping and handling costs are included in Cost of goods sold in Statement 1. Other operating expense primarily includes Cat Financial's depreciation of equipment leased to others, Cat Insurance's underwriting expenses, gains (losses) on disposal of long-lived assets and long-lived asset impairment charges.

Prepaid expenses and other current assets in Statement 2 include prepaid rent, prepaid insurance and other prepaid items. In addition, at December 31, 2006, this line includes a security deposit of $249 million related to a deposit obligation due in 2007 (see Note 16 for further discussion). At December 31, 2005 and 2004 prepaid expenses related to our pension plans of $1.95 billion and $1.13 billion, respectively, were also included in this line. No such prepaid pension asset existed at December 31, 2006 as a result of our adoption of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (See Notes 1L and 14 for further discussion).

C. Sales and revenue recognition

Sales of Machinery and Engines are generally recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers. Typically, where product is produced and sold in the same country, title and risk of ownership transfer when the product is shipped. Products that are exported from a country for sale typically pass title and risk of ownership at the border of the destination country.

No right of return exists on sales of equipment. Replacement part returns are estimable and accrued at the time a sale is recognized.

We provide discounts to dealers and original equipment manufacturers (OEM) through merchandising programs that are administered by our marketing profit centers. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of these discounts is estimated based on historical experience and known changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized.

Our standard invoice terms are established by marketing region. When a sale is made to a dealer, 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. Our policy is to not forgive this interest. In 2006, 2005 and 2004, terms were extended to not more than one year for $49 million, $287 million and $15 million of receivables, respectively. For 2006, 2005 and 2004, these amounts represent less than 1% of consolidated sales.

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

(Dollars in millions)	**2006**		2005		2004	
Payment Terms (months)	**Sales**	**Percent of Sales**	Sales	Percent of Sales	Sales	Percent of Sales
2	**$ 1,481**	**3.8%**	$ 261	0.8%	$ 96	0.3%
3	**636**	**1.6%**	548	1.6%	175	0.6%
4	**336**	**0.9%**	262	0.8%	117	0.4%
5	**1,228**	**3.2%**	916	2.7%	750	2.6%
6	**8,516**	**21.9%**	8,147	23.9%	6,172	21.9%
7-12	**272**	**0.7%**	345	1.0%	831	2.9%
	$12,469	**32.1%**	$10,479	30.8%	$ 8,141	28.7%

We establish a bad debt allowance for Machinery and Engines receivables when it becomes probable that the receivable will not be collected. Our allowance for bad debts is not significant. In 2006, we wrote off approximately $70 million of receivables in conjunction with settlement of various legal disputes with Navistar International Corporation. No significant write-offs of Machinery and Engines receivables were made during 2005 or 2004.

Revenues of Financial Products primarily represent the following Cat Financial revenues:

- Retail finance revenue on finance leases and installment sale contracts is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on retail notes is recognized based on the daily balance of retail receivables outstanding and the applicable interest rate.
- Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract.
- Wholesale finance revenue on installment contracts and finance leases is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on wholesale notes is recognized based on the daily balance of wholesale receivables outstanding and the applicable effective interest rate.

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. Cat Financial provides wholesale inventory financing to dealers. See Notes 7 and 8 for more information.

Sales and revenue recognition items are presented net of sales and other related taxes.

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 75% of total inventories at December 31, 2006 and about 80% of total inventories at December 31, 2005 and 2004.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $2,403 million, $2,345 million and $2,124 million higher than reported at December 31, 2006, 2005 and 2004, respectively.

E. Securitized receivables

We periodically sell finance receivables in securitization transactions. When finance receivables are securitized, we retain interests in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. The retained interests are recorded in "Other assets" at fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds and discount rates. See Note 8 for more information.

Prior to June 2005, we securitized trade receivables. We retained interests in the receivables in the form of certificates. The fair value of the certificated retained interests approximated carrying value due to their short-term nature. See Note 6 for more information.

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 2006, 2005 and 2004, Cat Financial depreciation on equipment leased to others was $631 million, $615 million and $575 million, respectively, and was included in "Other operating expenses" in Statement 1. In 2006, 2005 and 2004 consolidated depreciation expense was $1,554 million, $1,444 million and $1,366 million, respectively. Amortization of purchased intangibles is computed using the straight-line method, generally not to exceed a period of 20 years. Accumulated amortization was $139 million, $107 million and $91 million at December 31, 2006, 2005 and 2004, 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" in Statement 2.

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 Consolidated 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. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flows from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

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 Consolidated Financial Position 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), "Accounting for Derivative Instruments and Hedging Activities." See Note 3 for more information.

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 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." 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 in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "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, warranty liability, stock-based compensation and reserves for product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and income taxes.

L. New accounting standards

SFAS 151 — In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151 (SFAS 151), "Inventory Costs — an amendment of ARB No. 43, Chapter 4." SFAS 151 discusses the general principles applicable to the pricing of inventory. Paragraph 5 of ARB 43, Chapter 4 provides guidance on allocating certain costs to inventory. This Statement amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities. As required by SFAS 151, we adopted this new accounting standard on January 1, 2006. The adoption of SFAS 151 did not have a material impact on our financial statements.

SFAS 123R — In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), (SFAS 123R) "Share-Based Payment." SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R also establishes fair value as the measurement method in accounting for share-based payments. The FASB required the provisions of SFAS 123R be adopted for interim or annual periods beginning after June 15, 2005. In April 2005, the SEC adopted a new rule amending the compliance dates for SFAS 123R for public companies. In accordance with this rule, we adopted SFAS 123R effective January 1, 2006 using the modified prospective transition method. We did not modify the terms of any previously granted options in anticipation of the adoption of SFAS 123R.

The application of the expensing provisions of SFAS 123R resulted in a pretax expense of $137 million in 2006. As a result of the vesting decisions discussed in Note 2, a full complement of expense related to stock-based compensation will not be recognized in our results of operations until 2009.

See Notes 2 and 1N for additional information regarding stock-based compensation.

SFAS 154 — In June 2005, the FASB issued Statement of Financial Accounting Standards No. 154 (SFAS 154), "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective applications to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, this Statement requires that a change in depreciation, amortization or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This new accounting standard was effective January 1, 2006. The adoption of SFAS 154 did not have a material impact on our financial statements.

SFAS 155 — In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to separate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. This new accounting standard is effective January 1, 2007. The adoption of SFAS 155 is not expected to have a material impact on our financial statements.

SFAS 156 — In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 (SFAS 156), "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140." SFAS 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. In addition, this Statement permits an entity to choose between two measurement methods (amortization method or fair value measurement method) for each class of separately recognized servicing assets and liabilities. This new accounting standard is effective January 1, 2007. The adoption of SFAS 156 is not expected to have a material impact on our financial statements.

FIN 48 — In July 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we will adopt FIN 48 effective January 1, 2007. The cumulative effect of adopting FIN 48 will be recorded in profit employed and will also result in various reclassifications on the statement of financial position. We do not expect that the adoption of FIN 48 will have a material impact on our financial position.

SFAS 157 — In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the Statement expands disclosures about fair value measurements. As required by SFAS 157, we will adopt this new accounting standard effective January 1, 2008. We are currently reviewing the impact of SFAS 157 on our financial statements. We expect to complete this evaluation in 2007.

SFAS 158 — In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. Also, the measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year-end. As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006 and will adopt the year-end measurement date in 2008. Additionally SFAS 87 required the recognition of an additional minimum liability (AML) if the market value of plan assets was less than the accumulated benefit obligation at the end of the measurement date. The AML was eliminated upon the adoption of SFAS 158. The following summarizes the effect of the required changes in the AML, as well as the impact of the initial adoption of SFAS 158, as of December 31, 2006 (see Note 14 for additional information regarding postemployment benefits).

Initial adoption of SFAS 158:

(Millions of dollars)	December 31, 2006 Prior to AML and SFAS 158 Adjustments	AML Adjustment per SFAS 87	SFAS 158 Adjustment	December 31, 2006 Post AML and SFAS 158 Adjustments
Prepaid expenses and other current assets	$ 2,336	$ —	$(1,829)	$ 507
Investments in unconsolidated affiliated companies	568	—	(6)	562
Deferred income taxes	552	(97)	1,494	1,949
Intangible assets	639	(60)	(192)	387
Accrued wages, salaries and employee benefits	1,440	—	(502)	938
Liability for postemployment benefits	3,625	(386)	2,640	5,879
Accumulated other comprehensive income	(405)	229	(2,671)	(2,847)

SFAS 159 — In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. This gives a company the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is effective January 1, 2008. We are currently reviewing the impact of SFAS 159 on our financial statements and expect to complete this evaluation in 2007.

M. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. We account for goodwill in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," which requires that we test goodwill for impairment annually and when events or circumstances indicate the fair value of a reporting unit may be below its carrying value. We perform our annual goodwill impairment testing in September. Goodwill is reviewed for impairment utilizing a two-step process. The first step requires us to identify the reporting units and compare the fair value of each reporting unit, which we compute using a discounted cash flow analysis, to the respective carrying value, which includes goodwill. If the carrying value is higher than the fair value, there is an indication that an impairment may exist. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

N. Stock-based compensation

On January 1, 2006, we adopted SFAS 123R using the modified prospective transition method. SFAS 123R requires all stock-based payments to be recognized in the financial statements based on the grant date fair value of the award. Under the modified prospective transition method, we are required to record stock-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. In accordance with the modified prospective transition method, our Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Note 2 for additional information regarding stock-based compensation.

Prior to the adoption of SFAS 123R, we used 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." Under the intrinsic value method no compensation expense was recognized in association with our stock awards. The following table illustrates the effect on profit and profit per share if we had applied SFAS 123R for 2005 and 2004 grants using the lattice-based option-pricing model:

(Dollars in millions except per share data)	Years ended December 31, 2005	2004
Profit, as reported	$ 2,854	$ 2,035
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(135)	(161)
Pro forma profit	$ 2,719	$ 1,874
Profit per share of common stock:		
As reported:		
Basic	$ 4.21	$ 2.97
Diluted	$ 4.04	$ 2.88
Pro forma:		
Basic	$ 4.01	$ 2.74
Diluted	$ 3.85	$ 2.65

2. Stock-based compensation

Stock Incentive Plans

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the 1996 Plan), which expired in April of 2006. The 1996 Plan reserved 144 million shares of common stock for issuance (128 million under this plan and 16 million under prior plans). On June 14, 2006, stockholders approved the 2006 Caterpillar Long-Term Incentive Plan (the 2006 Plan). The 2006 non-employee Directors' grant was issued from this plan. The 2006 Plan reserves 37.6 million shares for issuance (20 million under the 2006 Plan and 17.6 million transferred from the 1996 Plan). The plans primarily provide for the granting of stock options and stock-settled stock appreciation rights (SARs) to Officers and other key employees, as well as non-employee Directors. Stock options permit a holder to buy Caterpillar stock at the stock's price when the option was granted. SARs permit a holder the right to receive the value in shares of the appreciation in Caterpillar stock that occurred from the date the right was granted up to the date of exercise.

Our long-standing practices and policies specify all stock option and SAR awards are approved by the Compensation Committee (the Committee) of the Board of Directors on the date of grant. The stock-based award approval process specifies the number of awards granted, the terms of the award and the grant date. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock options and SARs included in an individual's award is determined based on the methodology approved by the Committee. The stockholder approved plan provides for the exercise price methodology to be the average of the high and low price of our stock on the date of grant.

Common stock issued from Treasury stock under the plans totaled 15,207,055 for 2006, 18,912,521 for 2005 and 12,216,618 for 2004, respectively.

Options granted prior to 2004 vested at the rate of one-third per year over the three-year period following the date of grant. In anticipation of delaying vesting until three years after the grant date for future grants, the 2004 grant was vested on December 31, 2004. In order to better align our employee stock option program with the overall market, the number of options granted in 2005 was significantly reduced from the previous year. In response to this decrease, we elected to immediately vest the 2005 grant. In order to further align our stock award program with the overall market, we adjusted our 2006 grant by reducing the overall number of employee awards granted and utilizing a mix of SARs and option awards. The 2006 awards generally vest three years after the date of grant. At grant, all awards have a term life of ten years. Upon retirement, the term life is reduced to a maximum of five remaining years.

Our stock-based compensation plans allow for the immediate vesting upon retirement for employees who are 55 years old or older with more than ten years of service and who have fulfilled the requisite service period of six months. Prior to the adoption of SFAS 123R, compensation expense for awards associated with these employees had been recognized in the pro forma net profit over the nominal vesting period. With the adoption of SFAS 123R, compensation expense is now recognized over the period from the grant date to the end date of the requisite service period for employees who meet the immediate vesting upon retirement requirements. For those employees who become eligible for immediate vesting upon retirement subsequent to the requisite service period and prior to the completion of the vesting period, compensation expense is recognized over the period from grant date to the date eligibility is achieved. Application of the nominal vesting period for these employees for the years ended December 31, 2005 and 2004 decreased pro forma profit by $13 million and $16 million, respectively.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. In 2006, 2005 and 2004, the fair value of the grant was estimated using a lattice-based option-pricing model. The lattice-based option-pricing model considers a range of assumptions related to volatility, risk-free interest rate and historical employee behavior. Expected volatility was based on historical and current implied volatilities from traded options on our stock. The risk-free rate was based on U.S. Treasury security yields at the time of grant. The dividend yield was based on historical information. The expected life was determined from the lattice-based model. The lattice-based model incorporated exercise and post vesting forfeiture assumptions based on analysis of historical data. The following table provides the assumptions used in determining the fair value of the stock-based awards for the years ended December 31, 2006, 2005 and 2004, respectively.

	Grant Year		
	2006	2005	2004
Weighted-average dividend yield	**1.79%**	2.11%	1.89%
Weighted-average volatility	**26.79%**	26.48%	25.98%
Range of volatilities	**26.56-26.79%**	21.99-26.65%	25.80-28.10%
Range of risk-free interest rates	**4.34-4.64%**	2.38-4.29%	1.90-5.76%
Weighted-average expected lives	**8 years**	7 years	6 years

The amount of stock-based compensation expense capitalized for the year ended December 31, 2006 did not have a significant impact on our financial statements. Prior to our adoption of SFAS 123R, stock-based compensation was not capitalized in our pro forma disclosure.

At December 31, 2006, there was $102 million of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested stock-based awards. The compensation expense is expected to be recognized over a weighted-average period of approximately 2.2 years.

Please refer to Tables I and II on page A-15 for additional information on our stock-based awards.

The impact related to stock-based compensation for the year ended December 31, 2006 is shown below:

(Dollars in millions except per share data)	**2006**
Stock-based compensation expense, before tax	**$ 137**
Stock-based compensation expense, after tax	**$ 92**
Income tax benefit recognized in net income	**$ 45**
Decrease in profit per share of common stock, basic	**$ .14**
Decrease in profit per share of common stock, diluted	**$ .09**

In accordance with Staff Accounting Bulletin No. 107 "Share-based payment," we classified stock-based compensation within cost of goods sold, selling, general and administrative expenses and research and development expenses corresponding to the same line item as the cash compensation paid to respective employees, officers and non-employee directors. We do not allocate stock-based compensation to reportable segments.

We currently use shares that have been repurchased through our stock repurchase program to satisfy share award exercises.

In November 2005, the FASB issued FASB Staff Position No. FAS 123R-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." In the third quarter of 2006, we elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid-in capital (APIC) pool related to the tax effects of stock-based compensation, and to determine the subsequent impact on the APIC pool and the Statement of Cash Flow of the tax effects of stock-based awards that were fully vested and outstanding upon the adoption of SFAS 123R. In accordance with SFAS 154 "Accounting Changes and Error Corrections," this change in accounting principle has been applied retrospectively to the 2006 Consolidated Statement of Cash Flow. The impact on the Consolidated Statement of Cash Flow was a decrease in operating cash flow and an offsetting increase in financing cash flow of $20 million for the three months ended March 31, 2006 and $27 million for the six months ended June 30, 2006.

We use the direct only method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2006 exercises of stock-based awards did not generate a cash benefit. Approximately $50 million of tax deductions will be recorded in APIC when realized in these jurisdictions.

TABLE I — Financial Information Related to Capital Stock

Stock Options/SARs activity:

	2006		2005		2004	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**74,860,582**	**$ 32.23**	82,448,348	$ 28.80	78,999,344	$ 25.69
Granted to officers and key employees	**9,720,340**	**$ 72.05**	12,565,872	$ 45.64	17,781,466	$ 38.63
Granted to outside directors	**91,000**	**$ 66.77**	104,000	$ 44.90	104,000	$ 40.64
Exercised	**(15,491,627)**	**$ 28.66**	(20,086,770)	$ 26.68	(13,651,840)	$ 23.86
Lapsed	**(299,628)**	**$ 54.13**	(170,868)	$ 24.31	(784,622)	$ 25.60
Outstanding at end of year	**68,880,667**	**$ 38.60**	74,860,582	$ 32.23	82,448,348	$ 28.80
Exercisable at year-end	**59,374,295**	**$ 33.27**	69,848,250	$ 32.58	67,241,232	$ 29.28

Stock options/SARs outstanding and exercisable:

	Outstanding				Exercisable			
Exercise Prices	# Outstanding at 12/31/06	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[1]	# Outstanding at 12/31/06	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value[1]
$19.20-22.76	2,938,388	3.43	$19.38	$ 123	2,938,388	3.43	$19.38	$ 123
$25.36-26.77	12,507,410	4.85	$25.94	443	12,507,410	4.85	$25.94	443
$27.14-29.43	14,267,972	5.81	$27.25	487	14,267,972	5.81	$27.25	487
$31.17-45.64	29,539,957	7.12	$40.48	617	29,507,965	7.12	$40.48	616
$66.77-72.05	9,626,940	9.15	$72.00	—	152,560	9.15	$71.81	—
	68,880,667		$38.60	$1,670	59,374,295		$33.27	$1,669

[1] The difference between a stock award's exercise price and the underlying stock's market price at December 31, 2006, for awards with market price greater than the exercise price. Amounts are in millions of dollars.

Of the 9,811,340 awards granted during the year ended December 31, 2006, 9,479,534 were SARs.

TABLE II — Additional Stock-based Award Information

(Dollars in millions except per share data)	**2006**	2005	2004
Weighted-average fair value per share of stock awards granted	**$23.44**	$ 11.95	$ 9.03
Intrinsic value of stock awards exercised	**$ 637**	$ 501	$ 247
Fair value of shares vested	**$ 40**	$ 228	$ 274
Cash received from stock awards exercised	**$ 411**	$ 478	$ 269
Tax benefit realized from stock awards exercised	**$ 170**	$ 134	$ 78

3. Derivative financial instruments and risk management

A. Foreign currency exchange rate risk

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

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

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso, Singapore dollar, New Zealand dollar, or Swiss franc forward or option contracts that meet the requirements for hedge accounting. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts are undesignated. We designate as fair value hedges specific euro forward contracts used to hedge firm commitments.

As of December 31, 2006, $24 million of deferred net gains (net of tax) included in equity ("Accumulated other comprehensive income" in Statement 2), are expected to be reclassified to current earnings ("Other income (expense)" in Statement 1) over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in "Other income (expense)" will vary based on exchange rates at the time the hedged transactions impact earnings.

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 and option contracts to offset the risk of currency mismatch between our receivables and debt. All such foreign currency forward and option contracts are undesignated.

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

(Millions of dollars)	**2006**	2005	2004
Machinery and Engines:			
On undesignated contracts	**$ 23**	$ 25	$ (9)
Financial Products:			
On undesignated contracts	**(19)**	58	(46)
	$ 4	$ 83	$ (55)

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

B. 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 practice is to use interest rate swap agreements to manage our exposure to interest rate changes and, in some cases, 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 into fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. In conjunction with our bond issuance in 2006 (See Note 16), we entered into $200 million of interest rate swaps designated as fair value hedges of our fixed-rate debt. During 2001, our Machinery and Engines operations liquidated all existing fixed-to-floating interest rate swaps. The gain ($7 million as of December 31, 2006) is being amortized to earnings ratably over the remaining life of the hedged debt.

Financial Products operations have a match funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of their debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an on-going basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This match funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use floating-to-fixed, fixed-to-floating and floating-to-floating interest rate swaps to meet the match funding objective. To support hedge accounting, we designate fixed-to-floating interest rate swaps as fair value hedges of the fair value of our fixed rate debt at the inception of the contract. Financial Products' practice is to designate most floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract. Designation as a hedge of the variability of cash flow is performed to support hedge accounting. Financial Products liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004. The gains ($7 million remaining as of December 31, 2006) 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)	**2006**	2005	2004
Fixed-to-floating interest rate swaps			
Machinery and Engines:			
Gain (loss) on designated interest rate derivatives	**$ 2**	$ —	$ —
Gain (loss) on hedged debt	**(1)**	—	—
Gain (loss) amortization on liquidated swaps — included in interest expense	**3**	5	5
Financial Products:			
Gain (loss) on designated interest rate derivatives	**(44)**	(71)	(28)
Gain (loss) on hedged debt	**44**	71	28
Gain (loss) amortization on liquidated swaps — included in interest expense	**6**	5	2
	$ 10	$ 10	$ 7

As of December 31, 2006, $12 million of deferred net gains included in equity ("Accumulated other comprehensive income" in Statement 2), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings ("Interest expense of Financial Products" in Statement 1) over the next twelve months.

C. 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. In addition, we are also subjected to price changes on natural gas purchased for operational use.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. Gains on the undesignated contracts of $1 million, $7 million and $15 million were recorded in current earnings ("Other income (expense)" in Statement 1) in 2006, 2005 and 2004, respectively.

4. Other income (expense)

(Millions of dollars)	Years ended December 31, 2006	2005	2004
Investment and interest income	**$ 83**	$ 97	$ 77
Foreign exchange gains	**9**	148	96
License fee income	**61**	59	54
Miscellaneous income (loss)	**61**	73	26
	$ 214	$ 377	$ 253

5. Income taxes

The components of profit before taxes were:

(Millions of dollars)	Years ended December 31, 2006	2005	2004
U.S.	**$2,642**	$ 2,254	$1,106
Non-U.S.	**2,219**	1,647	1,601
	$4,861	$ 3,901	$2,707

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, 2006	2005	2004
Current tax provision (credit):			
U.S.	**$1,342**	$ 683	$ 136
Non-U.S.	**373**	365	308
State (U.S.)	**49**	31	13
	1,764	1,079	457
Deferred tax provision (credit):			
U.S.	**(381)**	(5)	301
Non-U.S.	**23**	31	(24)
State (U.S.)	**(1)**	15	(3)
	(359)	41	274
Total provision for income taxes	**$1,405**	$ 1,120	$ 731

We paid income taxes of $1,465 million, $731 million and $326 million in 2006, 2005 and 2004, respectively.

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

	Years ended December 31, 2006	2005	2004
U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Benefit of extraterritorial income exclusion	**(2.1)%**	(2.7)%	(4.9)%
Non-U.S. subsidiaries taxed at other than 35%	**(3.5)%**	(3.2)%	(3.7)%
Other — net	**(0.4)%**	0.4 %	0.6 %
	29.0 %	29.5 %	27.0 %
Discrete items	**(0.1)%**	(0.8)%	—
Provision for income taxes	**28.9 %**	28.7 %	27.0 %

The 2006 provision for income taxes includes a benefit of $5 million for net changes in tax reserves. Favorable settlement of a non-U.S. tax issue resulted in a $25 million decrease in reserves. This was partially offset by a $20 million increase in tax reserves for an expected IRS assessment, related to transfer pricing adjustments for tax years 1992 to 1994, which we plan to continue to dispute. Excluding these discrete items, the effective tax rate for 2006 was 29.0%.

The net impact of repatriation planning and favorable tax settlements resulted in a $31 million decrease to our 2005 provision for income taxes. We recognized a provision for income taxes of $33 million in 2005 under the provisions of the American Jobs Creation Act allowing favorable tax treatment of repatriated earnings. We recognized a benefit of $38 million by reversing a deferred tax liability related to the undistributed profits of a few selected non-U.S. subsidiaries. Favorable tax settlements primarily related to non-U.S. tax jurisdictions reduced the provision by $26 million. Excluding these discrete items, the effective tax rate for 2005 was 29.5%.

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 indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible. A deferred tax asset is recognized only if we have definite plans to generate a U.S. tax benefit by repatriating earnings in the foreseeable future.

Deferred income tax assets and liabilities:

(Millions of dollars)	December 31, 2006	2005	2004
Deferred income tax assets:			
Postemployment benefits other than pensions	**$1,593**	$ 1,034	$1,092
Warranty reserves	**234**	216	212
Unrealized profit excluded from inventories	**192**	176	153
Tax carryforwards	**646**	523	498
Deferred compensation	**83**	70	57
Allowance for credit losses	**83**	86	73
Pension	**577**	—	—
Post sale discounts	**103**	62	51
Other — net	**270**	106	184
	3,781	2,273	2,320
Deferred income tax liabilities:			
Capital and intangible assets	**(906)**	(787)	(903)
Pension	**—**	(359)	(216)
Unremitted earnings of non-U.S. subs	**(65)**	(52)	(131)
	(971)	(1,198)	(1,250)
Valuation allowance for deferred tax assets	**(192)**	(79)	(42)
Deferred income taxes — net	**$2,618**	$ 996	$1,028

Net deferred tax assets increased approximately $1.40 billion in 2006 related to items reported in accumulated other comprehensive income primarily related to adoption of SFAS 158 as discussed in Notes 1L and 14.

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 Consolidated 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 2, are as follows:

(Millions of dollars)	December 31, 2006	2005	2004
Assets:			
Deferred and refundable income taxes	**$ 733**	$ 255	$ 329
Deferred income taxes	**1,949**	857	742
	2,682	1,112	1,071
Liabilities:			
Deferred and current income taxes payable	**9**	89	20
Deferred income taxes and other liabilities	**55**	27	23
Deferred income taxes — net	**$2,618**	$ 996	$1,028

As of December 31, 2006, amounts and expiration dates of U.S. foreign tax credits available to carry forward were:

(Millions of dollars)

2007-2012	2013	2014	2015	2016	Total
$0	$94	$74	$18	$117	$303

As of December 31, 2006, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)

2007	2008	2009	2010	2011-2016	Unlimited	Total
$1	$2	$4	$34	$86	$707	$834

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, 2006, approximately $400 million of state tax net operating losses (NOLs) and $74 million of state tax credit carryforwards were available. Of the NOLs, approximately two-thirds expire after 2016. The state tax credit carryforwards expire over the next ten years. We established a valuation allowance for those NOLs and credit carryforwards likely to expire prior to utilization.

In 2005, the Internal Revenue Service (IRS) completed its field examination of our 1995 through 1999 U.S. tax returns. The examination is now at the appellate level of the IRS. In connection with this examination, we received notices of certain adjustments proposed by the IRS, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits. We disagree with these proposed adjustments and are continuing to work toward resolution through applicable IRS procedures. We anticipate that this matter could be resolved by the end of 2007. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

The IRS is currently conducting a field examination of our 2000 to 2004 U.S. tax returns. It is reasonably possible that this audit could be completed by the end of 2007. In the opinion of management, the ultimate disposition of the audit will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

6. Sales and servicing of trade receivables

Our Machinery and Engines operations generate trade receivables from the sale of inventory to dealers and customers. Certain of these receivables are sold to Cat Financial.

A. Prior to June 2005, Cat Financial periodically securitized a portion of the dealer receivables using a revolving securitization structure. We used a trust which issued a collateralized trust obligation (CTO) certificate to third party purchasers for their portion of these receivables. The trust also issued a transferor certificate (certificated retained interests) to Cat Financial for the portion not represented by the CTO.

Through August of 2004, the trust was a qualifying special purpose entity (QSPE) and thus, in accordance with Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement 125," was not consolidated. The outstanding principal balance of the CTO was not included in our Consolidated Financial Position during these periods.

From September 2004 through May 2005, because of a significant increase in Machinery and Engines' sales and subsequent sale of the receivables to Cat Financial, our certificated retained interests in the trust exceeded 90% of the fair value of trust assets. Thus, during this period, the trust did not qualify as a QSPE as defined by SFAS 140. We therefore consolidated the trust in accordance with FIN 46R, "Consolidation of Variable Interest Entities (revised December 2003), an interpretation of ARB No. 51" as it represents a variable interest entity for which Cat Financial is the primary beneficiary. As of December 31, 2004, assets of the trust of $2,587 million were included in "Receivables — trade and other" in Statement 2 and the CTO of $240 million was included in "Short-term Borrowings." Please refer to Note 15.

Cat Financial serviced the dealer receivables and received an annual servicing fee of approximately 0.5% of the average outstanding principal balance of the securitized trade receivables transferred to third party purchasers. Consolidated expenses of $7 million related to the securitized receivables were recognized during 2004 and are included in "Other income (expense)" in Statement 1. Expected credit losses were assumed to be 0% because dealer receivables have historically had no losses and none were expected. The carrying value of the certificated retained interests approximated fair value due to their short-term nature. Other than the certificated retained interests (assets of the trust when consolidated), the investors and the securitization facilities had no recourse to Cat Financial's assets for failure of debtors to pay when due.

(Millions of dollars)	2004
Cash flow from securitizations:	
Proceeds from collections reinvested in revolving securitization[1]	$ 663
Servicing fees received[1]	2
Characteristics of securitized receivables:	
Average balance for the year ended December 31[1]:	
Certificated retained interests	$ 1,936
Collateralized trust obligation	240

[1] For 2004, proceeds, servicing fees and average balances include only the periods the trust was a QSPE.

In June 2005, Cat Financial terminated the trade receivable securitization trust and no longer securitizes trade receivables. Upon termination, receivables held by the trust were transferred back to Cat Financial.

B. In June 2005, Cat Financial transferred an undivided interest of $240 million in trade receivables to third party purchasers. In accordance with SFAS 140, the transfer to third party purchasers is accounted for as a sale. Cat Financial services the transferred trade receivables and receives an annual servicing fee of approximately 0.5% of the average outstanding principal balance. Consolidated expenses of $15 million and $8 million related to the sale of trade receivables were recognized during 2006 and 2005, respectively, and are included in "Other income (expense)" in Statement 1. As of December 31, 2006 and 2005, the outstanding principal balance of the sold trade receivables was $240 million.

The remaining interest as of December 31, 2006 and 2005 of $2,718 million and $3,028 million, respectively, are included in "Receivables — trade and other" in Statement 2. The cash collections from these receivables held by Cat Financial, including those attributable to the third party purchasers, are first applied to satisfy any obligations of Cat Financial to those purchasers. The third party purchasers have no recourse to Cat Financial's assets, other than the remaining interest, for failure of debtors to pay when due. For Cat Financial's remaining interest in trade receivables, carrying amount approximated fair value due to the short-term nature of these receivables.

7. Wholesale inventory receivables

Wholesale inventory receivables are receivables of Cat Financial that arise when Cat Financial provides financing for a dealer's purchase of inventory. These receivables are included in "Receivables — trade and other" and "Long-term receivables — trade and other" in Statement 2 and were $1,215 million, $1,282 million and $991 million at December 31, 2006, 2005 and 2004, respectively. Please refer to Note 19 and Table IV for fair value information.

Contractual maturities of outstanding wholesale inventory receivables:

(Millions of dollars) Amounts Due In	December 31, 2006 Wholesale Installment Contracts	Wholesale Finance Leases	Wholesale Notes	Total
2007	$ 88	$ 76	$ 343	$ 507
2008	21	51	353	425
2009	18	37	117	172
2010	14	14	16	44
2011	8	1	1	10
Thereafter	—	1	7	8
	149	180	837	1,166
Guaranteed residual value	—	91	—	91
Less: Unearned income	(7)	(14)	(21)	(42)
Total	$ 142	$ 257	$ 816	$ 1,215

8. 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 2 are net of an allowance for credit losses.

During 2006, 2005 and 2004, Cat Financial securitized retail installment sale contracts and finance leases into public asset backed securitization facilities. The securitization facilities are qualifying special purpose entities and thus, in accordance with SFAS 140, are not consolidated. 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 2006, subordinated interests included subordinated certificates with an initial fair value of $4 million, an interest in certain future cash flow (excess) with an initial fair value of $3 million and a reserve account with an initial fair value of $10 million. For 2005, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $1 million and a reserve account with an initial fair value of $12 million. For 2004, subordinated interests included subordinated certificates with an initial fair value of $8 million, an interest in certain future cash flow (excess) with an initial fair value of $2 million and a reserve account with an initial fair value of $10 million. The company's retained interests generally are subordinate to the investors' interests. Net gains of $7 million, $12 million and $13 million were recognized on these transactions in 2006, 2005 and 2004, respectively.

Significant assumptions used to estimate the fair value of the retained interests and subordinated certificates at the time of the transaction were:

	2006	2005	2004
Discount rate	**11.2%**	10.8%	10.7%
Weighted-average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	1.0%	1.0%

These assumptions are based on our historical experience, market trends and anticipated performance relative to the particular assets securitized.

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

As of December 31, 2006, 2005 and 2004, the subordinated retained interests in the public securitizations totaled $68 million, $72 million and $73 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2006	2005	2004
Cash flow discount rates on retained interests and subordinated tranches	**7.33%**	10.7%	10.7%
Weighted-average maturity	**31 months**	30 months	28 months
Average prepayment rate	**14.0%**	14.0%	14.0%
Expected credit losses	**1.0%**	1.0%	1.0%

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.

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. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income. Investment in loans/finance leases on nonaccrual status were $190 million, $175 million and $176 million and past due over 90 days and still accruing were $18 million, $31 million and $11 million as of December 31, 2006, 2005 and 2004, 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 III for additional finance receivables information and Note 19 and Table IV for fair value information.

TABLE III — Finance Receivables Information (Millions of dollars)

Contractual maturities of outstanding finance receivables:

Amounts Due In	Retail Installment Contracts	Retail Finance Leases	Retail Notes	Wholesale Notes	Total
	December 31, 2006				
2007	$ 3,046	$ 2,535	$ 1,749	$ 15	$ 7,345
2008	2,186	1,810	1,031	13	5,040
2009	1,373	1,149	663	6	3,191
2010	679	585	465	—	1,729
2011	220	232	318	—	770
Thereafter	31	266	795	—	1,092
	7,535	6,577	5,021	34	19,167
Residual value	—	1,157	—	—	1,157
Less: Unearned income	(783)	(806)	(85)	—	(1,674)
Total	$ 6,752	$ 6,928	$ 4,936	$ 34	$ 18,650

Impaired loans and leases:

	2006	2005	2004
Average recorded investment	**$ 168**	$ 233	$ 380
At December 31:			
Recorded investment	**$ 193**	$ 171	$ 260
Impaired loans/finance leases for which there is a related allowance for credit losses	**$ 133**	$ 98	$ 180
Related allowance for credit losses on impaired loans/finance leases	**$ 26**	$ 20	$ 52
Impaired loans/finance leases for which there is no related allowance for credit losses	**$ 60**	$ 73	$ 80

Allowance for credit loss activity:

	2006	2005	2004
Balance at beginning of year	**$ 302**	$ 278	$ 241
Provision for credit losses	**68**	92	105
Receivables written off	**(63)**	(62)	(88)
Recoveries on receivables previously written off	**16**	17	16
Other — net	**(8)**	(23)	4
Balance at end of year	**$ 315**	$ 302	$ 278

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

Cat Financial's net retail finance leases:

	December 31, 2006	2005	2004
Total minimum lease payments receivable	**$6,577**	$ 5,440	$ 4,876
Estimated residual value of leased assets:			
Guaranteed	**483**	384	379
Unguaranteed	**674**	554	540
	7,734	6,378	5,795
Less: Unearned income	**(806)**	(623)	(550)
Net retail finance leases	**$6,928**	$ 5,755	$ 5,245

	2006	2005	2004
Cash flow from securitizations:			
Proceeds from initial sales of receivables	**$ 947**	$ 829	$ 639
Servicing fees received	**12**	11	9
Cash flows received on retained interests	**41**	38	34
Characteristics of securitized receivables:			
At December 31:			
Total securitized principal balance	**$1,227**	$ 980	$ 815
Loans more than 30 days past due	**34**	23	26
Weighted-average maturity (in months)	**31**	30	28
For the year ended December 31:			
Average securitized principal balance	**$1,162**	$ 1,085	$ 873
Net credit losses	**5**	3	4

9. Inventories

(Millions of dollars)	December 31, 2006	2005	2004
Raw materials	**$2,182**	$ 1,689	$ 1,592
Work-in-process	**977**	814	664
Finished goods	**2,915**	2,493	2,209
Supplies	**277**	228	210
Total inventories	**$6,351**	$ 5,224	$ 4,675

We had long-term material purchase obligations of approximately $231 million at December 31, 2006.

10. Property, plant and equipment

(Millions of dollars)	Useful Lives (Years)	December 31, 2006	2005	2004
Land	—	**$ 184**	$ 154	$ 152
Buildings and land improvements	20-45	**3,407**	3,195	3,089
Machinery, equipment and other	3-10	**8,694**	7,829	7,361
Equipment leased to others	1-10	**3,957**	3,988	3,975
Construction-in-process	—	**1,036**	696	587
Total property, plant and equipment, at cost		**17,278**	15,862	15,164
Less: Accumulated depreciation		**8,427**	7,874	7,482
Property, plant and equipment — net		**$8,851**	$ 7,988	$ 7,682

We had commitments for the purchase or construction of capital assets of approximately $587 million at December 31, 2006. Software assets with a carrying value of $50 million, primarily related to our dealer distribution support system, were abandoned in 2005. The write-off of these assets is included in "Other operating expense" in Statement 1.

Assets recorded under capital leases[1]:

(Millions of dollars)	December 31, 2006	2005	2004
Gross capital leases[2]	**$ 96**	$ 91	$ 326
Less: Accumulated depreciation	**65**	55	220
Net capital leases	**$ 31**	$ 36	$ 106

[1] Included in Property, plant and equipment table on page A-20.
[2] Consists primarily of machinery and equipment.

The decrease in capital leases from 2004 to 2005 was due to termination of certain leases in the fourth quarter of 2005. See Note 16 for additional information.

Equipment leased to others (primarily by Cat Financial):

(Millions of dollars)	December 31, 2006	2005	2004
Equipment leased to others — at original cost	**$3,957**	$ 3,988	$ 3,975
Less: Accumulated depreciation	**1,299**	1,201	1,196
Equipment leased to others — net	**$2,658**	$ 2,787	$ 2,779

At December 31, 2006, scheduled minimum rental payments to be received for equipment leased to others were:

(Millions of dollars)

2007	2008	2009	2010	2011	After 2011
$575	$463	$258	$132	$43	$8

11. Investments in unconsolidated affiliated companies

Our investments in affiliated companies accounted for by the equity method consist 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, 2006	2005	2004
Results of Operations:			
Sales	**$4,420**	$ 4,140	$ 3,628
Cost of sales	**3,526**	3,257	2,788
Gross profit	**894**	883	840
Profit (loss)	**$ 187**	$ 161	$ 129
Caterpillar's profit (loss)	**$ 81**	$ 73	$ 59

Sales from SCM to Caterpillar of approximately $1.81 billion, $1.73 billion and $1.48 billion in 2006, 2005 and 2004 respectively, are included in the affiliated company sales. In addition, SCM purchased $273 million, $282 million and $210 million of products from Caterpillar in 2006, 2005 and 2004, respectively. (See Note 27 for subsequent event regarding SCM.)

(Millions of dollars)	December 31, 2006	2005	2004
Financial Position:			
Assets:			
Current assets	**$1,807**	$ 1,714	$1,540
Property, plant and equipment — net	**1,119**	1,120	1,048
Other assets	**176**	194	195
	3,102	3,028	2,783
Liabilities:			
Current liabilities	**$1,394**	$ 1,348	$1,325
Long-term debt due after one year	**309**	318	273
Other liabilities	**145**	188	214
	1,848	1,854	1,812
Ownership	**$1,254**	$ 1,174	$ 971

Caterpillar's investments in unconsolidated affiliated companies:

(Millions of dollars)	December 31, 2006	2005	2004
Investments in equity method companies	**$ 542**	$ 540	$ 487
Plus: Investments in cost method companies	**20**	25	30
Total investments in unconsolidated affiliated companies	**$ 562**	$ 565	$ 517

At December 31, 2006, consolidated "Profit employed in the business" in Statement 2 included $262 million representing undistributed profit of the 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. In the fourth quarter 2004, we sold our investment in this limited partnership. This sale had no impact on earnings.

12. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 2006	2005	2004
Customer relationships	20	**$ 242**	$ 40	$ 40
Intellectual property	11	**211**	206	213
Other	13	**73**	33	33
Total finite-lived intangible assets — gross	15	**526**	279	286
Less: Accumulated amortization		**139**	107	91
		387	172	195
Pension-related		**—**	252	120
Intangible assets — net		**$ 387**	$ 424	$ 315

During 2006 we acquired finite-lived intangible assets of $223 million due to the purchase of Progress Rail Services, Inc. (Progress Rail). During 2004 we acquired finite lived intangible assets of $130 million. (See Note 25 for details on the acquisition of these assets.) Amortization expense related to intangible assets was $34 million, $22 million and $18 million for 2006, 2005 and 2004, respectively. In 2006, pension related intangible assets were eliminated due to the adoption of SFAS 158. For further discussion on SFAS 158, see Notes 1L and 14.

Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

2007	2008	2009	2010	2011	Thereafter
$35	$35	$35	$34	$31	$217

B. Goodwill

During 2006, we acquired assets with related goodwill of $431 million as part of the purchase of Progress Rail. We also acquired assets with related goodwill of $39 million as part of the purchase of the large components business of Royal Oak Industries, Inc. During 2004 we acquired assets with related goodwill of $55 million (See Note 25 for details on the acquisition of these assets). No goodwill was acquired during the year ended December 31, 2005.

During the first quarter of 2006, we determined that the business outlook for the parts and accessories distribution business of MG Rover, acquired in 2004, required a specific impairment evaluation. The declining outlook of this business resulted from the MG Rover's cessation of vehicle production and warranties resulting from their bankruptcy in 2005. Although the MG Rover parts business continues to provide parts to the existing population of vehicles, the unit's sales will continue to decline in the future as production of new vehicles has ceased. In determining if there was impairment, we first compared the fair value of the reporting unit (calculated by discounting projected cash flows) to the carrying value. Because the carrying value exceeded the fair value, we then allocated the fair value to the assets and liabilities of the unit and determined the fair value of the implied goodwill was zero. Accordingly, a goodwill impairment charge of $18 million, representing the entire goodwill associated with the MG Rover parts and accessories business at that date, was included in "Other operating expenses" in Statement 1 and reported in the "All Other" category in Note 24. No goodwill was impaired or disposed of during the years ended December 31, 2005 and 2004.

The changes in carrying amount of goodwill by reportable segment for the years ended December 31, 2006, 2005 and 2004 were as follows:

(Millions of dollars)	Construction & Mining Products	Electric Power	Large Power Products	All Other[1]	Consolidated Total
Balance at January 1, 2004	$ 45	$ 204	$ 592	$ 557	$ 1,398
Acquisitions	—	—	—	55	55
Other adjustments	—	—	(3)	—	(3)
Balance at December 31, 2004	45	204	589	612	1,450
Other adjustments	—	(1)	—	2	1
Balance at December 31, 2005	45	203	589	614	1,451
Acquisitions	—	—	39	432	471
Impairments	—	—	—	(18)	(18)
Balance at December 31, 2006	$ 45	$ 203	$ 628	$ 1,028	$ 1,904

[1] All Other includes operating segments included in "All Other" category (See Note 24).

13. Available-for-sale securities

Financial Products, primarily Cat Insurance, has investments in certain debt and equity securities at December 31, 2006, 2005 and 2004, that have been classified as available-for-sale in accordance with SFAS 115 and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets" in Statement 2. Unrealized 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 2). Realized gains and losses on sales of investments are generally determined using the FIFO method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in "Other income (expense)" in Statement 1.

	December 31, 2006		
(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 355	$ (5)	$ 350
Corporate bonds	541	(6)	535
Equity securities	154	26	180
	$ 1,050	$ 15	$ 1,065

	December 31, 2005		
(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 305	$ (6)	$ 299
Corporate bonds	422	(7)	415
Equity securities	146	38	184
	$ 873	$ 25	$ 898

	December 31, 2004		
(Millions of dollars)	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
Government debt	$ 239	$ (1)	$ 238
Corporate bonds	342	—	342
Equity securities	204	26	230
	$ 785	$ 25	$ 810

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

	December 31, 2006					
	Less than 12 months[1]		12 months or more[1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government debt	$ 116	$ —	$ 199	$ 4	$ 315	$ 4
Corporate bonds	198	1	233	5	431	6
Equity securities	22	1	1	—	23	1
Total	$ 336	$ 2	$ 433	$ 9	$ 769	$ 11

(Millions of dollars)	December 31, 2005 Less than 12 months[1] Fair Value	Unrealized Losses	12 months or more[1] Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Government debt	$ 155	$ 2	$ 113	$ 3	$ 268	$ 5
Corporate bonds	220	3	136	4	356	7
Equity securities	31	2	—	—	31	2
Total	$ 406	$ 7	$ 249	$ 7	$ 655	$ 14

(Millions of dollars)	December 31, 2004 Less than 12 months[1] Fair Value	Unrealized Losses	12 months or more[1] Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Government debt	$ 166	$ 1	$ 9	$ —	$ 175	$ 1
Corporate bonds	156	2	35	1	191	3
Equity securities	46	1	2	—	48	1
Total	$ 368	$ 4	$ 46	$ 1	$ 414	$ 5

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

Government Debt. The unrealized losses on our investments in U.S. Treasury obligations, direct obligations of U.S. governmental agencies and federal agency mortgage-backed securities are the result of an increase in interest rates. There are no credit related events on any of these securities. We intend to and have the ability to hold these investments that are less than book value until recovery to fair value or maturity. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2006.

Corporate Bonds. The unrealized losses on our investments in corporate bonds relate primarily to an increase in interest rates. Individual companies subject to buyouts have seen the yield spreads on the debt widen. We currently believe it is probable that we will be able to collect all amounts due according to the contractual terms of our investments in corporate debt securities. We intend to and have the ability to hold these investments that are less than book value, for the aforementioned reasons, until recovery to fair value or maturity. We do not consider these investments to be other-than-temporarily impaired as of December 31, 2006.

Equity Securities. Cat Insurance maintains a well-diversified portfolio consisting of three specific mandates: large cap value stocks, small and mid cap growth stocks and international growth and income stocks. The individual securities held in these portfolios support cash flow, asset allocation and investment objectives. Currently, we have no holdings in mutual funds. In each case where unrealized losses occur in the individual stocks, company management is taking corrective action to increase shareholder value. We currently believe it is probable that we will be able to recover all amounts due and do not consider these investments to be other-than-temporarily impaired as of December 31, 2006.

The fair value of available-for-sale debt securities at December 31, 2006, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	Fair Value
Due in one year or less	$106
Due after one year through five years	$250
Due after five years through ten years	$111
Due after ten years	$418

Proceeds from sales of investments in debt and equity securities during 2006, 2005 and 2004 were $539 million, $257 million and $408 million, respectively. Gross gains of $43 million, $14 million and $8 million and gross losses of $8 million, $6 million and $6 million have been included in current earnings as a result of these sales for 2006, 2005 and 2004, respectively.

During 2006, 2005 and 2004, there were no charges for "other than temporary" declines in the market value of securities.

14. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our U.S. employees and a portion of our non-U.S. employees, primarily in our European facilities. 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.

As discussed in Note 1L, on December 31, 2006, we adopted Statement of Financial Accounting Standards No. 158 (SFAS 158), " Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."

In January 2005, amendments were made to both U.S. hourly pension and other postretirement benefit plans due to the company and the United Auto Workers reaching a new six-year labor agreement that will expire on March 1, 2011. These plans were re-measured as of January 10, 2005 to account for the benefit changes. The result was a $29 million increase in pension cost and a $69 million increase in other postretirement benefit cost for 2005. In addition, the additional minimum pension liability increased $233 million as a result of the re-measurement. The liability was offset by an increase in pension-related intangible assets of $164 million and a decrease in other comprehensive income (pre-tax) of $69 million.

In April 2005, amendments were made to our U.S. salaried and management other postretirement benefit plan. The plan was re-measured, resulting in a reduction of $18 million in other postretirement benefit cost for 2005.

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

A. Benefit obligations

(Millions of dollars)	U.S. Pension Benefits 2006	2005	2004	Non-U.S. Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Change in benefit obligation:									
Benefit obligation, beginning of year	**$10,679**	$ 9,593	$ 8,993	**$ 2,361**	$ 2,097	$ 1,836	**$ 5,818**	$ 4,926	$ 5,004
Service cost	**160**	150	143	**67**	58	53	**95**	86	66
Interest cost	**575**	555	548	**111**	109	97	**302**	294	265
Plan amendments	**4**	204	—	**(18)**	(8)	—	**—**	412	—
Actuarial losses (gains)	**447**	863	584	**110**	254	54	**(224)**	458	(64)
Foreign currency exchange rates	**—**	—	—	**121**	(65)	135	**1**	(2)	2
Participant contributions	**—**	—	—	**11**	12	11	**29**	28	58
Benefits paid — Gross	**(699)**	(686)	(675)	**(103)**	(96)	(89)	**(369)**	(384)	(405)
Less federal subsidy on benefits paid	**—**	—	—	**—**	—	—	**9**	—	—
Acquisitions/Special termination benefits	**8**	—	—	**59**	—	—	**—**	—	—
Benefit obligation, end of year	**$11,174**	$ 10,679	$ 9,593	**$ 2,719**	$ 2,361	$ 2,097	**$ 5,661**	$ 5,818	$ 4,926
Accumulated benefit obligation, end of year	**$10,587**	$ 10,213	$ 9,040	**$ 2,333**	$ 2,069	$ 1,844			
Weighted-average assumptions used to determine net cost:									
Discount rate[1]	**5.5%**	5.6%	5.9%	**4.7%**	4.6%	5.2%	**5.5%**	5.6%	5.9%
Rate of compensation increase[1]	**4.0%**	4.0%	4.0%	**4.0%**	3.7%	3.5%	**4.0%**	4.0%	4.0%

[1] End of year rates are used to determine net periodic cost for the subsequent year. See Note 14E.

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 2006 service and interest cost components of other postretirement benefit cost	$ 35	$ (31)
Effect on accumulated postretirement benefit obligation	$444	$(389)

B. Plan assets

(Millions of dollars)	U.S. Pension Benefits 2006	2005	2004	Non-U.S. Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Change in plan assets:									
Fair value of plan assets, beginning of year	**$ 9,441**	$ 8,725	$ 7,728	**$ 2,024**	$ 1,503	$ 1,262	**$ 1,311**	$ 994	$ 867
Actual return on plan assets	**1,329**	860	1,106	**238**	272	124	**207**	100	118
Foreign currency exchange rates	**—**	—	—	**100**	(47)	91	**—**	—	—
Company contributions	**9**	542	566	**34**	390	104	**331**	573	356
Participant contributions	**—**	—	—	**11**	12	11	**29**	28	58
Benefits paid	**(699)**	(686)	(675)	**(103)**	(96)	(89)	**(369)**	(384)	(405)
Settlements	**—**	—	—	**—**	(10)	—	**—**	—	—
Acquisitions	**7**	—	—	**—**	—	—	**—**	—	—
Fair value of plan assets, end of year	**$10,087**	$ 9,441	$ 8,725	**$ 2,304**	$ 2,024	$ 1,503	**$ 1,509**	$ 1,311	$ 994

The asset allocation for our pension and other postretirement benefit plans at the end of 2006, 2005 and 2004, and the target allocation for 2007, by asset category, are as follows:

(Millions of dollars)	Target Allocation 2007	Percentage of Plan Assets at Year-End 2006	2005	2004
U.S. pension:				
Equity securities	70%	**74%**	72%	74%
Debt securities	30%	**26%**	28%	26%
Total	100%	**100%**	100%	100%
Non-U.S. pension:				
Equity securities	55%	**59%**	63%	54%
Debt securities	33%	**30%**	30%	38%
Real estate	8%	**8%**	5%	6%
Other	4%	**3%**	2%	2%
Total	100%	**100%**	100%	100%
Other postretirement benefits:				
Equity securities	80%	**84%**	84%	84%
Debt securities	20%	**15%**	16%	16%
Cash	—	**1%**	—	—
Total	100%	**100%**	100%	100%

Our target asset allocations reflect our investment strategy of maximizing the long-term 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.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans currently utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2006, approximately 10% of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The actual asset allocation percentages above represent this rebalancing effort. The plans do not engage in futures contracts for speculative purposes.

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

	U.S. Pension Benefits[1]			Non-U.S. Pension Benefits			Other Postretirement Benefits		
(Millions of dollars)	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Caterpillar Inc. common stock	**$ 197**	$ 371	$ 299	**$ 2**	$ 2	$ —	**$ 2**	$ 5	$ 1

[1] Amounts represent 2% of total plan assets for 2006, 4% for 2005 and 3% for 2004.

C. Funded status

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

(Millions of dollars)	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
End of Year	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Fair value of plan assets	**$10,087**	$ 9,441	$ 8,725	**$ 2,304**	$ 2,024	$ 1,503	**$ 1,509**	$ 1,311	$ 994
Benefit obligations	**11,174**	10,679	9,593	**2,719**	2,361	2,097	**5,661**	5,818	4,926
Over (under) funded status	**(1,087)**	(1,238)	(868)	**(415)**	(337)	(594)	**(4,152)**	(4,507)	(3,932)
Amounts not yet recognized:									
Unrecognized prior service cost (benefit)	**N/A**	303	158	**N/A**	22	27	**N/A**	208	(232)
Unrecognized net actuarial loss	**N/A**	3,070	2,552	**N/A**	746	726	**N/A**	1,595	1,232
Unrecognized net obligation existing at adoption of SFAS 87/106	**N/A**	—	—	**N/A**	2	3	**N/A**	14	16
Contributions made after measurement date	**2**	1	—	**2**	1	22	**20**	28	27
Net amount recognized in financial position	**$(1,085)**	$ 2,136	$ 1,842	**$ (413)**	$ 434	$ 184	**$(4,132)**	$ (2,662)	$ (2,889)
Components of net amount recognized in financial position:									
Accrued benefit liabilities (current liability)	**$ (9)**	$ N/A	$ N/A	**$ (2)**	$ N/A	$ N/A	**$ (13)**	$ N/A	$ N/A
Liability for postemployment benefits (non-current liability)	**(1,076)**	N/A	N/A	**(411)**	N/A	N/A	**(4,119)**	N/A	N/A
Prepaid benefit costs	**N/A**	1,487	1,099	**N/A**	466	28	**N/A**	—	—
Accrued benefit liabilities	**N/A**	(71)	(97)	**N/A**	(59)	(173)	**N/A**	(599)	(402)
Intangible assets	**N/A**	237	95	**N/A**	16	25	**N/A**	—	—
Liability for postemployment benefits	**N/A**	(760)	(248)	**N/A**	(92)	(181)	**N/A**	(2,063)	(2,487)
Accumulated other comprehensive income (pre-tax)	**N/A**	1,243	993	**N/A**	103	485	**N/A**	—	—
Net asset (liability) recognized	**$(1,085)**	$ 2,136	$ 1,842	**$ (413)**	$ 434	$ 184	**$(4,132)**	$ (2,662)	$ (2,889)
Amounts recognized in accumulated other comprehensive income (pre-tax) consist of:									
Net actuarial loss (gain)	**$ 2,754**	$ N/A	$ N/A	**$ 742**	$ N/A	$ N/A	**$ 1,159**	$ N/A	$ N/A
Prior service cos (credit)	**249**	N/A	N/A	**16**	N/A	N/A	**244**	N/A	N/A
Transition obligation (asset)	**—**	N/A	N/A	**1**	N/A	N/A	**13**	N/A	N/A
Total	**$ 3,003**	$ N/A	$ N/A	**$ 759**	$ N/A	$ N/A	**$ 1,416**	$ N/A	$ N/A

N/A (Not Applicable): The adoption of SFAS 158 (see Note 1L) resulted in recognition of previously unrecognized prior service cost and actuarial loss on our consolidated financial position. Overall, the prepaid asset was eliminated and a liability recognized through an adjustment to accumulated other comprehensive income.

The estimated amounts that will be amortized from "Accumulated other comprehensive income" at December 31, 2006 into net periodic benefit cost in 2007 are as follows:

(Millions of dollars)	U.S. Pension	Non-U.S. Pension	Other Postretirement Benefits
Actuarial (gain) loss	$ 214	$ 52	$ 79
Prior service (credit) cost	58	5	(36)
Transition (asset) obligation	—	1	2
Total	$ 272	$ 58	$ 45

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 2006	2005	2004	Non-U.S. Pension Benefits at Year-end 2006	2005	2004
Projected benefit obligation	**$(11,174)**	$ (10,679)	$ (9,593)	**$ (2,719)**	$ (2,319)	$ (2,059)
Accumulated benefit obligation	**$(10,587)**	$ (10,213)	$ (9,040)	**$ (2,333)**	$ (2,034)	$ (1,813)
Fair value of plan assets	**$ 10,087**	$ 9,441	$ 8,725	**$ 2,304**	$ 1,973	$ 1,455

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 2006	2005	2004	Non-U.S. Pension Benefits at Year-end 2006	2005	2004
Projected benefit obligation	**$ (4,491)**	$ (4,594)	$ (3,975)	**$ (121)**	$ (556)	$ (2,003)
Accumulated benefit obligation	**$ (4,460)**	$ (4,564)	$ (3,959)	**$ (106)**	$ (506)	$ (1,767)
Fair value of plan assets	**$ 3,805**	$ 3,733	$ 3,614	**$ 19**	$ 382	$ 1,406

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:			
2007 (expected)	$ 10	$ 40	$ 400
Expected benefit payments:			
2007	$ 720	$ 80	$ 400
2008	730	80	400
2009	740	80	420
2010	760	90	430
2011	770	90	450
2012-2016	4,000	550	2,400
Total	$ 7,720	$ 970	$ 4,500

The above table reflects the total employer contributions and benefits expected to be paid from the plan or from company assets and does not include the participants' share of the cost. The expected benefit payments for our other postretirement benefits include payments for prescription drug benefits. Medicare Part D subsidy amounts expected to be received by the company which will offset other postretirement benefit payments are as follows:

(Millions of dollars)	2007	2008	2009	2010	2011	2012-2016	Total
Other postretirement benefits	$20	$20	$30	$30	$30	$190	$320

E. Net periodic cost

(Millions of dollars)	U.S. Pension Benefits 2006	2005	2004	Non-U.S. Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Components of net periodic benefit cost:									
Service cost	**$ 160**	$ 150	$ 143	**$ 67**	$ 58	$ 53	**$ 95**	$ 86	$ 66
Interest cost	**575**	555	548	**111**	109	97	**302**	294	265
Expected return on plan assets	**(798)**	(712)	(697)	**(142)**	(111)	(103)	**(116)**	(91)	(74)
Settlement loss	**—**	—	—	**—**	3	—	**—**	—	—
Termination benefits	**—**	—	—	**1**	—	—	**—**	—	—
Amortization of:									
Net asset existing at adoption of SFAS 87/106	**—**	—	—	**1**	1	3	**2**	2	2
Prior service cost[(1)]	**58**	59	44	**5**	7	6	**(33)**	(29)	(48)
Net actuarial loss	**232**	197	142	**56**	50	38	**113**	85	45
Total cost included in operating profit	**$ 227**	$ 249	$ 180	**$ 99**	$ 117	$ 94	**$ 363**	$ 347	$ 256

Weighted-average assumptions used to determine net cost:									
Discount rate[2]	**5.6%**	5.9%	6.2%	**4.6%**	5.2%	5.1%	**5.6%**	5.8%	6.1%
Expected return on plan assets[3]	**9.0%**	9.0%	9.0%	**7.5%**	7.1%	7.4%	**9.0%**	9.0%	9.0%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.5%**	3.5%	3.2%	**4.0%**	4.0%	4.0%

(1) Prior service costs for both pension and other postretirement benefits are generally 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. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service costs are amortized using the straight-line method over the remaining life expectancy of those participants.

(2) For U.S. plans impacted by the January 2005 plan amendments, a 5.8% discount rate was utilized for valuing the plan re-measurement. For the April 2005 other postretirement benefit plan amendment, a 5.7% discount rate was utilized for valuing the plan re-measurement.

(3) The weighted-average rates for 2007 are 9.0% and 7.7% for U.S. and non-U.S. plans, respectively.

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, and represents the rate at which our benefit obligations could effectively be settled. To validate the discount rate, a detailed analysis of the individual plans' expected cash flows is made annually. This involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds. The modeled discount rate that results from matching the aggregate expected future cash flows from the Caterpillar benefit plans to the yield curve of high quality corporate bonds is consistent with the annualized Moody's Aa rate. A comprehensive process is also 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 future expense.

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 2006, 2005 and 2004. 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 2006 benefit expense, we assumed an increase of 8.5% for 2006. We expect an increase of 7.5% during 2007. The 2006 and 2007 rates are assumed to decrease gradually to the ultimate health care trend rate of 5.0% in 2013. This rate represents 3.0% general inflation plus 2.0% additional health care inflation.

We determined that most of our U.S. retiree health care plans are at least actuarially equivalent to Medicare Part D and will qualify for the federal subsidy. In the third quarter of 2004, we adopted FSP 106-2 retroactive to December 31, 2003 (the period end that includes the date of the Act's enactment) as permitted by the FSP. The impact was a reduction in our accumulated postretirement benefit obligation of $284 million related to benefits attributed to past service. The reduction in the components of 2004 net periodic postretirement benefits expense was $51 million.

F. Other postemployment benefit plans

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

G. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. Our U.S. 401(k) 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)	**2006**	2005	2004
U.S. plans	**$ 157**	$ 135	$ 110
Non-U.S. plans	**23**	18	11
	$ 180	$ 153	$ 121

H. Summary of long-term liability:

(Millions of dollars)	**2006**	December 31, 2005	2004
Pensions:			
U.S. pensions	**$1,076**	$ 760	$ 248
Non-U.S. pensions	**411**	92	181
Total pensions	**1,487**	852	429
Postretirement benefits other than pensions	**4,119**	2,063	2,487
Other postemployment benefits	**73**	76	70
Defined contribution	**200**	170	140
	$5,879	$ 3,161	$ 3,126

15. Short-term borrowings

(Millions of dollars)	**2006**	December 31, 2005	2004
Machinery and Engines:			
Notes payable to banks	**$ 77**	$ 543	$ 93
Commercial paper	**88**	328	—
	165	871	93
Financial Products:			
Notes payable to banks	**251**	257	370
Commercial paper	**4,149**	3,936	2,972
Collateralized trust obligation	**—**	—	240
Demand notes	**590**	505	482
	4,990	4,698	4,064
Total short-term borrowings	**$5,155**	$ 5,569	$ 4,157

See Note 6 for further discussion of the collateralized trust obligation.

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

	December 31,		
	2006	2005	2004
Notes payable to banks	**6.2%**	5.4%	5.9%
Commercial paper	**4.5%**	3.4%	2.5%
Collateralized trust obligation	**—**	—	2.3%
Demand notes	**5.4%**	4.2%	2.3%

Please refer to Note 19 and Table IV for fair value information on short-term borrowings.

16. Long-term debt

	December 31,		
(Millions of dollars)	**2006**	2005	2004
Machinery and Engines:			
Notes — 6.550% due 2011	**$ 250**	$ 250	$ 250
Notes — 5.700% due 2016	**500**	—	—
Debentures — 9.000% due 2006	**—**	—	206
Debentures — 7.250% due 2009	**307**	310	313
Debentures — 9.375% due 2011	**123**	123	123
Debentures — 9.375% due 2021	**120**	120	236
Debentures — 8.000% due 2023	**82**	82	199
Debentures — 6.625% due 2028	**299**	299	299
Debentures — 7.300% due 2031	**348**	348	348
Debentures — 5.300% due 2035	**201**	200	—
Debentures — 6.050% due 2036	**747**	—	—
Debentures — 6.950% due 2042	**249**	249	249
Debentures — 7.375% due 2097	**297**	297	297
Capital lease obligations	**72**	66	665
Commercial paper	**—**	—	40
Deposit obligations	**—**	231	245
Other	**99**	142	193
Total Machinery and Engines	**3,694**	2,717	3,663
Financial Products:			
Commercial paper	**408**	299	1,400
Medium-term notes	**12,857**	12,187	10,468
Deposit obligations	**232**	232	232
Other	**489**	242	74
Total Financial Products	**13,986**	12,960	12,174
Total long-term debt due after one year	**$17,680**	$ 15,677	$15,837

All outstanding notes and debentures are unsecured. Certain capital lease obligations which were collateralized by leased manufacturing equipment and/or security deposits, were terminated in the fourth quarter of 2005. This resulted in the fulfillment of the capital lease obligation and conversion of the associated security deposits into cash. The deposit obligations have corresponding security deposits, which are included in "Other assets" in Statement 2. These deposit obligations and corresponding security deposits relate to two finance arrangements which provide us a return. These finance arrangements require that we commit to certain long-term obligations and provide security deposits which will fulfill these obligations when they become due. At December 31, 2006, the Machinery and Engines deposit obligations are included in "Long-term debt due within one year," and the corresponding security deposit is included in "Prepaid expenses and other current assets" in Statement 2.

On August 8, 2006, Caterpillar Inc. issued $500 million of 5.70% notes due in 2016 and $750 million of 6.05% debentures due in 2036.

On September 13, 2005, $116 million of 9.375% debentures due in 2021 and $117 million of 8.00% debentures due in 2023 were exchanged for $307 million of 5.30% debentures due in 2035 and $23 million of cash. The book value of the 5.30% debentures due in 2035 was $201 million at December 31, 2006 and $200 million at December 31, 2005, which results in an effective yield of 8.55%.

We may redeem the 6.55% and 5.70% notes and the 5.30%, 7.25%, 6.625%, 7.3%, 6.05%, 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.

Based on long-term credit agreements, $408 million, $299 million and $1,440 million of commercial paper outstanding at December 31, 2006, 2005 and 2004, respectively, was classified as long-term debt due after one year.

Medium-term notes are offered by prospectus and are issued through agents at fixed and floating rates. These notes have a weighted average interest rate of 4.6% with remaining maturities up to 20 years at December 31, 2006.

The aggregate amounts of maturities of long-term debt during each of the years 2007 through 2011, including amounts due within one year and classified as current, are:

	December 31,				
(Millions of dollars)	2007	2008	2009	2010	2011
Machinery and Engines	$ 418	$ 59	$ 321	$ 3	$ 376
Financial Products	4,043	3,913	4,011	2,258	1,367
	$ 4,461	$ 3,972	$ 4,332	$ 2,261	$ 1,743

The above table includes $969 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2006, 2005 and 2004 was $1,256 million, $1,030 million and $766 million, respectively.

Please refer to Note 19 and Table IV for fair value information on long-term debt.

17. Credit commitments

	December 31, 2006		
(Millions of dollars)	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$6,450 [(1)]	$1,000 [(1)]	$5,450 [(1)]
Other external	2,573	1,070	1,503
Total credit lines available	9,023	2,070	6,953
Less: Global credit facilities supporting commercial paper	(4,645)	(88)	(4,557)
Less: Utilized credit	(750)	(77)	(673)
Available credit	$3,628	$1,905	$1,723

(1) We have three global credit facilities with a syndicate of banks totaling $6,450 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, 2006 was $5,450 million. The five-year facility of $1.63 billion, which expires in September 2010, has not changed from December 2005. The five-year facility, which was previously $2.50 billion and scheduled to expire in 2009, has been increased to $2.98 billion and now expires in 2011. The 364-day facility of $1.63 billion that expired in September 2006 was increased to $1.85 billion and now expires in September 2007. The facility expiring in September 2007 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2007 that would mature in September 2008.

At December 31, 2006, there were no borrowings under these lines.

18. Profit per share

Computations of profit per share:

(Dollars in millions except per share data)	**2006**	2005	2004
Profit for the period (A)	**$3,537**	$ 2,854	$ 2,035
Determination of shares (in millions):			
Weighted average number of common shares outstanding (B)	**658.7**	678.4	684.5
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	**25.1**	27.4	22.9
Average common shares outstanding for fully diluted computation (C)	**683.8**	705.8	707.4
Profit per share of common stock:			
Assuming no dilution (A/B)	**$ 5.37**	$ 4.21	$ 2.97
Assuming full dilution (A/C)	**$ 5.17**	$ 4.04	$ 2.88
Shares outstanding as of December 31 (in millions)	**645.8**	670.9	685.9

SARs and stock options to purchase 9,626,940 and 104,000 common shares were outstanding in 2006 and 2004, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive. There were no antidilutive stock options outstanding at December 31, 2005.

On June 8, 2005, Caterpillar's Board of Directors approved a 2-for-1 stock split in the form of a 100 percent stock dividend. The stock split shares were distributed on July 13, 2005 to stockholders of record at the close of business on June 22, 2005. Capital accounts, share data and profit per share data reflect the stock split, applied retroactively, to all periods presented.

19. 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 for available-for-sale securities was estimated based on quoted market prices. Fair value for security deposits approximated carrying value.

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.

Wholesale inventory receivables — fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities.

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 long-term credit agreements for which the carrying amounts were considered a reasonable estimate of fair value. For deposit obligations carrying value approximated 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.

Guarantees — fair value is estimated based on the premium we would require to issue the same guarantee in a stand alone arm's-length transaction with an unrelated party.

Please refer to Table IV on the next page for the fair values of our financial instruments.

20. 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 and customers which arise in the normal course of business. We perform regular credit evaluations of our dealers and customers. 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 and wholesale inventory receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. We generally maintain a secured interest in the equipment financed. No single customer or dealer 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 2, are comprised primarily of investments which collateralize deposit obligations and investments of Cat Insurance supporting insurance reserve requirements. At December 31, 2004 long-term investments also included investments which collateralized capital lease obligations (see Note 16).

For derivatives contracts, collateral is generally 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, 2006, 2005 and 2004, the exposure to credit loss was $149 million, $141 million and $312 million, respectively.

Please refer to Note 19 and Table IV for fair value information.

21. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $319 million, $257 million and $224 million for 2006, 2005 and 2004, respectively.

TABLE IV — Fair Values of Financial Instruments

(Millions of dollars)	2006 Carrying Amount	2006 Fair Value	2005 Carrying Amount	2005 Fair Value	2004 Carrying Amount	2004 Fair Value	Reference
Asset (liability) at December 31							
Cash and short-term investments	**$ 530**	**$ 530**	$ 1,108	$ 1,108	$ 445	$ 445	Statement 2
Long-term investments	**1,296**	**1,296**	1,356	1,356	1,852	1,852	Notes 13 and 20
Foreign currency contracts	**56**	**56**	(1)	(1)	176	176	Note 20
Finance receivables — net (excluding tax leases[1])	**16,469**	**16,468**	15,214	15,210	13,457	13,445	Note 8
Wholesale inventory receivables — net (excluding finance type leases[1])	**1,027**	**992**	1,089	1,085	882	857	Note 7
Short-term borrowings	**(5,155)**	**(5,155)**	(5,569)	(5,569)	(4,157)	(4,157)	Note 15
Long-term debt (including amounts due within one year)							
Machinery and Engines	**(4,112)**	**(4,397)**	(3,057)	(3,465)	(3,669)	(4,186)	Note 16
Financial Products	**(18,029)**	**(17,911)**	(17,119)	(17,176)	(15,699)	(15,843)	Note 16
Interest rate swaps							
Machinery and Engines — in a net receivable position	**2**	**2**	—	—	—	—	Note 3
Financial Products — in a net receivable position	**52**	**52**	94	94	75	75	Note 3
in a net payable position	**(99)**	**(99)**	(114)	(114)	(69)	(69)	Note 3
Guarantees[2]	**(10)**	**(10)**	(9)	(10)	(10)	(10)	Note 22

[1] Total excluded items have a net carrying value at December 31, 2006, 2005 and 2004 of $2,050 million, $1,719 million and $1,737 million, respectively.

[2] The carrying amount provisions of FASB Interpretation No. 45 related to guarantees are effective for guarantees issued or modified subsequent to December 31, 2002 only, whereas the fair value amount is for all guarantees.

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)

2007	2008	2009	2010	2011	After 2011	Total
$230	$195	$163	$134	$87	$460	$1,269

22. Guarantees and product warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from third party lenders 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 generally have one-year terms and are secured, primarily by dealer assets. Additionally, we have provided an indemnity to a third party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds are issued to insure governmental agencies against nonperformance by certain Caterpillar dealers.

We provide loan guarantees to third party lenders for financing associated with machinery purchased by customers. The loan guarantees are for the remote chance that the customers will become insolvent. These guarantees have varying terms and are secured by the machinery.

Cat Financial has provided a limited indemnity to a third party bank for $35 million resulting from the assignment of certain leases to that bank. The indemnity is for the remote chance that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2006, 2005 and 2004, the related liability was $10 million, $9 million and $10 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees at December 31 are as follows:

(Millions of dollars)	2006	2005	2004
Guarantees with Caterpillar dealers	**$ 527**	$ 520	$ 468
Guarantees with customers	**48**	64	29
Limited Indemnity	**35**	40	45
Guarantees — other	**21**	16	17
Total guarantees	**$ 631**	$ 640	$ 559

Cat Financial is party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing. We do not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2006 was $6,587 million compared to $4,729 million at December 31, 2005 and $5,019 million at December 31, 2004. The amount of the unused commitments and lines of credit for customers as of December 31, 2006 was $2,279 million compared to $1,972 million at December 31, 2005 and $1,499 million at December 31, 2004.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Historical claim rates are developed using a rolling average of actual warranty payments.

(Millions of dollars)	**2006**	2005	2004
Warranty liability, January 1	**$ 879**	$ 785	$ 624
Reduction in liability (payments)	**(745)**	(712)	(571)
Increase in liability (new warranties)	**819**	806	732
Warranty liability, December 31	**$ 953**	$ 879	$ 785

23. 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 addition to governing our manufacturing and other operations, these laws often impact the development of our products, including through required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

We are cleaning up contamination at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay cleanup costs at a site and those costs can be estimated, the costs are charged against our earnings. In formulating 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 2. Currently, we have several sites in the very early stages of cleanup, and there is no more than a remote chance that a material amount for cleanup at any individual site or at all sites in the aggregate will be required.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues and intellectual property rights. Although it is not possible to predict with certainty the outcome of these legal actions or the range of probable loss, we believe that these legal actions will not individually or in the aggregate have a material impact on our consolidated financial position, liquidity or results of operations.

On August 24, 2006, Caterpillar announced the settlement of all current and pending litigation between Navistar International Corporation (Navistar), the parent company of International Truck and Engine Corporation, and Caterpillar. As part of the litigation settlement, Caterpillar received an up-front cash payment and a three-year promissory note from Navistar. Based on Caterpillar's receivable balances related to the Navistar litigation at the time of settlement, the settlement resulted in a pre-tax charge to Caterpillar of approximately $70 million in the third quarter.

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Kruse seeks monetary damages, injunctive relief and a finding that the alleged infringement by Caterpillar was willful. Caterpillar denies Kruse's allegations, believes they are without merit, and has filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. The counterclaim filed by Caterpillar is pending and no trial date is currently scheduled. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

In November 2004, the U.S. Environmental Protection Agency (EPA) alleged that Caterpillar had constructed a facility in Emporia, Kansas that failed to comply with Section 112(g)(2)(B) of the federal Clean Air Act. Caterpillar sold the Emporia, Kansas facility in December 2002. This matter has now been settled and terminated by Consent Decree, entered on June 12, 2006, in the United States District Court for the District of Kansas, and Caterpillar's payment of a civil penalty of $300,000 on June 14, 2006. Accordingly, in the opinion of our management, this matter is closed and did not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On June 26, 2006, the UK Environment Agency filed a claim against Caterpillar Logistics Services (UK) Ltd. (CLS) before the Leicester & Rutland Magistrates Court in Leicestershire, UK. The complaint alleged that CLS failed to follow UK regulations in connection with the handling and disposal of special waste (primarily batteries) from January through September 2005. On August 17, 2006, CLS was fined £7,763 (approximately $15,000), thereby concluding the matter.

The Internal Revenue Service (IRS) completed its field examination of our 1995 through 1999 U.S. tax returns during the second quarter of 2005. In connection with this examination, we received notices of certain adjustments proposed by the IRS, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits. We disagree with these proposed adjustments and are continuing to work toward resolution through applicable IRS procedures. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

The World Trade Organization (WTO) previously found that the transitional and grandfathering provisions for extraterritorial income exclusion (ETI), under the American Jobs Creation Act of 2004, did not satisfy the United States' obligation to "withdraw" prohibited export subsidies. The WTO result allowed the European Union to impose already authorized sanctions on certain U.S. origin goods beginning May 16, 2006. The Tax Increase Prevention and Reconciliation Act of 2005, signed by President Bush on May 17, 2006, repealed the grandfathering provisions for ETI. In response, the European Union Trade Commissioner announced the cancellation of sanctions ending the dispute. We were not materially impacted by this resolution.

24. Segment information

A. Basis for segment information

Caterpillar 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 center 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, one of these profit centers also has 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-40.

B. Description of segments

The profit center divisions meet the SFAS 131 definition of "operating segments;" however, the service center divisions do not. The following is a brief description of our nine reportable segments and the business activities included in the "All Other" category.

Asia/Pacific Marketing: Primarily responsible for marketing machinery through dealers in Australia, Asia (excluding Japan) and the Pacific Rim.

Construction & Mining Products: Primarily responsible for the design, manufacture and ongoing support of medium and large machinery used in a variety of construction and mining applications. This reportable segment represents the aggregation of three profit centers, Mining and Construction Equipment Division, Track-Type Tractors Division and Wheel Loaders and Excavators Division.

EAME Marketing: Primarily responsible for marketing machinery through dealers in Europe, Africa, the Middle East and the Commonwealth of Independent States.

Electric Power: Primarily responsible for the design, manufacture and ongoing support of natural gas and diesel powered generator sets as well as integrated systems used in the electric power generation industry. Also includes marketing through dealers worldwide.

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.

Large Power Products: Primarily responsible for the design, manufacture and ongoing support of C7 and larger reciprocating engines. These engines are used in various industries and applications including on-highway truck, electric power, industrial/rail, marine, petroleum and Caterpillar machinery.

Latin America: Primarily responsible for marketing machinery and engines through dealers in Latin America. Also includes the manufacturing of machinery and components used in a variety of construction and mining applications.

North America Marketing: Primarily responsible for marketing machinery through dealers in the United States and Canada.

Power Systems Marketing: Primarily responsible for marketing and ongoing support of reciprocating engines sold into on-highway truck, marine and petroleum industry applications.

All Other: Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; logistics services for Caterpillar and other companies; remanufacturing of Caterpillar engines and components and remanufacturing services for other companies; design, manufacture and ongoing support for reciprocating engines used in industrial applications; design, manufacture, marketing and ongoing support of turbines; regional manufacturing of construction and mining machinery and components in Europe, Asia and Australia; design, manufacture and ongoing support of building construction, paving and forestry machinery and related components and control systems; and rail-related products and services.

C. Segment measurement and reconciliations

Please refer to Table V on pages A-34 to A-36 for financial information regarding our segments. There are several accounting differences between our segment reporting and our 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. In 2006, we began charging business segments certain costs that previously were reconciling items. No individual segment was materially impacted as a result of the changes. In addition, we made several organizational changes that impacted our segment reporting. The information for 2005 and 2004 has been reclassified to conform to the 2006 presentation.

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 and 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 V on pages A-34 to A-36 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.
- **Timing:** Timing differences in the recognition of costs between segment reporting and consolidated external reporting.
- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

TABLE V — Segment Information (Millions of dollars)

Business Segments:

	Machinery and Engines											
	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Electric Power	Large Power Products	Latin America	North America Marketing	Power Systems Marketing	All Other	Total	Financing & Insurance Services	Consoli- dated Total
2006												
External sales and revenues	**$ 2,683**	**$ (52)**	**$ 5,282**	**$ 2,569**	**$ (172)**	**$ 2,796**	**$11,801**	**$ 5,564**	**$ 8,140**	**$38,611**	**$ 3,359**	**$41,970**
Intersegment sales and revenues	**$ (1)**	**11,332**	**5**	**228**	**8,517**	**1,921**	**317**	**27**	**17,101**	**$39,447**	**1**	**$39,448**
Total sales and revenues	**$ 2,682**	**11,280**	**5,287**	**2,797**	**8,345**	**4,717**	**12,118**	**5,591**	**25,241**	**$78,058**	**3,360**	**$81,418**
Depreciation and amortization	**$ 2**	**103**	**1**	**21**	**162**	**46**	**1**	**9**	**460**	**$ 805**	**642**	**$ 1,447**
Imputed interest expense	**$ 8**	**51**	**6**	**19**	**54**	**29**	**4**	**2**	**284**	**$ 457**	**1,044**	**$ 1,501**
Accountable profit (loss)	**$ 80**	**1,617**	**170**	**177**	**724**	**367**	**363**	**141**	**2,307**	**$ 5,946**	**718**	**$ 6,664**
Accountable assets at Dec. 31	**$ 352**	**1,844**	**285**	**682**	**2,041**	**941**	**(196)**	**131**	**10,573**	**$16,653**	**28,406**	**$45,059**
Capital expenditures	**$ 3**	**233**	**1**	**39**	**277**	**56**	**5**	**4**	**666**	**$ 1,284**	**1,183**	**$ 2,467**
2005												
External sales and revenues	$ 2,462	3	4,397	2,136	(128)	2,275	10,988	4,696	6,980	$ 33,809	2,867	$ 36,676
Intersegment sales and revenues	$ 3	9,925	5	188	7,259	1,670	385	27	15,160	$ 34,622	1	$ 34,623
Total sales and revenues	$ 2,465	9,928	4,402	2,324	7,131	3,945	11,373	4,723	22,140	$ 68,431	2,868	$ 71,299
Depreciation and amortization	$ 2	89	1	18	154	44	2	8	377	$ 695	646	$ 1,341
Imputed interest expense	$ 7	44	3	18	48	26	4	3	248	$ 401	798	$ 1,199
Accountable profit (loss)	$ 94	1,452	71	109	464	202	278	116	1,863	$ 4,649	566	$ 5,215
Accountable assets at Dec. 31	$ 257	1,579	93	595	1,675	878	31	47	8,598	$ 13,753	26,815	$ 40,568
Capital expenditures	$ 2	172	1	27	186	51	5	5	529	$ 978	1,232	$ 2,210
2004												
External sales and revenues	$ 2,105	(46)	3,848	1,764	(79)	1,728	8,881	3,953	5,969	$ 28,123	2,439	$ 30,562
Intersegment sales and revenues	$ —	7,562	6	141	6,208	1,260	322	46	12,451	$ 27,996	1	$ 27,997
Total sales and revenues	$ 2,105	7,516	3,854	1,905	6,129	2,988	9,203	3,999	18,420	$ 56,119	2,440	$ 58,559
Depreciation and amortization	$ 1	82	1	35	157	46	1	(6)	364	$ 681	604	$ 1,285
Imputed interest expense	$ 9	34	3	17	50	20	1	4	213	$ 351	543	$ 894
Accountable profit (loss)	$ 137	846	83	(40)	190	250	395	16	1,285	$ 3,162	460	$ 3,622
Accountable assets at Dec. 31	$ 258	1,352	94	622	1,586	775	(61)	133	8,089	$ 12,848	24,450	$ 37,298
Capital expenditures	$ —	113	—	19	108	41	6	—	444	$ 731	1,327	$ 2,058

Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Sales & Revenues				
2006				
Total external sales and revenues from business segments	**$ 38,611**	**$ 3,359**	**$ —**	**$ 41,970**
Other	**258**	**(245)**	**(466)** [1]	**(453)**
Total sales and revenues	**$ 38,869**	**$ 3,114**	**$ (466)**	**$ 41,517**
2005				
Total external sales and revenues from business segments	$ 33,809	$ 2,867	$ —	$ 36,676
Other	197	(217)	(317) [1]	(337)
Total sales and revenues	$ 34,006	$ 2,650	$ (317)	$ 36,339
2004				
Total external sales and revenues from business segments	$ 28,123	$ 2,439	$ —	$ 30,562
Other	213	(270)	(199) [1]	(256)
Total sales and revenues	$ 28,336	$ 2,169	$ (199)	$ 30,306

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

Continued on Page A-35

TABLE V Continued — Segment Information (Millions of dollars)

Reconciliations:

Profit before taxes	Machinery and Engines	Financing & Insurance Services	Consolidated Total
2006			
Total accountable profit from business segments	**$ 5,946**	**$ 718**	**$ 6,664**
Corporate costs	**(888)**	**—**	**(888)**
Timing	**(114)**	**—**	**(114)**
Methodology differences:			
Inventory/cost of sales	**(60)**	**—**	**(60)**
Postretirement benefit expense	**(331)**	**—**	**(331)**
Financing costs	**(131)**	**—**	**(131)**
Equity in profit of unconsolidated affiliated companies	**(79)**	**(2)**	**(81)**
Currency	**15**	**—**	**15**
Legal disputes	**(77)**	**—**	**(77)**
Other methodology differences	**(67)**	**29**	**(38)**
Other	**(98)**	**—**	**(98)**
Total profit before taxes	**$ 4,116**	**$ 745**	**$ 4,861**
2005			
Total accountable profit from business segments	$ 4,649	$ 566	$ 5,215
Corporate costs	(728)	—	(728)
Timing	(66)	—	(66)
Methodology differences:			
Inventory/cost of sales	14	—	14
Postretirement benefit expense	(386)	—	(386)
Financing costs	(14)	—	(14)
Equity in profit of unconsolidated affiliated companies	(64)	(9)	(73)
Currency	(21)	—	(21)
Other methodology differences	(14)	23	9
Other	(49)	—	(49)
Total profit before taxes	$ 3,321	$ 580	$ 3,901
2004			
Total accountable profit from business segments	$ 3,162	$ 460	$ 3,622
Corporate costs	(601)	—	(601)
Timing	30	—	30
Methodology differences:			
Inventory/cost of sales	(62)	—	(62)
Postretirement benefit expense	(270)	—	(270)
Financing costs	52	—	52
Equity in profit of unconsolidated affiliated companies	(56)	(3)	(59)
Currency	35	—	35
Other methodology differences	(52)	48	(4)
Other	(36)	—	(36)
Total profit before taxes	$ 2,202	$ 505	$ 2,707

Assets	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
2006				
Total accountable assets from business segments	**$ 16,653**	**$ 28,406**	**$ —**	**$ 45,059**
Items not included in segment assets:				
Cash and short-term investments	**319**	**211**	**—**	**530**
Intercompany receivables	**205**	**85**	**(290)**	**—**
Trade and other receivables	**324**	**—**	**—**	**324**
Investments in unconsolidated affiliated companies	**439**	**—**	**(9)**	**430**
Investment in Financial Products	**3,513**	**—**	**(3,513)**	**—**
Deferred income taxes and prepaids	**3,167**	**116**	**(327)**	**2,956**
Intangible assets and other assets	**1,283**	**(1)**	**—**	**1,282**
Service center assets	**1,008**	**—**	**—**	**1,008**
Liabilities included in segment assets	**1,767**	**21**	**—**	**1,788**
Inventory methodology differences	**(2,503)**	**—**	**—**	**(2,503)**
Other	**250**	**(245)**	**—**	**5**
Total assets	**$ 26,425**	**$ 28,593**	**$ (4,139)**	**$ 50,879**

Continued on Page A-36

TABLE V Continued — Segment Information (Millions of dollars)

Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Assets				
2005				
Total accountable assets from business segments	$ 13,753	$ 26,815	$ —	$ 40,568
Items not included in segment assets:				
Cash and short-term investments	951	157	—	1,108
Intercompany receivables	310	67	(377)	—
Trade and other receivables	332	—	—	332
Investments in unconsolidated affiliated companies	407	—	—	407
Investment in Financial Products	3,253	—	(3,253)	—
Deferred income taxes and prepaids	3,282	100	(340)	3,042
Intangible assets and other assets	1,692	—	—	1,692
Service center assets	892	—	—	892
Liabilities included in segment assets	1,242	14	—	1,256
Inventory methodology differences	(2,300)	—	—	(2,300)
Other	173	(101)	—	72
Total assets	$ 23,987	$ 27,052	$ (3,970)	$ 47,069
2004				
Total accountable assets from business segments	$ 12,848	$ 24,450	$ —	$ 37,298
Items not included in segment assets:				
Cash and short-term investments	270	175	—	445
Intercompany receivables	443	18	(461)	—
Trade and other receivables	547	—	—	547
Investments in unconsolidated affiliated companies	367	—	(1)	366
Investment in Financial Products	3,012	—	(3,012)	—
Deferred income taxes and prepaids	2,477	92	(317)	2,252
Intangible assets and other assets	2,158	—	—	2,158
Service center assets	890	—	—	890
Liabilities included in segment assets	1,346	—	—	1,346
Inventory methodology differences	(2,235)	—	—	(2,235)
Other	146	(123)	5	28
Total assets	$ 22,269	$ 24,612	$ (3,786)	$ 43,095

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2006	2005	2004
Machinery	**$26,062**	$22,931	$18,844
Engines	**12,807**	11,075	9,492
Financial Products	**2,648**	2,333	1,970
Total consolidated	**$41,517**	$36,339	$30,306

Information about Geographic Areas:

	External Sales & Revenues[1]			Net property, plant and equipment December 31,		
	2006	2005	2004	**2006**	2005	2004
Inside United States	**$ 19,636**	$ 17,348	$ 14,198	**$ 5,424**	$ 4,725	$ 4,424
Outside United States	**21,881**	18,991	16,108	**3,427[2]**	3,263[2]	3,258[2]
Total	**$ 41,517**	$ 36,339	$ 30,306	**$ 8,851**	$ 7,988	$ 7,682

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

[2] Amount includes $725 million, $692 million and $681 million of net property, plant and equipment located in the United Kingdom as of December 31, 2006, 2005 and 2004, respectively.

25. Alliances and Acquisitions

Large Components Business of Royal Oak Industries, Inc.

In August 2006, we acquired the large components business of Royal Oak Industries, Inc. (Royal Oak), a supplier to our engines business, for $97 million, consisting of $92 million at closing and $5 million plus accrued interest to be paid in 2009. The business acquired provides machining of engine cylinder blocks, heads, manifolds and bearing caps. This acquisition expands our machining operations in our engine manufacturing business.

The transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired of $58 million, consisting of property, plant and equipment, accounts receivable and inventory, were recorded at their fair values. No intangible assets were acquired. Goodwill of $39 million, deductible for income tax purposes, represents the excess of cost over the fair value of the acquired net tangible assets. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "Large Power Products" segment. Assuming this transaction had been made at January 1, 2006, the consolidated pro forma results for the year would not be materially different from reported results.

Progress Rail Services, Inc.

In June 2006, Caterpillar acquired 100 percent of the equity in Progress Rail Services, Inc. (Progress Rail) for approximately $1 billion, including the assumption of $200 million in debt. A privately held company based in Albertville, Alabama, Progress Rail is a leading provider of remanufactured locomotive, railcar and track products and services to the North American railroad industry. With 2005 sales of $1.2 billion, the company has one of the most extensive rail service and supply networks in North America. It operates more than 90 facilities in 29 states in the United States, Canada and Mexico, with about 3,700 employees. Expansion into the railroad aftermarket business is a strong fit with our strategic direction and will leverage Caterpillar's remanufacturing capabilities.

The transaction was financed with available cash and commercial paper borrowings of $427 million and Caterpillar stock of $379 million (5.3 million shares). Net tangible assets acquired, recorded at their fair values, primarily were inventories of $257 million, receivables of $169 million and property, plant and equipment of $260 million. Liabilities acquired, recorded at their fair values, primarily consisted of assumed debt of $200 million, accounts payable of $148 million and net deferred tax liabilities of $115 million. Finite-lived intangible assets acquired of $223 million related primarily to customer relationships are being amortized on a straight-line basis over 20 years. Goodwill of $431 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category. Assuming this transaction had been made at January 1, 2006, the consolidated pro forma results for the year would not be materially different from reported results.

Global Alliance with JLG Industries, Inc.

In November 2005, we entered into a global alliance agreement with JLG Industries, Inc. (JLG) to produce a full line of Caterpillar branded telehandlers. The alliance is a strategic fit for both companies and will give Caterpillar dealers and customers greater access to a quality range of Caterpillar branded telehandler products. Caterpillar will supply components to JLG and JLG will benefit by distributing through the Caterpillar dealer network and utilizing our parts distribution capabilities. Under the 20 year alliance agreement, telehandler production shifted from Caterpillar's manufacturing facility in Desford, United Kingdom to JLG's manufacturing facilities. In accordance with the alliance agreement, JLG paid Caterpillar $46 million at closing and $5 million in September 2006. The book value of assets acquired by JLG was $10 million. The resulting $41 million gain was deferred and is being recognized over the alliance agreement.

As part of the telehandler production shift, Caterpillar's Building Construction Products Division, part of Caterpillar's "All Other" category, began a strategic restructuring to better position its European manufacturing operations. This restructuring resulted in approximately $8 million in severance costs, charged to "Other operating expenses" in Statement 1. The severance costs relate to approximately 400 voluntary and involuntary employee separations.

Williams Technologies, Inc.

In September 2004, we acquired Williams Technologies, Inc., a wholly owned subsidiary of Remy International, Inc., for $105 million. Williams Technologies, Inc. is a leading remanufacturer of automatic transmissions, torque converters and engines for automotive and medium and heavy-duty truck applications. This acquisition represents an expansion of our remanufacturing operations into the automotive powertrain remanufacturing business.

The transaction was financed with available cash and commercial paper borrowings. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category. Net tangible assets acquired and liabilities assumed of $25 million were recorded at their fair values. Finite-lived intangible assets acquired of $43 million relate primarily to customer relationships, and are being amortized on a straight-line basis over 20 years. Goodwill of $37 million represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. Assuming this transaction had been made at January 1, 2004, the consolidated pro forma results for the year would not be materially different from reported results.

Parts and Accessories Distribution Business of MG Rover Ltd.

In August 2004, we acquired the global parts and accessories business of U.K. auto manufacturer MG Rover, a wholly owned subsidiary of Phoenix Venture Holdings Limited, for $178 million, including $169 million at closing and a $9 million promissory note. The business acquired includes the sourcing, marketing, distribution and sale of automotive service parts and accessories to MG Rover dealers, distributors, importers and other related customers worldwide.

The transaction was financed with available cash and commercial paper borrowings. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category. Net tangible assets acquired and liabilities assumed of $73 million were recorded at their fair values. Finite-lived intangible assets acquired of $87 million relate primarily to technology and trademark rights, which are being amortized on a straight-line basis over 8 years. Goodwill of $18 million represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. During the first quarter of 2006, we determined that the business outlook for the parts and accessories distribution business of MG Rover required a specific impairment evaluation, which resulted in a goodwill impairment charge of $18 million (see Note 12 for additional information). Assuming this transaction had been made at January 1, 2004, the consolidated pro forma results for the year would not be materially different from reported results.

Turbomach S.A.

In June 2004, we acquired Turbomach S.A. from Borsig Energy Gmbh for $41 million. Turbomach S.A. is a Swiss corporation that has packaged, distributed and provided aftermarket services for Solar brand gas turbine engines since 1985 for the industrial power generation market. Turbomach also provides integrated systems for power projects, including balance of plant design, procurement and site construction. The acquisition expands our participation within the global power generation market, particularly in the expanding markets of Europe, Africa and Asia.

The transaction was financed with available cash and commercial paper borrowings. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category. Net tangible assets acquired and liabilities assumed of $41 million were recorded at their fair values. No significant intangible assets were acquired. Assuming this transaction had been made at January 1, 2004, the consolidated pro forma results for the year would not be materially different from reported results.

26. Selected quarterly financial results (unaudited)

(Dollars in millions except per share data)	2006 Quarter 1st	2nd	3rd	4th
Sales and revenues	**$ 9,392**	**$ 10,605**	**$ 10,517**	**$ 11,003**
Less: Revenues	**649**	**649**	**675**	**675**
Sales	**8,743**	**9,956**	**9,842**	**10,328**
Cost of goods sold	**6,552**	**7,416**	**7,610**	**7,971**
Gross margin	**2,191**	**2,540**	**2,232**	**2,357**
Profit	**$ 840**	**$ 1,046**	**$ 769**	**$ 882**
Profit per common share	**$ 1.25**	**$ 1.58**	**$ 1.18**	**$ 1.36**
Profit per common share — diluted	**$ 1.20**	**$ 1.52**	**$ 1.14**	**$ 1.32**

(Dollars in millions except per share data)	2005 Quarter 1st	2nd	3rd	4th
Sales and revenues	$ 8,339	$ 9,360	$ 8,977	$ 9,663
Less: Revenues	550	576	585	622
Sales	7,789	8,784	8,392	9,041
Cost of goods sold	6,215	6,890	6,547	6,906
Gross margin	1,574	1,894	1,845	2,135
Profit	$ 581	$ 760	$ 667	$ 846
Profit per common share	$ 0.85	$ 1.12	$ 0.98	$ 1.26
Profit per common share — diluted	$ 0.81	$ 1.08	$ 0.94	$ 1.20

27. Subsequent event

Shin Caterpillar Mitsubishi Ltd. (SCM)

On February 15, 2007, we signed a nonbinding memorandum of understanding with Mitsubishi Heavy Industries Ltd. (MHI) and SCM to conclude a plan that would result in a new ownership structure for SCM. The companies are in discussions with the intention of reaching definitive agreements for the plan where we would own the majority of the outstanding shares of SCM, with MHI owning the remaining shares. In conjunction with the plan, we agreed to discuss with MHI the creation of a new comprehensive joint venture agreement as well as certain definitive agreements for implementation of the plan. These definitive agreements would be subject to applicable regulatory approvals.

Acquisition of Franklin Power Products

On February 5, 2007, we acquired certain assets and assumed certain liabilities of Franklin Power Products, Inc. (FPP) and International Fuel Systems, Inc. (IFS), subsidiaries of Remy International. FPP is a remanufacturer of on-highway light and medium duty truck diesel engines and engine components. IFS provides remanufactured diesel engine components such as high-pressure fuel pumps, fuel injectors and turbochargers. The aggregate purchase price is approximately $150 million, financed with available cash and short-term borrowings. This acquisition represents a strategic expansion of our engine and engine component remanufacturing operations. We are in the process of obtaining third-party valuations of certain tangible and intangible assets, thus the allocation of the purchase price to the acquired assets and liabilities will be completed in the first quarter of 2007.

Five-year Financial Summary

(Dollars in millions except per share data)

Caterpillar Inc.

Years ended December 31,	**2006**	2005	2004[4]	2003[4]	2002[4]
Sales and revenues	**$41,517**	36,339	30,306	22,807	20,185
Sales	**$38,869**	34,006	28,336	21,048	18,648
Percent inside the United States	**46%**	47%	46%	44%	45%
Percent outside the United States	**54%**	53%	54%	56%	55%
Revenues	**$ 2,648**	2,333	1,970	1,759	1,537
Profit[6]	**$ 3,537**	2,854	2,035	1,099	798
Profit per common share[1][6]	**$ 5.37**	4.21	2.97	1.59	1.16
Profit per common share — diluted[2][6]	**$ 5.17**	4.04	2.88	1.56	1.15
Dividends declared per share of common stock	**$ 1.150**	0.955	0.800	0.720	0.700
Return on average common stockholders' equity[3][5]	**46.3%**	35.9%	30.0%	19.0%	14.4%
Capital expenditures:					
Property, plant and equipment	**$ 1,593**	1,201	926	682	728
Equipment leased to others	**$ 1,082**	1,214	1,188	1,083	1,045
Depreciation and amortization	**$ 1,602**	1,477	1,397	1,347	1,220
Research and development expenses	**$ 1,347**	1,084	928	669	656
As a percent of sales and revenues	**3.2%**	3.0%	3.1%	2.9%	3.3%
Wages, salaries and employee benefits	**$ 7,512**	6,928	6,025	4,980	4,360
Average number of employees	**90,160**	81,673	73,033	67,828	70,973
December 31,					
Total assets[5]	**$50,879**	47,069	43,095	36,711	32,705
Long-term debt due after one year:					
Consolidated	**$17,680**	15,677	15,837	14,546	11,774
Machinery and Engines	**$ 3,694**	2,717	3,663	3,603	3,581
Financial Products	**$13,986**	12,960	12,174	10,943	8,193
Total debt:					
Consolidated	**$27,296**	25,745	23,525	20,284	17,861
Machinery and Engines	**$ 4,277**	3,928	3,762	3,707	3,903
Financial Products	**$23,019**	21,817	19,763	16,577	13,958

(1) Computed on weighted-average number of shares outstanding.

(2) Computed on weighted-average number of shares outstanding diluted by assumed exercise of stock options and SARs, using the treasury stock method.

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

(4) The per share data reflects the 2005 2-for-1 stock split.

(5) As discussed in Note 1L, in 2006 we changed the manner in which we account for postemployment benefits upon the adoption of SFAS 158.

(6) As discussed in Note 1L, in 2006 we changed the manner in which we account for stock-based compensation upon the adoption of SFAS 123R.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

2006 marked a fourth straight year of double-digit profit growth and the third consecutive year of record sales and profit. We reported sales and revenues of $41.517 billion and profit of $3.537 billion, or $5.17 per share, up 28 percent from a year ago. We also reported a record fourth quarter with sales and revenues of $11.003 billion and profit of $882 million, or $1.32 per share, up 10 percent from last year.

2006 was an extraordinary year for Caterpillar. It was the best ever in terms of top-line sales and revenues and profit. The commitment of our employees, dealers and suppliers allowed us to achieve these financial results.

For the year, sales and revenues increased $5.178 billion — $3.321 billion from higher ***sales volume***, $1.464 billion from improved ***price realization***, $315 million from higher ***Financial Products*** revenues and $78 million from the effects of ***currency***.

2006 profit increased $683 million from 2005. The increase was largely due to improved price realization and higher sales volume, partially offset by higher ***core operating costs***.

For the fourth quarter, sales and revenues increased $1.340 billion — $951 million from higher sales volume, $190 million from improved price realization, $146 million from the effects of currency and $53 million from higher Financial Products revenues.

Fourth-quarter profit increased $36 million from 2005. The increase was due to improved price realization and higher sales volume despite an unfavorable geographic/product mix of sales and was largely offset by higher core operating costs.

What we were able to accomplish in 2006 is a reflection of the diversity of the industries we serve, the global need for our products and services and the strength of our partnership with our dealers and suppliers. We took advantage of our financial success — including strong cash flow — to fund growth in capacity, continue aggressive new product development, complete the strategic acquisition of Progress Rail, increase the dividend rate by 20 percent and buy back more than $3 billion in stock. These actions will deliver long-term benefits for our customers, employees and stockholders.

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 24, 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 24 and Table V on pages A-32 to A-36 (see "Reconciliation of ***Machinery and Engines*** Sales by Geographic Region to External Sales by Marketing Segment" on page A-41). Our discussions will focus on consolidated results and our three principal lines of business, ***Machinery, Engines*** and Financial Products.

*Glossary of terms included on pages A-53 to A-54; first occurrence of terms shown in bold italics.

2006 COMPARED WITH 2005

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
2006										
Machinery	**$26,062**	**14%**	**$14,215**	**11%**	**$ 6,223**	**19%**	**$ 2,544**	**28%**	**$ 3,080**	**6%**
Engines[1]	**12,807**	**16%**	**5,940**	**22%**	**4,064**	**11%**	**1,102**	**8%**	**1,701**	**13%**
Financial Products[2]	**2,648**	**14%**	**1,852**	**12%**	**377**	**11%**	**195**	**32%**	**224**	**21%**
	$41,517	**14%**	**$22,007**	**14%**	**$10,664**	**16%**	**$ 3,841**	**22%**	**$ 5,005**	**9%**
2005										
Machinery	$22,931		$12,822		$ 5,222		$ 1,982		$ 2,905	
Engines[1]	11,075		4,887		3,658		1,022		1,508	
Financial Products[2]	2,333		1,659		341		148		185	
	$36,339		$19,368		$ 9,221		$ 3,152		$ 4,598	

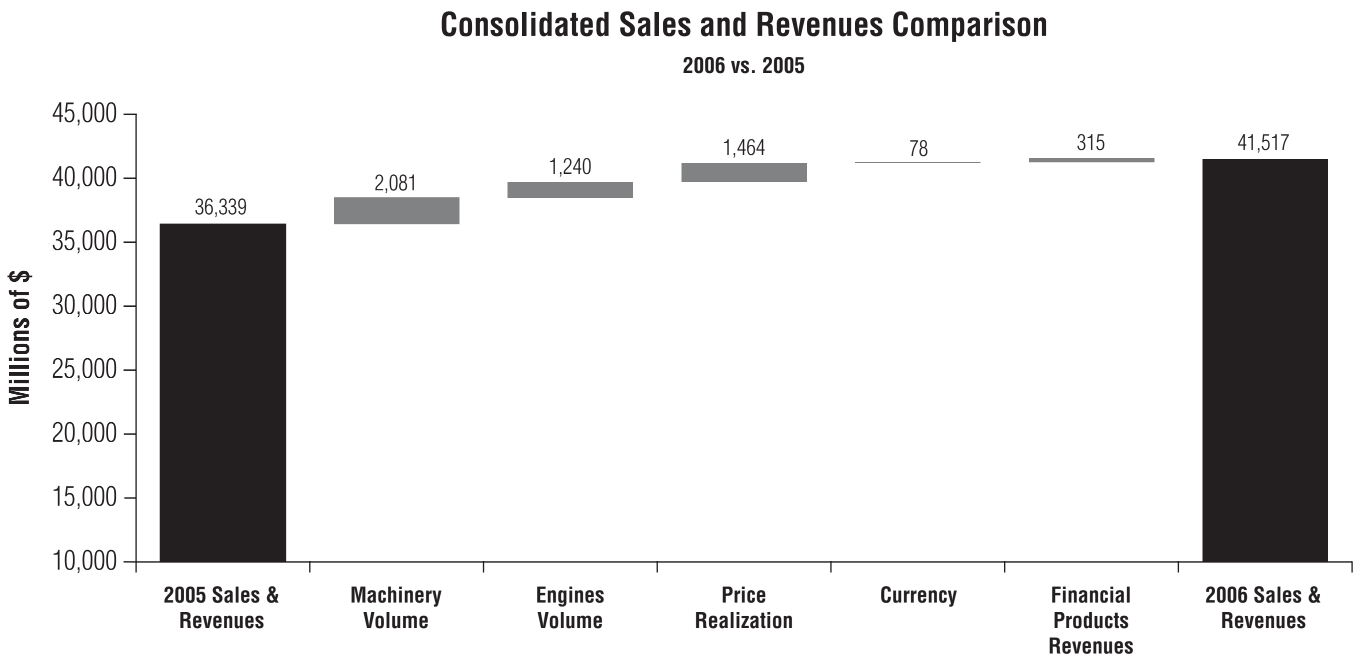
[1] Does not include internal engine transfers of $2,310 million and $2,065 million in 2006 and 2005, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.
[2] Does not include revenues earned from Machinery and Engines of $466 million and $317 million in 2006 and 2005, respectively.

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

(Millions of dollars)	**2006**	2005	2004
North America Geographic Region	**$ 20,155**	$ 17,709	$ 14,521
Sales included in the Power Systems Marketing segment	**(4,040)**	(3,431)	(2,896)
Sales included in the Electric Power segment	**(746)**	(603)	(499)
Company owned dealer sales included in the All Other category	**(816)**	(878)	(766)
Other[1]	**(2,752)**	(1,809)	(1,479)
North America Marketing external sales	**$ 11,801**	$ 10,988	$ 8,881
EAME Geographic Region	**$ 10,287**	$ 8,860	$ 7,505
Sales included in the Power Systems Marketing segment	**(761)**	(652)	(538)
Sales included in the Electric Power segment	**(1,314)**	(1,104)	(910)
Other[1]	**(2,930)**	(2,707)	(2,209)
EAME Marketing external sales	**$ 5,282**	$ 4,397	$ 3,848
Latin America Geographic Region	**$ 3,646**	$ 3,024	$ 2,372
Sales included in the Power Systems Marketing segment	**(195)**	(145)	(153)
Sales included in the Electric Power segment	**(59)**	(25)	(19)
Other[1]	**(596)**	(579)	(472)
Latin America Marketing external sales	**$ 2,796**	$ 2,275	$ 1,728
Asia/Pacific Geographic Region	**$ 4,781**	$ 4,413	$ 3,938
Sales included in the Power Systems Marketing segment	**(568)**	(468)	(366)
Sales included in the Electric Power segment	**(450)**	(404)	(336)
Other[1]	**(1,080)**	(1,079)	(1,131)
Asia/Pacific Marketing external sales	**$ 2,683**	$ 2,462	$ 2,105

[1] Mostly represents external sales of the All Other category.

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2005 (at left) and 2006 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. The bar entitled Machinery Volume includes Progress Rail sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for 2006 were $41.517 billion, up $5.178 billion, or 14 percent, from 2005. Machinery volume was up $2.081 billion, Engines volume was up $1.240 billion, price realization improved $1.464 billion and Financial Products revenues increased $315 million. In addition, currency had a positive impact on sales of $78 million.

Machinery Sales

Sales of $26.062 billion were an increase of $3.131 billion, or 14 percent, from 2005.

- Sales volume increased $2.081 billion and increased in all geographic regions.
- Price realization increased $996 million.
- Currency benefited sales by $54 million.
- The acquisition of Progress Rail added $766 million to sales volume in North America. Excluding Progress Rail, North America experienced stronger growth in the first half, which was partially offset by the effects of higher interest rates and lower housing starts that caused sales volume to weaken during the second half of the year.
- Outside North America, economic conditions improved as Europe turned in its best economic growth since 2000. Construction and mining were strong in all regions.
- Dealers increased inventories in 2006, although at a slower rate than in 2005, to support higher deliveries. Dealer inventories in months of supply were about even with 2005.

North America — Sales increased $1.393 billion, or 11 percent.

- Sales volume increased $771 million, primarily due to Progress Rail.
- Price realization increased $622 million.
- Housing starts in the United States dropped sharply in the second half, causing lower sales of machines used in that sector. While lower mortgage rates revived new home sales late in the year, builders continued to cut starts in order to reduce inventories of unsold homes.
- The significant increase in short-term interest rates over the past two years somewhat reduced the incentives for users to replace machines currently operating in their fleets. As a result, trends in dealer deliveries moderated in some still-growing applications such as nonresidential construction. Dealers also added fewer machines to rental fleets. Those developments were more pronounced in the second half.
- Coal mines increased production to a record high in the second quarter but reduced output in the second half of the year. Electric utilities cut coal consumption, and coal stocks increased to cause a decline in spot prices. Lower coal prices and some reported delays in securing mine permits caused a decline in dealer-reported deliveries to coal mines.
- Metals mines increased exploration spending 38 percent in 2006 in response to favorable metals prices, and highway contracts awarded, net of inflation, increased 7 percent. As a result, dealer-reported deliveries of machines in metal mining and highway applications increased.
- Dealer-reported inventories declined slightly in the last half of 2006, reversing the pattern of the past three years. However, dealer inventories in months of supply ended the year higher than at the end of 2005.

EAME — Sales increased $1.001 billion, or 19 percent.

- Sales volume increased $884 million.
- Price realization increased $102 million.
- Currency benefited sales by $15 million.
- Volume improved in Europe, Africa/Middle East and the Commonwealth of Independent States (CIS). Dealers reported higher deliveries and increased their inventories to support that growth. Reported inventories in months of supply were lower than at the end of 2005.
- Sales in the CIS increased for the sixth consecutive year, reaching a record high.
- Sales in Europe benefited from better economic growth in the Euro-zone economies and a recovery in construction. Higher home prices and readily available credit led to an increase in building permits. Sales increased in the central European countries in response to rapid growth in construction.
- Sales increased significantly in Africa/Middle East for the third consecutive year. High energy and metals prices have driven increased investment in those industries and contributed to construction booms. Construction increased more than 10 percent in both Turkey and South Africa.

Latin America — Sales increased $562 million, or 28 percent.

- Sales volume increased $365 million.
- Price realization increased $165 million.
- Currency benefited sales by $32 million.
- Dealers reported higher deliveries to end users and increased inventories to support that growth. Reported inventories in months of supply were lower than a year earlier.
- Sales increased in most countries in the region, the result of higher commodity prices, increased mine production and rapid growth in construction.
- Interest rates in Brazil declined 475 basis points during the year, reaching the lowest levels in at least 20 years. Lower rates helped improve the economy, leading to an increase in sales.

Asia/Pacific — Sales increased $175 million, or 6 percent.

- Sales volume increased $61 million.
- Price realization increased $107 million.
- Currency benefited sales by $7 million.
- Dealers reported increased deliveries but reduced their inventories. As a result, inventories in months of supply were well below a year earlier.
- The largest sales gain occurred in China, the result of significant increases in construction and mining.
- Sales also increased sharply in Australia, benefiting from an increase in construction spending. While mine production declined, exploration expenditures increased 26 percent.
- Sales in India continued to grow for the fifth consecutive year due to increases in construction and mining.
- Sales in Indonesia were down significantly in 2006, although the rate of decline diminished as the year progressed.

Engines Sales

Sales of $12.807 billion were an increase of $1.732 billion, or 16 percent, from 2005.

- Sales volume increased $1.240 billion.

- Price realization increased $468 million.
- Currency impact benefited sales by $24 million.
- Worldwide, and for most geographic regions and industries, dealer-reported inventories were up. Inventories in months of supply decreased slightly.
- Sales benefited particularly from widespread strength in petroleum applications for reciprocating engines, turbines and turbine-related services as strong demand and limited reserve capacity drove continued industry investment.

North America — Sales increased $1.053 billion, or 22 percent.

- Sales volume increased $841 million.
- Price realization increased $212 million.
- Sales for petroleum applications increased 44 percent with continued strong demand for reciprocating engines for drilling and compression as well as turbines and turbine-related services for pipelines.
- Sales for on-highway truck applications increased 16 percent as industry demand strengthened in advance of the 2007 emissions change.
- Sales for electric power applications increased 13 percent supported by technology applications and nonresidential construction.
- Sales for industrial applications increased 22 percent with widespread strong demand for various types of industrial Original Equipment Manufacturer (OEM) equipment.
- Sales for marine applications remained about flat with increased workboat sales mostly offset by reduced pleasure craft demand.

EAME — Sales increased $406 million, or 11 percent.

- Sales volume increased $237 million.
- Price realization increased $149 million.
- Currency impact benefited sales by $20 million.
- Sales for electric power applications increased 8 percent supported by developing region demand from high commodity prices.
- Sales for marine applications increased 21 percent with continued strength in shipbuilding.
- Sales for petroleum applications increased 16 percent, primarily from turbine demand for oil production and gas transmission.
- Sales for industrial applications remained about flat.

Latin America — Sales increased $80 million, or 8 percent.

- Sales volume increased $46 million.
- Price realization increased $34 million.
- Sales for electric power engines increased 25 percent from growth in commercial development and increased investment in standby generator sets to support business operations.
- Sales for petroleum engines declined 10 percent with all of the decline driven by nonrecurring projects to support increased oil production.
- Sales for industrial engines increased 55 percent with increased demand for agricultural equipment.
- Sales for on-highway truck engines increased 30 percent with continued increased demand for trucks and strong market acceptance of Caterpillar engines.
- Sales for marine engines increased 50 percent from ongoing strength in workboat demand.

Asia/Pacific — Sales increased $193 million, or 13 percent.

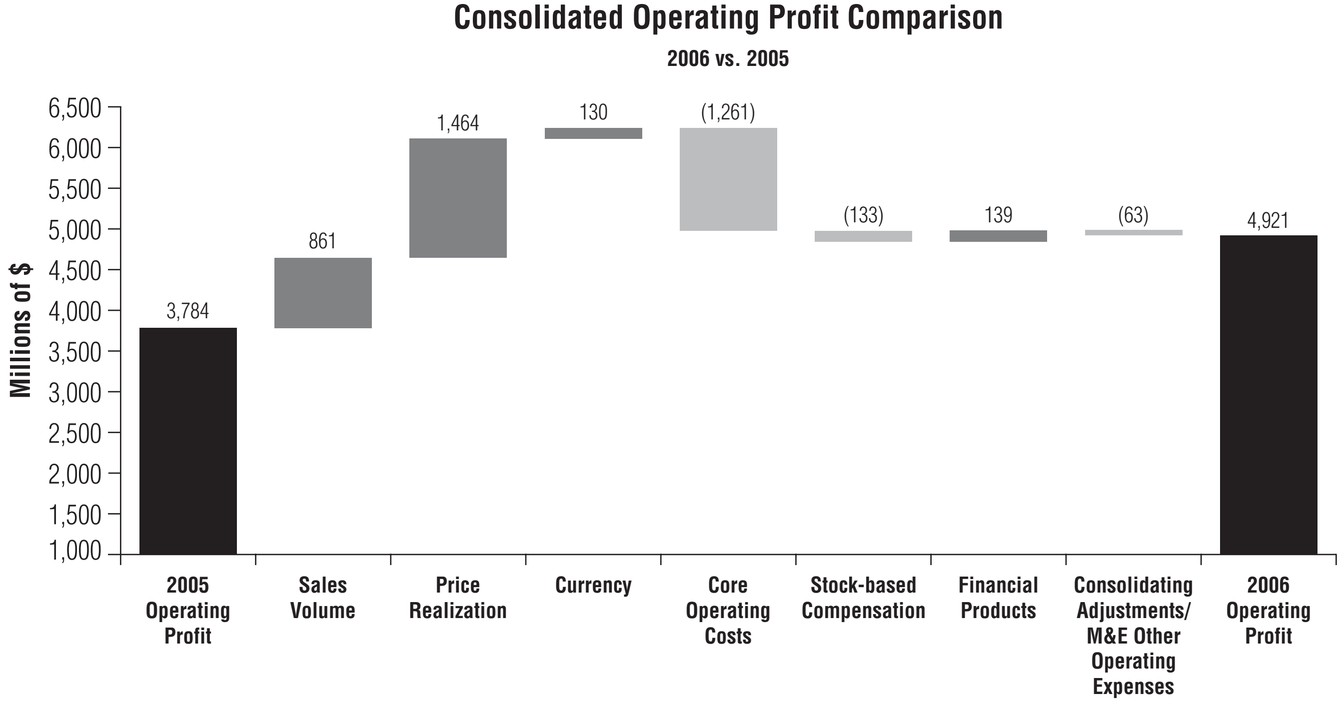
- Sales volume increased $116 million.
- Price realization increased $73 million.
- Currency impact benefited sales by $4 million.
- Sales for petroleum applications increased 22 percent with continued growth in demand for drill rigs as well as turbines and turbine-related services in Southeast Asia.
- Sales for electric power applications increased 10 percent from demand for manufacturing support.
- Sales for marine applications increased 15 percent with continued growth in demand for oceangoing and workboat vessels.
- Sales for industrial applications increased 6 percent with increased demand for various types of industrial OEM equipment.

Financial Products

Revenues of $2.648 billion were an increase of $315 million, or 14 percent, from 2005.

- Growth in average ***earning assets*** increased revenues $178 million.
- The impact of higher interest rates on new and existing finance receivables at Cat Financial added $123 million.
- There was a $14 million increase in other revenues, primarily due to an increase in earned premiums at Cat Insurance.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2005 (at left) and 2006 (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 parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar entitled Consolidating Adjustments/***M&E Other Operating Expense*** includes the operating profit impact of Progress Rail.

Operating Profit

Operating profit in 2006 improved $1.137 billion, or 30 percent from last year, driven by higher price realization and sales volume, partially offset by higher core operating costs.

Core operating costs rose $1.261 billion from 2005. Of this increase, $650 million was attributable to higher ***manufacturing costs***. Manufacturing costs include both period and variable costs associated with building our products. The increase in manufacturing costs was split about evenly between ***period costs*** and variable costs. The increase in period manufacturing costs was primarily attributable to costs to support increased volume. This includes capacity increases, machine tool repair and maintenance, facility support and growth of our Logistics business. The increase in variable manufacturing costs was due to variable inefficiencies and higher material costs. Non-manufacturing core operating costs were up $611 million as a result of higher Selling, General and Administrative (SG&A) and Research and Development (R&D) expenses to support significant new product programs as well as order fulfillment/velocity initiatives. 2006 SG&A expense includes approximately $70 million related to a settlement of various legal disputes with Navistar.

Operating Profit by Principal Line of Business

(Millions of dollars)	**2006**	2005	Change $	Change %
Machinery[(1)]	**$ 3,027**	$ 2,431	$ 596	25%
Engines[(1)]	**1,630**	1,071	559	52%
Financial Products	**670**	531	139	26%
Consolidating Adjustments	**(406)**	(249)	(157)	
Consolidated Operating Profit	**$ 4,921**	$ 3,784	$ 1,137	30%

[(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 of $3.027 billion was up $596 million, or 25 percent, from 2005. The favorable impact of improved price realization and higher sales volume was largely offset by higher core operating costs.
- **Engines** operating profit of $1.630 billion was up $559 million, or 52 percent, from 2005. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs, which included expense related to a settlement of various legal disputes with Navistar.
- **Financial Products** operating profit of $670 million was up $139 million, or 26 percent, from 2005. The increase was primarily due to $86 million from continued growth of average earning assets and a $77 million impact from improved net yield on average earning assets at Cat Financial.

OTHER PROFIT/LOSS ITEMS

- **Other income/expense** was income of $214 million compared with income of $377 million in 2005. The decrease was primarily due to the unfavorable impact of currency.
- **The provision for income taxes** in 2006 reflects an annual tax rate of 29 percent compared to 29.5 percent in 2005 (excluding discrete items discussed below). The decrease is primarily due to a change in our geographic mix of profits and increased benefits recognized for the research and development credit and domestic production activities deduction more than offsetting the impact of the phase-out provision of the American Jobs Creation Act permitting only 60 percent of Extraterritorial Income Exclusion (ETI) benefits in 2006.

  The provision for income taxes for 2006 also includes a discrete benefit of $5 million for net changes in tax reserves. Favorable settlement of a non-U.S. tax issue resulted in a $25 million decrease in reserves. This was partially offset by a $20 million increase in tax reserves for an expected IRS assessment, related to transfer pricing adjustments for tax years 1992 to 1994, which we plan to continue to dispute. The provision for income taxes for 2005 included a $31 million discrete benefit.

Supplemental Information

(Millions of dollars)	**2006**	2005	2004
Identifiable Assets:			
Machinery	**$ 16,364**	$ 14,877	$ 13,717
Engines	**10,061**	9,110	8,552
Financial Products	**28,593**	27,052	24,612
Consolidating Adjustments	**(4,139)**	(3,970)	(3,786)
Total	**$ 50,879**	$ 47,069	$ 43,095
Capital Expenditures:			
Machinery	**$ 906**	$ 685	$ 546
Engines	**617**	426	297
Financial Products	**1,152**	1,304	1,271
Total	**$ 2,675**	$ 2,415	$ 2,114
Depreciation and Amortization:			
Machinery	**$ 550**	$ 476	$ 442
Engines	**393**	359	353
Financial Products	**659**	642	602
Total	**$ 1,602**	$ 1,477	$ 1,397

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

Stock-Based Compensation

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS 123R) using the modified prospective transition method. The modified prospective transition method requires compensation expense to be recognized in the financial statements for all awards granted after the date of adoption as well as for the unvested portion of previously granted awards outstanding as of the date of adoption. Prior to the date of adoption of SFAS 123R, we used the intrinsic-value based method, as described in Accounting Principles Board No. 25, to account for stock options and no compensation expense was recognized in association with our stock awards. Pro forma profit and profit per share as if we had applied the fair value method were previously disclosed in the footnotes in accordance with SFAS 148, "Accounting for Stock-Based Compensation — Transition and Disclosures."

In anticipation of the adoption of SFAS 123R, we did not modify the terms of any previously granted options. Our stock incentive plans provide for the granting of nonqualified options and stock-settled stock appreciation rights (SARs) to officers, directors and key employees of the company. Options granted prior to 2004 vested at the rate of one-third per year over the three-year period following the date of grant. In anticipation of delaying vesting until three years after the grant date for future grants, the 2004 grant was vested on December 31, 2004. In order to better align our employee stock option program with the overall market, the number of options granted in 2005 was significantly reduced from the previous year. In response to this decrease, we elected to immediately vest the 2005 grant. To further align our stock award program with the overall market, we adjusted our 2006 grant by reducing the overall number of employee awards granted in the first quarter of 2006 and utilizing a mix of SARs and option awards. The 2006 grant is generally exercisable three years after the date of grant. At grant, all awards have a term life of ten years. Upon retirement, the term life is reduced to a maximum of five remaining years.

We use a lattice-based option-pricing model to estimate the fair value of options and SARs granted. The adoption of SFAS 123R reduced operating profit for the year ended December 31, 2006 by $137 million and reduced profit after-tax by $92 million ($.14 per share basic and $.09 per share diluted). At December 31, 2006, $102 million of expense with respect to unvested stock-based awards has yet to be recognized and will be expensed over a weighted-average period of approximately 2.2 years.

As a result of our vesting decisions discussed above, a full complement of expense related to stock-based compensation will not be recognized in our results of operations until 2009. Based on the same assumptions used to value our 2006 compensation expense, we estimate our pretax expense associated with our stock-based compensation plans will range from approximately $170 million in 2007 to approximately $220 million in 2009.

Progress Rail Services, Inc.

On June 19, 2006, Caterpillar acquired 100 percent of the equity in Progress Rail Services, Inc. (Progress Rail) for approximately $1 billion, including the assumption of $200 million in debt. A privately held company based in Albertville, Alabama, Progress Rail is a leading provider of remanufactured locomotive, railcar and track products and services to the North American railroad industry. With 2005 sales of $1.2 billion, the company has one of the most extensive rail service and supply networks in North America. It operates more than 90 facilities in 29 states in the United States, Canada and Mexico, with about 3,700 employees. Expansion into the railroad aftermarket business is a strong fit with our strategic direction and will leverage Caterpillar's remanufacturing capabilities.

The transaction was financed with available cash and commercial paper borrowings of $427 million and Caterpillar stock of $379 million (5.3 million shares). Net tangible assets acquired, recorded at their fair values, primarily were inventories of $257 million, receivables of $169 million and property, plant and equipment of $260 million. Liabilities acquired, recorded at their fair values, primarily consisted of assumed debt of $200 million, accounts payable of $148 million and net deferred tax liabilities of $115 million. Finite-lived intangible assets acquired of $223 million related primarily to customer relationships are being amortized on a straight-line basis over 20 years. Goodwill of $431 million, non-deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category. Assuming this transaction had been made at January 1, 2006, the consolidated pro forma results would not be materially different from reported results.

FOURTH QUARTER 2006 COMPARED WITH FOURTH QUARTER 2005

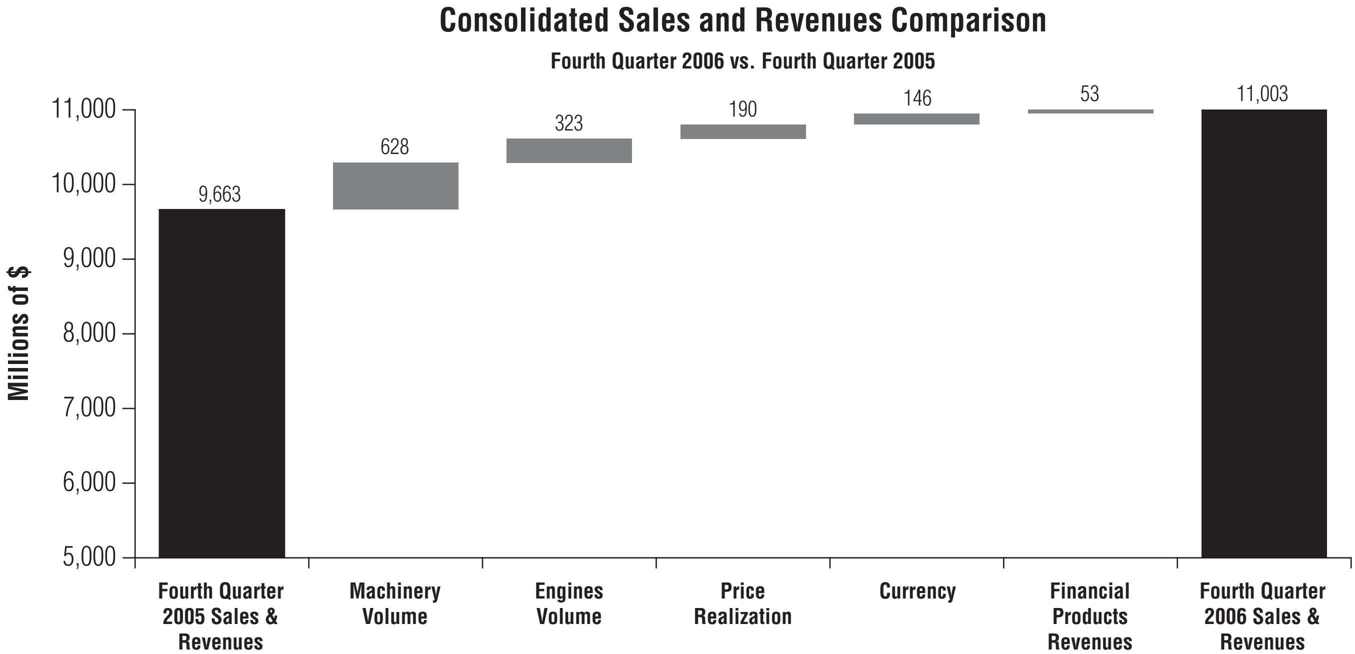
Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
Fourth Quarter 2006										
Machinery	**$ 6,603**	**13%**	**$ 3,353**	**(1)%**	**$ 1,753**	**42%**	**$ 645**	**39 %**	**$ 852**	**9%**
Engines[1]	**3,725**	**17%**	**1,650**	**42 %**	**1,193**	**4%**	**384**	**(1)%**	**498**	**3%**
Financial Products[2]	**675**	**9%**	**468**	**5 %**	**97**	**14%**	**53**	**23 %**	**57**	**21%**
	$11,003	**14%**	**$ 5,471**	**10 %**	**$ 3,043**	**23%**	**$ 1,082**	**21 %**	**$ 1,407**	**7%**
Fourth Quarter 2005										
Machinery	$ 5,857		$ 3,375		$ 1,238		$ 465		$ 779	
Engines[1]	3,184		1,162		1,150		387		485	
Financial Products[2]	622		447		85		43		47	
	$ 9,663		$ 4,984		$ 2,473		$ 895		$ 1,311	

(1) Does not include internal engine transfers of $577 million and $512 million in fourth quarter 2006 and 2005, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

(2) Does not include revenues earned from Machinery and Engines of $124 million and $93 million in fourth quarter 2006 and 2005, respectively.

SALES AND REVENUES



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Sales and revenues for fourth quarter 2006 were $11.003 billion, up $1.340 billion, or 14 percent, from fourth quarter 2005. Machinery volume was up $628 million, Engines volume was up $323 million, price realization improved $190 million and currency had a positive impact on sales of $146 million. In addition, Financial Products revenues increased $53 million.

Machinery Sales

Sales of $6.603 billion were an increase of $746 million, or 13 percent, from fourth quarter 2005.

- Sales volume increased $628 million, of which $328 million was from the acquisition of Progress Rail.
- Price realization increased $30 million.
- Currency benefited sales $88 million.
- Sales volume declined in North America and increased outside North America.
- The decline in North America resulted from lower reported dealer deliveries into most construction applications and a much smaller inventory build than in 2005.
- Sales volume growth in EAME more than offset the decline in North America. The Euro-zone economic recovery and continuing economic booms in both Africa/Middle East and the CIS led to significant sales growth in all three regions.
- Sales volume increased in both Latin America and Asia/Pacific, the result of good growth in both construction and mining.
- Dealer reported inventories in months of supply were about even with fourth quarter 2005.

North America — Sales decreased $22 million, or 1 percent.

- Sales volume decreased $26 million.
- Price realization increased $4 million.
- The acquisition of Progress Rail added $328 million in sales volume.
- Lower machine volume resulted from a decline in dealer-reported deliveries to end users, a much lower dealer inventory build than 2005 and some shipment delays associated with new product introductions.
- Fourth-quarter housing starts in the United States were 24 percent lower than fourth quarter 2005, which caused significant declines in sales of machines used in housing construction.
- Interest rates averaged higher than 2005, which reduced incentives for users to replace machines. Dealers also added fewer machines to rental fleets.
- A sharp drop in spot coal prices and slower growth in mine production caused coal mining companies to cut back on machine purchases.
- Metals mining remained a source of strength, the combination of sharply higher metals prices and increased investment in the United States. Metals mining also rebounded in Canada in the fourth quarter.
- Inventories in months of supply ended the year higher than a year earlier.

EAME — Sales increased $515 million, or 42 percent.

- Sales volume increased $432 million.
- Price realization increased $6 million.

- Currency benefited sales by $77 million.
- Sales volume gains occurred in Europe, Africa/Middle East and the CIS. Dealers reported higher deliveries to end users and increased their inventories to support that growth. Reported inventories in months of supply were lower than at the end of 2005.
- Construction activity in Europe increased about 5 percent, the result of better economic growth, higher home prices, increased office rents and favorable financing conditions. Good sales growth occurred in most countries.
- Africa/Middle East is experiencing the best economic growth since the early 1970s. High oil prices have led to construction booms in the Middle East, and African countries are benefiting from increased commodity prices, growth in exports and more capital inflows.
- Sales nearly doubled in the CIS. Russia is now the world's largest oil producer and has also increased production of metals.

Latin America — Sales increased $180 million, or 39 percent.

- Sales volume increased $165 million.
- Price realization increased $13 million.
- Currency benefited sales by $2 million.
- Most economies were healthy as the year ended, the result of high commodity prices, increased exports and large foreign exchange reserves.
- Sales volume growth in the quarter resulted from a large increase in dealer-reported inventories. Much of that increase was in larger machines, which are not typically inventoried, and reflects the transit time needed to move machines to customers. However, inventories in months of supply were lower than a year earlier.

Asia/Pacific — Sales increased $73 million, or 9 percent.

- Sales volume increased $57 million.
- Price realization increased $7 million.
- Currency benefited sales by $9 million.
- Sales volume growth resulted largely from a surge in dealer-reported deliveries in the quarter. Robust growth continued in Australia, China and India, and activity in Indonesia rebounded.
- Rapid economic growth boosted construction, and mining benefited from higher coal and metals prices.

Engines Sales

Sales of $3.725 billion were an increase of $541 million, or 17 percent, from fourth quarter 2005.

- Sales volume increased $323 million.
- Price realization increased $160 million.
- Currency benefited sales by $58 million.
- Worldwide, and for most geographic regions and industries, dealer-reported inventories were up. Inventories in months of supply decreased slightly.

North America — Sales increased $488 million, or 42 percent.

- Sales volume increased $411 million.
- Price realization increased $77 million.
- Sales for on-highway truck applications increased 48 percent as industry demand strengthened in advance of the 2007 emissions changes.
- Sales for petroleum applications increased 30 percent with continued strong demand for reciprocating engines for drilling, compression and well servicing and turbines and turbine-related services for pipelines.
- Sales for electric power applications increased 39 percent supported by technology applications and nonresidential construction.
- Sales for industrial applications increased 29 percent with widespread strong demand for various types of industrial OEM equipment.
- Sales for marine applications declined 6 percent due to reduced sales into pleasure craft applications.

EAME — Sales increased $43 million, or 4 percent.

- Sales volume decreased $52 million.
- Price realization increased $47 million.
- Currency benefited sales by $48 million.
- Sales for petroleum applications increased 22 percent, primarily from demand for turbines and turbine-related services in oil production and gas transmission applications.
- Sales for marine applications increased 30 percent with continued strength in shipbuilding.
- Sales for electric power applications declined 6 percent with lower demand for power plants.
- Sales for industrial applications increased 14 percent as industry demand strengthened in advance of 2007 emissions regulations.

Latin America — Sales declined $3 million, or 1 percent.

- Sales volume decreased $15 million.
- Price realization increased $12 million.
- Sales for petroleum engines declined 31 percent due to the absence of a major project to support increases in oil production.
- Sales for industrial engines increased due to a resurgence in demand for agricultural equipment engines.
- Sales for electric power engines increased 27 percent from growth in commercial development and increased investment in standby generator sets to support business operations.

Asia/Pacific — Sales increased $13 million, or 3 percent.

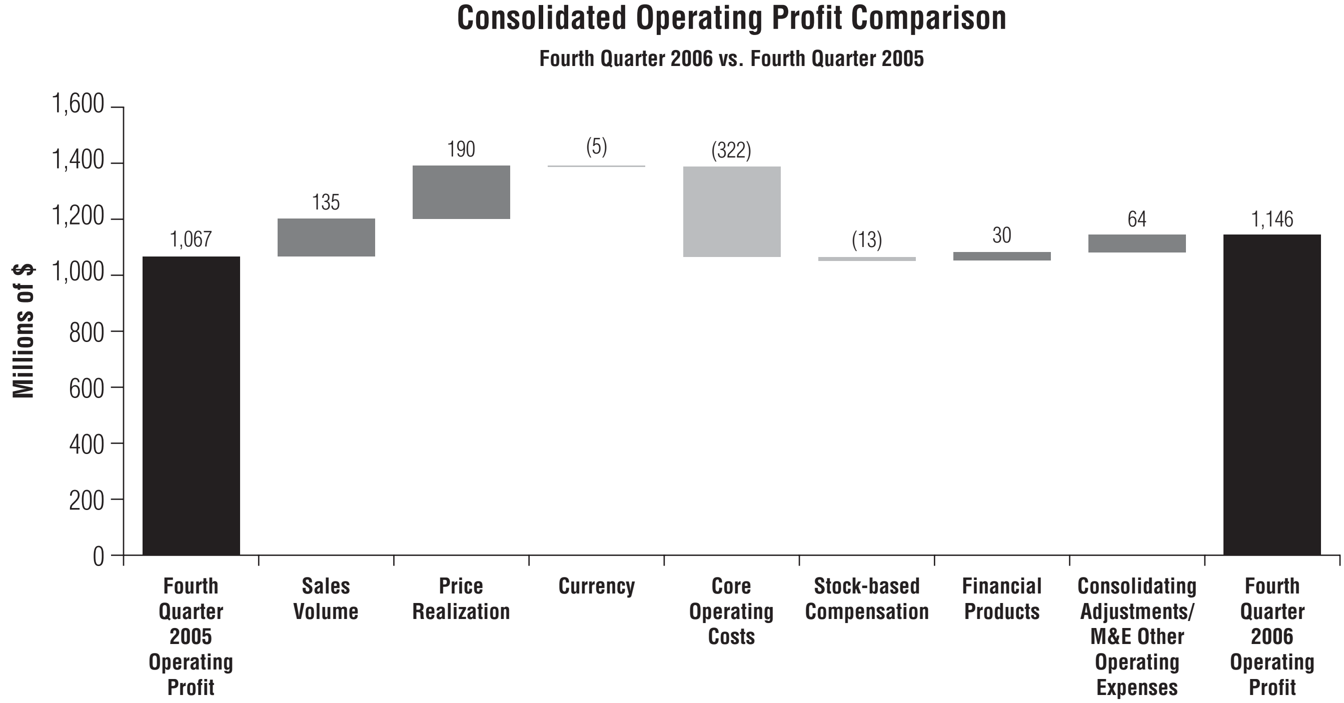
- Sales volume decreased $21 million.
- Price realization increased $24 million.
- Currency benefited sales by $10 million.
- Sales for electric power applications increased 35 percent from generator set demand to support manufacturing operations as well as power plant installations.
- Sales for marine applications increased 18 percent with continued growth in demand for oceangoing and offshore support vessels.
- Sales for petroleum applications declined 15 percent due to project timing of offshore applications.

Financial Products

Revenues of $675 million were an increase of $53 million, or 9 percent, from fourth quarter 2005.

- Growth in average earning assets increased revenues $35 million.
- The impact of higher interest rates on new and existing finance receivables at Cat Financial added $28 million.
- There was a $10 million decrease in other revenues, primarily due to a decrease in earned premiums at Cat Insurance.

OPERATING PROFIT



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Operating profit in fourth quarter 2006 improved $79 million, or 7 percent, from last year. The increase was due to improved price realization and higher sales volume despite an unfavorable geographic/product mix of sales, and was largely offset by higher core operating costs.

Core operating costs rose $322 million from fourth quarter 2005. Of this increase, $153 million was attributable to higher manufacturing costs. Manufacturing costs include both period and variable costs associated with building our products. Approximately 60 percent of the increase in manufacturing costs was attributable to variable costs with the remainder resulting from higher period manufacturing costs. The increase in variable manufacturing costs was the result of higher material costs and variable operating inefficiencies. Non-manufacturing core operating costs were up $169 million as a result of higher Selling, General and Administrative (SG&A) expenses of $96 million and higher Research and Development (R&D) expenses of $73 million to support significant new product programs as well as order fulfillment/velocity initiatives.

Other operating expense was favorably impacted due to the absence of approximately $70 million of charges in 2005, which were related to changes in our dealer distribution support software and the global telehandler alliance.

Operating Profit by Principal Line of Business

(Millions of dollars)	**Fourth Quarter 2006**	Fourth Quarter 2005	Change $	Change %
Machinery[1]	**$ 579**	$ 644	$ (65)	(10)%
Engines[1]	**502**	358	144	40 %
Financial Products	**172**	142	30	21 %
Consolidating Adjustments	**(107)**	(77)	(30)	
Consolidated Operating Profit	**$ 1,146**	$ 1,067	$ 79	7 %

[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 of $579 million was down $65 million, or 10 percent, from fourth quarter 2005. The unfavorable impact of higher core operating costs was partially offset by higher sales volume and improved price realization. The improvement in price realization included an unfavorable impact due to our geographic mix of sales, primarily the result of higher machinery sales outside North America.

- **Engines** operating profit of $502 million was up $144 million, or 40 percent, from fourth quarter 2005. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs and an unfavorable product mix as sales of on-highway truck engines increased as a percent of total engine sales.

- **Financial Products** operating profit of $172 million was up $30 million, or 21 percent, from fourth quarter 2005. The increase was primarily due to a $19 million impact from the continued growth of average earning assets and a $22 million impact from improved net yield on average earning assets at Cat Financial, partially offset by an increase in operating expenses.

OTHER PROFIT/LOSS ITEMS

- **Other income/expense** was income of $49 million compared with income of $99 million in fourth quarter 2005. The decrease is primarily due to the absence of a favorable reserve adjustment related to the termination of certain capital lease obligations in the fourth quarter of 2005, the unfavorable impact of currency and lower interest income.
- **The provision for income taxes** in the fourth quarter reflects an annual tax rate of 29 percent as compared to a 29.5 percent rate in 2005 (excluding discrete items discussed below). The decrease is primarily due to changes in our geographic mix of profits and increased benefits recognized for the research and development credit and domestic production activities deduction more than offsetting the impact of the phase-out provision of the American Jobs Creation Act permitting only 60 percent of Extraterritorial Income Exclusion (ETI) benefits in 2006.

  A favorable adjustment of $75 million was recorded this quarter related to the first nine months of 2006 as a result of a decrease in the estimated annual tax rate from 31 to 29 percent, primarily due to changes in our geographic mix of profits as well as the impact of the recent renewal of the 2006 research and development tax credit. This compares to a favorable adjustment of $56 million in the fourth quarter of 2005 related to favorable discrete items and a decrease in the estimated tax rate.

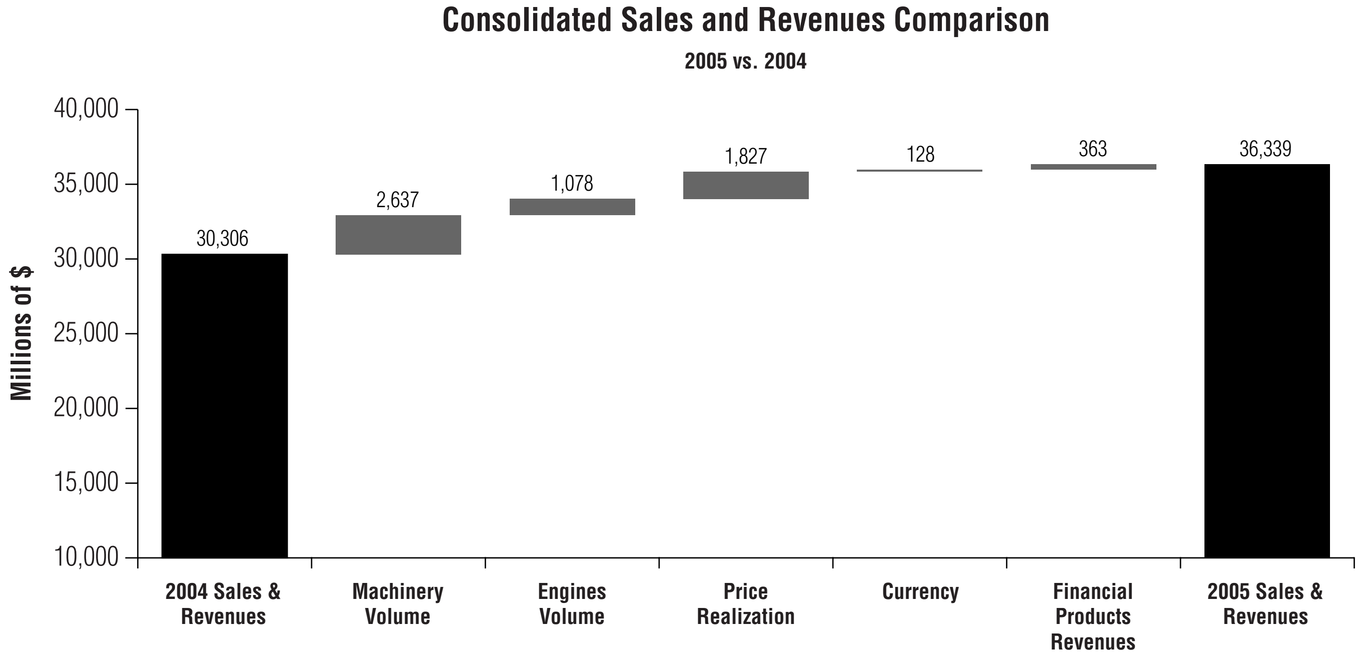
2005 COMPARED WITH 2004

Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
2005										
Machinery	$22,931	22%	$12,822	24%	$ 5,222	16%	$ 1,982	31%	$ 2,905	17%
Engines[1]	11,075	17%	4,887	17%	3,658	22%	1,022	19%	1,508	4%
Financial Products[2]	2,333	18%	1,659	20%	341	1%	148	25%	185	42%
	$36,339	20%	$19,368	22%	$ 9,221	18%	$ 3,152	27%	$ 4,598	13%
2004										
Machinery	$18,844		$10,337		$ 4,511		$ 1,510		$ 2,486	
Engines[1]	9,492		4,184		2,994		862		1,452	
Financial Products[2]	1,970		1,384		338		118		130	
	$30,306		$15,905		$ 7,843		$ 2,490		$ 4,068	

[1] Does not include internal engine transfers of $2,065 million and $1,738 million in 2005 and 2004, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.
[2] Does not include revenues earned from Machinery and Engines of $317 million and $199 million in 2005 and 2004, respectively.

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2004 (at left) and 2005 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Sales and revenues for 2005 were $36.339 billion, up $6.033 billion, or 20 percent, from 2004. Machinery volume was up $2.637 billion, Engines volume was up $1.078 billion, price realization improved $1.827 billion and currency had a positive impact on sales of $128 million. In addition, Financial Products revenues increased $363 million.

Machinery sales in 2005 were $22.931 billion, an increase of $4.087 billion, or 22 percent, from 2004. Sales volume accounted for $2.637 billion of the increase, price realization added $1.343 billion and the remaining $107 million was due to currency.

Growth in sales volume resulted from increased shipments to dealers in response to broad-based gains in reported dealer deliveries to end users. All regions and most industries participated in this growth, which showed little sign of abating as the year ended. Worldwide, dealers reported increases to machine inventory in both 2004 and 2005. At the end of 2005, dealers reported lower machine inventory, as measured by months of supply, than at the end of 2004.

- **North America** sales were up $2.485 billion, or 24 percent, from 2004; sales volume increased $1.653 billion and price realization added $832 million. Growth in sales volume resulted largely from increased sales through our dealer network, the result of favorable metals and energy prices and increased construction spending. Dealers built machine inventories in line with deliveries so that inventories in months of deliveries were the same as at the end of 2004.
- ***EAME*** sales increased 16 percent, or $711 million, compared to 2004. Sales volume accounted for $421 million, improved price realization added $253 million and the remaining $37 million came from the favorable impact of currency. Volume growth occurred as a result of increased sales through our dealer network. Low interest rates benefited housing construction in Europe, and higher metals and energy prices supported both construction and mining in Africa/Middle East (AME). Mining and energy investment in the Commonwealth of Independent States (CIS) increased and had a positive effect on Caterpillar sales.
- **Latin America** sales rose $472 million, or 31 percent, from the same period a year ago — $304 million from increased volume, $120 million from improved price realization and the remaining $48 million due to currency, primarily related to a stronger Brazilian real. Increased sales through our dealer network into both construction and mining sectors accounted for all the sales volume growth; dealer machine inventories declined in both absolute amount and months of deliveries.
- **Asia/Pacific** sales were up 17 percent, or $419 million, higher than last year — $259 million from higher volume, $138 million from improved price realization and the remaining $22 million due to currency. Sales volume in most of the larger countries increased, a result of very strong mining activity and continued growth in construction. In China, sales were down modestly for the year. Sales in China have been rising since early in 2005 following a steep downturn in the second half of 2004. Dealers in the Asia/Pacific region added less to their inventories than in 2004. Dealer machine inventories at December 2005, in months of deliveries, were below 2004.

Engine sales were $11.075 billion in 2005, up $1.583 billion, or 17 percent, from 2004. Volume accounted for $1.078 billion, price realization added $484 million and currency added $21 million.

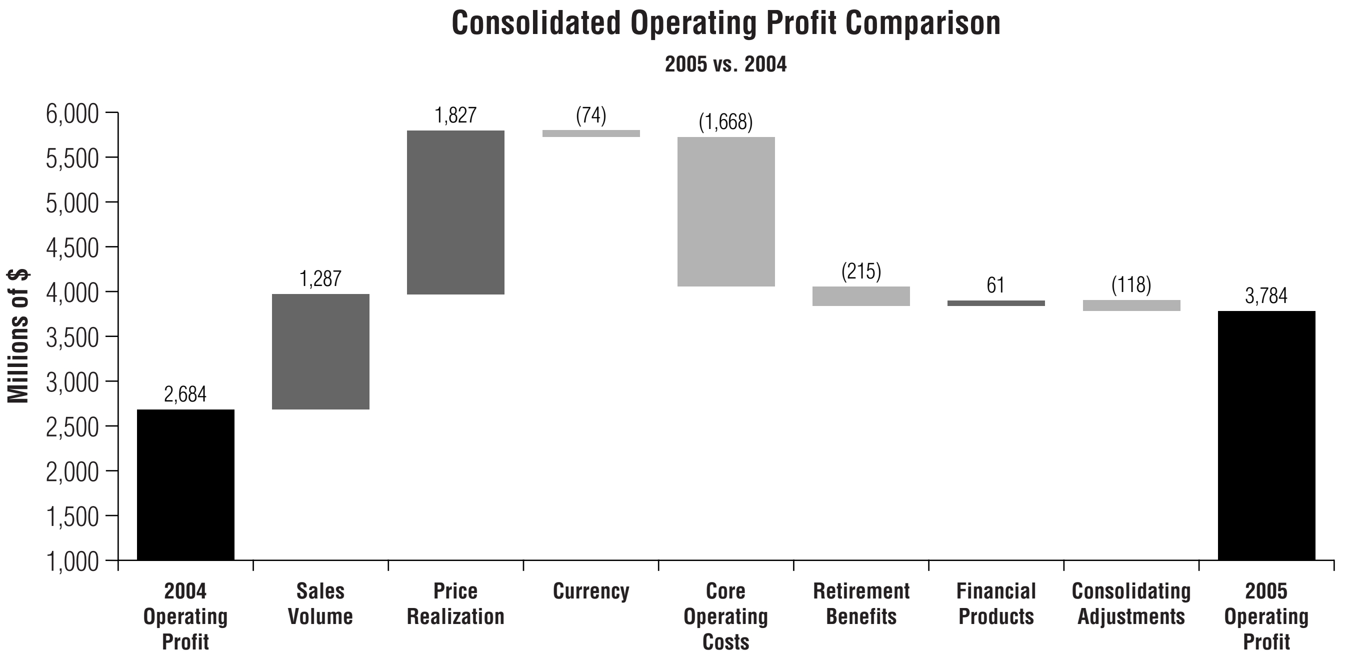
Dealer engine inventory increased during both full-year 2005 and full-year 2004. The 2005 inventory increase was less than the

2004 increase, which slightly reduced the company's year-over-year sales growth. Months of inventory relative to deliveries declined in most regions and sectors compared to 2004.

- **North America** sales were up 17 percent. Sales of petroleum engines increased 50 percent, primarily from increased sales of reciprocating engines for drilling and gas compression and turbines and related services for gas production and transmission. High oil and gas prices were a significant factor behind the increase in sales. Sales of on-highway truck engines were up 5 percent, primarily due to expansion and replacement of truck fleets. Sales of electric power engines were up 21 percent, with widespread demand for generator sets for communications, data center and standby applications. Marine engine sales were up 33 percent, primarily from increased demand for workboats and petroleum support vessels.
- **EAME** sales increased 22 percent. Sales into the electric power sector were up 35 percent, with widespread growth in demand for reciprocating generator sets, support from Middle East reconstruction efforts and incremental revenue from the acquisition of Turbomach, a turbine generator set packager and service provider. Marine engine sales increased 20 percent, with strong demand for oceangoing and inland waterway vessels. Sales of industrial engines were up 8 percent — a result of increases in demand from a broad range of industrial equipment customers, partially offset by lower demand from agricultural equipment manufacturers. Petroleum engine sales dropped 4 percent for the year, primarily from reduced shipments for turbines and turbine-related services for offshore oil platforms and gas transmission projects.
- **Latin America** sales were up 19 percent. Sales of petroleum engines increased 49 percent, with nearly all of the increase from sales of turbines and turbine-related services to support increased investment in oil production. Sales of electric power engines increased 44 percent, benefiting from investments in generator sets for electricity reliability and disaster preparedness as well as demand for rental fleets. Sales of industrial engines decreased 34 percent, with reduced demand for engines for agricultural equipment. Sales of marine engines declined 37 percent, impacted by limited shipyard capacity and comparison with a high 2004 base.
- **Asia/Pacific** sales were up 4 percent. Sales of marine engines were up 26 percent, with increased demand for oceangoing and petroleum support vessels due to strong freight and petroleum demand. Petroleum engine sales increased 12 percent, with widespread demand for reciprocating engines for petroleum site power, drilling and well support as well as demand for turbines and related services to support production. Electric power engine sales declined 19 percent, with most of the decline due to centralized electrical demand management actions and improved electricity reliability in China that drove reduced demand for generator sets.

Financial Products revenues were $2.333 billion, up $363 million, or 18 percent, from 2004. The increase was due primarily to a $211 million favorable impact from continued growth of Earning Assets and an $89 million impact of higher interest rates on new and existing finance receivables at Cat Financial. Also, there was a $47 million increase in revenues at Cat Insurance, primarily due to an increase in earned premiums.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2004 (at left) and 2005 (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 parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Operating profit in 2005 improved $1.100 billion, or 41 percent, from last year, driven by higher price realization and sales volume, partially offset by higher core operating costs and retirement benefits.

Core operating costs rose $1.668 billion from 2004, primarily due to a $1.296 billion increase in manufacturing costs. Approximately two-thirds of the manufacturing cost increase was attributable to variable costs — primarily higher material costs and supply chain-related inefficiencies. The remainder of the manufacturing cost increase was due to higher period manufacturing costs; the significant increase in Machinery and Engines sales volume was a key driver. For the year, period manufacturing costs increased 13 percent on a sales increase of 20 percent.

Non-manufacturing-related core operating costs were up $372 million — primarily the result of higher SG&A and R&D expenses to support new product programs and growth. Full-year Machinery and Engines SG&A as a percent of sales declined from 9.0 percent to 8.2 percent but was up $176 million in 2005 versus 2004, excluding the impact of currency and retirement benefits. Full-year Machinery and Engines R&D as a percent of sales declined from 3.3 percent to 3.2 percent but was up $138 million in 2005 versus 2004, excluding the impact of currency and retirement benefits.

Full-year Machinery and Engines Other Operating Costs were up $58 million. This was due primarily to about $70 million in charges related to our dealer distribution support software and the global telehandler alliance that was announced in the fourth quarter of 2005.

Operating Profit by Principal Line of Business

(Millions of dollars)	2005	2004	Change $	Change %
Machinery[1]	$ 2,431	$ 1,756	$ 675	38%
Engines[1]	1,071	589	482	82%
Financial Products	531	470	61	13%
Consolidating Adjustments	(249)	(131)	(118)	
Consolidated Operating Profit	$ 3,784	$ 2,684	$ 1,100	41%

[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 of $2.431 billion was up $675 million, or 38 percent, from 2004. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs and higher retirement benefits.

Engines operating profit of $1.071 billion was up $482 million, or 82 percent, from 2004. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs and higher retirement benefits.

Financial Products operating profit of $531 million was up $61 million, or 13 percent, from 2004. The increase was primarily due to $123 million favorable impact from the continued growth of earning assets at Cat Financial. Partially offsetting this increase were $33 million in higher operating expenses, primarily related to growth at Cat Financial and a $28 million decrease in operating profit at Cat Insurance, primarily due to less favorable insurance reserve adjustments in 2005 than in 2004.

OTHER PROFIT/LOSS ITEMS

Other income/expense was income of $377 million compared with income of $253 million in 2004. The improvement was due to the favorable impact of currency, higher interest income and the absence of a number of expense items incurred during 2004 that were individually not significant.

The provision for income taxes in 2005 reflects an annual tax rate of 29.5 percent, excluding the discrete items discussed below, and compares to a 27 percent rate in 2004. The increase is primarily due to a reduction in our Extraterritorial Income Exclusion (ETI) benefits, partially attributable to the impact of the American Jobs Creation Act (AJCA) permitting only 80 percent of ETI benefits in 2005 and to a change in our geographic mix of profits. During 2005, we repatriated earnings of $1.4 billion, which includes approximately $500 million subject to preferential tax treatment allowed by the AJCA. We recognized a charge of $33 million related to this repatriation. In connection with our current repatriation plan, we changed our intention of repatriating earnings for a few selected non-U.S. subsidiaries and recognized an income tax benefit of $38 million. In addition, we recognized an income tax benefit of $26 million from the settlement of several non-U.S. tax issues. The net impact of these items is a $31 million discrete benefit to our 2005 provision for income taxes.

UAW LABOR AGREEMENT

In January 2005 the company and about 9,000 employees represented by the United Auto Workers reached a new six-year labor agreement that will expire on March 1, 2011. This agreement positions the company and all our employees for long-term competitiveness. While the initial impact was about a $100 million increase in retirement benefits in 2005, with the establishment of a very competitive market-based new hire wage package, the introduction of employee and retiree health care cost-sharing and other operational effectiveness improvements, we believe we have a long-term cost structure that enables us to compete from our traditional manufacturing and logistics locations.

GLOSSARY OF TERMS

1. **Consolidating Adjustments** — Eliminations of transactions between Machinery and Engines and Financial Products.
2. **Core Operating Costs** — Machinery and Engines variable manufacturing cost change adjusted for volume and change in period costs. Excludes the impact of currency and stock-based compensation.

3. **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 Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.
4. **EAME** — Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
5. **Earning Assets** — These assets consist primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.
6. **Engines** — A principal line of business including the design, manufacture, marketing and sales 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. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to over 16 000 kilowatts). Turbines range from 1,600 to 20,500 horsepower (1 200 to 15 000 kilowatts).
7. **Financial Products** — A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers 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. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.
8. **Latin America** — Geographic region including Central and South American countries and Mexico.
9. **Machinery** — A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery — track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, telehandlers, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
10. **Machinery and Engines (M&E)** — Due to the highly integrated nature of operations, it represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.
11. **Manufacturing Costs** — Manufacturing costs represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machine and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management. Excludes the impact of currency and stock-based compensation.
12. **M&E Other Operating Expenses** — Comprised primarily of gains (losses) on disposal of long-lived assets, long-lived asset impairment charges and impairment of goodwill.
13. **Period Costs** — Comprised of Machinery and Engines period manufacturing costs, SG&A expense and R&D expense. Excludes the impact of currency and stock-based compensation.
14. **Price Realization** — The impact of net price changes excluding currency and new product introductions. Includes the impact of changes in the relative weighting of sales between geographic regions.
15. **Sales Volume** — With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for machines, engines and parts as well as the incremental revenue impact of new product introductions. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for machines, engines and parts combined with product mix — the net operating profit impact of changes in the relative weighting of machines, engines and parts sales with respect to total sales.

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds

We generate our capital resources primarily through operations. In 2006, operating cash flow was $5.80 billion. In 2005, operating cash flow was $3.11 billion. The significant increase of $2.69 billion is primarily the result of a $1.12 billion decrease in contributions to pension and other postretirement benefit plans, an $819 million improvement from receivables, and a $683 million increase in profit. The receivable change is largely due to the timing of payments. See further discussion under Machinery and Engines and Financial Products. 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-66.

Total debt as of December 31, 2006, was $27.30 billion, an increase of $1.55 billion from year-end 2005. On August 8, 2006, Caterpillar issued $500 million of 5.70% notes due in 2016 and $750 million of 6.05% debentures due in 2036, which increased Machinery and Engine debt to $4.28 billion. The additional debt was used primarily to reduce short-term borrowings. The increase in total debt, along with cash provided by operating activities, was used to fund capital expenditures, acquisitions (primarily Progress Rail), dividends and stock repurchase. Debt related to Financial Products increased $1.20 billion due to growth at Cat Financial.

We have three global credit facilities with a syndicate of banks totaling $6.45 billion 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, the portion of the facility available to Cat Financial at December 31, 2006 was $5.45 billion. In September 2006, we increased the amounts and extended the expiration dates related to two of the facilities. The five-year facility of $1.63 billion, which expires in September 2010, has not changed from December 2005. The five-year facility, which was previously $2.50 billion and expired in 2009, has been increased to $2.98 billion and now expires in 2011. The 364-day facility of $1.63 billion that expired in September 2006 was increased to $1.85 billion and now expires in September 2007. The facility expiring in September 2007 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2007 that would mature in September 2008. The overall increase of $700 million to the global credit facilities was initiated in order to support the growth in total sales and revenue. At December 31, 2006, there were no borrowings under these lines and we were in compliance with all debt covenants. Our total credit commitments as of December 31, 2006 were:

(Millions of dollars)

	Consolidated	Machinery and Engines	Financial Products
Credit lines available:			
Global credit facilities	$6,450	$1,000	$5,450
Other external	2,573	1,070	1,503
Total credit lines available	9,023	2,070	6,953
Less: Global credit facilities supporting commercial paper	(4,645)	(88)	(4,557)
Less: Utilized credit	(750)	(77)	(673)
Available credit	$3,628	$1,905	$1,723

To maintain an alternative funding source, Cat Financial periodically (generally once a year) securitizes retail (customer) installment sale contracts and finance leases. In this process, these finance receivables are sold into a public asset-backed securitization trust. The trusts, bankruptcy remote qualified special purpose entities (QSPEs) that are not consolidated in our financial statements, held total assets of $1,227 million related to these securitizations at year-end 2006. We use QSPEs in a manner consistent with conventional practices in the securitization industry to isolate these finance receivables, which are secured by new and used equipment, for the benefit of securitization investors. Our sensitivity analysis indicated that the impact of a 20 percent adverse change to all individual assumptions used to calculate the fair value of all our retained interests at December 31, 2006 would be $3 million or less.

The use of the QSPEs enables us to access the U.S. securitization market for the sale of these types of financial assets. The amounts of funding from securitizations reflect such factors as capital market accessibility, relative costs of funding sources and assets available for securitization. We had total proceeds from initial sales of these receivables of $964 million and $850 million, and recognized a pre-tax gain of $7 million and $12 million for 2006 and 2005, respectively. Subordinated retained interests in the public securitizations totaled $68 million and $72 million at December 31, 2006 and 2005, respectively.

Machinery and Engines

Operating cash flows increased to $4.61 billion in 2006 from $2.81 billion in 2005. The favorable change is mainly due to higher profit and lower pension and other postretirement benefit plan contributions. Operating cash flow also benefited from increased dividends of $350 million paid to Caterpillar Inc. by Cat Financial. This dividend is eliminated in the Consolidated Statement of Cash Flow. Other significant operating items in 2006 include an increase in customer advances, which was due to both higher 2007 turbine orders and a large percentage of turbine customers issuing advances. The increases in operating cash flows were partially offset by increases in taxes paid and record demand in our products resulting in increased inventory. This demand has resulted in longer delivery times for many of our products. We are expecting improved inventory performance in 2007.

Our priorities for the use of cash are to maintain a strong financial position, fund profitable growth, maintain well-funded pension plans, consistently increase dividends and repurchase common stock.

Maintain a strong financial position — A key measure of Machinery and Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt to debt plus equity. Debt to debt plus equity is defined as short-term borrowings, long-term debt due within one year, and long-term debt due after one year (debt) divided by the sum of debt and stockholders' equity. Debt also includes borrowings from Financial Products. At December 31, 2006, Machinery and Engines debt to debt plus equity was 38.6 percent compared to 32.0 percent at December 31, 2005. The change was due to the adoption of SFAS 158, which reduced Caterpillar's stockholders' equity at December 31, 2006 by approximately $2.70 billion. The debt to debt plus equity ratio without the SFAS 158 adjustment would have been 31.1 percent, comparable to the 2005 ratio. With the adoption of SFAS 158, the target debt to debt plus equity ratio has increased from 30 to 40 percent to 35 to 45 percent. As previously discussed, we issued $1.25 billion of notes and debentures which were primarily used to reduce short-term borrowings.

Fund profitable growth — Capital expenditures during 2006 were $1.58 billion, an increase of $418 million compared to 2005. The increase is primarily to support new product programs and additional capacity. Cash used for acquisitions (net of cash acquired) was $513 million, primarily for the purchase of Progress Rail during the second quarter.

Maintain well-funded pension plans — Pension plans remain well funded and we have adequate liquidity to fund both U.S. and non-U.S. plans. In 2006, we contributed $45 million to our pension plans compared to $912 million in 2005. In 2006, we also contributed $323 million to our other postretirement benefits, which represents our funding of ongoing cash benefit payments. In 2005, we contributed $574 million, of which $200 million was in addition to ongoing cash benefits. Required contributions to our pension plans over the next three years are expected to be very low.

Consistently increase dividends — Dividends paid totaled $726 million for 2006, representing 25 cents per share paid in the first two quarters and 30 cents per share paid in the third and fourth quarters. 2006 marks the thirteenth consecutive year our annual dividend per share has increased.

Repurchase common stock — Pursuant to the stock repurchase program authorized by the Board of Directors in October 2003, $3.21 billion was spent to purchase 46 million shares in 2006. The goal of the stock repurchase program, which expires in October 2008, is to reduce the company's outstanding shares to 640 million. We expect to complete this repurchase program in 2007. There were 646 million shares outstanding at the end of 2006. In February 2007, the Board of Directors authorized a $7.50 billion stock repurchase program over the next five years, expiring on December 31, 2011.

Financial Products

Financial Products 2006 operating cash flow was $1.01 billion, about the same as 2005. Cash used to purchase equipment leased to others was $1.11 billion in 2006 compared to $1.27 billion in 2005. In addition, net cash used for finance receivables and proceeds from sales of finance receivables was $781 million in 2006, compared to $3.08 billion in 2005. Although Cat Financial's receivable portfolio continued to grow, collections in 2006 offset a greater portion of the additions to the portfolio than in 2005.

Financial Products total borrowings were $23.02 billion at December 31, 2006, an increase of $1.20 billion from December 31, 2005 due to financing a higher amount of assets. However, this increase was less than the increase of $2.05 billion in 2005. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At December 31, 2006, finance receivables past due over 30 days were 1.71 percent, compared with 1.42 percent at December 31, 2005. The allowance for credit losses was 1.33 percent of finance receivables, net of unearned income, at December 31, 2006, compared to 1.35 percent at December 31, 2005. Receivables written off due to uncollectibility, net of recoveries on receivables previously written off, were $47 million and $45 million for 2006 and 2005, respectively. Net cash provided by financing activities was also lower in 2006 due to a dividend of $350 million from Cat Financial to Caterpillar Inc. Cat Financial provides a reliable and stable source of earnings and was able to pay this dividend while remaining within their targeted debt to equity range.

Dividends paid per common share[1]

Quarter	**2006**	2005[1]	2004[1]
First	**$ .250**	$ .205	$ .185
Second	**.250**	.205	.185
Third	**.300**	.250	.205
Fourth	**.300**	.250	.205
	$1.100	$0.910	$0.780

[1] Per share data reflects the July 2005 2-for-1 stock split.

Contractual obligations

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)	2007	2008	2009	2010	2011	After 2011	Total
Long-term debt:							
Machinery and Engines (excluding capital leases)	$ 416	$ 57	$ 319	$ 1	$ 374	$ 2,871	$ 4,038
Machinery and Engines — capital leases	2	2	2	2	2	64	74
Financial Products	4,043	3,913	4,011	2,258	1,367	2,437	18,029
Total long-term debt	4,461	3,972	4,332	2,261	1,743	5,372	22,141
Operating leases	230	195	163	134	87	460	1,269
Postretirement obligations[1]	430	410	420	430	450	2,900	5,040
Purchase obligations:							
Accounts payable[2]	4,085	—	—	—	—	—	4,085
Purchase orders[3]	5,074	—	—	—	—	—	5,074
Other contractual obligations[4]	172	23	18	18	—	—	231
Total purchase obligations	9,331	23	18	18	—	—	9,390
Other long-term obligations[5]	137	90	74	65	59	—	425
Interest on long-term debt[6]	994	825	616	470	375	5,711	8,991
Total contractual obligations	$15,583	$ 5,515	$ 5,623	$ 3,378	$ 2,714	$14,443	$47,256

[1] Amounts represent expected contributions to our pension and other postretirement benefit plans through 2016, offset by expected Medicare Part D subsidy receipts.
[2] Amount represents invoices received and recorded as liabilities in 2006, but scheduled for payment in 2007. 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, 2006 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 primarily related to software license contracts, IT consulting contracts and outsourcing contracts for benefit plan administration and software system support.
[6] Amounts represent estimated contractual interest payments on long-term debt.

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, warranty liability, stock-based compensation and reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. 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 liability — Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Historical claim rates are developed using a rolling average of actual warranty payments.

Stock-based compensation — We use a lattice-based option-pricing model to calculate the fair value of our stock awards. The calculation of the fair value of the awards using the lattice-based option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected life of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.
- The dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.
- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

Stock-based compensation expense recognized during the period is based on the value of the number of awards that are expected to vest. In determining the stock-based compensation expense to be recognized, a forfeiture rate is applied to the fair value of the award. This rate represents the number of awards that are expected to be forfeited prior to vesting and is based on Caterpillar employee historical behavior. Changes in the future behavior of employees could impact this rate. A decrease in this rate would result in an increase in our expense.

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 were determined as follows:

- 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, and represents the rate at which our benefit obligations could effectively be settled. To validate the discount rate, a detailed analysis of the individual plans' expected cash flows is made annually. This involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds. The modeled discount rate that results from matching the aggregate expected future cash flow from the Caterpillar benefit plans to the yield curve of high quality corporate bonds is consistent with the annualized Moody's Aa rate. A comprehensive process is also 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 — We provide discounts to dealers and original equipment manufacturers (OEM) through merchandising programs that are administered by our marketing profit centers. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of discounts is estimated based on historical experience and planned changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized. The amount of accrued post-sale discounts was $726 million, $616 million and $437 million as of December 31, 2006, 2005 and 2004, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

Credit loss reserve — Management's ongoing evaluation of the adequacy of the allowance for credit losses considers both impaired and unimpaired finance receivables and takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable losses we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at risk for potential credit loss. Accounts are identified as at risk for potential credit loss using information available about the customer, such as financial statements, news reports, and published credit ratings as well as general information regarding industry trends and the general economic environment.

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair market value of collateral and factor in credit enhancements such as additional collateral and third party guarantees. The allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio, primarily using probabilities of default and an estimate of associated losses. In addition qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

While management believes it has exercised prudent judgment and applied reasonable assumptions which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance that in the future, changes in economic conditions or other factors might cause changes in the financial health of our customers which could change the timing and level of payments received thus necessitating a change to our estimated losses.

Income tax reserve — Despite our belief that our tax return positions are consistent with applicable tax laws, we expect 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 and penalties. Unfavorable adjustments to our tax filing position for issues included in our tax reserves would require use of our cash. Favorable resolution would be recognized as a reduction to income tax expense.

EMPLOYMENT

Caterpillar's worldwide employment was 94,593 in 2006, up 9,477 from 85,116 in 2005. Of the increase, about 5,100 employees were added via acquisitions, and about 2,000 hourly and 2,400 salaried and management employees were added to support higher volume and new product introductions. The increase related to acquisitions was primarily due to Progress Rail and a logistics business in Europe.

Full-Time Employees at Year-End

	2006	2005	2004
Inside U.S.	**48,709**	43,878	38,128
Outside U.S.	**45,884**	41,238	38,792
Total	**94,593**	85,116	76,920
By Region:			
North America	**49,018**	43,933	38,396
EAME	**24,845**	23,137	22,169
Latin America	**13,231**	11,688	10,733
Asia/Pacific	**7,499**	6,358	5,622
Total	**94,593**	85,116	76,920

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 addition to governing our manufacturing and other operations, these laws often impact the development of our products, including through required compliance with air emissions standards applicable to internal combustion engines. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or competitive position.

We are cleaning up contamination at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay cleanup costs at a site and those costs can be estimated, the costs are charged against our earnings. In formulating 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 2. Currently, we have several sites in the very early stages of cleanup, and there is no more than a remote chance that a material amount for cleanup at any individual site or at all sites in the aggregate will be required.

We have disclosed certain individual legal proceedings in this filing. Additionally, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues and intellectual property rights. Although it is not possible to predict with certainty the outcome of these legal actions or the range of probable loss, we believe that these legal actions will not individually or in the aggregate have a material impact on our consolidated financial position, liquidity or results of operations.

On August 24, 2006, Caterpillar announced the settlement of all current and pending litigation between Navistar International Corporation (Navistar), the parent company of International Truck and Engine Corporation, and Caterpillar. As part of the litigation settlement, Caterpillar received an up-front cash payment and a three-year promissory note from Navistar. Based on Caterpillar's receivable balances related to the Navistar litigation at the time of settlement, the settlement resulted in a pre-tax charge to Caterpillar of approximately $70 million in the third quarter.

On September 29, 2004, Kruse Technology Partnership (Kruse) filed a lawsuit against Caterpillar in the United States District Court for the Central District of California alleging that certain Caterpillar engines built from October 2002 to the present infringe upon certain claims of three of Kruse's patents on engine fuel injection timing and combustion strategies. Kruse seeks monetary damages, injunctive relief and a finding that the alleged infringement by Caterpillar was willful. Caterpillar denies Kruse's allegations, believes they are without merit, and has filed a counterclaim seeking a declaration from the court that Caterpillar is not infringing upon Kruse's patents and that the patents are invalid and unenforceable. The counterclaim filed by Caterpillar is pending and no trial date is currently scheduled. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

In November 2004, the U.S. Environmental Protection Agency (EPA) alleged that Caterpillar had constructed a facility in Emporia, Kansas that failed to comply with Section 112(g)(2)(B) of the Federal Clean Air Act. Caterpillar sold the Emporia, Kansas facility in December 2002. This matter has now been settled and terminated by Consent Decree, entered on June 12, 2006, in the United States District Court for the District of Kansas, and Caterpillar's payment of a civil penalty of $300,000 on June 14, 2006. Accordingly, in the opinion of our management, this matter is closed and did not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On June 26, 2006, the UK Environment Agency filed a claim against Caterpillar Logistics Services (UK) Ltd. (CLS) before the Leicester & Rutland Magistrates Court in Leicestershire, UK. The complaint alleged that CLS failed to follow UK regulations in connection with the handling and disposal of special waste (primarily batteries) from January through September 2005. On August 17, 2006, CLS was fined £7,763 (approximately $15,000), thereby concluding the matter.

The Internal Revenue Service (IRS) completed its field examination of our 1995 through 1999 U.S. tax returns during the second quarter of 2005. In connection with this examination, we received notices of certain adjustments proposed by the IRS, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits. We disagree with these proposed adjustments and are continuing to work toward resolution through applicable IRS procedures. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

The World Trade Organization (WTO) previously found that the transitional and grandfathering provisions for extraterritorial income exclusion (ETI), under the American Jobs Creation Act of 2004, did not satisfy the United States' obligation to "withdraw" prohibited export subsidies. The WTO result allowed the European Union to impose already authorized sanctions on certain U.S. origin goods beginning May 16, 2006. The Tax Increase Prevention and Reconciliation Act of 2005, signed by President Bush on May 17, 2006, repealed the grandfathering provisions for ETI. In response, the European Union Trade Commissioner announced the cancellation of sanctions ending the dispute. We were not materially impacted by this resolution.

RETIREMENT BENEFITS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. Also, the measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year-end. As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006 and will adopt the year-end measurement date in 2008 using the prospective method. The adoption of SFAS 158 reduced December 31, 2006 assets by approximately $500 million, increased liabilities by approximately $2.20 billion and reduced stockholders' equity by approximately $2.70 billion. Also, we reclassified approximately $500 million from current liabilities to long-term liabilities based on the classification guidelines provided in SFAS 158. We did not incur any violation of debt covenant agreements as a result of the reduction in stockholders' equity. The adoption of this Statement did not affect our results of operations.

Additionally, SFAS 87 required the recognition of an Additional Minimum Liability if the market value of plan assets was less than the accumulated benefit obligation at the end of the measurement date. The Additional Minimum Liability was eliminated upon the adoption of SFAS 158.

We recognized pension expense of $326 million in 2006 as compared to $366 million in 2005. The decrease in expense was primarily a result of the impact of expected asset returns on plan assets, partially offset by the amortization of actuarial losses resulting largely from a declining discount rate. SFAS 87, "Employers' Accounting for Pensions," as amended by SFAS 158, requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation. This increase is amortized into earnings as an actuarial loss. SFAS 87 also requires companies to use an expected long-term rate of return on plan assets for computing current year pension expense. Differences between the actual and expected asset returns are also amortized into earnings as actuarial gains and losses. At the end of 2006, total actuarial losses (recognized in accumulated other comprehensive income upon the adoption of SFAS 158) were $3.50 billion, as compared to $3.82 billion (unrecognized) in 2005. The majority of the actuarial losses are due to declining discount rates, slightly offset by asset gains in recent years. The $320 million decrease during 2006 was the result of better than expected asset returns and amortization of net unrecognized losses during 2006, slightly offset by demographic losses.

In 2006, we recognized other postretirement benefit expense of $363 million compared to $347 million in 2005. The increase in expense is primarily the result of a declining discount rate and an increase in expected health care inflation, partially offset by the impact of expected asset returns on plan assets. Actuarial losses (recognized in accumulated other comprehensive income upon the adoption of SFAS 158) for other postretirement benefit plans were $1.16 billion at the end of 2006. These losses mainly reflect a declining discount rate and an increase in expected health care inflation. The losses were $436 million lower than at the end of 2005 due to lower than expected health care claims experience, higher than expected asset returns and amortization of net unrecognized losses during 2006, slightly offset by a lower discount rate in 2006.

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, actual demographic experience and other factors that impact these expenses. These losses, now recorded as a component of accumulated other comprehensive income upon the adoption of SFAS 158, will be amortized as a component of net periodic benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2006, the average remaining service period of active employees was 10 years for our U.S. pension plans, 12 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to decrease approximately $60 million in 2007 as compared to 2006, primarily due to favorable asset returns.

For our U.S. pension plans, our 2006 asset allocation is 74 percent equity securities and 26 percent debt securities, and our target allocation for 2007 is 70 percent equity securities and 30 percent debt securities. The 2006 asset allocation for our non-U.S. pension plans is 59 percent equity securities, 30 percent debt securities 8 percent real estate and 3 percent other. The target allocation for 2007 for our non-U.S. pension plans is 55 percent equity securities, 33 percent debt securities, 8 percent real estate and 4 percent other. 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.

The use of certain derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. The U.S. plans currently utilize futures contracts to offset current equity positions in order to rebalance the total portfolio to the target asset allocation. During 2006, approximately 10 percent of the U.S. pension plans' assets were rebalanced from equity to fixed income positions through the use of futures contracts. The actual asset allocation percentages above represent this rebalancing effort. The plans do not engage in futures contracts for speculative purposes.

During 2006, we made cash contributions of $10 million to our U.S. defined benefit pension plans and $35 million to our non-U.S. pension plans.

The agreement reached with the UAW in January 2005 included changes to both pension and other postretirement benefits. Pension plan changes included increases in basic benefit payments, increases in the allowance provided to employees who retire before age 62 as well as annual lump-sum payments to retirees during the first three years of the contract. Other postretirement benefit changes included several changes to our retiree medical plan design that resulted in a net increase in company cost sharing with retirees.

Changes to the pension plan in 2005 resulted in an increase in the pension obligation of approximately $230 million. This reflected a discount rate of 5.8 percent. The increase will be amortized into earnings on a straight-line basis over 10 years, the average remaining service period of active employees impacted by the plan change. In addition, there will be an ongoing increase in expense as a result of the benefit changes. In total, full year 2005 pension expense (and annual expense until the plan change is fully amortized) increased $29 million.

Changes to the other postretirement plan in 2005 resulted in an increase in the benefit obligation of approximately $620 million. This also reflected a discount rate of 5.8 percent. The increase will be amortized into earnings on a straight-line basis over 16 years, the average remaining life expectancy of plan participants that are fully eligible for benefits (as they comprise almost all of the plan). In addition, there will be an ongoing increase in expense as a result of the benefit changes. In total, full year 2005 other postretirement benefit expense (and annual expense until the plan change is fully amortized) increased $69 million.

In April 2005, amendments were made to our U.S. salaried and management other postretirement benefit plan that increase employee cost sharing and resulted in a decrease in the benefit obligation of approximately $190 million. This reflected a discount rate of 5.7 percent. The decrease will be amortized into earnings on a straight-line basis over nine years, the average remaining service period of active employees impacted by the plan change. In addition, there will be an ongoing decrease in expense as a result of the benefit changes. 2005 other postretirement benefit expense decreased $18 million. After 2005, the annual expense (until the plan change is fully amortized) will decrease approximately $24 million.

Although we have no ERISA funding requirements in 2007, we expect to make approximately $50 million of contributions during the year. We have adequate liquidity resources to fund both U.S. and non-U.S. pension 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 2006 benefit costs and year-end obligations are included in the table on page A-62.

SENSITIVITY

Foreign Exchange Rate Sensitivity

Machinery and Engines 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. 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 2007 cash flow for our Machinery and Engines operations by approximately $175 million. Last year similar assumptions and calculations yielded a potential $178 million adverse impact on 2006 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. Our primary exposure (excluding competitive risk) is to exchange rate movements in the British pound and Japanese yen.

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. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2007 pretax earnings of Machinery and Engines by $9 million. Last year, similar assumptions and calculations yielded a potential $15 million adverse impact on 2006 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. We have a match funding policy whereby the interest rate profile (fixed or floating rate) of our debt portfolio is matched to the interest rate profile of our earning asset portfolio (finance receivables and operating leases) within certain parameters. In connection with that policy, we use interest rate swap agreements to modify the debt structure. Match funding assists us in maintaining our interest rate spreads, regardless of the direction interest rates move.

In order to properly manage our sensitivity to changes in interest rates, we measure the potential impact of different interest rate assumptions on pretax earnings. All on-balance sheet positions, including derivative financial instruments, are included in the analysis. The primary assumptions included in the analysis are that there are no new fixed rate assets or liabilities, the proportion of fixed rate debt to fixed rate assets remains unchanged and the level of floating rate assets and debt remain constant. Based on the December 31, 2006 balance sheet under these assumptions, the analysis estimates the impact of a 100 basis point immediate and sustained parallel rise in interest rates to be a $27 million decrease to pretax earnings for 2007. Last year, similar assumptions and calculations yielded a potential $9 million adverse impact on 2006 pretax earnings.

This analysis does not necessarily represent our current outlook of future market interest rate movement, nor does it consider any actions management could undertake in response to changes in interest rates. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate.

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 2006 pension and other postretirement benefits costs and obligations:

(Millions of dollars)	2006 Benefit Cost: One percentage-point increase	2006 Benefit Cost: One percentage-point decrease	Year-end Benefit Obligation: One percentage-point increase	Year-end Benefit Obligation: One percentage-point decrease
Pension benefits:				
Assumed discount rate	$ (144)	$ 149	$(1,622)	$1,847
Expected rate of compensation increase	48	(45)	244	(236)
Expected long-term rate of return on plan assets	(108)	108	—	—
Other postretirement benefits:				
Assumed discount rate	(53)	80	(572)	638
Expected rate of compensation increase	—	—	1	(1)
Expected long-term rate of return on plan assets	(13)	13	—	—
Assumed health care cost trend rate	92	(75)	428	(377)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	**5.5%**	5.6%	5.9%	**4.7%**	4.6%	5.2%	**5.5%**	5.6%	5.9%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**4.0%**	3.7%	3.5%	**4.0%**	4.0%	4.0%
Weighted-average assumptions used to determine net cost:									
Discount rate	**5.6%**	5.9%	6.2%	**4.6%**	5.2%	5.1%	**5.6%**	5.8%	6.1%
Expected return on plan assets	**9.0%**	9.0%	9.0%	**7.5%**	7.1%	7.4%	**9.0%**	9.0%	9.0%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.5%**	3.5%	3.2%	**4.0%**	4.0%	4.0%
Health care cost trend rates at year-end:									
Health care trend rate assumed for next year							**7.5%**	8.5%	8.4%
Rate that the cost trend rate gradually declines to							**5.0%**	5.0%	5.0%
Year that the cost trend rate reaches ultimate rate							**2013**	2013	2012

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-63 to A-65 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 — primarily our finance and insurance subsidiaries, Cat Financial and Cat Insurance.

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

Pages A-63 to A-65 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)

	Consolidated			Supplemental consolidating data: Machinery and Engines[1]			Financial Products			Consolidating Adjustments		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Sales and revenues:												
Sales of Machinery and Engines	**$ 38,869**	$ 34,006	$ 28,336	**$ 38,869**	$ 34,006	$ 28,336	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Revenues of Financial Products	**2,648**	2,333	1,970	**—**	—	—	**3,114**	2,650	2,169	**(466)[2]**	(317)[2]	(199)[2]
Total sales and revenues	**41,517**	36,339	30,306	**38,869**	34,006	28,336	**3,114**	2,650	2,169	**(466)**	(317)	(199)
Operating costs:												
Cost of goods sold	**29,549**	26,558	22,497	**29,549**	26,558	22,497	**—**	—	—	**—**	—	—
Selling, general and administrative expenses	**3,706**	3,190	2,926	**3,294**	2,786	2,548	**446**	446	441	**(34)[3]**	(42)[3]	(63)[3]
Research and development expenses	**1,347**	1,084	928	**1,347**	1,084	928	**—**	—	—	**—**	—	—
Interest expense of Financial Products	**1,023**	768	524	**—**	—	—	**1,033**	786	536	**(10)[4]**	(18)[4]	(12)[4]
Other operating expenses	**971**	955	747	**22**	76	18	**965**	887	722	**(16)[3]**	(8)[3]	7[3]
Total operating costs	**36,596**	32,555	27,622	**34,212**	30,504	25,991	**2,444**	2,119	1,699	**(60)**	(68)	(68)
Operating profit	**4,921**	3,784	2,684	**4,657**	3,502	2,345	**670**	531	470	**(406)**	(249)	(131)
Interest expense excluding Financial Products	**274**	260	230	**285**	266	235	**—**	—	—	**(11)[4]**	(6)[4]	(5)[4]
Other income (expense)	**214**	377	253	**(256)**	85	92	**75**	49	35	**395[5]**	243[5]	126[5]
Consolidated profit before taxes	**4,861**	3,901	2,707	**4,116**	3,321	2,202	**745**	580	505	**—**	—	—
Provision for income taxes	**1,405**	1,120	731	**1,158**	926	566	**247**	194	165	**—**	—	—
Profit of consolidated companies	**3,456**	2,781	1,976	**2,958**	2,395	1,636	**498**	386	340	**—**	—	—
Equity in profit (loss) of unconsolidated affiliated companies	**81**	73	59	**79**	64	56	**2**	9	3	**—**	—	—
Equity in profit of Financial Products' subsidiaries	**—**	—	—	**500**	395	343	**—**	—	—	**(500)[6]**	(395)[6]	(343)[6]
Profit	**$ 3,537**	$ 2,854	$ 2,035	**$ 3,537**	$ 2,854	$ 2,035	**$ 500**	$ 395	$ 343	**$ (500)**	$ (395)	$ (343)

[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 net 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 between Machinery and Engines and Financial Products.

[6] Elimination of Financial Products' profit due to equity method of accounting.

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

	Consolidated		Supplemental consolidating data: Machinery and Engines[1]		Supplemental consolidating data: Financial Products		Supplemental consolidating data: Consolidating Adjustments	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Assets								
Current assets:								
Cash and short-term investments	**$ 530**	$ 1,108	**$ 319**	$ 951	**$ 211**	$ 157	**$ —**	$ —
Receivables — trade and other	**8,168**	7,526	**3,485**	2,833	**368**	419	**4,315** [2,3]	4,274 [2,3]
Receivables — finance	**6,804**	6,442	**—**	—	**11,379**	11,058	**(4,575)** [3]	(4,616) [3]
Deferred and refundable income taxes	**733**	255	**656**	187	**77**	68	**—**	—
Prepaid expenses and other current assets	**507**	2,146	**485**	2,139	**41**	26	**(19)** [4]	(19) [4]
Inventories	**6,351**	5,224	**6,351**	5,224	**—**	—	**—**	—
Total current assets	**23,093**	22,701	**11,296**	11,334	**12,076**	11,728	**(279)**	(361)
Property, plant and equipment — net	**8,851**	7,988	**6,046**	5,067	**2,805**	2,921	**—**	—
Long-term receivables — trade and other	**860**	1,037	**155**	301	**30**	36	**675** [2,3]	700 [2,3]
Long-term receivables — finance	**11,531**	10,301	**—**	—	**12,236**	11,036	**(705)** [3]	(735) [3]
Investments in unconsolidated affiliated companies	**562**	565	**559**	526	**12**	39	**(9)** [5]	—
Investments in Financial Products subsidiaries	**—**	—	**3,513**	3,253	**—**	—	**(3,513)** [6]	(3,253) [6]
Deferred income taxes	**1,949**	857	**2,218**	1,146	**39**	32	**(308)** [7]	(321) [7]
Intangible assets	**387**	424	**382**	418	**5**	6	**—**	—
Goodwill	**1,904**	1,451	**1,904**	1,451	**—**	—	**—**	—
Other assets	**1,742**	1,745	**352**	491	**1,390**	1,254	**—**	—
Total assets	**$ 50,879**	$ 47,069	**$ 26,425**	$ 23,987	**$ 28,593**	$ 27,052	**$ (4,139)**	$ (3,970)
Liabilities								
Current liabilities:								
Short-term borrowings	**$ 5,155**	$ 5,569	**$ 165**	$ 871	**$ 5,077**	$ 4,897	**$ (87)** [8]	$ (199) [8]
Accounts payable	**4,085**	3,412	**3,907**	3,288	**344**	261	**(166)** [9]	(137) [9]
Accrued expenses	**2,923**	2,617	**1,848**	1,605	**1,101**	1,038	**(26)** [10]	(26) [10]
Accrued wages, salaries and employee benefits	**938**	1,601	**922**	1,582	**16**	19	**—**	—
Customer advances	**921**	454	**921**	454	**—**	—	**—**	—
Dividends payable	**194**	168	**194**	168	**—**	—	**—**	—
Deferred and current income taxes payable	**575**	528	**456**	448	**127**	84	**(8)** [7]	(4) [7]
Long-term debt due within one year	**4,461**	4,499	**418**	340	**4,043**	4,159	**—**	—
Total current liabilities	**19,252**	18,848	**8,831**	8,756	**10,708**	10,458	**(287)**	(366)
Long-term debt due after one year	**17,680**	15,677	**3,724**	2,752	**13,986**	12,960	**(30)** [8]	(35) [8]
Liability for postemployment benefits	**5,879**	3,161	**5,879**	3,161	**—**	—	**—**	—
Deferred income taxes and other liabilities	**1,209**	951	**1,132**	886	**386**	381	**(309)** [5,7]	(316) [5,7]
Total liabilities	**44,020**	38,637	**19,566**	15,555	**25,080**	23,799	**(626)**	(717)
Commitments and contingencies								
Stockholders' equity								
Common stock	**2,465**	1,859	**2,465**	1,859	**862**	875	**(862)** [6]	(875) [6]
Treasury stock	**(7,352)**	(4,637)	**(7,352)**	(4,637)	**—**	—	**—**	—
Profit employed in the business	**14,593**	11,808	**14,593**	11,808	**2,325**	2,197	**(2,325)** [6]	(2,197) [6]
Accumulated other comprehensive income	**(2,847)**	(598)	**(2,847)**	(598)	**326**	181	**(326)** [6]	(181) [6]
Total stockholders' equity	**6,859**	8,432	**6,859**	8,432	**3,513**	3,253	**(3,513)**	(3,253)
Total liabilities and stockholders' equity	**$ 50,879**	$ 47,069	**$ 26,425**	$ 23,987	**$ 28,593**	$ 27,052	**$ (4,139)**	$ (3,970)

(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) Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.

(4) Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.

(5) Elimination of Machinery and Engines' investment in Financial Products subsidiary.

(6) Elimination of Financial Products' equity which is accounted for on Machinery and Engines on the equity basis.

(7) Reclassification reflecting required netting of deferred tax assets/liabilities by taxing jurisdiction.

(8) Elimination of debt between Machinery and Engines and Financial Products.

(9) Elimination of payables between Machinery and Engines and Financial Products.

(10) Elimination of prepaid insurance in Financial Products' accrued expenses.

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

	Consolidated		Supplemental consolidating data: Machinery and Engines[1]		Financial Products		Consolidating Adjustments	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
Cash flow from operating activities:								
Profit	**$ 3,537**	$ 2,854	**$ 3,537**	$ 2,854	**$ 500**	$ 395	**$ (500)[2]**	$ (395)[2]
Adjustments for non-cash items:								
Depreciation and amortization	**1,602**	1,477	**943**	835	**659**	642	**—**	—
Undistributed profit of Financial Products	**—**	—	**(128)**	(373)	**—**	—	**128 [3]**	373 [3]
Other	**197**	(20)	**140**	7	**(330)**	(205)	**387 [4]**	178 [4]
Changes in assets and liabilities:								
Receivables — trade and other	**(89)**	(908)	**(292)**	(39)	**6**	7	**197 [4][5]**	(876)[4][5]
Inventories	**(827)**	(568)	**(827)**	(568)	**—**	—	**—**	—
Accounts payable and accrued expenses	**670**	532	**507**	353	**185**	238	**(22)[4]**	(59)[4]
Other assets — net	**(235)**	(866)	**(178)**	(854)	**(44)**	(34)	**(13)[4]**	22 [4]
Other liabilities — net	**944**	612	**911**	595	**30**	34	**3 [4]**	(17)[4]
Net cash provided by (used for) operating activities	**5,799**	3,113	**4,613**	2,810	**1,006**	1,077	**180**	(774)
Cash flow from investing activities:								
Capital expenditures — excluding equipment leased to others	**(1,593)**	(1,201)	**(1,580)**	(1,162)	**(41)**	(39)	**28 [4]**	—
Expenditures for equipment leased to others	**(1,082)**	(1,214)	**—**	—	**(1,111)**	(1,265)	**29 [4]**	51 [4]
Proceeds from disposals of property, plant and equipment	**572**	637	**29**	45	**581**	592	**(38)[4]**	—
Additions to finance receivables	**(10,522)**	(10,334)	**—**	—	**(35,561)**	(33,961)	**25,039 [5]**	23,627 [5]
Collections of finance receivables	**8,094**	7,057	**—**	—	**32,670**	29,449	**(24,576)[5]**	(22,392)[5]
Proceeds from sale of finance receivables	**1,067**	900	**—**	—	**2,110**	1,430	**(1,043)[5]**	(530)[5]
Net intercompany borrowings	**—**	—	**123**	111	**(2)**	—	**(121)[6]**	(111)[6]
Investments and acquisitions (net of cash acquired)	**(513)**	(13)	**(513)**	(13)	**—**	—	**—**	—
Proceeds from release of security deposit	**—**	530	**—**	530	**—**	—	**—**	—
Proceeds from sale of available-for-sale securities	**539**	257	**26**	15	**513**	242	**—**	—
Investments in available-for-sale securities	**(681)**	(338)	**(35)**	(20)	**(646)**	(318)	**—**	—
Other — net	**323**	194	**33**	10	**294**	197	**(4)[8]**	(13)[8]
Net cash provided by (used for) investing activities	**(3,796)**	(3,525)	**(1,917)**	(484)	**(1,193)**	(3,673)	**(686)**	632
Cash flow from financing activities:								
Dividends paid	**(726)**	(618)	**(726)**	(618)	**(372)**	(22)	**372 [9]**	22 [9]
Common stock issued, including treasury shares reissued	**414**	482	**414**	482	**(13)**	(14)	**13 [8]**	14 [8]
Treasury shares purchased	**(3,208)**	(1,684)	**(3,208)**	(1,684)	**—**	—	**—**	—
Excess tax benefit from stock-based compensation	**169**	—	**169**	—	**—**	—	**—**	—
Net intercompany borrowings	**—**	—	**2**	—	**(123)**	(111)	**121 [6]**	111 [6]
Proceeds from debt issued (original maturities greater than three months)	**11,269**	14,574	**1,445**	574	**9,824**	14,000	**—**	—
Payments on debt (original maturities greater than three months)	**(10,375)**	(11,620)	**(839)**	(654)	**(9,536)**	(10,966)	**—**	—
Short-term borrowings (original maturities three months or less) — net	**(136)**	19	**(593)**	317	**457**	(298)	**—**	—
Net cash provided by (used for) financing activities	**(2,593)**	1,153	**(3,336)**	(1,583)	**237**	2,589	**506**	147
Effect of exchange rate changes on cash	**12**	(78)	**8**	(62)	**4**	(11)	**—**	(5)[7]
Increase (decrease) in cash and short-term investments	**(578)**	663	**(632)**	681	**54**	(18)	**—**	—
Cash and short-term investments at beginning of period	**1,108**	445	**951**	270	**157**	175	**—**	—
Cash and short-term investments at end of period	**$ 530**	$ 1,108	**$ 319**	$ 951	**$ 211**	$ 157	**$ —**	$ —

[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 accounting.

[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] Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.

[6] Net proceeds and payments to/from Machinery and Engines and Financial Products.

[7] Elimination of the effect of exchange on intercompany balances.

[8] Change in investment and common stock related to Financial Products.

[9] Elimination of dividends from Financial Products to Machinery and Engines.

OUTLOOK

SALES AND REVENUES OUTLOOK

The sales and revenues outlook for 2007 is a range of $41.5 billion to $43.6 billion. The midpoint of the 2007 range represents an increase of about $1.0 billion, or 2.5 percent. This expected increase is due to improved price realization, the impact of Progress Rail for a full year and increased Financial Products revenues, partially offset by a decline in Machinery and Engine volume of approximately 2 to 3 percent.

The majority of the decline in sales volume is a result of a sharp decline in sales of on-highway truck engines, a large decline in sales of machines for U.S. housing construction and expected declines in dealer inventories. These negative effects on sales are expected to be largely offset by strength in industries like mining and petroleum, volume growth outside of North America and a full year of Progress Rail sales.

- We expect global liquidity will tighten further in 2007 as European, Japanese and many developing country banks raise interest rates further. However, increases will come from relatively low interest rate levels so the impact on economic growth in 2007 should be modest. Expected mid-year rate cuts in North America will not have much effect in 2007.
- We forecast worldwide economic growth to slow from 4 percent in 2006 to 3.5 percent in 2007. Growth should slow in all regions and will fall below trend growth in North America.
- Europe recovered from five years of weak growth in 2006, and prospects for 2007 continue to be positive. Continuing good performance in the European economy should help compensate for slowing in the U.S. economy.
- Developing countries should continue their best recovery in years. Exports are doing well, and many have improved their ability to withstand any tightening in world liquidity by accumulating sizable international reserves. Commodity prices should remain high in 2007, a further aid to these economies.
- Housing construction should drop further in the United States but will do well in other regions. Home prices are increasing, and credit terms are generally attractive.
- Nonresidential construction should grow in most countries. High corporate profits, rapid growth in commercial borrowing and increased office rents should encourage businesses to invest more. Infrastructure construction should benefit from further improvements in government financing and good economic growth.
- Metals prices increased steadily over the course of 2006, peaking in December. We expect prices to ease over coming months but not much faster than they rose in 2006. As a result, many metals prices in 2007 will average close to 2006 average levels. Market fundamentals — growing demand, tight inventories and the potential for supply problems — support a need for increased investment in 2007.
- West Texas Intermediate crude oil prices dropped sharply from the early July 2006 peak of $77 per barrel; we forecast prices will average around $58 per barrel in 2007. A number of countries increased production capacity, which will likely reduce market concerns regarding supply disruptions. However, worldwide spare capacity remains below the historical average, and prices are still attractive for new investments. We expect further growth in exploration, drilling, pipeline expenditures and tar sands development in 2007, which should benefit both machinery and engine sales.
- International spot prices for coal are trading above 2006 prices, and demand continues to be strong. We expect increased investments in coal mines outside North America.
- Demand for marine engines should continue strong. Ocean shipping rates are favorable. The world's fleet has a high percent of ships over 20 years old, and shipyards have healthy order backlogs.

North America (United States and Canada) — Machinery and Engines sales are expected to decrease 8 percent in 2007. For machinery, the most significant decline is expected for machines used in housing construction. In addition, we expect dealers to significantly reduce machine inventories. For engines, the decline is primarily related to on-highway engines.

- The initial estimate of U.S. economic growth in fourth quarter 2006 was a 3.5 percent annual rate, above what the Federal Reserve would consider trend growth. As a result, the Fed likely will not see a need to change interest rates in the near future.
- We believe the fourth-quarter growth was a temporary improvement and that economic growth for 2007 will be below trend at 2.5 percent. Housing, auto sales and freight activity are declining, and manufacturing slowed in the fourth quarter. Without interest rate relief, recoveries in those sectors seem unlikely, and other sectors could weaken.
- Our forecast assumes that a slow-growing economy and a further easing in inflation will eventually prompt the Fed to react. We look for two 25-basis points cuts in 2007, with the first coming around midyear — too late to have much impact on economic growth in 2007.
- Lower mortgage interest rates and better wage growth stabilized new home sales late in 2006, but the inventory of unsold new homes has kept downward pressure on new construction. Builders likely will take a good part of 2007 to bring home inventories into better balance with sales. Our forecast is that housing starts will decline to 1.7 million units in 2007, down from a little over 1.8 million in 2006.
- Nonresidential construction should increase in 2007 but at a slower rate than in 2006. Federal highway funding will increase less rapidly, and the financial incentives for businesses to invest in new facilities will likely be less attractive.
- Lower spot coal prices, increased coal stockpiles and slower growth in electricity usage should cause coal mine production to increase 2 percent in 2007, down from 5 percent growth in 2006.
- Metals mines output declined slightly in 2006, but we expect output to increase 3 percent in 2007. With metals prices averaging near those in 2006, investment should increase again in 2007.
- The U.S. government implemented new emissions standards for on-highway truck diesel engines at the start of 2007. The uncertainties associated with new standards caused trucking firms to accelerate purchases and truck dealers to build inventories in 2006. As a result, we expect close to a 50 percent decline in the North American on-highway truck industry in 2007.
- Overall economic conditions in Canada should closely mirror those in the United States. However, lower interest rates and the impact of mining and energy development should provide better support for machinery sales than in the United States.

EAME — Machinery and Engines sales are expected to increase 13 percent in 2007.

- Recent data confirmed the European Union economy is growing above trend. Surveys and leading indicators suggest this strength should continue near term.
- The European Central Bank raised its interest rate to 3.5 percent in December of 2006, and we expect that rate will increase to 4 percent by year-end 2007. The Bank of England recently raised its interest rate to 5.25 percent, which we expect to be unchanged for 2007.
- Interest rate increases in 2007 should not disrupt economic growth. Our forecast is for economic growth of about 2.25 percent in 2007, down from 2.75 percent growth in 2006.
- We expect both residential and nonresidential construction to increase again in 2007. Home prices are up, mortgage rates remain attractive and lending to businesses has been increasing at a 12 percent rate. Good economic growth and increased business investment should boost demand for standby electrical power.
- Africa/Middle East looks set to continue its three-year economic boom, which has driven large increases in machinery and engines sales. Regional economic growth should be about 5 percent in 2007, only slightly less than 2006.
- Exports are sustaining economic growth in Turkey, which in turn is driving good construction growth. African countries should continue to benefit from high commodity prices, increased oil production and more foreign investment.
- The sharp increase in oil prices contributed to significant construction booms in the Middle East. However, countries did not increase spending as fast as revenues grew. So these countries have the financial reserves to continue spending, even in the face of lower production and prices.
- The CIS has enjoyed more than 5 percent yearly economic growth since the 1998 Russian debt crisis, and that trend should extend through 2007, with growth of almost 7 percent. High commodity prices have enabled the region to run large trade surpluses and accumulate sizable foreign exchange reserves. Low internal interest rates have bolstered domestic spending.

Latin America — Machinery and Engines sales are expected to increase 1 percent in 2007.

- We expect that regional growth will average almost 4.5 percent in 2007, down from over 5 percent in 2006. Construction should grow faster than the overall economy, and high metals prices should contribute to an expansion in mining.
- Most governments have reduced outstanding debt relative to the size of their economies, and several have shifted borrowings from U.S. dollars to local currencies. This means the expected tightening in world liquidity should not have much impact on the region.
- Internally, interest rates remain low, and the largest economy, Brazil, probably will cut interest rates further in 2007. Domestic spending should continue to be strong.
- The region is running a current account surplus, which has allowed several countries to accumulate sizable foreign currency reserves. Overall, reserves exceed short-term external financing requirements, providing more scope to deal with any weakening in exports.
- Several governments are putting more emphasis on public spending. While the long-term impact of these changes likely will be inflationary, domestic spending and construction should benefit in 2007.

Asia/Pacific — Machinery and Engines sales are expected to increase 17 percent in 2007.

- We project regional growth to slow from almost 7.5 percent in 2006 to around 7 percent in 2007. Contributing to slower growth will be a slowing in world trade and some tightening in internal policies, particularly in China. The Chinese government announced it would like to slow economic growth from the 10 percent rate in 2006.
- The region is running a sizable current account surplus, with over 70 percent originating in China. Government efforts to resist currency appreciation have resulted in international reserves far in excess of any short-term financing needs and have complicated efforts to control domestic credit growth.
- Favorable credit conditions and rapid growth contributed to good growth in construction in many countries in 2006, often in excess of 5 percent. We expect that construction will grow almost as fast in 2007.
- In 2006, a steep decline in sales into Indonesia offset a good part of the large gains in other large economies. Indonesia reduced interest rates in 2006, and we expect sales into that country will improve in 2007.
- Australia raised interest rates to 6.25 percent in 2006, and we expect the central bank to maintain that rate for 2007. Economic growth should remain sluggish at about 2.5 percent; however, good orders for nonresidential construction and increased mining investment should allow those sectors to outperform the overall economy.
- Increased oil exploration and development will drive sales growth in engines used in marine and petroleum applications. Increases in both infrastructure spending and industrial production will benefit standby electrical power.

Financial Products Revenues

- We expect continued growth in Financial Products for 2007. Revenues are expected to increase approximately 15 percent versus 2006, primarily due to higher average earning assets in 2007.

PROFIT OUTLOOK

We expect profit per share to be in the range of $5.20 to $5.70. 2007 is expected to benefit from improved price realization, partially offset by lower sales volume, higher core operating costs and a higher effective tax rate. Specifically, we expect research and development costs to be relatively flat in 2007 as we continue to invest in new products. Material costs were up about 1 percent in 2006 but are not expected to increase in 2007. In addition, 2007 will benefit from the absence of expense related to the settlement of various legal disputes with Navistar. 2006 included costs related to quality and production problems associated with a number of new product introduction programs and supply chain inefficiencies. We are not expecting that level of cost or disruption in 2007 as we continue to make progress on the implementation of the Cat Production System.

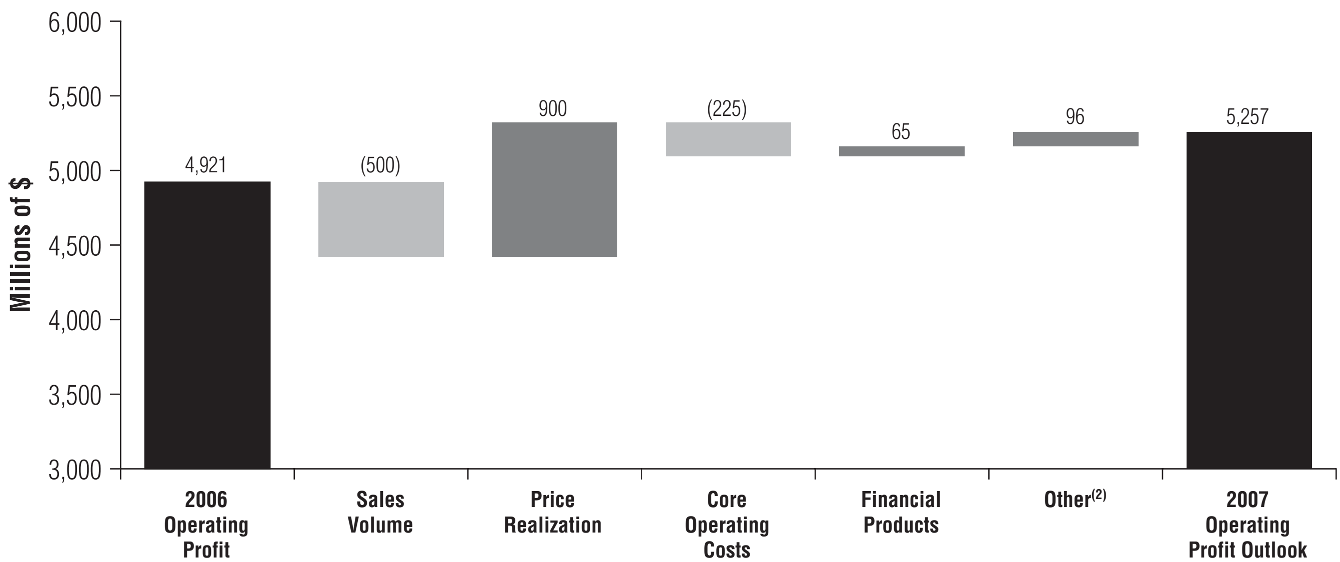
Sales and Revenues Outlook — Midpoint of Range[1]

(Millions of dollars)	2006 Actual	2007 Outlook	% Change
Machinery and Engines			
North America	**$ 20,155**	$ 18,600	(8)%
EAME	**10,287**	11,600	13 %
Latin America	**3,646**	3,700	1 %
Asia/Pacific	**4,781**	5,600	17 %
Total Machinery and Engines	**38,869**	39,500	2 %
Financial Products[2]	**2,648**	3,050	15 %
Total	**$ 41,517**	$ 42,550	2.5 %

[1] The Consolidated Operating Profit chart below reflects sales and revenues at the midpoint of the range.
[2] Does not include revenues earned from Machinery and Engines of $400 million and $466 million in 2007 and 2006, respectively.

Consolidated Operating Profit Comparison[1]

2007 Outlook vs. 2006



[1] The PPS outlook is between $5.20 and $5.70. The above chart illustrates operating profit at the midpoint of this profit range. Each of the stair steps in the chart may individually vary within the outlook range.
[2] Other includes the impact of currency, consolidating adjustments, M&E other operating expenses, operating profit of Progress Rail and the effects of rounding.

We expect on-highway truck engine units to decline approximately 50 percent in 2007. We expect a disproportionate share of the decline will occur in the first quarter. The drop in U.S. housing will have a significant impact on our sales of small and compact machines in North America. We estimate the combined impact of these two factors will negatively impact first quarter 2007 operating profit by about $200 million compared with first quarter 2006.

We expect our effective tax rate for 2007 will increase to 32 percent, approximately three percentage points from the 2006 rate of 29 percent, primarily due to the phase out of extraterritorial income exclusion (ETI). The American Jobs Creation Act provides for the phase out of ETI with 80 percent of the benefit in 2005, 60 percent of the benefit in 2006 and complete phase out in 2007.

Capital expenditures (excluding equipment leased to others) are expected to be approximately $1.80 billion, compared with approximately $1.60 billion in 2006 as we continue to invest in new product programs and add capacity.

* * *

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 Item 1A of this Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS ■

SUPPLEMENTAL STOCKHOLDER INFORMATION

Shareholder Services:

Registered stockholders should contact:

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Shares held in Street Position
Stockholders that hold shares through a street position should contact their bank or broker with questions regarding those shares.

Stock Purchase Plan:

Current stockholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Transfer Agent. Current stockholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-stockholders can request program materials by calling: (800) 842-7629 (U.S. and Canada) or (201) 680-6578 (outside the U.S. and Canada). The Investor Services Program materials are available on-line from Mellon's website or linked from www.CAT.com/dspp.

Investor Relations:

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Peoria, IL 61629-5310
Phone: (309) 675-4549
Fax: (309) 675-4457
E-mail: **CATir@CAT.com**
Internet: www.CAT.com/investor

Common Stock (NYSE: CAT)

Listing Information: Caterpillar common stock is listed on the New York and Chicago stock exchanges in the United States, and on stock exchanges in Belgium, France, Germany, Great Britain and Switzerland. Caterpillar voluntarily delisted from the NYSE Arca Exchange (formerly Pacific Stock Exchange) in January 2007.

Compliance: For 2006, Caterpillar filed Annual CEO Certifications in compliance with New York and NYSE Arca stock exchange rules and CEO/CFO certifications in compliance with Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These certifications are included as exhibits to our Form 10-K filing for the relevant fiscal year.

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:

	2006		2005[1]	
Quarter	**High**	**Low**	High	Low
First	**$77.21**	**$57.05**	$49.98	$43.20
Second	**$82.03**	**$64.41**	$51.49	$41.31
Third	**$75.43**	**$62.09**	$59.88	$47.43
Fourth	**$70.92**	**$58.82**	$59.84	$48.25

[1] Price ranges reflect July 2005 2-for-1 stock split.

Number of Stockholders: Stockholders of record at year-end totaled 39,075, compared with 38,329 at the end of 2005. Approximately 63 percent of our issued shares are held by institutions and banks, 30 percent by individuals, and 7 percent by employees through company investment plans.

Caterpillar qualified investment plans held 40,025,772 shares at year-end, including 5,087,149 shares acquired during 2006. Non-U.S. employee stock purchase plans held an additional 4,848,066 shares at year-end, including 721,024 shares acquired during 2006.

Company Information:

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 by visiting www.CAT.com/materialsrequest

Historical information:

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

Annual Meeting:

On Wednesday, June 13, 2007, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held at the Q Center in St. Charles, Illinois. Proxy materials are being sent to stockholders with this report on or about April 28, 2007.

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, 2006)				
	Audit	Compensation	Governance	Public Policy
W. Frank Blount			✔*	
John R. Brazil	✔			
Daniel M. Dickinson		✔		
John T. Dillon	✔			
Eugene V. Fife	✔*			
Gail D. Fosler			✔	
Juan Gallardo				✔
David R. Goode	✔			
Peter A. Magowan			✔	
William A. Osborn		✔*		
James W. Owens				
Charles D. Powell				✔*
Edward B. Rust, Jr.		✔		
Joshua I. Smith		✔		✔
* Chairman of Committee				

OFFICERS

James W. Owens	Chairman and Chief Executive Officer
Stuart L. Levenick	Group President
Douglas R. Oberhelman	Group President
Gerald L. Shaheen	Group President
Gérard R. Vittecoq	Group President
Steven H. Wunning	Group President
Kent M. Adams	Vice President
William P. Ainsworth	Vice President
Ali M. Bahaj	Vice President
Sidney C. Banwart	Vice President
Michael J. Baunton	Vice President
Rodney C. Beeler	Vice President
Mary H. Bell	Vice President
James B. Buda	Vice President, General Counsel and Secretary
David B. Burritt	Vice President and Chief Financial Officer
Rodney L. Bussell	Vice President
Christopher C. Curfman	Vice President
Paolo Fellin	Vice President
Steven L. Fisher	Vice President
Thomas A. Gales	Vice President
Stephen A. Gosselin	Vice President
Hans A. Haefeli	Vice President
John S. Heller	Vice President
Richard P. Lavin	Vice President
William D. Mayo	Vice President
Daniel M. Murphy	Vice President
Gerald Palmer[1]	Vice President
James J. Parker	Vice President
Mark R. Pflederer	Vice President
Edward J. Rapp	Vice President
William J. Rohner	Vice President
Christiano V. Schena	Vice President
William F. Springer	Vice President
Gary A. Stampanato	Vice President
Gary A. Stroup	Vice President
James D. Waters	Vice President
Robert T. Williams	Vice President
Bradley M. Halverson	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, 2006, except as noted.

[1]*Retired effective December 31, 2006*

EXHIBIT 21

CATERPILLAR INC.
SUBSIDIARIES AND AFFILIATES
(as of December 31, 2006)

Name of Company	Where Organized
10G LLC	Delaware
A.S.V., Inc.	Minnesota
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
Advanced Filtration Systems Inc.	Delaware
Aiwa Co., Ltd.	Japan
Akoya, Inc.	Delaware
Amberly Investments	New Zealand
Anchor Coupling Inc.	Delaware
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
CAE Co., Ltd.	Japan
Carter Machinery Company, Incorporated	Delaware
Carter Rental, Inc.	Virginia
Cat Redistribution Services Corporation	Japan
Cat Rental East Japan Ltd.	Japan
Cat Rental Kyushu Ltd.	Japan
Cat Rental West Japan Ltd.	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 (China) Financial Leasing Co., Ltd.	China
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Thailand) Limited	Thailand
Caterpillar (Suzhou) Co., Ltd.	China
Caterpillar (U.K.) Limited	England
Caterpillar (Xuzhou) Design Center Ltd.	China
Caterpillar AccessAccount Corporation	Nevada
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 Brazil LLC	Delaware
Caterpillar CDD, S.L.	Spain
Caterpillar China Limited	Hong Kong
Caterpillar CIS LLC	Russia
Caterpillar CMC Finance Corporation	Delaware
Caterpillar CMC, LLC	Delaware
Caterpillar Commercial Australia Pty. Ltd.	Australia
Caterpillar Commercial Holding S.A.R.L.	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 Communications LLC	Delaware
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 Engine Systems Inc.	Delaware
Caterpillar Environmental Technologies Mexico, S. de R.L. de C.V.	Mexico
Caterpillar European Finance s.r.o.	Czechoslovakia
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 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 SARL	Switzerland
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 Belgium S.P.R.L.	Belgium
Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH	Germany
Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited Les Services Financiers Caterpillar Limitee	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Netherlands B.V.	Netherlands
Caterpillar Financial Services Norway AS	Norway
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. z o.o.	Poland
Caterpillar Financial Services Yugen Kaisya	Japan
Caterpillar Fomento Comercial Ltda.	Brazil
Caterpillar Forest Products Inc.	Delaware
Caterpillar Formacion Tecnica, S. L.	Spain
Caterpillar France SAS	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.S.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Ltd.	Bermuda
Caterpillar Holding Spain, S.L.	Spain
Caterpillar Holdings Australia Pty. Ltd.	Australia
Caterpillar Holdings Singapore Pte. Ltd.	Singapore
Caterpillar Hungary Component Manufacturing Ltd.	Hungary
Caterpillar Hydraulics (Wuxi) Co., Ltd.	China
Caterpillar Impact Products Limited	United Kingdom
Caterpillar India Private Limited	India
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 Coöperatie U.A.	Netherlands
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Ltd.	Bermuda
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 Services, S.R.L.	Costa Rica
Caterpillar Latin America Servicios de Chile Limitada	Chili
Caterpillar Leasing (Thailand) Limited	Thailand
Caterpillar Leasing Chile, S.A.	Chile

Caterpillar Leasing GmbH (Leipzig)	Germany
Caterpillar Life Insurance Company	Missouri
Caterpillar Logistics (Shanghai) Co. Ltd.	China
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 ML Services France SAS	France
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	Germany
Caterpillar Logistics Services India Private Limited	India
Caterpillar Logistics Services International	Russia
Caterpillar Logistics Services International 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 Supply Chain Services GmbH	Germany
Caterpillar Logistics Technology Services (UK) Limited	England and Wales
Caterpillar Logistics Technology Services LLC	Delaware
Caterpillar Luxembourg Group S.a.r.l.	Luxembourg
Caterpillar Luxembourg S.a.r.l.	Luxembourg
Caterpillar Marine Asia Pacific Pte. Ltd.	Singapore
Caterpillar Marine Trading (Shanghai) Co., Ltd.	China
Caterpillar Materiels Routiers S.A.	France
Caterpillar Mexico LLC	Delaware
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Mining Chile Servicios Limitada	Chile
Caterpillar Motoren (Guangdong) Co. Ltd.	China
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren Rostock GmbH	Germany
Caterpillar Motoren Verwaltungs-GmbH	Germany
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 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.R.L.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas Limited	United Kingdom

Caterpillar Overseas S.A.R.L.	Switzerland
Caterpillar Panama Services SA	Panama
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 Generations Systems L.L.C.	Delaware
Caterpillar Power India Private Limited	India
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 Prodotti Stradali S.r.l.	Italy
Caterpillar Product Development S.A.R.L.	Switzerland
Caterpillar Product Services Corporation	Missouri
Caterpillar R&D Center (China) Co., Ltd.	China
Caterpillar Redistribution Services Inc.	Delaware
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Reman Acquisition LLC	Delaware
Caterpillar Reman Powertrain Services, Inc.	South Carolina
Caterpillar Remanufacturing Limited	England and Wales
Caterpillar Remanufacturing Services (Shanghai) Co. Ltd.	China
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Services Limited	Delaware
Caterpillar Servicios Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Servizi Italia Srl	Italy
Caterpillar Skinningrove Limited	England and Wales
Caterpillar Special Services Belgium SPRL	Belgium
Caterpillar Switchgear Holding Inc.	Georgia
Caterpillar Technologies Singapore Pte. Ltd.	Singapore
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 UGM Techonolgy Pty. Ltd.	Australia
Caterpillar UK Acquisition Partners LP	United Kingdom
Caterpillar UK Employee Trust Limited	England and Wales
Caterpillar UK Group Limited	United Kingdom
Caterpillar UK Holding Company Limited	United Kingdom
Caterpillar UK Holdings Limited	England and Wales
Caterpillar Underground Mining Pty. Ltd.	Australia
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools, Inc.	Kansas
Caterpillar Work Tools Verwaltungs-GmbH	Germany
Caterpillar World Trading Corporation	Delaware
Caterpillar Xuzhou Ltd.	China
Caterpillar/SCB Investments LP	Delaware
Caterpillar/SCB Receivables Finance LP	Nevada

Catsub I, Inc.	Oregon
Central Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Centre de Distribution de Wallonie SA	Belgium
CFRC/CFMC Investments, LLC	Delaware
Chemetron-Railway Products, Inc.	Delaware
Clean World Co.	Japan
CM Rental Hokkaido Co., Ltd.	Japan
Cramo Holding AB	Sweden
Cramo Holding BV	The Netherlands
Depositary (Bermuda) Limited	Bermuda
Diamond Office Management Co., Ltd.	Japan
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
Endeavour Caterpillar New Zealand Finance Company	New Zealand
Energy Services International Limited	Bermuda
Energyst B.V.	Netherlands
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Eurenov S.A.S.	France
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
FCC Equipment Financing, Inc.	Singapore
Federal Financial Services LLC	Delaware
Firefly Energy Inc.	Delaware
FM Industries, Inc.	Texas
FMS Equipment Rentals Inc.	Delaware
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
Hokkaido Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Hokken Service Co.	Japan
Hydropro S.r.l.	Italy
Industrial Rubber Hoses	Tunisia
Inmobiliaria Conek, S.A.	Mexico
Intelligent Switchgear Organization LLC	Delaware
Ironmart LLC	Delaware
IronPlanet.com, Inc.	Delaware
JAX Reman, L.L.C.	Delaware
Jupiter Power (Cambodia) Co., Ltd.	Cambodia
Jupiter Power Asia Co., Ltd.	Cambodia
Jupiter Power Holdings Ltd.	Bermuda
Kentuckiana Railcar Repair & Storage Facility	Indiana
Kiden Lease Co., Ltd.	Japan

K-Lea Co., Ltd.	Japan
Loegering Mfg. Inc.	North Dakota
M.O.P.E.S.A. Motores Power, S.A.	Mexico
Machida Kiko Co., Ltd.	Japan
MaK Americas Inc.	Illinois
MaK Beteiligungs GmbH	Germany
MaK Power Systems Lanka (Private) Ltd.	Sri Lanka
MaK Trainings GmbH	Germany
MCFA Canada Ltd.	Ontario
MCFA FSC Inc.	Barbados
Mec-Track S.r.l.	Italy
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
Nihon Kenki Lease Co., Ltd.	Japan
Okinawa Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
P. T. Caterpillar Finance Indonesia	Indonesia
P. T. Natra Raya	Indonesia
P. T. Solar Services Indonesia	Indonesia
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 France (SAS)	France
Perkins Holdings Limited LLC	Delaware and England and Wales
Perkins International Inc.	Delaware
Perkins Limited	England and Wales
Perkins Motoren GmbH	Germany
Perkins Motores do Brasil Ltda.	Brazil
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
Premier Automotive Parts Limited	United Kingdom
Progress Metal Reclamation Company	Kentucky
Progress Rail Canada Corporation	Canada
Progress Rail Holdings Inc.	Alabama
Progress Rail Raceland Corporation	Delaware

Progress Rail Services Corporation	Alabama
Progress Rail Services de Mexico S.A. de C.V.	Mexico
Progress Rail Services Holdings Corporation	Delaware
Progress Rail Services LLC	Delaware
Progress Rail Transcanada	Canada
Progress Vanguard Corporation	Delaware
Przedsiebiorstwem Energetyki Cieplncj (Bugaj)	Poland
Railcar Ltd.	Delaware
Rapidparts Inc.	Delaware
Rapisarda Industries Srl	Italy
RelayStar SA	Belgium
S & L Railroad, LLC	Nebraska
Sabre Engines Limited	England
Sanko Rental Co.	Japan
SCM Accounting Service Co., Ltd.	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 Singapore Holdings Pte. Ltd.	Singapore
SCM System Service Co., Ltd.	Japan
Servicios Administrativos Progress S. de R.L. de C.V.	Mexico
Servicios Ejecutivos Progress S. de R.L. de C.V.	Mexico
Servicios Ferroviarios Progress S. de R.L. de C.V.	Mexico
Servicios Logisticos Progress S. de R.L. de C.V.	Mexico
Shandong SEM Machinery Co Ltd.	China
Shin Caterpillar Mitsubishi Ltd.	Japan
Societe de Electricite d’el 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 of Argentina S.R.L.	Argentina
Solar Turbines Services Company	California
Solar Turbines Services Nigeria Limited	Nigeria
Solar Turbines Trinidad & Tobago	Trinidad and Tobago
Southern Machine & Tool Company	Georgia
SPL Software Alliance LLC	Delaware
STI Capital Company	Delaware
Tech Itoh Co., Ltd.	Japan
Technocast, S.A. de C.V.	Mexico
Tecnologia Modificada, S.A. de C.V.	Mexico
Tohoku Rental Service Co., Ltd.	Japan
Tokyo Rental Co., Ltd.	Japan
Tone Lease Co.	Japan
Tri-County Venture Capital Fund I, LLC	Delaware
Tunnel Rental Co., Ltd.	Japan
Turbinas Solar de Venezuela, C.A.	Venezuela
Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turbomach (India) Private Limited	India

Turbomach Asia Ltd.	Thailand
Turbomach Deutschland GmbH	Germany
Turbomach Endustriyel Gaz Turbinleri Sanayi V	Turkey
Turbomach Engergie S.A.R.L.	France
Turbomach Limited	United Kingdom
Turbomach Netherlands B.V.	Netherlands
Turbomach Pakistan (Private) Limited	Pakistan
Turbomach S.r.L.	Italy
Turbomach SA - Spain	Spain
Turbomach SA - Switzerland	Switzerland
Turbomach Sp. Z o.o.	Poland
Turboservices SDN BHD	Malaysia
Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England
United Industries Corporation	Kentucky
VALA (UK) LP	United Kingdom
VALA B.V.	Netherlands
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands
West Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
West Virginia Auto Shredding Inc.	West Virginia
Wright Equipment Company (Proprietary) Limited	South Africa
XPART Limited	England and Wales
Yeep Co.	Japan

EXHIBIT 23

PRICEWATERHOUSECOOPERS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-43133, 33-46194, 333-22041, 333-43983, 333-57512, 333-71468, 333-136265, 333-135123, 333-135465) and Form S-8 (Nos. 2-97450, 333-37353, 33-8003, 333-03609, 333-41464, 333-98197, 333-115837, 333-32853, 33-32851, 333-111355, 333-128342, 333-135467, 333-133275, 333-133266, 333-133265) and Form S-4 (No.333-121003) of Caterpillar Inc. of our report dated February 22, 2007 relating to the financial statements and management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Peoria, Illinois
February 22, 2007

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) 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

    d) 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.

February 22, 2007	*/s/ James W. Owens*	Chairman of the Board and Chief Executive Officer
	(James W. Owens)	

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, David B. Burritt, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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.

February 22, 2007	*/s/ David B. Burritt*	Vice President and Chief Financial Officer
	(David B. Burritt)	

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, 2006 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.

February 22, 2007	*/s/ James W. Owens* (James W. Owens)	Chairman of the Board and Chief Executive Officer
February 22, 2007	*/s/ David B. Burritt* (David B. Burritt)	Vice President and 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.

EXHIBIT 99.1

Form Last Updated by the NYSE on April 28, 2006

NYSE Regulation

Domestic Company
Section 303A
Annual CEO Certification

As the Chief Executive Officer of **Caterpillar Inc.**
(Name of the Company)

and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

This certification is:

[X] Without qualification

or

[ ] With qualification

By:	*/s/James W. Owens*
Printed Name:	James W. Owens
Title:	Chairman and Chief Executive Officer
Date:	July 13, 2006

EXHIBIT 99.2

NYSE Arca

Domestic Company
Annual CEO Certification
(Rule 5.3(m))

As the Chief Executive Officer of **Caterpillar Inc.**
(Name of the Company)

and as required by Rule 5.3(m) of NYSE Arca Equities, Inc. ("NYSE Arca"), I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE Arca's Corporate Governance listing standards, other than has been disclosed to NYSE Arca pursuant to Rule 5.3(m) and described on Exhibit C to the Company's Rule 5.3(k)(5)(D) Annual Written Affirmation.

By:	*/s/James W. Owens*
Printed Name:	James W. Owens
Title:	Chairman and Chief Executive Officer
Date:	July 13, 2006