THE AWARD-WINNING 330D HYDRAULIC EXCAVATOR

In December 2006, Caterpillar’s D-Series excavator line received one of the six top-100 awards given to Caterpillar by Construction Equipment magazine. The publication’s editors selected winners from the more than 1,500 product announcements received each year, recognizing new concepts, engineering evolution and hefty competition in the market space. Other Cat products so-awarded in 2006 include the M-Series motor graders, E-Series backhoe loaders, 657G scraper, F-Series off-highway trucks and CB664D asphalt compactor. Caterpillar has received more than 110 top-100 awards over the 16 years of this program.
RELENTLESS

It’s the pace of change in the world. It’s the nature of competition. It’s the challenge to continuously improve every aspect of our business. It’s our drive to build a Caterpillar that’s prepared to reach new levels of performance in a dynamic global marketplace.
A NEW PIPELINE TO ENERGIZE THE EAST COAST

Unprecedented demand and two decades of underinvestment in energy infrastructure are driving significant natural gas and oil pipeline system expansion worldwide. Caterpillar’s new Global Pipeline division and newest dealer, Pipeline Machinery International, L.P., together with the global network of local Cat dealers, are enhancing our distribution system to better serve customers and help Caterpillar grow globally. We are supplying a wide array of construction and compression equipment, as well as financial and ongoing support services, to help construct and operate pipelines for tomorrow’s generations.

In 2006, Caterpillar’s new T-Series pipelayers played a major part in the construction of the 42-inch, 300-mile Entregas Pipeline, the first stage of the Rockies Express Pipeline. Stretching from Wyoming to Ohio, this 1,663-mile natural gas pipeline will connect Rocky Mountain reserves to consumers on the East Coast. Caterpillar’s involvement goes beyond construction equipment. Solar* gas turbines, Gas Caterpillar Motoren (GCM) compression engines (Entregas is the first new mainline pipeline to use GCM engines), Cat Financial services and 6 Sigma-enhanced strategic support planning were key elements of the project. The completed pipeline will utilize Solar’s InSight System* machinery management solution enabling real-time monitoring and predictive maintenance to maximize performance and minimize costs.
PROPELLING THE CRUISE SHIP INDUSTRY
Caterpillar is the world’s leading producer of marine engines, with the industry’s broadest product line and a strong global presence. Through an umbrella 6 Sigma project that identified the 14 key factors vital for success in this global market, we’re leveraging our marine leadership to provide world-class propulsion engines for the cruise industry. In 2006, Aker Yards S.A., the French subsidiary of Aker ASA and one of the world’s largest shipbuilders, specified Cat propulsion engines for a new generation of cruise vessels it’s building for Norwegian Cruise Lines (NCL). Aker and NCL are examples of the increasing number of major shipbuilders and cruise lines that are choosing Caterpillar for its global dealer network, unsurpassed product reliability, lean and clean performance, low operating cost and integrated financial solutions through Cat Financial.
WHAT DO YOU DO ON THE HEELS OF SOLID PERFORMANCE?

You go back to work. You take it to the next level. You look at every process, every product, every corner of the company, for opportunities to get better.
SAFER WORKERS, SAFER ROADS

Constant exposure to falling rocks and avalanches made the road to Zermatt between the Swiss villages of St. Niklaus and Stalden a treacherous ride. Cat machines helped construct a 2,300-meter, two-way road tunnel to provide safe passage. The tunnel was built using the drill-and-blast technique, producing huge volumes of rock material that had to be removed from the tunnel—a highly demanding job tailor-made for the rugged Cat 980G Series 2 wheel loader. The Cat 325C excavator was also critical to the project, with a tight turning radius and compact design that allowed for an optimal scaling performance in close quarters. Highly efficient diesel particulate filters on Cat engines helped maintain tunnel air quality by removing 98 percent of the hazardous particles from machine emissions. Special guards and reinforcements on the equipment protected operators and machinery from falling and flying rock. The result: a safer road, built safely.
OASIS FOR CAT COMPONENTS IN THE DESERT
Chile’s vast Atacama Desert is one of the driest regions in the world, a desolate landscape rich in mineral deposits. Antofagasta PLC’s El Tesoro copper mine exclusively uses Cat machines in this demanding environment—and benefits from equipment design that enables the rebuilding of components for maximum equipment performance and reliability. El Tesoro and other mine operations in the area also benefit from one of the world’s largest and most advanced remanufacturing facilities nearby. Caterpillar dealer Finning Chile S.A.’s new Component Rebuild Center (CRC) is equipped to rebuild and test all major components of even Caterpillar’s largest equipment. Capable of completing 3,000 component rebuilds per year, Finning’s world-class CRC minimizes downtime and maximizes productivity for all of the Chilean mines.
ENGAGED PEOPLE AND PROCESS EXCELLENCE DELIVER BIG RESULTS

AsiaTrak (Tianjin), Ltd. (ATL), an undercarriage joint venture, turned a focus on values, people and CPS Guiding Principles into powerful results at its Tianjin, China, plant in 2006. A dramatic increase in overall employee engagement, up 49 percentage points over 2005, was a major driver of performance improvement. The 2006 employee opinion survey achieved a 93 percent favorable engagement response rate—the largest year-over-year improvement among Caterpillar plants.

ATL capitalized on the significant engagement increase by involving employees in approximately 150 6 Sigma projects completed in 2006, many focusing on CPS Guiding Principles. In fact, ATL completely redesigned a large number of its operational processes, resulting in substantial improvements on many key facility metrics. Accomplishments include working injury-free for a facility record seven months, decreasing manufacturing lead times as much as 70 percent, reducing inventory values by 56 percent, improving inventory turns fourfold and achieving productivity improvements as high as 80 percent.
WE’RE RELENTLESSLY PURSUING THE NEXT LEVEL

Through the Caterpillar Production System (CPS), we’ve put in motion a powerful, all-encompassing set of actions designed to achieve breakthrough improvements in critical areas of performance.
Caterpillar Production System—
The Way to Breakthrough Improvement

The challenge: accelerate long-term performance during a period of record results. The solution: Caterpillar Production System (CPS), a mechanism for integrating our operations, culture and management system to pursue radical improvements in safety, quality, velocity, cost and other key performance measures.

CPS made significant progress in its first full year of development and implementation. We put much of the framework and many key methodologies in place worldwide, which already has resulted in more than $125 million in benefits. Our Moshville Engine Center (MEC) played a groundbreaking role in implementing CPS in 2006. Value Stream Transformation (VST) processes created a safe and team-based environment that enabled employees at all levels to make a significant impact on continuous improvement of MEC’s People, Quality, Velocity and Cost metrics.

Caterpillar suppliers have contributed as well—precision engine component manufacturers Gnultti Carlo S.p.A. and its sister company, Gnultti Ltd., improved their processes to help us meet our quality and velocity goals.

Mick O’Dea
CPS Green Belt

Tyrone Bolden
CPS Black Belt

CPS unites cultural, operating and management systems in our production facilities to pursue breakthrough improvements.
Patty Gentnerman  
CPS Green Belt

Alex Perez-Sandi  
Factory Superintendent

James Smith  
CPS Green Belt

Takisha Dailey  
Manufacturing Specialist
REMAN EXPANDS TO ELECTRONICS
Caterpillar has been remanufacturing for more than 30 years and is now one of the world’s largest remanufacturers, giving new life to more than 2 million units annually. Our rigorous New Product Introduction (NPI) process includes a cradle-to-cradle design philosophy that helps us recycle, reuse and remanufacture for maximum product life and minimum environmental impact, and we’re always looking for ways to expand the remanufacturing discipline. Using 6 Sigma NPI methodologies, Cat Reman developed and introduced 27 new remanufactured products in 2006—17 for Caterpillar and 10 for our external business.

In our Nuevo Laredo, Mexico, facility, we are remanufacturing Electronic Control Units (ECUs), which control engine, hydraulic and other systems in Cat products. This is precision work, requiring specialized facilities, highly trained technicians and close cooperation with key suppliers such as Delphi Corporation and The Morey Corporation. The potential demand is great, particularly with increased regulation worldwide to keep e-waste (electronic waste) out of landfills. ECU remanufacturing is an excellent new opportunity to benefit our company, our customers and our world.
A SMOOTH ROAD TO THE COLOSSEUM

It was a major challenge: resurface a busy stretch of historic roadway between the Colosseum and the Fori Imperiali, two of Rome’s most popular landmarks, in one night. The two Italian paving contractors awarded the project chose newly purchased Cat machines, a PM-200 cold planer and an AP-600 wheel-type asphalt paver, to do the job. Unsurpassed maneuverability and control, ideal for Rome’s city streets, and precision performance were big factors in choosing Caterpillar. But because it was the first use of these machines for both contractors, the skills of Caterpillar paving technicians were equally important. They worked alongside the crew all night, providing on-the-job-training and support to complete the project—flawlessly and on schedule.
WE’RE TRANSFORMING CATERPILLAR

We’re changing how we operate, how we act and interact, and how we manage, creating a Caterpillar that gets better every day. We’re proud to be part of an 80-year-plus legacy of excellence. The way we see it, it’s our turn to build upon that legacy. We’re moving forward. Relentlessly.
HELPING CAIRO TAKE OFF AS A WORLD-CLASS AIRPORT

With tourism a top source of revenue, Egypt’s ambition is to become the Middle East’s destination of choice among world travelers. Cairo International Airport is vital to achieving that objective. The new Terminal 3 building, scheduled for completion in November 2007, will transform Cairo into a mega-airport, increasing annual capacity from its current nine million passengers to more than 21 million. Caterpillar equipment is playing a major role. Cat dealer Mantrac supplied a wide range of machines, from motor graders and excavators to soil and asphalt compactors, to customer GeneralNile Co. for Roads and Bridges, along with technical assistance on this huge project. When complete, the terminal will enable the airport to accommodate the popular new Airbus jet in the future and provide travelers with all the services, comfort and efficiency of a state-of-the-art facility.
EXPANDING CATERPILLAR LEADERSHIP TO RAIL
With the acquisition of Progress Rail Services, Caterpillar adds an industry leader and a strong, established aftermarket service business that complements our existing remanufacturing capabilities. Progress Rail offers remanufacturing, replacement parts, maintenance and recycling services to Class 1 railroads, transit authorities, short line operators, private fleet owners and railcar builders. In addition to its service capabilities, Progress Rail brings a strong, integrated distribution network to Caterpillar. For Progress Rail, the scope and scale of Caterpillar’s operations represent a real opportunity to expand its reach beyond North America.
SALES AND REVENUES GROWTH
(dollars in millions)

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
(Cumulative stockholder return assuming an investment of $100 on December 31, 2001, and reinvestment of dividends issued thereafter.)

- CATERPILLAR
- S&P 500 MACHINERY INDEX
- S&P 500
Caterpillar people are relentless.

Case in point: we entered 2006 celebrating the best year in our company’s history. Sales and revenues were up 20 percent. Earnings were up 40 percent. Explosive growth was the norm across almost all our businesses. How did our people respond to the successes of 2005? By immediately going back to work to make 2006 and beyond even better—identifying opportunities and staking out aggressive improvement plans to drive success.

2006 marked a good start on our journey. It was our fourth straight year of double-digit profit growth and our third consecutive year of record sales and profitability. 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. All these actions will deliver long-term benefits for our customers, employees and investors.

We feel good about our performance, not just in 2006 but over the past several years. Since 1990, our sales and revenues have grown from just over $11 billion to $41.5 billion in 2006, a compound annual growth rate of 8 percent. Profit per share is up significantly as well, reaching $5.17 in 2006. Over the past five years, Caterpillar’s compound annual profit per share growth is 35 percent—compared to 2.7 percent for the S&P 500.

Looking ahead, we’re well-positioned to deliver similar results through the end of the decade. Our product lineup is the strongest in our history. We’ve added capacity to meet demand and continue to invest in new products, technologies and services. The near-term outlook is strong in many key industries we serve: mining, oil and gas production, large infrastructure projects, non-residential construction, marine engines and distributed power. We expect two pockets of market weakness in 2007 in the United States: First, the on-highway truck engine business will drop significantly as new emissions regulations take effect. Second, housing-related sectors will be down after several years of rapid growth. Given the diversity of our business, however, we’re projecting another record year in 2007. Sales and revenues should be in the $41.5 to $43.6 billion range, with profit per share of $5.20 to $5.70—and we have a good line of sight to our 2010 sales and revenues goal of $50+ billion.

Our focus now is on execution—relentless execution of the strategy we unveiled to all employees in late 2005 and to our worldwide dealers and strategic suppliers in early 2006. This strategy clearly articulates our bold goals in the areas of people, product and process performance and profitable growth. Achieving it will require breakthrough changes in several areas of our business,
A NEVER-ENDING FOCUS ON SAFETY AND ENGAGEMENT

In 2000, we examined our enterprise safety performance and were disappointed to discover how far we were from our goal of an injury-free workplace. One injured employee is one too many—and our performance six years ago was unacceptable. But bringing our poor safety numbers to light has led to significant changes in our physical work environment and our culture. Today, our people know that nothing, not production or profits, is more important than safety. We’ve made safety excellence the highest priority for our leaders. And we’ve set the expectation that each of us has a personal responsibility to improve our own health and safety and that of our coworkers.

The results are encouraging. Recordable injuries have dropped by 66 percent since 2000. In 2006, 548 fewer people were injured on the job than in 2005—despite working 18 million more hours. More than 50 facilities ended the year without a single recordable injury. And 87 facilities—representing approximately 23,500 employees—have achieved world-class safety performance. Their success is proof that we can reach our ultimate goal of zero injuries as a company. But we still have much work to do. We’re upping our investment in training, increasing our focus on ergonomics to address the “strains and sprains” that comprise a significant portion of our injuries and deploying Vision Zero—our uniform, standardized safety process—across the company.

Making safety our top priority is really about putting people first, and we’re making positive strides in this area. Employee engagement is how we measure our people’s commitment, work effort and desire to stay at Caterpillar. In 2002, just three of our divisions had engagement scores higher than 70 percent. Today, 17 divisions—comprising more than 31,000 employees—do, and eight have topped 80 percent. To reach our 2010 goal of 80 percent engagement company-wide, we’ll continue to focus on building the values-based culture described in Our Values in Action, the update to our Worldwide Code of Conduct published in 2005.

A CONSTANT PUSH FOR HIGHER LEVELS OF QUALITY AND VELOCITY

Delivering the highest quality products when and where customers need them has been the hallmark of Caterpillar’s success for more than 80 years. But we can’t rest on our reputation. Exploding demand and supply constraints have caused us to hit a plateau in product quality. And our velocity performance—our ability to serve customers better and faster with less inventory tied up in the supply chain—also needs improvement. Our customers don’t want excuses; they want and deserve excellence. We’re committed to achieving the high levels of performance they demand.

In late 2006, we established a corporate product quality organization to help drive common processes, metrics and simplification across our diverse organization, with 6 Sigma at the foundation. Time and again, our people—using 6 Sigma methodology—have found solutions to tough problems, and we’re confident that refocusing our 6 Sigma human resources on quality will deliver the results we need. We’ve also merged three of our largest U.S. facilities—Aurora, Decatur and East Peoria, Illinois—into one organization and restructured three product-focused divisions into two industry-focused divisions. These organizational shifts will enable us to share technology and processes, build consistency among products and create closer connections with customers—leading to higher quality, improved velocity and lower product development costs.

AN UNRELENTING QUEST TO GET BETTER

Ultimately, we believe the Caterpillar Production System holds the key to breakthrough improvement in safety, quality, velocity and cost. In 2007, our focus is on worldwide deployment. Each of our facilities will implement an operating system that eliminates waste, a cultural system that improves the way we work together and a management system that creates measurements and structure to support continuous improvement. The Caterpillar Production System is the driving force behind our efforts to produce the highest quality
CASH FLOW HIGHLIGHTS
(dollars in millions)

STOCK REPURCHASED

CAPITAL EXPENDITURES\(^1\)

PENSION CONTRIBUTIONS

\(^1\) Excluding equipment leased to others.
products as efficiently and safely as possible. We expect it to have a profound positive impact on our results—financial and otherwise—over the 2007 to 2010 deployment period.

Another key to our success is continued growth on the service side of our business. Our service-related businesses—aftermarket parts, Cat Financial, Cat Insurance, Cat Logistics, Cat Reman, OEM Solutions, Solar Turbine Customer Services and our newest acquisition, Progress Rail—deliver profitable growth and earnings stability. They also contribute to greater price realization, increased parts sales, improved asset utilization and stronger customer relationships. As we grow in the services area, we're looking for opportunities to leverage our product and process knowledge, our global distribution network and our ability to develop integrated solutions. We have a focused strategy to pursue markets where Caterpillar is uniquely qualified—and where we can offer a differentiated, high-value service to customers. In 2006, our service-related businesses delivered approximately a third of our total sales and revenues. We plan to grow that contribution to 37 to 40 percent by 2010.

A RENEWED COMMITMENT TO TAKING “OUR TURN”

While our business grows and changes, the values that guide our behavior and our relationships with those around us do not. Integrity, excellence, teamwork and commitment are at the foundation of our success past, present and future. We know that generations of Caterpillar people before us built an honorable reputation and an exceptional culture through their words and deeds. And we know it’s our turn now to carry the banner. I have every confidence in Team Caterpillar’s ability to do so, and I look forward to taking “our turn” together in 2007. Relentless execution is the focus as we work to achieve the challenging goals we’ve set for ourselves—and deliver on the promises we’ve made to our customers, our investors and one another.

Jim Owens, Chairman and CEO, Caterpillar Inc.
Caterpillar is in the business of making progress possible. Our 94,593 employees and 182 dealers work together across six continents to serve customers in the world’s most important industries. With a broad portfolio of leading products, technologies and brands, with a wide array of value-added services, with one of the world’s largest integrated logistics organizations, Caterpillar is committed to building a better world tomorrow with the work it does today.
TOTAL SALES AND ReVENUES (dollars in millions)

$22,007
MACHINES $14,215
ENGINES (1) $6,940
FINANCIAL PRODUCTS $1,852

$10,664
$6,223 $4,084 $377

$5,005
$3,080 $1,701 $224

$3,841
$2,544 $1,102 $195

CAT EMPLOYEES AT YEAR-END

49,018

24,845

7,499

13,231

CAT DEALER EMPLOYEES AT YEAR-END

51,530

28,611

21,620

15,647

CAT DEALERS

59

50

40

33

(1) Does not include internal engine transfers of $2,310, $2,065 and $1,738 (dollars in millions) in 2006, 2005 and 2004, respectively. Internal engine transfers are valued at prices comparable to those of unrelated parties.
INDUSTRIES
Bucyrus/rieti set in-place the full benefits of our capabilities.

PRODUCTS
Quality, flexibility and performance under the most demanding conditions.

Our proven track record in the construction industry and our commitment to innovation and excellence have put us in a position to meet the needs of our customers. Buoyant performance over an extensive range of products and services is a result of our dedication to excellence. For an overview of our range of products and services, see the following pages.

SERVICES
Innovative offerings that add value and cost savings to our customers.

BRANDS
The most trusted names in the industry.
### Five-Year Financial Summary

(dollars in millions, except per-share data)

<table>
<thead>
<tr>
<th>Years Ended December 31</th>
<th>2006</th>
<th>2005</th>
<th>2004*</th>
<th>2003*</th>
<th>2002*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and revenues</td>
<td>$41,517</td>
<td>$36,339</td>
<td>$30,306</td>
<td>$22,807</td>
<td>$20,185</td>
</tr>
<tr>
<td>Sales</td>
<td>$38,869</td>
<td>$34,006</td>
<td>$28,936</td>
<td>$21,045</td>
<td>$18,648</td>
</tr>
<tr>
<td>Percent inside the U.S.</td>
<td>46%</td>
<td>47%</td>
<td>46%</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>Percent outside the U.S.</td>
<td>54%</td>
<td>53%</td>
<td>54%</td>
<td>56%</td>
<td>55%</td>
</tr>
<tr>
<td>Revenues</td>
<td>$2,648</td>
<td>$2,333</td>
<td>$1,970</td>
<td>$1,759</td>
<td>$1,537</td>
</tr>
<tr>
<td>Profit*</td>
<td>$3,537</td>
<td>$2,854</td>
<td>$2,035</td>
<td>$1,099</td>
<td>$798</td>
</tr>
<tr>
<td>As a percent of sales and revenues</td>
<td>8.5%</td>
<td>7.9%</td>
<td>6.7%</td>
<td>4.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Profit per common share(^1),(^5)</td>
<td>$5.37</td>
<td>$4.21</td>
<td>$2.97</td>
<td>$1.59</td>
<td>$1.16</td>
</tr>
<tr>
<td>Profit per common share—diluted(^2),(^5)</td>
<td>$5.17</td>
<td>$4.04</td>
<td>$2.88</td>
<td>$1.56</td>
<td>$1.15</td>
</tr>
<tr>
<td>Dividends declared per share of common stock</td>
<td>$1.150</td>
<td>$0.956</td>
<td>$0.800</td>
<td>$0.720</td>
<td>$0.700</td>
</tr>
<tr>
<td>Return on average common stockholders’ equity(^4),(^5)</td>
<td>46.3%</td>
<td>35.9%</td>
<td>30.0%</td>
<td>19.0%</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>$1,593</td>
<td>$1,201</td>
<td>$926</td>
<td>$682</td>
<td>$728</td>
</tr>
<tr>
<td>Equipment leased to others</td>
<td>$1,082</td>
<td>$1,214</td>
<td>$1,188</td>
<td>$1,083</td>
<td>$1,045</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$1,602</td>
<td>$1,477</td>
<td>$1,397</td>
<td>$1,347</td>
<td>$1,220</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>$1,347</td>
<td>$1,084</td>
<td>$928</td>
<td>$669</td>
<td>$656</td>
</tr>
<tr>
<td>As a percent of sales and revenues</td>
<td>3.2%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>2.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>$7,512</td>
<td>$6,928</td>
<td>$6,025</td>
<td>$4,980</td>
<td>$4,360</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>80,160</td>
<td>81,673</td>
<td>73,033</td>
<td>67,828</td>
<td>70,973</td>
</tr>
</tbody>
</table>

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\(^1\) 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, applied retroactively.

\(^5\) In 2006, we adopted Statement of Financial Accounting Standard 158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans,” which changed the manner in which we account for postemployment benefits.

\(^6\) In 2006, we adopted Statement of Financial Accounting Standard 123 (revised 2004), “Share-Based Payment,” which changed the manner in which we account for stock-based compensation.
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. What Team Caterpillar was 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, driven by our enterprise strategy which leads us to achieve our Vision 2020, will deliver long-term benefits for our customers, employees and stockholders.

We anticipate great things for Caterpillar in 2007. Despite a sharp decline in two key North American industries, on-highway truck engines and U.S. housing, and an expected reduction in dealer inventories, we are projecting another record year in 2007. We expect to improve profit per share at a higher rate than sales and revenues, and that means a key focus in 2007 will be cost management. Looking beyond 2007, we’re well-positioned to build on the extraordinary results we’ve delivered over the past few years. Our investment in new products has given us our strongest product line in history, and we’re continuing to invest in our facilities around the globe to add capacity and improve our operations. Quality, velocity, process excellence with 6 Sigma and engaged employees are the foundations of our strategy to deliver financial results through the end of the decade that should be very rewarding to our stockholders. We are projecting sales and revenues in excess of $60 billion and compound annual growth in profit per share of 15 to 20 percent from 2005 to 2010.
FINANCIAL INFORMATION

SALES AND REVENUES
(dollars in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Machines</th>
<th>Engines</th>
<th>Financial Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>$11,975</td>
<td>$6,573</td>
<td>$1,027</td>
</tr>
<tr>
<td>03</td>
<td>$13,844</td>
<td>$8,237</td>
<td>$1,786</td>
</tr>
<tr>
<td>04</td>
<td>$18,644</td>
<td>$9,462</td>
<td>$2,203</td>
</tr>
<tr>
<td>05</td>
<td>$14,975</td>
<td>$11,075</td>
<td>$2,408</td>
</tr>
<tr>
<td>06</td>
<td>$19,975</td>
<td>$11,795</td>
<td>$2,408</td>
</tr>
</tbody>
</table>

OPERATING PROFIT¹
(dollars in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Machines</th>
<th>Engines</th>
<th>Financial Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>$918</td>
<td>$183</td>
<td>$170</td>
</tr>
<tr>
<td>03</td>
<td>$1,109</td>
<td>$318</td>
<td>$230</td>
</tr>
<tr>
<td>04</td>
<td>$1,243</td>
<td>$393</td>
<td>$430</td>
</tr>
<tr>
<td>05</td>
<td>$1,311</td>
<td>$470</td>
<td>$527</td>
</tr>
<tr>
<td>06</td>
<td>$1,380</td>
<td>$510</td>
<td>$670</td>
</tr>
</tbody>
</table>

¹ Eliminations of ($89), ($106), ($131), ($249) and ($406) (dollars in millions) for 2002, 2003, 2004, 2005 and 2006, respectively, are required to arrive at consolidated operating profit.
SALES BY GEOGRAPHIC REGION
(Machinery in millions)

<table>
<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2006</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$14,215</td>
<td>$12,822</td>
<td>$10,337</td>
</tr>
<tr>
<td>EAME</td>
<td>6,223</td>
<td>5,222</td>
<td>4,511</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>3,080</td>
<td>2,905</td>
<td>2,486</td>
</tr>
<tr>
<td>Latin America</td>
<td>2,544</td>
<td>1,982</td>
<td>1,510</td>
</tr>
</tbody>
</table>

CUSTOMERS BY INDUSTRY

NEW MACHINE DISTRIBUTION TO END USERS
(2006 dealer reported worldwide distribution of Caterpillar machinery by major end use)
- 34% Heavy Construction
- 26% General Construction
- 19% Mining
- 9% Quarry & Aggregates
- 4% Paving & Compaction
- 4% Industrial
- 3% Forestry
- 2% Waste

NEW ENGINE DISTRIBUTION TO END USERS
(2006 worldwide distribution of Caterpillar engines)
- 29% Truck
- 27% Electric Power Generation
- 25% Petroleum
- 10% Industrial
- 9% Marine

1. Does not include internal engine transfers of $2,310, $2,065 and $1,738 (dollars in millions) in 2006, 2005 and 2004, respectively. Internal engine transfers are valued at prices comparable to those of unrelated parties.
**RESEARCH AND DEVELOPMENT**
(dollars in millions)

**CORPORATE GIVING**
(dollars in millions)

**FULL-TIME EMPLOYEES AT YEAR-END**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inside U.S.</td>
<td>48,709</td>
<td>43,878</td>
<td>38,128</td>
</tr>
<tr>
<td>Outside U.S.</td>
<td>45,884</td>
<td>41,238</td>
<td>38,792</td>
</tr>
<tr>
<td>TOTAL</td>
<td>94,593</td>
<td>85,116</td>
<td>76,920</td>
</tr>
</tbody>
</table>

**BY REGION**

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>49,018</td>
<td>43,933</td>
<td>38,396</td>
</tr>
<tr>
<td>EAME</td>
<td>24,845</td>
<td>23,137</td>
<td>22,169</td>
</tr>
<tr>
<td>Latin America</td>
<td>13,231</td>
<td>11,689</td>
<td>10,733</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>7,489</td>
<td>6,358</td>
<td>5,622</td>
</tr>
<tr>
<td>TOTAL</td>
<td>94,593</td>
<td>85,116</td>
<td>76,920</td>
</tr>
</tbody>
</table>

**SALES & REVENUES PER EMPLOYEE**
(dollars in thousands)

[^1]: Total sales and revenues divided by average number of employees.
BOARD OF DIRECTORS 2006

W. FRANK BLOUNT
Mr. Blount, 66, is chairman and CEO of J.I. Ventures Inc. (venture capital) and ITS Management Corporation (private equity management). He is former chairman and CEO of Cypress Communications Inc. (telecommunications). He is also director of ADCOMM Inc., Alcatel-Lucent S.A., Entergy Corporation and Hanson PLC and serves on the advisory board of China Telecom in Beijing. He has been a Caterpillar director since 1995.

J. JOHN R. BRAZIL
Dr. Brazil, 61, is president of Trinity University (San Antonio, Texas) and former president of Bradley University (Peoria, Illinois). He was elected a director in 1998.

DANIEL M. DICKINSON
Mr. Dickinson, 55, is managing partner of Thayer Partners (private equity investment). He is a trustee of the IFA Canada Income Fund (BFC.UN Toronto Exchange). He became a Caterpillar director in 2006.

JOHN T. DILLON
Mr. Dillon, 68, is vice chairman of Evercore Capital Partners (advisory and investment) and senior managing director of the firm’s investment activities and private equity businesses. He is the former chairman and CEO of International Paper (paper and forest products). He is also a director of E.I. duPont de Nemours and Company, Kellogg Co. and Veris, Inc. He became a Caterpillar director in 1997.

EUGENE V. FIFE
Mr. Fife, 66, is managing principal of Vawter Capital LLC (private investment). He is also the non-executive chairman of Eclipsys Corporation (health information technology) and served as the interim CEO and president of Eclipsys from April to November 2005. He became a Caterpillar director in 2002.

GAIL D. FOSLER
Ms. Fosler, 58, is executive vice president and chief economist of The Conference Board (research and business membership). Prior to her current position, she was senior vice president of The Conference Board. She is also a director of Baxter International Inc. She has been a Caterpillar director since 2003.

JUAN GALLARDO
Mr. Gallardo, 69, is chairman of Grupo Embotelladoras Unidas S.A., de C.V. (bottling). He is former chairman of Mexico Fund Inc. (mutual fund) and former vice chairman of Home Mart de Mexico, S.A. de C.V. (retail trade). He is also a director of Lafarge SA, Grupo Mexico, S.A. de C.V., and Mexicana de Aviacion and is a member of the Mexican Business Roundtable. He was elected a Caterpillar director in 1998.

COMMITTEE MEMBERSHIP AND OFFICERS (as of December 31, 2006)

AUDIT COMMITTEE
Eugene V. Fife, Chair
John R. Brazil
John T. Dillon
David R. Goode

GOVERNANCE COMMITTEE
W. Frank Blount, Chair
Gail D. Fosler
Peter A. Magowan

PUBLIC POLICY COMMITTEE
Charles D. Powell, Chair
Juan Gallardo
Joshua I. Smith

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
James W. Owens

VICE PRESIDENTS
Kent M. Adams
Financial Products
William P. Ainsworth
Progress Rail Services
Ali M. Bahaj
Corporate Auditing & Compliance
Sidney C. Banwart
Human Services
Michael J. Baunton
Europe, Africa & Middle East Operations
Rodney C. Buehr
Asia-Pacific Marketing
Mary H. Bell
Logistics
James B. Buda
Legal Services
David B. Burritt
Global Finance & Strategic Support
Rodney L. Boswell
Heavy Construction and Mining Products
Christopher C. Curfman
Global Mining
Paole Felin
Europe, Africa & Middle East Marketing
Steven L. Fisher
Remanufacturing
Thomas A. Galis
Latin America
Stephen A. Gosselin
Solar Turbines Incorporated
Hans A. Haefeli
Industrial Power Systems
John S. Holloway
Systems & Processes
Richard P. Levin
Asia-Pacific Operations/SCM
William D. Mayo
North American Commercial
David R. Goode
Mr. Goode, 66, is former chairman, president and CEO of Norfolk Southern Corporation (holding company engaged principally in surface transportation). He also serves as a director of Delta Air Lines, Inc., Russell Reynolds Associates and Texas Instruments Incorporated. He has been a Caterpillar director since 1993.

Peter A. Magowan
Mr. Magowan, 65, is president and managing general partner of the San Francisco Giants (major league baseball team) and a director of DaimlerChrysler AG. He became a Caterpillar director in 1999.

William A. Osborn
Mr. Osborn, 59, is chairman and CEO of Northern Trust Corporation (multibank holding company) and The Northern Trust Company (bank). He also is a director of Tribune Company. He was elected a Caterpillar director in 2000.

James W. Owens
Mr. Owens, 61, is chairman and CEO of Caterpillar Inc., a position he has held since February 2004. Since joining the company as a corporate economist in 1972, he has held numerous management positions worldwide—including president of Solar Turbines Incorporated, chief financial officer, group president and vice chairman of Caterpillar. Mr. Owens is director of AIG Inc., International Business Machines, The Institute for International Economics and the Council on Foreign Relations. He is also a member of The Business Council, Business Roundtable, the Manufacturing Council and the Global Advisory Council to The Conference Board. He became a Caterpillar director in 2004.

Charles D. Powell
Lord Powell, 65, is chairman of Safinvest Limited (asset and investment management), LVMH Services Ltd., (luxury goods), chairman of Magna Holdings (real estate investment), as well as former chairman of Phillips Fire Art Auctioneers and Sagittis Asset Management Limited. He also serves as a director of LVMH Moët-Hennessy Louis Vuitton, Mandarin Oriental International Ltd., Northern Trust Global Services Limited, Textron Corporation, Schindler Holding Ltd., and Yell Group plc. He has been a Caterpillar director since 2001.

Edward B. Rust, Jr.
Mr. Rust, 56, is chairman, CEO and President of State Farm Mutual Automobile Insurance Company (insurance). He is also 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.

Joshua I. Smith
Mr. Smith, 66, is chairman and managing partner of the Coaching Group, LLC (management consulting), where he has served as vice chairman and chief development officer of iGate, Inc. (broadband networking company). He serves as a director of Federal Express Corporation and The Allstate Corporation. He has been a Caterpillar director since 1993.

New Vice Presidents

<table>
<thead>
<tr>
<th>Daniel M. Murphy</th>
<th>General Counsel and Secretary</th>
<th>James B. Buda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Purchasing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Gerald Palmer | Chief Financial Officer | David B. Burritt |
| Wheel Loaders & Excavators |                           |              |

| James J. Parker | Chief Information Officer | John S. Heller |
| Power Systems & OEM Solutions |                        |              |

| Mark R. Pfleider | Chief Technology Officer | Mark R. Pfleider |
| Technology & Solutions |                      |              |

| Edward J. Rapp | Chief Ethics and Compliance Officer | Ali M. Bahaj |
| Building Construction Products |                        |              |

| William J. Rehner | Treasurer | Kevin E. Colgan |
| Electric Power | |              |

| William P. Ainesworth | Assistant Treasurer | Robin D. Beran |
| Progress Rail Services | |              |

| Gary A. Stampanato | Assistant Secretaries | Tinkie E. Demmin, Laurie J. Huxtable |
| Infrastructure Product Development | |              |

(1) Retired effective December 31, 2006
SUPPLEMENTAL STOCKHOLDER INFORMATION

STOCKHOLDER SERVICES
Registered stockholders should contact:

Stock Transfer Agent
Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-3315
Phone: (888) 208-6622 (U.S. and Canada)
(201) 680-6578 (Outside U.S. and Canada)
Hearing Impaired: (888) 231-5468 (U.S. or Canada)
(201) 680-6610 (Outside U.S. or Canada)
Internet: www.melloninvestor.com

Caterpillar Assistant Secretary
Laurie J. Huebner
Assistant Secretary
Caterpillar Inc.
100 N.E. Adams Street
Peoria, IL 61629-7310
Phone: (309) 675-6619
Fax: (309) 675-6620
Email: cashholderservices@cat.com

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 online from Mellon’s website or linked

INVESTOR RELATIONS
Institutional analysts, portfolio managers and representa-
tives of financial institutions seeking additional
information about the Company should contact:

Director of Investor Relations
Mike DeVoll
Caterpillar Inc.
100 N.E. Adams Street
Peoria, IL 61629-7310
Phone: (309) 675-6449
Fax: (309) 675-6447
Email: cmcat@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

Compliance
For 2006, Caterpillar filed annual CEO Certifications
in compliance with New York and NYSE Arca stock
exchange rules and CEO/CFO certifications in com-
pliance 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>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HIGH</td>
<td>LOW</td>
</tr>
<tr>
<td>First</td>
<td>$77.21</td>
<td>$57.05</td>
</tr>
<tr>
<td>Second</td>
<td>$82.03</td>
<td>$64.41</td>
</tr>
<tr>
<td>Third</td>
<td>$75.43</td>
<td>$62.09</td>
</tr>
<tr>
<td>Fourth</td>
<td>$70.92</td>
<td>$56.42</td>
</tr>
</tbody>
</table>

(1) Price ranges reflect July 2006 $0.00-1 stock split.

Number of Stockholders
Stockholders of record at year-end totaled 39,075,
compared with 38,929 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’s qualified investment plans held
40,025,772 shares at year-end, including 5,087,149
shares acquired during 2006. Non-U.S. employees
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 request a copy of
results by fax or mail.
Request, view or download materials online or reg-
ister for e-mail alerts by visiting www.cat.com/
materialsrequest.

Historical Information
View/download online 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

INTERNET
Visit us on the Internet at www.cat.com. Information
contained on our website is not incorporated by refer-
ence into this document.

CREDITS
Produced by Caterpillar Corporate Public Affairs

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VSA Partners, Inc.

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Mitch Celpan, Colgan Photographic
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Mike LaValle, Caterpillar Inc
Mike Louagie, Freelance Photographer
Norwegian Cruise Lines
Dennis Slape, Freelance Photographer
Peter Stauffer, Caterpillar Inc
Antone Tamburini, Antone Tamburini-fotografo

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FSC Certification 55G-CC-C-9048

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Safe Harbor Statement
Certain statements in this report relate to future events
and expectations that constitute forward-looking state-
ments 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 fac-
tors and uncertainties, including, but not limited to,
changes in economic, political or competitive conditions;
market acceptance of the company’s products and ser-
vice; changes in tax, regulations and tax rates; and
other economic, business and financing condi-
tions 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 23, 2007. We do not undertake to
update our forward-looking statements.
THE AWARD-WINNING 330D HYDRAULIC EXCAVATOR

In December 2006, Caterpillar’s D-Series excavator line received one of the six top-100 awards given to Caterpillar by Construction Equipment magazine. The publication’s editors selected winners from the more than 1,500 product announcements received each year, recognizing new concepts, engineering evolution and hefty competition in the market. Other Cat products selected in 2006: MC seeders, S-Series motor graders, E-Series backhoe loaders, 657G scraper, F-Series off-highway trucks and CB-64D asphalt compactor. Caterpillar has received more than 110 top-100 awards over the 16 years of this program.

Forest Stewardship Council Chain of Custody certification ensures that the forest resources used throughout the manufacturing process meet stringent guidelines—from the forest to the finished product.
RELENTLESS

2006 ANNUAL REPORT