This is a great time to be part of Team Caterpillar—and the future promises to be even more rewarding. With our current outlook, projected sales and revenues should be close to $40 billion in 2006. That means we will have nearly doubled the size of our company in just three years, thanks to customers worldwide who have placed their trust and confidence in our products and services—and thanks to a global team of employees, dealers and suppliers who are working hand-in-hand to address the strong surge in customer demand. We’re in the midst of the most aggressive new product introduction campaign in our history and rapidly growing our service businesses. We’re making great gains in employee safety, engagement and diversity. And we’re laser-focused on reaching the 2010 targets in our new enterprise strategy.

I feel incredibly good about our accomplishments, but even better about the fact that we’re not stopping here. At a time when business is going well, when we’re hitting on all cylinders in the marketplace and growing around the world, our people are thinking about how we can improve and are putting substantive plans in place to get even better. As I said in this letter last year, I can’t think of another company in any industry that is better positioned to win in the global economy. Our vision is to be recognized as a great employer, an outstanding investment and an admired global leader committed to making progress possible around the world. I believe we’re well on our way.

ANOTHER RECORD YEAR

In 2005, we again achieved record financial results. Our sales and revenues were up 20 percent, reaching $36.34 billion. Our earnings of $2.85 billion were up 40 percent and reached $4.04 per share, our second consecutive year of record profits. And prospects for continued strong results are promising. We enter 2006 with one of the largest order backlogs in our history, particularly for large machines, engines and turbines—indicating continued market strength in the year ahead. And there are strong economic winds at our back. We’re three years into a period of explosive growth in all the major market segments we serve—global mining, global energy and infrastructure development in particular—and the future looks very strong in each.
This is a great time to be part of Team Caterpillar—and the future promises to be even more rewarding. With our current outlook, projected sales and revenues should be close to $40 billion in 2006. That means we will have nearly doubled the size of our company in just three years, thanks to customers worldwide who have placed their trust and confidence in our products and services—and thanks to a global team of employees, dealers and suppliers who are working hand-in-hand to address the strong surge in customer demand. We’re in the midst of the most aggressive new product introduction campaign in our history and rapidly growing our service businesses. We’re making great gains in employee safety, engagement and diversity. And we’re laser-focused on reaching the 2010 targets in our new enterprise strategy.

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Caterpillar’s record profits and strong cash flow enabled us to reinvest in the business, improve funding of employee benefit plans and reward our stockholders. We focused on growing the business by reinvesting $1.20 billion in capital expenditures (excluding equipment leased to others). For our employees, we improved the already well-funded status of our pension plans by contributing $912 million. For our stockholders, we increased the dividend 22 percent, our eleventh increase in the last twelve years, and repurchased nearly 34 million shares. Finally, we improved our financial strength as our stockholders’ equity increased $965 million. These actions significantly enhanced stockholder value.

Solid growth also continues in each of our major service businesses. Cat Financial is an integral part of our business model, contributing $364 million in profit in 2005. With a portfolio of $24 billion in receivables, it maintains a solid investment grade credit rating. Cat Financial enables many customers to acquire our products, and we’ve demonstrated that it has solid earnings stability—instrumental in our ability to maintain attractive profitability throughout the business cycle. The insurance arm of our financial products division provides cost-effective extended warranty coverage to customers and is also growing rapidly. In addition, Cat Logistics recorded double-digit growth in 2005 and announced new contracts to propel future growth, including Cat Logistics’ largest deal ever—a service parts distribution agreement with General Motors Europe.

INCREASING OUR PRESENCE IN GROWING MARKETS

Overall, business remains strong not only in the established markets of North America, Europe and Japan but in the emerging markets as well. We have teams on the ground establishing our proven global business model in China, India and Russia.

In China, we continue to make great strides, quickly expanding our dealer network, product line and logistics capabilities and offering Cat Financial services in-country. Achieving our vision means being a cost-effective competitor in every major currency zone, and doing so requires a solid manufacturing and supply base in those areas of the world. Yet, even as we grow worldwide, we will continue to maintain a strong U.S. manufacturing presence with significant exports.

A NEW STRATEGIC VISION

Significantly better execution is a key focus of our new enterprise strategy, developed and introduced to all employees in 2005. The first in a series of five-year strategic plans leading to our Vision 2020, the new strategy includes specific goals in the areas of people, product and process performance and profitable growth. While not a dramatic shift in direction, it does set aggressive targets—particularly in the areas of employee safety, product quality and customer order-to-delivery capability—and it puts a strong focus on rapid alignment and execution across all 30 of our business units.

Our 22 autonomous profit center business units, supported by eight service center units, are all driving for solid leadership positions in their respective markets and the product line. This organizational structure encourages the entrepreneurial zeal that will ensure our continued success in the global marketplace. And based on our leadership team’s and employees’ enthusiastic response to the roll-out of our new strategy, we are confident in our ability to deliver on these goals if the projected market environment materializes.

CATARPILLAR VALUES

At the foundation of our strategy is Our Values in Action, the update to our Worldwide Code of Conduct, first published in 1974. Our updated Code is now clearly defined by the values and behaviors that have made us successful for 80 years—and will drive our success in the future. We are justifiably proud of our strong ethical standards, but we know we can do more to build a values-based culture, particularly as we expand worldwide. In 2005, we added more than 8,000 employees, and as we continue to grow to meet demand, we must stay focused on hiring the best people and integrating them into our culture. By living our values, we are building one global Team Caterpillar—where we serve customers, develop people and leaders, focus on employee satisfaction and create an enriching environment for all who work here. In fact, during my 33 years with Caterpillar, I’ve never been prouder of this organization than I am today. Thanks to a strong focus on integrity, excellence, teamwork and commitment, we accomplished great things in 2005—many of which you can read about in this report.

One key to that is our ongoing effort to encode 6 Sigma disciplines into our daily work. Today more than 3,600 black belts are leading teams and nearly 36,000 employees are contributing to 6 Sigma projects worldwide. These teams are generating significant improvements in our key focus areas of employee safety, product quality and product availability. They also have played a major role in our ability to ramp up production dramatically within our existing facilities—and to help many suppliers break through capacity bottlenecks at the same time.
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OUR COMMITMENT TO SUSTAINABLE PROGRESS

Just as we are looking to encode 6 Sigma into Caterpillar’s DNA, we also are focused on raising the profile of sustainable development within our company. Enabling development is at the heart of our business, and doing so in an increasingly sustainable manner holds great benefits for our company, our customers and our world. We’re proud of the progress made to date—including five straight years on the Dow Jones Sustainability World Index—and we are issuing our first-ever sustainability report in conjunction with this annual report. Our goal is not just to report on what we’ve accomplished, but also to set definitive goals for what we’re working to achieve by 2010.

One element of sustainable development for Caterpillar is helping communities rebuild after natural disasters. During the recent hurricane season along the U.S. Gulf Coast and earthquakes in South Asia, Cat® equipment, dealers and employees provided as much relief of human suffering as possible and today are helping people rebuild in the affected areas.

Our quick, compassionate response made me proud to be part of the Caterpillar team.

GLOBAL LEADERSHIP

Overall, our product line remains the global leader, number one or two in virtually every market we serve, and we are committed to delivering the best quality to our customers. Our brands are strong and recognized worldwide as the highest in customer value. Our global manufacturing footprint is well established, with a highly integrated supply chain. Our distribution, sales, rental and product support capabilities are stronger than any competitor, delivering a terrific value proposition to our demanding customer base. Our service businesses are growing at a record pace. Further, our investments in product technology are growing, and our employees are the best and most experienced in the business.

MORE RECORD YEARS AHEAD

With all this, we feel good about our growth potential. In 2010, we’re targeting $50 billion in sales and revenues with 15 to 20 percent interim annual growth in earnings per share. We’re off to a strong start with a good line of sight to delivering these goals. Hitting these targets will continue to position Caterpillar as an outstanding investment opportunity.

That’s not to say we don’t have challenges. We do. First is safety. The health and well-being of our employees come above all else. None of our other goals matter if people are injured in the process of achieving them. We’ve made good progress the past few years, and the metrics in our new strategy will push us to improve even faster as we move toward our ultimate goal of zero injuries. Maintaining product quality standards also is critical. Quality is one of the reasons customers choose our equipment — it’s the hallmark of our reputation but our quality levels have hit a plateau in recent years. To remain the market leader, we must make breakthrough improvements in product quality now. The same is true for product availability. We must improve our order delivery processes so we can get our products to customers when they need them and faster than any competitor, all at lower costs and with less inventory tied up in our supply chain.

FINANCIAL HIGHLIGHTS

Years Ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004 (1)</th>
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<tr>
<td>Sales and revenues</td>
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<td>$30,306</td>
<td>$22,807</td>
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</tr>
<tr>
<td>Profit</td>
<td>$ 2,854</td>
<td>$ 2,035</td>
<td>$ 1,099</td>
<td>$ 798</td>
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<td>Profit per common share</td>
<td>$ 4.21</td>
<td>$ 2.97</td>
<td>$ 1.59</td>
<td>$ 1.16</td>
<td>$ 1.17</td>
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<tr>
<td>Research and development expenses</td>
<td>$ 1,084</td>
<td>$ 928</td>
<td>$ 669</td>
<td>$ 656</td>
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<tr>
<td>Year-end employment</td>
<td>85,116</td>
<td>76,920</td>
<td>69,169</td>
<td>68,990</td>
<td>72,204</td>
</tr>
<tr>
<td>Return on average stockholders’ equity</td>
<td>35.9%</td>
<td>30.0%</td>
<td>19.0%</td>
<td>14.4%</td>
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</tr>
<tr>
<td>Closing stock price (December 31)</td>
<td>$ 57.77</td>
<td>$ 48.76</td>
<td>$ 41.51</td>
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(1) The per share data reflects the 2005 2-for-1 stock split.

None of these challenges has an easy solution. But our team is committed to addressing them, and we’ve set aggressive goals and timelines for success. And those of you who know Caterpillar know this: When we say we’ll do something, we do it. We’ve proven that time and time again during our 80-year history. That’s why I am so excited about our company’s future. We have embarked on the “good to great” journey. We are committed to taking what is a very good company today and making it better, because we know what all our stakeholders expect — and deserve — is an even better Caterpillar tomorrow.
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Jim Owens, Chairman and CEO Caterpillar Inc.

CATERPILLAR 2005 Annual Report  4

LETTER TO STAKEHOLDERS

Group President; Steve Wunning, Group President; Doug Oberhelman, Group President; Jim Owens, Chairman and CEO; Barry Slakey, Group President; Gérard Vitté, Group President; Stu Levenick, Group President;

FINANCIAL HIGHLIGHTS

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CATERPILLAR AT A GLANCE

Our products, services and technologies fall into three principal lines of business:

MACHINERY
Caterpillar® machines do the world’s work. From earthmoving, mining and construction projects to forestry, waste, paving and any number of other applications, we have the right equipment—large and small—to help our customers get the job done right. We also lead the industry in the distribution of equipment and parts and offer that expertise to others through Caterpillar Logistics Services, Inc., one of the world’s largest integrated logistics organizations with more than 60 third-party clients.

ENGINES
Caterpillar reciprocating engines and engine systems provide power to the world. Our engines power our own construction and mining machines—plus trucks, ships and boats—and much more. Electrical power systems supply both primary and standby power for a wide variety of uses. Solar® industrial gas turbines power the production, processing and transporting of crude oil and natural gas and provide electrical power to many industries.

FINANCIAL PRODUCTS
We help customers around the globe purchase Cat and related equipment (new and used) through Caterpillar Financial Services Corporation and its subsidiaries. Customers can protect their Cat equipment by using various types of insurance offered by Caterpillar Insurance Holdings, Inc.

CATERPILLAR BRANDS

CATERPILLAR® Perkins™ Solar®

Caterpillar at a Glance

ASIA / PACIFIC

CATERPILLAR MACHINE & ENGINE FACILITY
City: Joaotuki
Country: China

CATERPILLAR MACHINE FACILITY
City: Xuzhou
Country: China

EUROPE, AFRICA, THE MIDDLE EAST AND THE COMMONWEALTH OF INDEPENDENT STATES (EAME)

CATERPILLAR MACHINE FACILITY
City: Gosselies
Country: Belgium

CATERPILLAR ENGINE FACILITY
City: Mossville, Illinois
Country: United States

USA

CATERPILLAR MACHINE FACILITY
City: Piracicaba
Country: Brazil

LATIN AMERICA

CATERPILLAR MACHINE FACILITY
City: Manaus, Brazil
Country: Brazil

ASIA / PACIFIC

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Integrity. Excellence. Teamwork. Commitment. These values are at the center of our Code and provide Caterpillar employees with a guide to making sound, ethical decisions every business day that serve the interests of all Caterpillar stakeholders. At Caterpillar, we strive to move beyond mere compliance with the laws and regulations that govern our business. The Code is proof of our commitment to build a business in which our employees can take pride, a company others respect and admire, and a world made better by our activities.

AT RIGHT:
Some of the members of the Caterpillar Worldwide Code of Conduct Team, from left to right: Paul Gaeto, Julia Kindred, Brian Gareau, Deborah Butler, Kate Parker, Julie Lagacy, Michael Worth

ONE TEAM CATERPILLAR, FOUR VALUES

PERFORMANCE STARTS WITH INTEGRITY

“Caterpillar’s work brings together thousands of people from around the globe, each with different backgrounds and experiences. What keeps our company grounded is a culture based on basic but far-reaching values. In 2005, we updated our Worldwide Code of Conduct to bring those values to the surface and explain to employees what they mean to Caterpillar’s business.

Integrity is the first of these values, because it is the foundation of all we do. It means that we’re honest in our words and actions. It means that when we promise something to a colleague or a customer, we do our utmost to deliver. It means we are respectful, open and honest in all interactions. It means that we won’t “look the other way” or have anything to do with unethical business practices—no matter where on the globe we operate. Certainly, building trust is the best way to enhance our reputation and to strengthen our relationships with those who rely on us. But more importantly, it is the right thing to do.”

MARK DAMSCHRODER, DIRECTOR OF CATERPILLAR’S OFFICE OF BUSINESS PRACTICES, PEORIA, ILLINOIS

A single set of core values unites Caterpillar across six continents, multiple business units, diverse customer industries and 85,000+ employees. These values—integrity, excellence, teamwork and commitment—are a direct outgrowth of the work we do together building, financing, maintaining, remanufacturing and supporting the world’s leading construction and mining equipment, engines and turbines.
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OUR WORK IS DRIVEN BY OUR VALUES

A single set of core values unites Caterpillar across six continents, multiple business units, diverse customer industries and 85,000+ employees. These values — integrity, excellence, teamwork and commitment — are a direct outgrowth of the work we do together building, financing, maintaining, remanufacturing and supporting the world’s leading construction and mining equipment, engines and turbines.
MAKING EXCELLENCE AN EVERYDAY EXPERIENCE

Perhaps no other organization has embraced 6 Sigma as fully as Caterpillar. Our use of 6 Sigma is literally transforming our business. Since its introduction at Caterpillar in 2001, 6 Sigma has rapidly become integral to sustaining our competitive advantage. 6 Sigma has dramatically enabled the revenue and profit gains Caterpillar has experienced in the last few years—and in 2005 alone 6 Sigma projects generated more than half a billion dollars in benefits directly related to supply chain issues. More than 42 percent of our workforce has been involved with at least one of the nearly 35,000 6 Sigma projects deployed since 2001. Thanks to the leadership of people like 6 Sigma Master Black Belt Pierre Tricnaux of Gosselies, Belgium, who coordinated the first “mixed” 6 Sigma training involving both Cat employees and suppliers in Europe, our work with key suppliers and dealers continues to strengthen our value chain. Almost 350 Cat suppliers worldwide now have more than six hundred 6 Sigma black belt project leaders—and almost 160 Caterpillar dealers, approximately 90 percent, have deployed 6 Sigma in their businesses.

EXTENDING THE POWER OF 6 SIGMA

One of Caterpillar’s largest suppliers in Europe and the rest of the world is the Fontana Group, a multinational manufacturer of high-strength fasteners and other hardware. Based in Veduggio, Italy, Fontana first became a Caterpillar supplier in 1963. Over the years, Fontana has become more than just a supplier to Caterpillar—it has served as a strong business partner. Today, Fontana is a major supplier and partner for Caterpillar facilities in Belgium, France and North America. Fontana has received several awards from Caterpillar, including our annual quality improvement award for the parts it provides to our Moline, Illinois, facility. Fontana has embraced 6 Sigma after being exposed to its benefits through its association with Caterpillar. Among the 6 Sigma projects Fontana has launched are a joint working group with Caterpillar to determine and coordinate common technical and engineering activities, a consolidation of existing parts and a new product design effort dedicated to reducing the proliferation of parts and components.
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WE ARE WORKING AS ONE

TEAMWORK TAKES THE PRIZE

For the first time, robotic vehicles completed a 132-mile off-road race through the Mojave Desert—with no humans at the helm. Caterpillar research, engineering and sponsorship propelled three vehicles, which demonstrated for the Defense Advanced Research Projects Agency (DARPA) the real-life applications of self-guided robotic technology.

Caterpillar collaborated closely with Carnegie Mellon University to design and provide technology for two vehicles, which finished second and third in the race. Cat engineer Josh Struble even moved to Pittsburgh to lead the “Red Team” of electronics engineers, which used Cat hardware platforms, wrote new software and developed new power systems. Working with international leaders and graduate students in the robotics field ties in directly with ongoing work at Caterpillar’s Tech Center in Mossville, Illinois, since much of the new technology will apply to future Cat machine research.

Caterpillar also sponsored the fifth-place vehicle fielded by Oshkosh Truck, a company that sources Cat engines for the military.

The DARPA victories demonstrate the power of Caterpillar’s partnerships with research institutions and other companies.

ROBOTS VICTORIOUS

The sun was just rising over the Mojave Desert on the morning of October 8, 2005, as 23 vehicles set out to conquer a 132-mile course through the desert’s untamed terrain. It couldn’t have been further from your typical road race: These vehicles—participating in the DARPA Grand Challenge 2005—were expected to literally navigate their own paths to the finish line, without human guidance or interference.

Nearly seven hours later, the first robotic vehicle completed the course. Just 12 minutes behind this winner was “Sandstorm,” the first of two vehicles engineered in part by Caterpillar and competing for the “Red Team.” In another 10 minutes, the second Red Team vehicle, “H1ghlander,” was the third to make history. As no vehicle even finished the inaugural Grand Challenge in 2004, this year’s teams demonstrated significant strides in robotics engineering and technology.
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With the mining industry experiencing unprecedented growth around the globe, Caterpillar has turned up the heat on its mining equipment production across the board, working around the clock to increase production. Caterpillar moved quickly in 2005 to upgrade its manufacturing facility in Decatur, Illinois, dramatically boosting production capacity at a critical site. Decatur manufactures Caterpillar’s newest mining innovation, the 793D mining truck, introduced in October with five distinct configurations that offer customers a broad choice to best suit their specific needs. All 793Ds are designed to provide low cost per ton with uncompromising quality.

In this extraordinary time, customers are looking to Caterpillar more than ever—not just to supply them with equipment—but also for ideas and strategies for responding to the high demand. In 2005, current industry challenges were a much-discussed topic at Caterpillar’s annual Global Mining Forum, where Caterpillar listened to customers and shared plans for helping meet the high demand.

The global mining industry is enjoying unprecedented demand for the minerals, metals and energy fuels it extracts—copper, lead, zinc, iron, gold, nickel and other mined commodities are all trading at record or near-record highs. Fueled by growing global demand, most notably in China and India, mining companies are expanding production. Caterpillar’s Global Mining Division is a major partner of the industry—supplying the trucks, loading tools and support equipment needed by mines to responsibly extract minerals and energy fuels. Caterpillar has significantly increased its production of mining trucks in the last three years. And we’re working in close partnership with our dealers and customers to schedule product deliveries, optimize parts logistics, extend tire life and track component lives—to keep the wheels turning on the world’s fleet of Cat mining equipment.
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Even though Caterpillar is an 80-year-old company, we are just getting started. Our work today enables tomorrow’s progress — and the building of an economic and social infrastructure designed to meet the growing demands of a growing world.
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**WE ARE SPEAKING A DIFFERENT LANGUAGE**

Caterpillar made great strides in 2005 investing in a new Innovation Center in Qingdao, Shandong Province, to accelerate the introduction of Cat technology in China and position Caterpillar as a national leader. The Center will support China-based ventures including Shandong SEM Machinery, a key Chinese wheel loader manufacturer providing new opportunities in China.

In the third quarter, several Caterpillar divisions became involved with the Shanghai Municipal Government, developer of the world’s largest industrial park, including Cat Reman and Cat Logistics. As part of the project, Caterpillar and the developer are working to facilitate trade and investment in the Shanghai region, which will help drive the success of Caterpillar’s China Distribution Center and Remanufacturing Services Operations.

**TACKLING THE SIBERIAN TUNDRA**

One of the world’s largest natural gas fields is tucked away in a remote area of Western Siberia—an unforgiving arctic wilderness where temperatures can drop below a chilling -40 degrees. In the remote Yamal-Nenets Autonomous Region more than 30 Caterpillar® earthmovers work 24-hour days, seven days a week, to help Stroygas consulting build and maintain a network of access roads that bring the region’s resources within reach.

Most site work can be done only during the frigid winter months when the ground is frozen. Cat machines can reliably withstand the winter’s punishing conditions and schedule. The Cat 740 articulated truck is particularly versatile. It can use the existing access roads vulnerable to spring’s melting snow and heavy rains without inflicting significant surface damage, and its rough terrain capability and low ground pressure mean it can work when the ground is softer or frozen.

**OUR WORK IS NOT FINISHED**
The Athabasca Oil Sands—known as the Athabasca Oil Sand Deposit—are the world’s largest deposit of oil, housing an estimated 1.7 to 2.5 trillion barrels of crude oil. It’s understood that there is little potential of finding conventional crude oil fields in North America beyond the Gulf Coast, so these oil sands are truly a buried treasure. They potentially represent more than one-third of the world’s oil reserves—as much as all the existing proven reserves of liquid petroleum in the world.

Mining the Athabasca sands produces more than 882,000 barrels of crude each day, and the supply is beginning to feature prominently in international trade talks as inexpensive oil becomes more and more scarce. Production is expected to continue for at least another 50 years, with output expected to increase sixfold by the year 2030. The petroleum contained within the Athabasca Oil Sands represents one of the most promising possible sources of non-Middle Eastern oil available, and will likely play an increasingly important role in meeting the ever-growing global demand for oil.
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For the past 15 years, India has closely followed China as the world’s second-fastest-growing economy. Infrastructure is needed to support a rapidly expanding economy fueled by entrepreneurship, and Caterpillar is leading the charge in projects like the National Highway Authority of India’s Golden Quadrilateral. With just over 500 miles to go, the “GQ” will ultimately encompass 3,625 miles (5,834 km) of four-to-six-lane highway that connects the four major metro areas of Delhi, Kolkata, Mumbai and Chennai. Nearly 170 Cat machines are moving earth for the GQ while about 50 Cat generator sets provide power for the project. The Golden Quadrilateral is just one of the most prominent examples of the kind of basic infrastructure building that Caterpillar enables in the developing world. Across growing economies in Asia, Latin America and Africa, Cat machines, generators and turbines are building the roads, airports, hospitals and sewer systems that the developing world needs.
WE ARE ADVANCING PROGRESS

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BUILDING A RESERVOIR OF CLEAN ENERGY

With its geothermal hot springs and glacial rivers, Iceland has long been a leader in the use of clean, renewable energy sources. The ability to create low-cost, environmentally-friendly electricity has been a major factor in Iceland’s industrial development in recent years.

Iceland’s latest project draws together two glacial rivers in a single reservoir to power generators deep inside the mountains. The resulting output of 4,600 gigawatts of electricity will run Alcoa’s new aluminum smelting plant under construction in Northeast Iceland. The reservoir is expected to begin generating power in April 2007.

Cat equipment was needed to construct site roads and otherwise prepare the area for construction of what will be Europe’s highest rock-filled dam. Iceland Cat dealer Hekla won contracts to supply the bulk of the equipment needed and formed a joint venture with Italian dealer CGT to supply one of the two contractors. The two contractors from Iceland and Italy chose Hekla and CGT because of machine reliability and excellent dealer service.

BUILDING ROADS TO ECONOMIC GROWTH

KARAHNJUKAR HYDROPOWER PROJECT: EASTERN ICELAND
Emission-reducing ACERT clean-diesel technology is at work in nearly 12,000 machine engines, nearly 4,500 Caterpillar industrial engines and more than 300,000 on-highway truck and bus engines. This breakthrough technology from Caterpillar was the first to reduce emissions at the point of combustion, and capitalizes on Caterpillar’s proven leadership in engine electronics, fuel injection systems and combustion technology. More than 400 Six Sigma projects led to the development of ACERT Technology. With even-more stringent emissions regulations slated to take effect in 2007, Caterpillar is in the process of field-testing a new generation of ACERT Technology that will meet or exceed the 2007 standards. We will be ready to ship 2007-compliant engines before the new regulations come into play. In addition, ACERT Technology not only achieves emissions compliance for its customers—it also offers superior fuel economy that saves them money.

WE ARE RISING TO THE CHALLENGE

A HALF CENTURY OF TECH LEADERSHIP

Fifty years after its trailblazing introduction, Caterpillar’s D9 track-type tractor retains its edge as a technologically advanced bulldozer with the power and reliability its operators have come to expect. Launched in 1955 to answer market demands for a larger, stronger track-type tractor, the D9 embodied Caterpillar’s talent for innovation and delivered a host of state-of-the-art features—a new engine, powertrain, stronger track and a new transmission system—that made it the world’s most powerful production track-type tractor. Through continued modernization and cutting-edge technology, Caterpillar has worked hard to keep today’s iteration, the D9T, just as cutting-edge. A global leader in its size class, the D9T looks and operates quite differently from its ancestor, but shares the same high quality and uncompromised reliability—and features high-tech exclusives that leave its competitors in the dust. AccuGrade® GPS and electro-hydraulic controls make operation easier and more productive—and an 18-liter Cat C18 engine with ACERT® Technology ensures the kind of environmentally responsible performance today’s world requires.

CAT C18 ENGINE WITH ACERT® TECHNOLOGY

CAT'S TINAJA HILLS DEMONSTRATION & LEARNING CENTER, GREEN VALLEY, ARIZONA
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Caterpillar is more than just a manufacturer. The company is a leader in the services that allow our customers to finance, maintain and support our machines. An industry leader in providing integrated logistics solutions and supply chain management, Cat Logistics serves more than 60 third-party clients worldwide. Leveraging Caterpillar’s expertise in building its own logistics capabilities positions clients for stronger performance. In 2005, General Motors Europe formed a joint venture with Cat Logistics, allowing for the largest logistics services agreement since its formation in 1987.

Solid profit performance and investment-grade credit ratings are mainstays of Cat Financial, the company’s finance division. Record revenues continued in 2005, along with growth opportunities in China. Also this year, the division introduced the Cat AccessAccount™ a flexible, revolving charge account that customers use to pay for parts, service and rentals at most U.S. Cat dealers.

One of Caterpillar’s unique capabilities is remanufacturing, an advanced recycling process that helps lower customer costs and contributes to a sustainable environment. Founded in the 1970s, today Cat Reman is one of the world’s largest remanufacturers.

Cat Reman annually remanufactures more than 2 million units—recycling more than 135 million pounds of products at its facilities in North America, Europe and soon in China. Using 6 Sigma, we introduced more than 30 new Reman products in 2005.

The division’s recent move to offer its capabilities to original equipment manufacturers in other industries has attracted top companies. In 2005, Cat Reman formed new alliances with both Land Rover, as a preferred supplier for remanufacturing products and services, and with longstanding business partner Honeywell, as a remanufacturer of its Garrett® turbochargers.

Cat Reman also acquired a minority stake in French remanufacturer Eurenov S.A. to expand its European presence in automotive, industrial engine and transmission remanufacturing. With top-line growth of 65 percent since 2001, Cat Reman is well-positioned as a growth division for the 21st century.

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Right Place, Right Time, Right Terms

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CATERPILLAR REMANUFACTURING FACILITY: PRENTISS COUNTY, MISSISSIPPI

GOOD AS NEW

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CATERPILLAR REMANUFACTURING FACILITY: PRENTISS COUNTY, MISSISSIPPI

RIGHT PLACE, RIGHT TIME, RIGHT TERMS

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In February 2005, Venezuela was battered by torrential rains that destroyed or severely damaged a good portion of the country’s infrastructure and drastically reduced its road, port population. Immediately, the government declared an emergency in six states and the Caracas metro area. The Minister of Infrastructure’s office began seeking a contractor to supply 300 machines necessary for emergency rebuilding and repair. Competing against two other companies, Cat dealer Venequip quickly arranged a plant tour for the Minister and other officials. Venequip was ultimately hired to provide Cat equipment plus operator training, product support shops and parts inventory, laptop computers and other support items. The machines went directly to work — repairing roads, bridges and other infrastructure in a way that is helping the people of this country reclaim their lives and mobility. This quick response is indicative of the commitment Caterpillar and its dealers have to the communities in which we do business.

WE ARE LENDING A HAND
Our Work is Not Finished

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In February 2005, Venezuela was battered by torrential rains that destroyed or severely damaged a good portion of the country’s infrastructure and created a virtual sea of mud and debris. The government declared an emergency in six states and the Caracas metro area. The Minister of Infrastructure’s office began seeking contractors to supply 300 machines necessary for emergency rebuilding and repair. Competing against two other companies, Cat dealer Venequip quickly arranged a plant tour for the Minister and other officials. Venequip was ultimately hired to provide Cat equipment plus operator training, product support shops and parts inventory, laptop computers and other support items. The machines went directly to work—repairing roads, bridges and other infrastructure in a way that is helping the people of this country reclaim their lives and mobility. This quick response is indicative of the commitment Caterpillar and its dealers have to the communities in which we do business.

HURRICANE KATRINA FLOOD RELIEF EFFORTS: NEW ORLEANS, LOUISIANA

REBUILDING INFRASTRUCTURE, REBUILDING LIVES

When natural disasters strike, Caterpillar, its dealers and employees respond with the equipment, know-how and money these stricken areas so desperately need. Caterpillar’s immediate, widespread response to hurricanes Katrina, Rita and Wilma mobilized products, personnel and resources to assist the governmental and third-party agencies with disaster relief. High-level actions: shipping Cat power modules to the Gulf Coast to power both homes and pumping efforts. Diverting significant commercial equipment to aid in recovery and cleanup. Shipping machines ready to work upon arrival. Increasing and expediting parts delivery to support working equipment. Mobilizing technicians from Solar Turbines to help our oil and gas customers assess and repair equipment on and offshore and get back up and running. Many Caterpillar employees traveled to the region to physically assist and thousands gave generously from their pocketbooks, with contributions matched by the Caterpillar Foundation.

VERENZUELAN FLOOD RELIEF

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Hôpital Albert Schweitzer (HAS) in Deschapelles, Haiti, serves 5,000 sick and injured people each month. To help ensure that these hurting people receive much-needed healthcare, four Caterpillar 3400 generator sets work nonstop behind the scenes providing electricity for the hospital.

“Without the electricity provided by Caterpillar generators, our work would be difficult, to say the least,” said Debbie Berquist Jules, HAS’s chief operating officer. “Equipment sterilization would take longer, anesthesia machines wouldn’t work, and the nurses would have to do their work by candle or lamp light.” To put things in perspective, the area surrounding the hospital has been without power for nearly a year, due to problems with the country’s electrical grid. Prior to that, power was sporadic at best. As a result of this situation, many local children use the dependable, always-on hospital security lights to provide illumination so they can complete their homework.

CAT POWER PROVIDES CRITICAL CARE

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WASTE NOT

Landfill-emitted methane and carbonic gases wreak havoc on the environment, accelerating global warming and contaminating the air we breathe. São Paulo’s Aterro Sanitário Municipal Bandeirantes—Brazil’s main sanitary landfill—produces literally tons of this unfortunate by-product. The city and one of the landfill’s operators decided to get creative, and turned to Caterpillar to help build a gas power generation plant on site that converts the gases into electrical energy, which is supplied to the local electric company as well as local businesses.

Local Cat dealer Sotreq S.A. plays a pivotal role in the project, which is expected to reduce methane emissions by 8 million tons over 15 years. Sotreq designed a turnkey conversion solution, then built the power plant. It houses and maintains 24 16-cylinder Cat generator sets, each producing 925 kilowatts of continuous power, to keep the plant in production. Sotreq also provided project management and logistics management, and helped integrate plant suppliers. Today, dealer personnel are on site 24 hours a day, ensuring nonstop operation of what has become the world’s largest sanitary gas-powered energy generation center.

We Are Looking to the Future
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ATERRO SANITÁRIO MUNICIPAL BANDEIRANTES: SÃO PAULO, BRAZIL

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CHILDREN OUTSIDE HÔPITAL ALBERT SCHWEITZER
Team Caterpillar’s focus in 2005 on meeting unprecedented customer demand produced another strong year for Caterpillar—in both record sales and revenues as well as profit per share. Employees, suppliers and dealers all responded incredibly well to realize the opportunity.

In 2005, sales and revenues reached $36.34 billion, up $6.03 billion, or 20 percent, from 2004. The increase was a result of $2.64 billion of higher Machinery volume, $1.08 billion of higher Engine volume, $1.83 billion of improved price realization and a $363 million increase in Financial Products revenues. Currency had a positive impact on sales of $128 million.

Full-year profit was the highest in company history—$2.85 billion, or $4.04 per share, up 40 percent. The improvement was primarily the result of higher price realization and sales volume, partially offset by an increase in core operating costs. The increase was a result of higher manufacturing costs, primarily material costs and supply chain-related inefficiencies. The remainder of the increase was to support the significant increase in sales volume along with new product programs.

Machinery and Engines operating profit as a percent of sales increased substantially—from 8.3 percent in 2004 to 10.3 percent in 2005. The increase was the result of improved price realization, higher sales volume and management of period cost structure, somewhat offset by continued pressure on variable manufacturing costs.

2005 was a strong year for operating cash flow—$3.11 billion on a consolidated basis and $2.81 billion for Machinery and Engines, which included $912 million of pension contributions. For Machinery and Engines, operating cash flow was primarily used to repurchase 33.9 million shares of stock, fund $1.16 billion of capital expenditures and pay $618 million of dividends.

Operating profit in 2005 improved $1.10 billion, or 41 percent, from 2004, driven by higher price realization and sales volume, partially offset by higher core operating costs and retirement benefits.
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Management’s Review of Operations
volume, $110 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.

In Asia/Pacific, sales increased 17 percent, or $419 million, compared to 2004—$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.

Machinery operating profit of $259 million from higher volume, $48 million due to currency, primarily related to a 3 percent— from 2004. Volume accounted for $1.08 billion, price realization added $484 million and currency added $21 million.

Dealer engine inventory increased during both full-year 2005 and 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.

In 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. Sales in EAME 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 ocean-going 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 21 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 33 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.

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### Customers by Industry

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$12.822</td>
<td>$10.337</td>
<td>$7.310</td>
</tr>
<tr>
<td>EAME</td>
<td>$5.222</td>
<td>$4.511</td>
<td>$3.596</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>$2.905</td>
<td>$2.486</td>
<td>$1.844</td>
</tr>
<tr>
<td>Latin America</td>
<td>$1.982</td>
<td>$1.510</td>
<td>$1.928</td>
</tr>
</tbody>
</table>

### New Machine Distribution to End Users

#### 2005 Worldwide Distribution by Major End Use

<table>
<thead>
<tr>
<th>End Use</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy Construction</td>
<td>32%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>General/Construction</td>
<td>27%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Mining</td>
<td>10%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Quarry &amp; Aggregates</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Industrial</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Marine</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
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</table>

### New Engine Distribution to End Users

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<th>End Use</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Electrical Power</td>
<td>30%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>On-Highway</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Industrial</td>
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### Engines

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### Engine Sales by Geographic Region

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Does not include internal engine transfers of $2,065, $1,738 and $1,358 (dollars in millions) in 2005, 2004 and 2003, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.
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Sales were up 21 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.

In 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 and 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.

**NEW MACHINERY DISTRIBUTION TO END USERS**

(2005 worldwide distribution by major end use)

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$12,822</td>
<td>$10,337</td>
<td>$7,310</td>
</tr>
<tr>
<td>EAME</td>
<td>$5,222</td>
<td>$4,511</td>
<td>$3,596</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>$2,905</td>
<td>$2,486</td>
<td>$1,844</td>
</tr>
<tr>
<td>Latin America</td>
<td>$1,982</td>
<td>$1,510</td>
<td>$958</td>
</tr>
</tbody>
</table>

**NEW ENGINE DISTRIBUTION TO END USERS**

(2005 worldwide distribution by major end use)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% Heavy Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27% General/Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19% Mining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% Quarry &amp; Aggregates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5% Industrial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3% Marine</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ENGINES**

Sales were $11.08 billion in 2005, up $1.58 billion—or 17 percent—from 2004. Volume accounted for $1.08 billion, price realization added $484 million and currency added $11 million.

Dealer engine inventory increased during both full-year 2005 and 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.

In 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. Sales in EAME 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 decreased shipments for turbines and turbine-related services for offshore oil platforms and gas transmission projects.

**LATIN AMERICA**

Sales were up 21 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.

In 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 and 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.
Eliminations of ($160), ($89), ($105), ($131) and ($249) (dollars in millions) for 2001, 2002, 2003, 2004 and 2005 respectively, are required to arrive at consolidated operating profit.

**Exports from the U.S. (dollars in millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Machinery</th>
<th>Engines</th>
<th>Financial Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>$12,158</td>
<td>$11,975</td>
<td>$13,678</td>
</tr>
<tr>
<td>02</td>
<td>$18,844</td>
<td>$18,675</td>
<td>$22,931</td>
</tr>
<tr>
<td>03</td>
<td>$22,931</td>
<td>$22,795</td>
<td>$27,836</td>
</tr>
<tr>
<td>04</td>
<td>$27,836</td>
<td>$27,695</td>
<td>$33,401</td>
</tr>
<tr>
<td>05</td>
<td>$33,401</td>
<td>$33,265</td>
<td>$39,437</td>
</tr>
</tbody>
</table>

**Sales & Revenues per Employee (dollars in thousands)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inside U.S.</th>
<th>Outside U.S.</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>43,878</td>
<td>38,128</td>
<td>82,006</td>
</tr>
<tr>
<td>2004</td>
<td>41,238</td>
<td>35,260</td>
<td>76,500</td>
</tr>
<tr>
<td>2003</td>
<td>38,792</td>
<td>33,909</td>
<td>72,701</td>
</tr>
</tbody>
</table>

**Full-Time Employees at Year End**

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>43,878</td>
<td>38,128</td>
<td>35,260</td>
</tr>
<tr>
<td>EAME</td>
<td>23,337</td>
<td>21,169</td>
<td>20,547</td>
</tr>
<tr>
<td>Latin America</td>
<td>23,337</td>
<td>21,169</td>
<td>20,547</td>
</tr>
<tr>
<td>Asia / Pacific</td>
<td>6,358</td>
<td>5,825</td>
<td>4,603</td>
</tr>
<tr>
<td>TOTAL</td>
<td>85,116</td>
<td>76,920</td>
<td>69,169</td>
</tr>
</tbody>
</table>

**Research and Development (dollars in millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Machinery</th>
<th>Engines</th>
<th>Financial Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>$1,483</td>
<td>$1,537</td>
<td>$2,333</td>
</tr>
<tr>
<td>02</td>
<td>$1,970</td>
<td>$2,037</td>
<td>$2,637</td>
</tr>
<tr>
<td>03</td>
<td>$2,333</td>
<td>$2,431</td>
<td>$3,153</td>
</tr>
<tr>
<td>04</td>
<td>$2,431</td>
<td>$2,557</td>
<td>$3,153</td>
</tr>
<tr>
<td>05</td>
<td>$2,557</td>
<td>$2,685</td>
<td>$3,211</td>
</tr>
</tbody>
</table>

**Corporate Giving (dollars in millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Latin America</th>
<th>EAME</th>
<th>Asia / Pacific</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>$1,084</td>
<td>$1,155</td>
<td>$1,100</td>
<td>$1,552</td>
<td>$4,991</td>
</tr>
<tr>
<td>02</td>
<td>$1,071</td>
<td>$1,155</td>
<td>$1,100</td>
<td>$1,552</td>
<td>$4,991</td>
</tr>
<tr>
<td>03</td>
<td>$1,090</td>
<td>$1,155</td>
<td>$1,100</td>
<td>$1,552</td>
<td>$4,991</td>
</tr>
<tr>
<td>04</td>
<td>$1,071</td>
<td>$1,155</td>
<td>$1,100</td>
<td>$1,552</td>
<td>$4,991</td>
</tr>
<tr>
<td>05</td>
<td>$1,090</td>
<td>$1,155</td>
<td>$1,100</td>
<td>$1,552</td>
<td>$4,991</td>
</tr>
</tbody>
</table>

**Engines operating profit of $1.07 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**

Revenues were $2.33 billion, up $363 million—or 18 percent—from 2004. The increase was due primarily to a $121 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.

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.

**Financial Information**

- Consolidated: Caterpillar Inc. and its subsidiaries
- Machinery and Engines: Primarily our design, manufacturing, marketing and parts distribution operations for our machinery and engines lines of business
- Financial Products: Our finance and insurance subsidiaries, primarily Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings, Inc.
Engines operating profit of $1.07 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
Revenues were $2.33 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.

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.
### Sales and Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (dollars in millions)</th>
<th>Percent inside the U.S.</th>
<th>Percent outside the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$36,339</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>2004</td>
<td>$30,306</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>2003</td>
<td>$22,807</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>2002</td>
<td>$20,185</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>2001</td>
<td>$20,510</td>
<td>49%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues (dollars in millions)</th>
<th>As a percent of sales and revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$2,333</td>
<td>6.7%</td>
</tr>
<tr>
<td>2004</td>
<td>$1,970</td>
<td>6.7%</td>
</tr>
<tr>
<td>2003</td>
<td>$1,759</td>
<td>7.9%</td>
</tr>
<tr>
<td>2002</td>
<td>$1,537</td>
<td>7.9%</td>
</tr>
<tr>
<td>2001</td>
<td>$1,483</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

### Profit and Loss

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit (dollars in millions)</th>
<th>As a percent of sales and revenues</th>
<th>Profit per common share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$2,854</td>
<td>7.9%</td>
<td>$4.21</td>
</tr>
<tr>
<td>2004</td>
<td>$2,035</td>
<td>6.7%</td>
<td>$2.97</td>
</tr>
<tr>
<td>2003</td>
<td>$1,099</td>
<td>4.8%</td>
<td>$1.59</td>
</tr>
<tr>
<td>2002</td>
<td>$798</td>
<td>3.3%</td>
<td>$1.16</td>
</tr>
<tr>
<td>2001</td>
<td>$805</td>
<td>3.4%</td>
<td>$1.17</td>
</tr>
</tbody>
</table>

### Dividends Declared per Common Share

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends Declared per Common Share (dollars in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$0.955</td>
</tr>
<tr>
<td>2004</td>
<td>$0.800</td>
</tr>
<tr>
<td>2003</td>
<td>$0.720</td>
</tr>
<tr>
<td>2002</td>
<td>$0.700</td>
</tr>
<tr>
<td>2001</td>
<td>$0.695</td>
</tr>
</tbody>
</table>

### Return on Average Common Stockholders' Equity

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Average Common Stockholders' Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>35.9%</td>
</tr>
<tr>
<td>2004</td>
<td>30.0%</td>
</tr>
<tr>
<td>2003</td>
<td>19.0%</td>
</tr>
<tr>
<td>2002</td>
<td>14.4%</td>
</tr>
<tr>
<td>2001</td>
<td>14.4%</td>
</tr>
</tbody>
</table>

### Capital Expenditures

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>$1,201</td>
<td>$926</td>
<td>$682</td>
<td>$728</td>
<td>$1,100</td>
</tr>
<tr>
<td>Equipment leased to others</td>
<td>$1,214</td>
<td>$1,188</td>
<td>$1,083</td>
<td>$1,045</td>
<td>$868</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$1,477</td>
<td>$1,397</td>
<td>$1,347</td>
<td>$1,220</td>
<td>$1,169</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>$1,084</td>
<td>$928</td>
<td>$669</td>
<td>$656</td>
<td>$696</td>
</tr>
<tr>
<td>As a percent of sales and revenues</td>
<td>3.0%</td>
<td>3.1%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>$6,928</td>
<td>$6,025</td>
<td>$4,980</td>
<td>$4,360</td>
<td>$4,272</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>81,673</td>
<td>73,033</td>
<td>67,828</td>
<td>70,973</td>
<td>70,678</td>
</tr>
</tbody>
</table>

### Stock Price Ranges

<table>
<thead>
<tr>
<th>Quarter</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>$49.98</td>
<td>$43.20</td>
</tr>
<tr>
<td>Second</td>
<td>$51.49</td>
<td>$41.31</td>
</tr>
<tr>
<td>Third</td>
<td>$59.88</td>
<td>$47.43</td>
</tr>
<tr>
<td>Fourth</td>
<td>$57.82</td>
<td>$49.36</td>
</tr>
</tbody>
</table>

**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:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>$49.98</td>
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<td>$47.43</td>
</tr>
<tr>
<td>Fourth</td>
<td>$57.82</td>
<td>$49.36</td>
</tr>
</tbody>
</table>

**Return on Average Common Stockholders' Equity:**

- 2005: 35.9%
- 2004: 30.0%
- 2003: 19.0%
- 2002: 14.4%
- 2001: 14.4%

**Wages, Salaries and Employee Benefits:**

- 2005: $6,928
- 2004: $6,025
- 2003: $4,980
- 2002: $4,360
- 2001: $4,272

**Average Number of Employees:**

- 2005: 81,673
- 2004: 73,033
- 2003: 67,828
- 2002: 70,973
- 2001: 70,678
COMMON STOCK (NYSE:CAT)

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

Number of Stockholders: Stockholders of record at year-end totaled 38,329 compared with 37,639 at the end of 2004. Approximately 68 percent of our issued shares are held by institutions and banks, 26 percent by individuals and 6 percent by employees through company investment plans.

Caterpillar qualified investment plans held 40,601,400 shares at year-end, including 3,789,649 shares acquired during 2005. Non-U.S. employee stock purchase plans held an additional 5,024,633 shares at year-end, including 1,002,151 shares acquired during 2005.

Compliance: Caterpillar files Annual CEO Certifications in compliance with New York and Pacific stock exchange rules and 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:

<table>
<thead>
<tr>
<th>Quarter</th>
<th>High</th>
<th>Low</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>$49.98</td>
<td>$43.20</td>
<td>$42.85</td>
<td>$36.26</td>
</tr>
<tr>
<td>Second</td>
<td>$51.49</td>
<td>$41.31</td>
<td>$42.38</td>
<td>$36.01</td>
</tr>
<tr>
<td>Third</td>
<td>$59.88</td>
<td>$47.43</td>
<td>$40.65</td>
<td>$34.25</td>
</tr>
<tr>
<td>Fourth</td>
<td>$57.32</td>
<td>$46.77</td>
<td>$49.38</td>
<td>$38.96</td>
</tr>
</tbody>
</table>

(1) Price ranges reflect July 2005 2-for-1 stock split.

FIVE-YEAR FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and revenues</td>
<td>$36,339</td>
<td>$30,306</td>
<td>$22,807</td>
<td>$20,185</td>
<td>$20,510</td>
</tr>
<tr>
<td>Sales</td>
<td>$34,006</td>
<td>$28,336</td>
<td>$21,048</td>
<td>$18,648</td>
<td>$19,027</td>
</tr>
<tr>
<td>Percent inside the U.S.</td>
<td>47%</td>
<td>46%</td>
<td>44%</td>
<td>45%</td>
<td>49%</td>
</tr>
<tr>
<td>Percent outside the U.S.</td>
<td>53%</td>
<td>54%</td>
<td>56%</td>
<td>55%</td>
<td>51%</td>
</tr>
<tr>
<td>Revenues</td>
<td>$2,333</td>
<td>$1,970</td>
<td>$1,759</td>
<td>$1,537</td>
<td>$1,483</td>
</tr>
<tr>
<td>Profit (1)</td>
<td>$2,854</td>
<td>$2,035</td>
<td>$1,099</td>
<td>$798</td>
<td>$805</td>
</tr>
<tr>
<td>As a percent of sales and revenues</td>
<td>7.9%</td>
<td>6.7%</td>
<td>4.8%</td>
<td>4.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Profit per common share (2)</td>
<td>$4.21</td>
<td>$2.97</td>
<td>$1.59</td>
<td>$1.16</td>
<td>$1.17</td>
</tr>
<tr>
<td>Profit per common share—diluted (3)</td>
<td>$4.04</td>
<td>$2.88</td>
<td>$1.56</td>
<td>$1.15</td>
<td>$1.16</td>
</tr>
<tr>
<td>Dividends declared per common share</td>
<td>$0.955</td>
<td>$0.800</td>
<td>$0.720</td>
<td>$0.700</td>
<td>$0.695</td>
</tr>
<tr>
<td>Return on average common stockholders’ equity (4)</td>
<td>35.9%</td>
<td>30.0%</td>
<td>19.0%</td>
<td>14.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Capital expenditures:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>$1,201</td>
<td>$926</td>
<td>$682</td>
<td>$728</td>
<td>$1,100</td>
</tr>
<tr>
<td>Equipment leased to others</td>
<td>$1,214</td>
<td>$1,188</td>
<td>$1,083</td>
<td>$1,045</td>
<td>$868</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$1,477</td>
<td>$1,397</td>
<td>$1,347</td>
<td>$1,220</td>
<td>$1,169</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>$1,084</td>
<td>$928</td>
<td>$669</td>
<td>$656</td>
<td>$696</td>
</tr>
<tr>
<td>As a percent of sales and revenues</td>
<td>3.0%</td>
<td>3.1%</td>
<td>2.9%</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>$6,928</td>
<td>$6,025</td>
<td>$4,980</td>
<td>$4,360</td>
<td>$4,272</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>81,673</td>
<td>73,033</td>
<td>67,828</td>
<td>70,973</td>
<td>70,678</td>
</tr>
</tbody>
</table>

(1) In 2002, we adopted Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” and therefore no longer amortize goodwill.
(2) Computed on weighted-average number of shares outstanding.
(3) Computed on weighted-average number of shares outstanding divided by assumed exercise of stock options, using the treasury stock method.
(4) Represents profit divided by average stockholders’ equity (beginning of year stockholders’ equity plus end of year stockholders’ equity divided by two).
(5) The per share data reflects the 2005 2-for-1 stock split.
William A. Osborn (Chair) Mr. Osborn, 58, is chairman and CEO of Northern Trust Company and has served in that position since 1995. He became a Caterpillar director in 1995.

Charles D. Powell Mr. Powell, 58, is chairman and CEO of Newport Mining Corporation (gold properties production, exploration and acquisition). He is 2005 Audit Committee Chair and a Caterpillar director since 2003.

Gary A. Stroup Mr. Stroup, 56, is executive vice president and chief financial officer of Caterpillar. He became a Caterpillar director in 2002.

Edward B. Rutt, Jr. Mr. Rutt, 55, is chairman and CEO of State Farm Mutual Automobile Insurance Company (insurance). He has been president and CEO of State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates, as well as trustee and president of State Farm Mutual Fund Trust and State Farm Variable Product Trust. He is a director of Helmerich & Payne, Inc.; and the McGraw-Hill Companies, Inc. He became a Caterpillar director in 2003.

James D. Waters Mr. Waters, 58, is chairman, president and chief executive officer of the Coaching Group, LLC (investment holdings). He also serves as director of Delta Air Lines, Inc.; The McGraw-Hill Companies, Inc.; and the McGraw-Hill Companies, Inc. He became a Caterpillar director in 2003.
BOARD OF DIRECTORS 2005

William A. Osborn
Mr. Osborn, 56, is chairman and CEO of Northern Trust Company (asset management) and serves on the executive committee of the American Bankers Association. He has been a Trustee of the University of Illinois since 2004.

John R. Brazil
Mr. Brazil, 61, is a former chairman of ExxonMobil Corporation (energy) and served as chair of its management committee. He is also a director of Royal Dutch Shell (international oil and natural gas). He is a member of The Business Council and the Manufacturing 

COMMITTEE MEMBERSHIP

OFFICERS (AS OF JANUARY 1, 2006)

ENVIRONMENTAL EXECUTIVE OFFICER
James W. Owens

GROUP PRESIDENTS
Stuart L. Lovevich
Douglas R. Chatman
Gerald L. Shalton
Gérard R. Vittecoq

VICE PRESIDENTS
Kent M. Adams

Mr. Adams, 57, is executive vice president and chief financial officer of Caterpillar. He has been a Caterpillar director since 1993.

Charles D. Powell
Lord Powell, 64, is chairman of Safinvest Limited (asset and investment management) and serves on the board of the British Olympic Association. He is also a director of the Royal Bank of Scotland Group, Ltd. and is retiring from the board in 2006. He is also a director of the Olympic Council of America (Chair). Since retiring from an international career as a diplomat and a career in the Department of State, he has served on the boards of many non-profit organizations including the American Institute for Foreign Policy (Chair). He is also a director of the World Affairs Council of Chicago (Chair). He has been a member of the Board of Directors of Caterpillar since 2004.

Edward B. Rust, Jr.
Mr. Rust, 55, is chairman and CEO of State Farm Mutual Automobile Insurance Company (insurance). He is also a member of the State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates, as well as trustee and president of State Farm Mutual Fund Trust and State Farm Variable Product Trust. He is a director of Encompass Health Corp. and serves on the advisory board of China Telecom in Beijing. He has been a director of The Conference Board (research and business membership) since 2004.

Joshua I. Smith
Mr. Smith, 65, is chairman and managing partner of the Coaching Group, LLC (management consulting), where he has served as chairman and chief development officer of The Group, Inc. (broadband networking company). He serves as a director of Cardiocomm Solutions Inc., Federal Express Corporation and The Atlantic Center for Corporate Innovation. He has been a Caterpillar director since 1993.

Peter A. Magowan
Mr. Magowan, 64, is president and managing general partner of the San Francisco Giants major league baseball team and a director of DaimlerChrysler AG. He has been a Caterpillar director since 1998.

Douglas R. Chatman
Mr. Chatman, 60, is chairman and CEO of Cypress Communications Inc. (telecommunications). He is also director of the Darden Restaurants, Inc. (retail restaurant chains) and is a member of the executive committee of The Conference Board (research and business membership). Prior to his current position, he was senior vice president of The Conference Board. He has been a Caterpillar director since 2004.

David B. Burritt
Mr. Burritt, 59, is executive vice president and chief operating officer of Caterpillar. He has been a Caterpillar director since 1993.

W. Frank Blount
Mr. Blount, 67, is chairman and CEO of JI Ventures, Inc. (venture capital) and is retiring from the board in 2006. He is also a director of Alliace Capital Corporation and Texas Instruments Incorporated. He has been a Caterpillar director since 2004.

Edward B. Rust, Jr.
Mr. Rust, 65, is chairman and managing partner of the Coaching Group, LLC (management consulting), where he has served as chairman and chief development officer of The Group, Inc. (broadband networking company). He serves as a director of Cardiocomm Solutions Inc., Federal Express Corporation and The Atlantic Center for Corporate Innovation. He has been a Caterpillar director since 1993.

William A. Osborn
Mr. Osborn, 56, is chairman and CEO of Northern Trust Company (mutual holding company) and the Northern Trust Company (bank). He is also a director of Norcic Inc. and Tribune Company. He was elected a Caterpillar director in 2000.
SUPPLEMENTAL STOCK INFORMATION

STOCK PRICE 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 below. Nonstockholders can request program materials by calling 800.842.7629 (U.S. and Canada) or 201.329.8650 (outside U.S. and Canada). The Investor Services Program materials are available online from the Mellon Investor Services website or linked from www.cat.com/dspp.

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

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Facsimile: 309.675.4547
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Website: www.cat.com/investor

COMPANY INFORMATION

CURRENT INFORMATION
Phone our Investor Relations Hotline—800.231.5469 (U.S. and Canada) or 815.244.2080 (outside U.S. and Canada)—to request company publications by mail, listen to a summary of our latest financial results and current outlook or request a copy of results by fax or mail. Visit www.cat.com/materialsrequest to view or download materials online or register for e-mail alerts.

HISTORICAL INFORMATION
Visit or download online at www.cat.com/historical.

ANNUAL MEETING
On June 14, 2006, at 1:30 p.m., the annual meeting of stockholders will be held at Northern Trust Corporation, Chicago, Illinois. Requests for proxies are being sent to stockholders with this report mailed on or about April 28, 2006.

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Certain statements in this report relate to future events and expectations that constitute forward-looking statements involving known and unknown factors that may cause actual results of Caterpillar Inc. to be different from those expressed or implied in the forward-looking statements. In this context, words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “will” or other similar words and phrases often identify forward-looking statements. Actual results of the company may differ materially from those described or implied in such forward-looking statements based on a number of factors and uncertainties, including, but not limited to, changes in economics, political or competitive conditions, market acceptance of the company’s products and services, changes in law, regulations and tax rates, and other general economic, business and financing conditions and factors described in more detail in the company’s filings with the Securities and Exchange Commission, including in its Annual Report on Form 10-K filed on February 22, 2006. We do not undertake to update our forward-looking statements.
SUPPLEMENTAL STOCK INFORMATION

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CURRENT INFORMATION

Phone our Information Hotline—800.231.5469 (U.S. and Canada) or 866.203.6622 (outside U.S. and Canada)—to request company publications by mail, listen to a summary of our latest financial results and current outlook or request a copy of results by fax or mail. Visit www.cat.com/materialsrequest or view or download materials online or register for e-mail alerts.

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