

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-768

**CATERPILLAR INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation)

37-0602744  
(IRS Employer I.D. No.)

100 NE Adams Street, Peoria, Illinois  
(Address of principal executive offices)

61629  
(Zip Code)

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

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

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

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

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

At June 30, 2007, 639,155,181 shares of common stock of the Registrant were outstanding.

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\* Item omitted because no answer is called for or item is not applicable.

## Part I. FINANCIAL INFORMATION

### Item 1. Financial Statements

Caterpillar Inc.  
Consolidated Statement of Results of Operations  
(Unaudited)  
(Dollars in millions except per share data)

|   | Three Months Ended<br>June 30, |                 |
|---|--------------------------------|-----------------|
|   | 2007                           | 2006            |
| <b>Sales and revenues:</b>  |                                |                 |
| Sales of Machinery and Engines.....                                 | \$ 10,613                      | \$ 9,956        |
| Revenues of Financial Products.....                                 | 743                            | 649             |
| Total sales and revenues.....                                       | <u>11,356</u>                  | <u>10,605</u>   |
| <b>Operating costs:</b>   |                                |                 |
| Cost of goods sold.....   | 8,300                          | 7,416           |
| Selling, general and administrative expenses.....                   | 968                            | 881             |
| Research and development expenses.....                              | 350                            | 343             |
| Interest expense of Financial Products.....                         | 279                            | 256             |
| Other operating expenses.....                                       | 246                            | 230             |
| Total operating costs.....  | <u>10,143</u>                  | <u>9,126</u>    |
| <b>Operating profit</b> .....                                       | 1,213                          | 1,479           |
| Interest expense excluding Financial Products.....                  | 80                             | 66              |
| Other income (expense).....   | <u>70</u>                      | <u>50</u>       |
| <b>Consolidated profit before taxes</b> .....                       | 1,203                          | 1,463           |
| Provision for income taxes.....                                     | 385                            | 449             |
| Profit of consolidated companies.....                               | 818                            | 1,014           |
| Equity in profit (loss) of unconsolidated affiliated companies..... | <u>5</u>                       | <u>32</u>       |
| <b>Profit</b> .....   | <u>\$ 823</u>                  | <u>\$ 1,046</u> |
| <b>Profit per common share</b> .....                                | \$ 1.28                        | \$ 1.58         |
| <b>Profit per common share – diluted</b> <sup>1</sup> .....         | \$ 1.24                        | \$ 1.52         |
| <b>Weighted average common shares outstanding (millions)</b>        |                                |                 |
| - Basic.....  | 640.5                          | 662.1           |
| - Diluted <sup>1</sup> .....  | 662.8                          | 688.5           |
| <b>Cash dividends declared per common share</b> .....               | \$ .66                         | \$ .55          |

<sup>1</sup> Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Consolidated Statement of Results of Operations**  
**(Unaudited)**  
(Dollars in millions except per share data)

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2007                         | 2006      |
| <b>Sales and revenues:</b>  |                              |           |
| Sales of Machinery and Engines.....                                 | \$ 19,934                    | \$ 18,699 |
| Revenues of Financial Products.....                                 | 1,438                        | 1,298     |
| Total sales and revenues.....                                       | 21,372                       | 19,997    |
| <b>Operating costs:</b>   |                              |           |
| Cost of goods sold.....   | 15,436                       | 13,968    |
| Selling, general and administrative expenses.....                   | 1,858                        | 1,702     |
| Research and development expenses.....                              | 690                          | 650       |
| Interest expense of Financial Products.....                         | 550                          | 488       |
| Other operating expenses.....                                       | 485                          | 492       |
| Total operating costs.....  | 19,019                       | 17,300    |
| <b>Operating profit</b> .....                                       | 2,353                        | 2,697     |
| Interest expense excluding Financial Products.....                  | 159                          | 134       |
| Other income (expense).....   | 181                          | 93        |
| <b>Consolidated profit before taxes</b> .....                       | 2,375                        | 2,656     |
| Provision for income taxes.....                                     | 760                          | 819       |
| Profit of consolidated companies.....                               | 1,615                        | 1,837     |
| Equity in profit (loss) of unconsolidated affiliated companies..... | 24                           | 49        |
| <b>Profit</b> .....   | \$ 1,639                     | \$ 1,886  |
| <b>Profit per common share</b> .....                                | \$ 2.55                      | \$ 2.83   |
| <b>Profit per common share – diluted</b> <sup>1</sup> .....         | \$ 2.47                      | \$ 2.72   |
| <b>Weighted average common shares outstanding (millions)</b>        |                              |           |
| - Basic.....  | 642.4                        | 666.7     |
| - Diluted <sup>1</sup> .....  | 664.3                        | 693.8     |
| <b>Cash dividends declared per common share</b> .....               | \$ .66                       | \$ .55    |

<sup>1</sup> Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Consolidated Statement of Financial Position**  
**(Unaudited)**  
**(Dollars in millions)**

|   | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| <b>Assets</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and short-term investments.....  | \$ 562           | \$ 530               |
| Receivables – trade and other.....  | 7,835            | 8,607                |
| Receivables – finance .....   | 6,821            | 6,804                |
| Deferred and refundable income taxes .....                                  | 1,055            | 733                  |
| Prepaid expenses and other current assets .....                             | 751              | 638                  |
| Inventories.....  | 7,106            | 6,351                |
| Total current assets.....   | 24,130           | 23,663               |
| Property, plant and equipment – net .....                                   | 9,127            | 8,851                |
| Long-term receivables – trade and other .....                               | 706              | 860                  |
| Long-term receivables – finance .....                                       | 12,711           | 11,531               |
| Investments in unconsolidated affiliated companies .....                    | 551              | 562                  |
| Noncurrent deferred and refundable income taxes .....                       | 2,111            | 1,949                |
| Intangible assets .....   | 467              | 387                  |
| Goodwill.....   | 1,937            | 1,904                |
| Other assets .....  | 1,766            | 1,742                |
| <b>Total assets</b> .....   | <b>\$ 53,506</b> | <b>\$ 51,449</b>     |
| <b>Liabilities</b>  |                  |                      |
| Current liabilities:  |                  |                      |
| Short-term borrowings:  |                  |                      |
| Machinery and Engines.....  | \$ 436           | \$ 165               |
| Financial Products.....   | 5,280            | 4,990                |
| Accounts payable .....  | 4,130            | 4,085                |
| Accrued expenses.....   | 2,952            | 2,923                |
| Accrued wages, salaries and employee benefits .....                         | 814              | 938                  |
| Customer advances.....  | 1,275            | 921                  |
| Dividends payable .....   | 230              | 194                  |
| Other current liabilities .....   | 803              | 1,145                |
| Long-term debt due within one year:   |                  |                      |
| Machinery and Engines.....  | 469              | 418                  |
| Financial Products.....   | 3,416            | 4,043                |
| Total current liabilities.....  | 19,805           | 19,822               |
| Long-term debt due after one year:  |                  |                      |
| Machinery and Engines.....  | 3,670            | 3,694                |
| Financial Products.....   | 14,285           | 13,986               |
| Liability for postemployment benefits .....                                 | 5,906            | 5,879                |
| Other liabilities .....   | 2,009            | 1,209                |
| <b>Total liabilities</b> .....  | 45,675           | 44,590               |
| <b>Commitments and contingencies (Notes 10 and 12)</b>                      |                  |                      |
| <b>Stockholders' equity</b>   |                  |                      |
| Common stock of \$1.00 par value:   |                  |                      |
| Authorized shares: 900,000,000  |                  |                      |
| Issued shares: (6/30/07 and 12/31/06 – 814,894,624) at paid-in amount.....  | 2,655            | 2,465                |
| Treasury stock (6/30/07 – 175,739,443; 12/31/06 – 169,086,448) at cost..... | (8,154)          | (7,352)              |
| Profit employed in the business .....                                       | 15,951           | 14,593               |
| Accumulated other comprehensive income (loss).....                          | (2,621)          | (2,847)              |
| <b>Total stockholders' equity</b> .....                                     | 7,831            | 6,859                |
| <b>Total liabilities and stockholders' equity</b> .....                     | <b>\$ 53,506</b> | <b>\$ 51,449</b>     |

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**(Unaudited)**  
**(Dollars in millions)**

|   |                 |                   | Profit<br>employed<br>in the<br>business | Accumulated other comprehensive<br>income (loss) |  |  |                                      | Total           |
|---|-----------------|-------------------|--|--|--|--|--------------------------------------|-----------------|
|   | Common<br>stock | Treasury<br>stock |  | Foreign<br>currency<br>translation               | Pension<br>& other<br>post-<br>retirement<br>benefits <sup>1</sup> | Derivative<br>financial<br>instruments | Available-<br>for-sale<br>securities |                 |
| <b>Six Months ended June 30, 2006</b>   |                 |                   |  |  |  |  |                                      |                 |
| Balance at December 31, 2005.....   | \$ 1,859        | \$ (4,637)        | \$ 11,808                                | \$ 302   | \$ (934)   | \$ 18                                  | \$ 16                                | \$ 8,432        |
| Profit.....   | —               | —                 | 1,886                                    | —  | —  | —                                      | —                                    | 1,886           |
| Foreign currency translation .....  | —               | —                 | —  | 108  | —  | —                                      | —                                    | 108             |
| Minimum pension liability adjustment,<br>net of tax of \$0 .....                                | —               | —                 | —  | —  | 1  | —                                      | —                                    | 1               |
| Derivative financial instruments  |                 |                   |  |  |  |  |                                      |                 |
| Gains (losses) deferred, net of tax of \$23 ....  | —               | —                 | —  | —  | —  | 48                                     | —                                    | 48              |
| (Gains) losses reclassified to earnings,<br>net of tax of \$7 .....                             | —               | —                 | —  | —  | —  | (17)                                   | —                                    | (17)            |
| Available-for-sale securities   |                 |                   |  |  |  |  |                                      |                 |
| Gains (losses) deferred, net of tax of \$1 .....  | —               | —                 | —  | —  | —  | —                                      | (3)                                  | (3)             |
| (Gains) losses reclassified to earnings,<br>net of tax of \$9 .....                             | —               | —                 | —  | —  | —  | —                                      | (16)                                 | (16)            |
| Comprehensive Income .....  |                 |                   |  |  |  |  |                                      | 2,007           |
| Dividends declared.....   | —               | —                 | (364)                                    | —  | —  | —                                      | —                                    | (364)           |
| Common shares issued from treasury stock  |                 |                   |  |  |  |  |                                      |                 |
| for stock-based compensation: 12,831,052....  | 67              | 283               | —  | —  | —  | —                                      | —                                    | 350             |
| Stock-based compensation expense .....  | 92              | —                 | —  | —  | —  | —                                      | —                                    | 92              |
| Tax benefits from stock-based compensation ..   | 148             | —                 | —  | —  | —  | —                                      | —                                    | 148             |
| Shares repurchased: 33,291,700.....   | —               | (2,411)           | —  | —  | —  | —                                      | —                                    | (2,411)         |
| Shares issued for Progress Rail Services,<br>Inc. acquisition: 5,341,902 .....                  | 227             | 152               | —  | —  | —  | —                                      | —                                    | 379             |
| <b>Balance at June 30, 2006.....</b>  | <b>\$ 2,393</b> | <b>\$ (6,613)</b> | <b>\$ 13,330</b>                         | <b>\$ 410</b>                                    | <b>\$ (933)</b>  | <b>\$ 49</b>                           | <b>\$ (3)</b>                        | <b>\$ 8,633</b> |
| <b>Six Months ended June 30, 2007</b>   |                 |                   |  |  |  |  |                                      |                 |
| Balance at December 31, 2006.....   | \$ 2,465        | \$ (7,352)        | \$ 14,593                                | \$ 471   | \$ (3,376)   | \$ 48                                  | \$ 10                                | \$ 6,859        |
| Adjustment to adopt FIN 48 .....  | —               | —                 | 141                                      | —  | —  | —                                      | —                                    | 141             |
| <b>Balance at January 1, 2007 .....</b>   | <b>2,465</b>    | <b>(7,352)</b>    | <b>14,734</b>                            | <b>471</b>                                       | <b>(3,376)</b>   | <b>48</b>                              | <b>10</b>                            | <b>7,000</b>    |
| Profit.....   | —               | —                 | 1,639                                    | —  | —  | —                                      | —                                    | 1,639           |
| Foreign currency translation .....  | —               | —                 | —  | 106  | —  | —                                      | —                                    | 106             |
| Amortization of pension and other<br>postretirement benefits losses, net of tax of<br>\$66..... | —               | —                 | —  | —  | 122  | —                                      | —                                    | 122             |
| Derivative financial instruments  |                 |                   |  |  |  |  |                                      |                 |
| Gains (losses) deferred, net of tax of \$17 ....  | —               | —                 | —  | —  | —  | 31                                     | —                                    | 31              |
| (Gains) losses reclassified to earnings,<br>net of tax of \$19 .....                            | —               | —                 | —  | —  | —  | (35)                                   | —                                    | (35)            |
| Available-for-sale securities   |                 |                   |  |  |  |  |                                      |                 |
| Gains (losses) deferred, net of tax of \$4 .....  | —               | —                 | —  | —  | —  | —                                      | 6                                    | 6               |
| (Gains) losses reclassified to earnings,<br>net of tax of \$1 .....                             | —               | —                 | —  | —  | —  | —                                      | (4)                                  | (4)             |
| Comprehensive Income .....  |                 |                   |  |  |  |  |                                      | 1,865           |
| Dividends declared.....   | —               | —                 | (422)                                    | —  | —  | —                                      | —                                    | (422)           |
| Common shares issued from treasury stock  |                 |                   |  |  |  |  |                                      |                 |
| for stock-based compensation: 8,047,005....   | 8               | 215               | —  | —  | —  | —                                      | —                                    | 223             |
| Stock-based compensation expense .....  | 82              | —                 | —  | —  | —  | —                                      | —                                    | 82              |
| Tax benefits from stock-based compensation ..   | 100             | —                 | —  | —  | —  | —                                      | —                                    | 100             |
| Shares repurchased: 14,700,000.....   | —               | (1,017)           | —  | —  | —  | —                                      | —                                    | (1,017)         |
| <b>Balance at June 30, 2007.....</b>  | <b>\$ 2,655</b> | <b>\$ (8,154)</b> | <b>\$ 15,951</b>                         | <b>\$ 577</b>                                    | <b>\$ (3,254)</b>  | <b>\$ 44</b>                           | <b>\$ 12</b>                         | <b>\$ 7,831</b> |

<sup>1</sup> Pension and other postretirement benefits include the aggregate adjustment for unconsolidated companies of \$0 million and \$1 million for the six months ended June 30, 2007 and 2006, respectively. The ending balances were \$43 million and \$36 million at June 30, 2007 and 2006, respectively.

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Condensed Consolidated Statement of Cash Flow**  
**(Unaudited)**  
**(Millions of dollars)**

|   | Six Months Ended<br>June 30, |                |
|---|------------------------------|----------------|
|   | 2007                         | 2006           |
| <b>Cash flow from operating activities:</b>                                     |                              |                |
| Profit.....   | \$ 1,639                     | \$ 1,886       |
| Adjustments for non-cash items:   |                              |                |
| Depreciation and amortization .....   | 849                          | 802            |
| Other .....   | 71                           | 94             |
| Changes in assets and liabilities:  |                              |                |
| Receivables – trade and other .....   | 987                          | (762)          |
| Inventories .....   | (691)                        | (755)          |
| Accounts payable and accrued expenses .....                                     | (46)                         | 356            |
| Other assets – net .....  | (300)                        | 23             |
| Other liabilities – net .....   | 727                          | 277            |
| Net cash provided by (used for) operating activities .....                      | <u>3,236</u>                 | <u>1,921</u>   |
| <b>Cash flow from investing activities:</b>                                     |                              |                |
| Capital expenditures - excluding equipment leased to others .....               | (582)                        | (552)          |
| Expenditures for equipment leased to others .....                               | (621)                        | (532)          |
| Proceeds from disposals of property, plant and equipment.....                   | 208                          | 319            |
| Additions to finance receivables .....  | (6,356)                      | (5,114)        |
| Collections of finance receivables.....   | 5,233                        | 4,079          |
| Proceeds from sales of finance receivables .....                                | 84                           | 980            |
| Investments and acquisitions (net of cash acquired).....                        | (174)                        | (419)          |
| Proceeds from sales of available-for-sale securities.....                       | 119                          | 219            |
| Investments in available-for-sale securities .....                              | (217)                        | (296)          |
| Other – net .....   | 285                          | 167            |
| Net cash provided by (used for) investing activities .....                      | <u>(2,021)</u>               | <u>(1,149)</u> |
| <b>Cash flow from financing activities:</b>                                     |                              |                |
| Dividends paid .....  | (386)                        | (335)          |
| Common stock issued, including treasury shares reissued.....                    | 223                          | 349            |
| Treasury shares purchased .....   | (1,017)                      | (2,411)        |
| Excess tax benefit from stock-based compensation.....                           | 97                           | 147            |
| Proceeds from debt issued (original maturities greater than three months) ..... | 5,259                        | 5,033          |
| Payments on debt (original maturities greater than three months).....           | (5,453)                      | (5,595)        |
| Short-term borrowings (original maturities three months or less) – net .....    | 86                           | 1,564          |
| Net cash provided by (used for) financing activities .....                      | <u>(1,191)</u>               | <u>(1,248)</u> |
| Effect of exchange rate changes on cash .....                                   | 8                            | 16             |
| <b>Increase (decrease) in cash and short-term investments .....</b>             | <u>32</u>                    | <u>(460)</u>   |
| Cash and short-term investments at beginning of period.....                     | 530                          | 1,108          |
| Cash and short-term investments at end of period .....                          | <u>\$ 562</u>                | <u>\$ 648</u>  |

Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

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

Non-cash activities:

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

See accompanying notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. A. Basis of Presentation

In the opinion of management, the accompanying financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three and six month periods ended June 30, 2007 and 2006, (b) the consolidated financial position at June 30, 2007 and December 31, 2006, (c) the consolidated changes in stockholders' equity for the six month periods ended June 30, 2007 and 2006, and (d) the consolidated statement of cash flow for the six month periods ended June 30, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation.

Operating costs for the second quarter of 2007 include a \$44 million charge (Cost of goods sold of \$21 million and Selling, general and administrative expenses of \$23 million) to recognize previously unrecorded liabilities related to a subsidiary pension plan. The after tax impact of this charge was \$30 million. In addition, as previously announced, we are currently negotiating definitive agreements with Mitsubishi Heavy Industries that would result in Caterpillar owning a majority stake in Shin Caterpillar Mitsubishi Ltd. (SCM). Second quarter equity in profit of unconsolidated affiliated companies reflects a \$13 million after tax charge for net adjustments related to revenue recognition, deferred tax valuation allowances and environmental liabilities that were identified during our due diligence procedures. Management does not consider these adjustments, aggregating \$43 million after tax, to be material to the Consolidated Statement of Financial Position at June 30, 2007 or the Consolidated Statement of Results of Operations for the three and six months ended June 30, 2007.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the audited financial statements and notes thereto included in our Company's annual report on Form 10-K for the year ended December 31, 2006 (2006 Form 10-K).

Comprehensive income is comprised of profit, as well as adjustments for foreign currency translation, derivative instruments designated as cash flow hedges, available-for-sale securities and pension and other postretirement benefits. Total comprehensive income for the three months ended June 30, 2007 and 2006 was \$989 million and \$1,125 million, respectively. Total comprehensive income for the six months ended June 30, 2007 and 2006 was \$1,865 million and \$2,007 million, respectively.

The December 31, 2006 financial position data included herein is derived from the audited consolidated financial statements included in the 2006 Form 10-K.

### B. Nature of Operations

We operate in three principal lines of business:

- (1) **Machinery**— A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrapers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and service of rail-related products.
- (2) **Engines**— A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to more than 16 000 kilowatts). Turbines range from 1,600 to 20,500 horsepower (1 200 to 15 000 kilowatts).
- (3) **Financial Products** – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines, as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.

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



## 2. New Accounting Pronouncements

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

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

**FIN 48** – In July 2006, the FASB issued FIN 48 “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The following table summarizes the effect of the initial adoption of FIN 48. (See Note 14 for additional information.)

### Initial adoption of FIN 48

|   | January 1, 2007<br>Prior to FIN 48<br>Adjustment | FIN 48<br>Adjustment | January 1,<br>2007<br>Post FIN 48<br>Adjustment |
|---|--|----------------------|---|
| <b>(Millions of dollars)</b>                          |  |                      |   |
| Deferred and refundable income taxes .....            | \$ 733   | \$ 82                | \$ 815  |
| Noncurrent deferred and refundable income taxes ..... | 1,949  | 211                  | 2,160   |
| Other current liabilities.....                        | 1,145  | (530)                | 615   |
| Other liabilities.....                                | 1,209  | 682                  | 1,891   |
| Profit employed in the business.....                  | 14,593   | 141                  | 14,734  |

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

**SFAS 158** – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).” SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company’s fiscal year-end. As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006, and will adopt the year-end measurement date in 2008 using the prospective method.

**SFAS 159** – In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), “The Fair Value Option for Financial Assets & Financial Liabilities – Including an Amendment of SFAS No. 115.” SFAS 159 will create a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. SFAS 159 will become effective for fiscal years beginning after November 15, 2007. We are currently reviewing the impact of SFAS 159 on our financial statements and expect to complete this evaluation in 2007. We will adopt this new accounting standard on January 1, 2008.

### 3. Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2006. SFAS 123R requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Stock-based compensation primarily consists of stock options, stock-settled stock appreciation rights (SARs) and restricted stock units (RSUs). We recognized pretax stock-based compensation cost in the amount of \$55 million and \$83 million for the three and six months ended June 30, 2007, respectively; and \$58 million and \$92 million for the three and six months ended June 30, 2006, respectively.

The following table illustrates the type and fair market value of the stock-based compensation awards granted during the six month periods ended June 30, 2007 and 2006, respectively:

|                     | 2007      |                      | 2006      |                      |
|---------------------|-----------|----------------------|-----------|----------------------|
|                     | # Granted | Fair Value Per Award | # Granted | Fair Value Per Award |
| SARs .....          | 4,195,188 | \$ 20.73             | 9,479,534 | \$ 23.44             |
| Stock options ..... | 231,615   | 20.73                | 331,806   | 23.44                |
| RSUs .....          | 1,282,020 | 59.94                | —         | —                    |

The following table provides the assumptions used in determining the fair value of the stock-based awards for the six month periods ended June 30, 2007 and 2006, respectively:

|   | Grant Year   |              |
|---|--------------|--------------|
|   | 2007         | 2006         |
| Weighted-average dividend yield .....   | 1.68%        | 1.79%        |
| Weighted-average volatility .....       | 26.04%       | 26.79%       |
| Range of volatilities .....             | 26.03-26.62% | 26.56-26.79% |
| Range of risk-free interest rates ..... | 4.40-5.16%   | 4.34-4.64%   |
| Weighted-average expected lives .....   | 8 years      | 8 years      |

As of June 30, 2007, the total remaining unrecognized compensation cost related to nonvested stock-based compensation awards was \$185 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.3 years.

Our long-standing practices and policies specify all stock-based compensation awards are approved by the Compensation Committee (the Committee) of the Board of Directors on the date of grant. The stock-based award approval process specifies the number of awards granted, the terms of the award and the grant date. The same terms and conditions are consistently applied to all employee grants, including Officers. The Committee approves all individual Officer grants. The number of stock-based compensation awards included in an individual's award is determined based on the methodology approved by the Committee. Prior to 2007, the terms of the 1996 Stock Option and Long-Term Incentive Plan (which expired in April of 2006) provided for the exercise price methodology to be the average of the high and low price of our stock on the date of grant. In 2007, under the terms of the Caterpillar Inc. 2006 Long-Term Incentive Plan (approved by stockholders in June of 2006), the Compensation Committee approved the exercise price methodology to be the closing price of the Company stock on the date of grant.

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

### 4. Derivative Instruments and Hedging Activities

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

### Foreign Currency Exchange Rate Risk

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

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

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

As of June 30, 2007, \$13 million of deferred net gains (net of tax) included in equity ("Accumulated other comprehensive income (loss)" in the Consolidated Statement of Financial Position) are expected to be reclassified to current earnings ("Other income (expense)" in the Consolidated Statement of Results of Operations) over the next 12 months when earnings are affected by the hedged transactions. The actual amount recorded in Other income (expense) will vary based on the exchange rates at the time the hedged transactions impact earnings.

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

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

| (Millions of dollars)           | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |              |
|---------------------------------|--------------------------------|-------------|------------------------------|--------------|
|                                 | 2007                           | 2006        | 2007                         | 2006         |
| Machinery and Engines:          |                                |             |                              |              |
| On undesignated contracts ..... | \$ 4                           | \$ 7        | \$ 8                         | \$ 19        |
| Financial Products:             |                                |             |                              |              |
| On undesignated contracts ..... | (4)                            | (7)         | (10)                         | (1)          |
|                                 | <u>\$ —</u>                    | <u>\$ —</u> | <u>\$ (2)</u>                | <u>\$ 18</u> |

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

### Interest Rate Risk

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

Machinery and Engines operations generally use fixed rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter into fixed-to-floating interest rate swaps and forward rate agreements to meet that objective with the intent to designate as fair value hedges at inception of the contract all fixed-to-floating interest rate swaps. Designation as a hedge of the fair value of our fixed rate debt is performed to support hedge accounting. During 2001, our Machinery and Engines operations liquidated all existing fixed-to-floating interest rate swaps. The gain (\$6 million at June 30, 2007) is being amortized to earnings ratably over the remaining life of the hedged debt. We have entered into a total of \$400 million of interest rate swaps designated as fair value hedges of our fixed-rate long-term debt.

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

Our policy allows us to use floating-to-fixed, fixed-to-floating and floating-to-floating interest rate swaps to meet the match funding objective. To support hedge accounting, we designate fixed-to-floating interest rate swaps as fair value hedges of the fair value of our fixed rate debt at the inception of the swap contract. Financial Products' practice is to designate most floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at inception of the swap contract. Designation as a hedge of the variability of cash flow is performed to support hedge accounting.

Financial Products liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004, which resulted in deferred net gains. These gains (\$6 million remaining at June 30, 2007) are being amortized to earnings ratably over the remaining life of the hedged debt. Financial Products liquidated floating-to-fixed interest rate swaps during 2007 that resulted in deferred net gains that are being amortized to earnings ratably over the remaining life of the hedged debt. The unamortized balance of \$2 million as of June 30, 2007 will be amortized into Interest expense over the next 12 months.

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

| (Millions of dollars)   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2007                           | 2006        | 2007                         | 2006        |
| Fixed-to-floating interest rate swaps                                   |                                |             |                              |             |
| Machinery and Engines:  |                                |             |                              |             |
| Gain (loss) on designated interest rate derivatives .....               | \$ (5)                         | \$ —        | \$ (5)                       | \$ —        |
| Gain (loss) on hedged debt .....  | 4                              | —           | 3                            | —           |
| Gain (loss) on liquidated swaps – included in interest<br>expense ..... | 1                              | 1           | 2                            | 2           |
| Financial Products:   |                                |             |                              |             |
| Gain (loss) on designated interest rate derivatives .....               | (43)                           | (37)        | (31)                         | (87)        |
| Gain (loss) on hedged debt .....  | 43                             | 37          | 31                           | 87          |
| Gain (loss) on liquidated swaps – included in interest<br>expense ..... | 1                              | 2           | 1                            | 4           |
|   | <u>\$ 1</u>                    | <u>\$ 3</u> | <u>\$ 1</u>                  | <u>\$ 6</u> |

As of June 30, 2007, \$16 million, net of tax, of deferred net gains included in equity ("Accumulated other comprehensive income (loss)"), related to Financial Products floating-to-fixed interest rate swaps, are expected to be reclassified to current earnings ("Interest expense of Financial Products" in the Consolidated Statement of Results of Operations) over the next 12 months.

**Commodity Price Risk**

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

Our Machinery and Engines operations purchase aluminum, copper and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are also subjected to price changes on natural gas purchased for operational use.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. There were no gains or losses on undesignated contracts for the three months and six months ended June 30, 2007. Gains on the undesignated contracts of \$3 million and \$3 million were recorded in current earnings ("Other income (expense)") for the three months and six months ended June 30, 2006, respectively.

**5. Inventories**

Inventories (principally using the "last-in, first-out" method) are comprised of the following:

| (Millions of dollars)   | June 30,<br>2007 | December 31,<br>2006 |
|-------------------------|------------------|----------------------|
| Raw materials.....      | \$ 2,471         | \$ 2,182             |
| Work-in-process .....   | 1,094            | 977                  |
| Finished goods .....    | 3,255            | 2,915                |
| Supplies.....           | 286              | 277                  |
| Total inventories ..... | <u>\$ 7,106</u>  | <u>\$ 6,351</u>      |

## 6. Investments in Unconsolidated Affiliated Companies

Our investments in affiliated companies accounted for by the equity method consist primarily of a 50 percent interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three month lag, e.g., SCM results reflect the periods ending March 31) was as follows:

| Results of Operations of unconsolidated affiliated companies:<br>(Millions of dollars) | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2007                           | 2006     | 2007                         | 2006     |
| Sales .....  | \$ 1,050                       | \$ 1,108 | \$ 2,072                     | \$ 2,133 |
| Cost of sales .....  | 847                            | 879      | 1,670                        | 1,694    |
| Gross profit .....   | 203                            | 229      | 402                          | 439      |
| Profit (loss) .....  | \$ 40                          | \$ 69    | \$ 90                        | \$ 108   |
| Caterpillar's profit (loss) .....  | \$ 5                           | \$ 32    | \$ 24                        | \$ 49    |

| Financial Position of unconsolidated affiliated companies:<br>(Millions of dollars) | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| Assets:   |                  |                      |
| Current assets .....  | \$ 1,815         | \$ 1,807             |
| Property, plant and equipment – net .....   | 1,072            | 1,119                |
| Other assets .....  | 155              | 176                  |
|   | 3,042            | 3,102                |
| Liabilities:  |                  |                      |
| Current liabilities .....   | 1,396            | 1,394                |
| Long-term debt due after one year .....   | 263              | 309                  |
| Other liabilities .....   | 139              | 145                  |
|   | 1,798            | 1,848                |
| Ownership .....   | \$ 1,244         | \$ 1,254             |

### Caterpillar's investments in unconsolidated affiliated companies: (Millions of dollars)

|  |        |        |
|--|--------|--------|
| Investments in equity method companies .....                   | \$ 534 | \$ 542 |
| Plus: Investments in cost method companies .....               | 17     | 20     |
| Total investments in unconsolidated affiliated companies ..... | \$ 551 | \$ 562 |

Sales from SCM to Caterpillar for the three months ended June 30, 2007 and June 30, 2006 of \$393 million and \$474 million, respectively, and for the six months ended June 30, 2007 and June 30, 2006 of \$772 million and \$891 million, respectively, are included in the affiliated company sales. In addition, SCM purchases of Caterpillar products are \$68 million and \$72 million for the three months ended June 30, 2007 and June 30, 2006, respectively, and \$133 million and \$143 million for the six months ended June 30, 2007 and June 30, 2006, respectively.

On February 15, 2007, we signed a nonbinding memorandum of understanding with Mitsubishi Heavy Industries Ltd. (MHI) and SCM to conclude a plan that would result in a new ownership structure for SCM. The companies are in discussions with the intention of reaching definitive agreements that would result in Caterpillar owning a majority stake in SCM. When complete, SCM will proceed with the execution of a share redemption for a portion of SCM's shares held by MHI. In conjunction with the plan, we agreed to discuss with MHI the creation of a new comprehensive joint venture agreement as well as certain definitive agreements for implementation of the plan. These definitive agreements would be subject to applicable regulatory approvals. (See Note 1A for discussion of adjustments identified during our due diligence procedures.)

## 7. Intangible Assets and Goodwill

### A. Intangible assets

Intangible assets are comprised of the following:

| (Dollars in millions)                             | Weighted<br>Amortizable Life<br>(Years) | June 30,<br>2007 | December 31,<br>2006 |
|---|---|------------------|----------------------|
| Customer relationships.....                       | 19                                      | \$ 340           | \$ 242               |
| Intellectual property.....                        | 11                                      | 198              | 211                  |
| Other.....  | 13                                      | 75               | 73                   |
| Total finite-lived intangible assets – gross..... | 16                                      | 613              | 526                  |
| Less: Accumulated amortization.....               |   | 146              | 139                  |
| Intangible assets – net.....                      |   | <u>\$ 467</u>    | <u>\$ 387</u>        |

Amortization expense on intangible assets for the three and six months ended June 30, 2007 was \$9 million and \$20 million, respectively. Amortization expense for the three and six months ended June 30, 2006 was \$7 million and \$13 million, respectively. Amortization expense related to intangible assets is expected to be:

| (Millions of dollars) |       |       |       |       |            |
|-----------------------|-------|-------|-------|-------|------------|
| 2007                  | 2008  | 2009  | 2010  | 2011  | Thereafter |
| \$ 41                 | \$ 41 | \$ 41 | \$ 40 | \$ 37 | \$ 287     |

During the first quarter 2007, we acquired finite-lived intangible assets of \$89 million due to the purchase of Franklin Power Products. (See Note 15 for acquisition details.)

### B. Goodwill

On an annual basis, we test goodwill for impairment in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that an impairment may have occurred.

During the first quarter of 2006, we determined that the business outlook for the parts and accessories distribution business of MG Rover Ltd., acquired in 2004, required a specific impairment evaluation. The declining outlook of this business resulted from the MG Rover's cessation of vehicle production and warranties resulting from bankruptcy in 2005. Although the MG Rover parts business continues to provide parts to the existing population of vehicles, the unit's sales will continue to decline in the future as production of new vehicles has ceased. In determining if there was impairment, we first compared the fair value of the reporting unit (calculated by discounting projected cash flows) to the carrying value. Because the carrying value exceeded the fair value, we allocated the fair value to the assets and liabilities of the unit and determined the fair value of the implied goodwill was zero. Accordingly, a goodwill impairment charge of \$18 million was included in "Other operating expenses" in the Consolidated Statement of Results of Operations and reported in the "All Other" category in Note 13 during the first quarter of 2006. No other goodwill was impaired or disposed of during the three or six months ended June 30, 2006.

During the first quarter of 2007, we acquired assets with related goodwill of \$32 million as part of the purchase of Franklin Power Products (See Note 15 for details on the acquisition of these assets.)

The changes in carrying amount of the goodwill by reportable segment for the six months ended June 30, 2007 were as follows:

| (Millions of dollars)             | Heavy<br>Construction<br>& Mining | Electric<br>Power | Large<br>Power<br>Products | All<br>Other <sup>1</sup> | Consolidated<br>Total |
|-----------------------------------|-----------------------------------|-------------------|----------------------------|---------------------------|-----------------------|
| Balance at December 31, 2006..... | \$ 20                             | \$ 203            | \$ 628                     | \$ 1,053                  | \$ 1,904              |
| Acquisitions.....                 | —                                 | —                 | —                          | 32                        | 32                    |
| Other adjustments.....            | —                                 | —                 | —                          | 1                         | 1                     |
| Balance at June 30, 2007.....     | <u>\$ 20</u>                      | <u>\$ 203</u>     | <u>\$ 628</u>              | <u>\$ 1,086</u>           | <u>\$ 1,937</u>       |

<sup>1</sup> All Other includes operating segments included in "All Other" category (See Note 13).

## 8. Available-For-Sale Securities

Financial Products, primarily Cat Insurance, has investments in certain debt and equity securities that have been classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115) and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets" in the Consolidated Statement of Financial Position. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income (loss)" in the Consolidated Statement of Financial Position). Realized gains and losses on sales of investments are generally determined using the FIFO ("first-in, first-out") method for debt instruments and the specific identification method for equity securities. Realized gains and losses are included in "Other income (expense)" in the Consolidated Statement of Results of Operations.

| (Millions of dollars)  | June 30, 2007   |                       |                 | December 31, 2006 |                       |                 |
|------------------------|-----------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|
|                        | Cost Basis      | Unrealized Pretax Net |                 | Cost Basis        | Unrealized Pretax Net |                 |
|                        |                 | Gains (Losses)        | Fair Value      |                   | Gains (Losses)        | Fair Value      |
| Government debt.....   | \$ 355          | \$ (6)                | \$ 349          | \$ 355            | \$ (5)                | \$ 350          |
| Corporate bonds.....   | 637             | (9)                   | 628             | 541               | (6)                   | 535             |
| Equity securities..... | 161             | 35                    | 196             | 154               | 26                    | 180             |
| Total.....             | <u>\$ 1,153</u> | <u>\$ 20</u>          | <u>\$ 1,173</u> | <u>\$ 1,050</u>   | <u>\$ 15</u>          | <u>\$ 1,065</u> |

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

| (Millions of dollars)  | June 30, 2007                    |                   |                                |                   |               |                   |
|------------------------|----------------------------------|-------------------|--------------------------------|-------------------|---------------|-------------------|
|                        | Less than 12 months <sup>1</sup> |                   | 12 months or more <sup>1</sup> |                   | Total         |                   |
|                        | Fair Value                       | Unrealized Losses | Fair Value                     | Unrealized Losses | Fair Value    | Unrealized Losses |
| Government debt.....   | \$ 158                           | \$ 1              | \$ 170                         | \$ 4              | \$ 328        | \$ 5              |
| Corporate bonds.....   | 338                              | 5                 | 200                            | 5                 | 538           | 10                |
| Equity securities..... | 20                               | 1                 | —                              | —                 | 20            | 1                 |
| Total.....             | <u>\$ 516</u>                    | <u>\$ 7</u>       | <u>\$ 370</u>                  | <u>\$ 9</u>       | <u>\$ 886</u> | <u>\$ 16</u>      |

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

<sup>1</sup> Indicates length of time that individual securities have been in a continuous unrealized loss position.

The fair value of the available-for-sale debt securities at June 30, 2007, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

| (Millions of dollars)                       | Fair Value |
|---|------------|
| Due in one year or less.....                | \$ 97      |
| Due after one year through five years.....  | \$ 270     |
| Due after five years through ten years..... | \$ 112     |
| Due after ten years.....                    | \$ 498     |

Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2007 were \$57 million and \$119 million, respectively. Proceeds from sales of investments in debt and equity securities during the three and six months ended June 30, 2006 were \$144 million and \$219 million, respectively. Gross gains of \$2 million and \$6 million, and gross losses of \$1 million and \$1 million were included in current earnings for the three and six months ended June 30, 2007, respectively. Gross gains of \$24 million and \$30 million, and gross losses of \$4 million and \$5 million were included in current earnings for the three and six months ended June 30, 2006, respectively.

## 9. Postretirement Benefits

### A. Pension and postretirement benefit costs

| (Millions of dollars)                                     | U.S. Pension Benefits |              | Non-U.S. Pension Benefits |              | Other Postretirement Benefits |              |
|---|-----------------------|--------------|---------------------------|--------------|-------------------------------|--------------|
|   | June 30,              |              | June 30,                  |              | June 30,                      |              |
|   | 2007                  | 2006         | 2007                      | 2006         | 2007                          | 2006         |
| <b>For the three months ended:</b>                        |                       |              |                           |              |                               |              |
| <b>Components of net periodic benefit cost:</b>           |                       |              |                           |              |                               |              |
| Service cost.....   | \$ 46                 | \$ 40        | \$ 17                     | \$ 16        | \$ 23                         | \$ 23        |
| Interest cost.....  | 149                   | 144          | 31                        | 27           | 74                            | 76           |
| Expected return on plan assets .....                      | (210)                 | (200)        | (41)                      | (35)         | (33)                          | (29)         |
| Amortization of:  |                       |              |                           |              |                               |              |
| Net asset existing at adoption of SFAS 87/106 .....       | —                     | —            | 1                         | —            | 1                             | —            |
| Prior service cost <sup>1</sup> .....                     | 15                    | 14           | 2                         | 2            | (9)                           | (8)          |
| Net actuarial loss (gain).....                            | 53                    | 58           | 14                        | 14           | 19                            | 29           |
| Adjustment for subsidiary pension plan <sup>2</sup> ..... | 44                    | —            | —                         | —            | —                             | —            |
| Total cost included in operating profit.....              | <u>\$ 97</u>          | <u>\$ 56</u> | <u>\$ 24</u>              | <u>\$ 24</u> | <u>\$ 75</u>                  | <u>\$ 91</u> |

| (Millions of dollars)                                     | U.S. Pension Benefits |               | Non-U.S. Pension Benefits |              | Other Postretirement Benefits |               |
|---|-----------------------|---------------|---------------------------|--------------|-------------------------------|---------------|
|   | June 30,              |               | June 30,                  |              | June 30,                      |               |
|   | 2007                  | 2006          | 2007                      | 2006         | 2007                          | 2006          |
| <b>For the six months ended:</b>                          |                       |               |                           |              |                               |               |
| <b>Components of net periodic benefit cost:</b>           |                       |               |                           |              |                               |               |
| Service cost.....   | \$ 92                 | \$ 80         | \$ 35                     | \$ 32        | \$ 45                         | \$ 47         |
| Interest cost.....  | 298                   | 287           | 63                        | 54           | 148                           | 152           |
| Expected return on plan assets .....                      | (420)                 | (399)         | (82)                      | (70)         | (65)                          | (58)          |
| Amortization of:  |                       |               |                           |              |                               |               |
| Net asset existing at adoption of SFAS 87/106 .....       | —                     | —             | 1                         | —            | 1                             | 1             |
| Prior service cost <sup>1</sup> .....                     | 29                    | 29            | 3                         | 3            | (18)                          | (16)          |
| Net actuarial loss (gain).....                            | 107                   | 116           | 27                        | 28           | 39                            | 57            |
| Adjustment for subsidiary pension plan <sup>2</sup> ..... | 44                    | —             | —                         | —            | —                             | —             |
| Total cost included in operating profit.....              | <u>\$ 150</u>         | <u>\$ 113</u> | <u>\$ 47</u>              | <u>\$ 47</u> | <u>\$ 150</u>                 | <u>\$ 183</u> |

#### Weighted-average assumptions used to determine net cost:

|                                     |      |      |      |      |      |      |
|-------------------------------------|------|------|------|------|------|------|
| Discount rate.....                  | 5.5% | 5.6% | 4.8% | 4.6% | 5.5% | 5.6% |
| Expected return on plan assets..... | 9.0% | 9.0% | 7.7% | 7.5% | 9.0% | 9.0% |
| Rate of compensation increase.....  | 4.0% | 4.0% | 4.0% | 3.7% | 4.0% | 4.0% |

<sup>1</sup> Prior service costs for both pension and other postretirement benefits are generally amortized using the straight-line method over the average remaining service period to the full retirement eligibility date of employees expected to receive benefits from the plan amendment. For other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service costs are amortized using the straight-line method over the remaining life expectancy of those participants.

<sup>2</sup> See Note 1A for discussion of the adjustment.



We made \$33 million of contributions to pension plans during the six months ended June 30, 2007 and we currently anticipate additional contributions of approximately \$15 million during the remainder of the year. Although we have no ERISA (Employee Retirement Income Security Act) funding requirements in 2007, we will continue to evaluate additional contributions to both pension and other postretirement benefit plans.

## B. Defined contribution benefit costs

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

| (Millions of dollars) | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|-----------------------|--------------------------------|--------------|------------------------------|--------------|
|                       | 2007                           | 2006         | 2007                         | 2006         |
| U.S. Plans .....      | \$ 49                          | \$ 30        | \$ 103                       | \$ 88        |
| Non-U.S. Plans.....   | 7                              | 5            | 15                           | 11           |
|                       | <u>\$ 56</u>                   | <u>\$ 35</u> | <u>\$ 118</u>                | <u>\$ 99</u> |

## 10. Guarantees and Product Warranty

We have guaranteed to repurchase loans of certain Caterpillar dealers from third party lenders in the event of default. These guarantees arose in conjunction with Cat Financial's relationship with third party dealers who sell Caterpillar equipment. These guarantees generally have one-year terms and are secured, primarily by dealer assets. Additionally, we have provided an indemnity to a third party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds are issued to insure governmental agencies against nonperformance by certain Caterpillar dealers.

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

Cat Financial has provided a limited indemnity to a third party bank for \$32 million resulting from the assignment of certain leases to that bank. The indemnity is for the remote chance that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At June 30, 2007 and December 31, 2006, the recorded liability for these guarantees was \$9 million and \$10 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amount that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

| (Millions of dollars)                     | June 30,<br>2007 | December 31,<br>2006 |
|---|------------------|----------------------|
| Guarantees with Caterpillar dealers ..... | \$ 392           | \$ 527               |
| Guarantees with customers.....            | 59               | 48                   |
| Limited indemnity.....                    | 32               | 35                   |
| Guarantees – other.....                   | 25               | 21                   |
| Total guarantees.....                     | <u>\$ 508</u>    | <u>\$ 631</u>        |

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

| (Millions of dollars)                       | 2007          |
|---|---------------|
| Warranty liability, January 1 .....         | \$ 953        |
| Reduction in liability (payments).....      | (426)         |
| Increase in liability (new warranties)..... | 463           |
| Warranty liability, June 30 .....           | <u>\$ 990</u> |

| (Millions of dollars)                       | 2006          |
|---|---------------|
| Warranty liability, January 1 .....         | \$ 879        |
| Reduction in liability (payments).....      | (745)         |
| Increase in liability (new warranties)..... | 819           |
| Warranty liability, December 31.....        | <u>\$ 953</u> |

## 11. Computations of Profit Per Share

| (Dollars in millions except per share data)   | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|---|--------------------------------|-----------------|------------------------------|-----------------|
|   | 2007                           | 2006            | 2007                         | 2006            |
| I. Profit for the period (A): .....   | <u>\$ 823</u>                  | <u>\$ 1,046</u> | <u>\$ 1,639</u>              | <u>\$ 1,886</u> |
| II. Determination of shares (in millions):  |                                |                 |                              |                 |
| Weighted-average number of common shares outstanding (B).....   | 640.5                          | 662.1           | 642.4                        | 666.7           |
| Shares issuable on exercise of stock awards, net of shares assumed<br>to be purchased out of proceeds at average market price ..... | <u>22.3</u>                    | <u>26.4</u>     | <u>21.9</u>                  | <u>27.1</u>     |
| Average common shares outstanding for fully diluted computation (C).....  | <u>662.8</u>                   | <u>688.5</u>    | <u>664.3</u>                 | <u>693.8</u>    |
| III. Profit per share of common stock:  |                                |                 |                              |                 |
| Assuming no dilution (A/B) .....  | \$ 1.28                        | \$ 1.58         | \$ 2.55                      | \$ 2.83         |
| Assuming full dilution (A/C) .....  | \$ 1.24                        | \$ 1.52         | \$ 2.47                      | \$ 2.72         |

SARs and stock options to purchase 4.7 million and 13.9 million common shares were outstanding for the three months and six months ended June 30, 2007, respectively, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive. For the three and six months ended June 30, 2006, there were outstanding SARs and stock options to purchase 9.7 million common shares which were antidilutive.

## 12. Environmental and Legal Matters

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

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206 and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed \$100 thousand, management does not believe that this issue will have a material adverse impact on Caterpillar's financial position.

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

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

### 13. Segment Information

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

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

In the first quarter of 2007, four new profit centers were formed from restructuring the Construction and Mining Products reportable segment (which was the aggregation of three profit centers, Mining and Construction Equipment Division, Track-Type Tractor Division and Wheel Loaders and Excavators Division) and EAME Product Development and Operations Division (included in the "All Other" category). Two of the new profit centers, the Infrastructure Product Development Division and Heavy Construction and Mining Division will be primarily responsible for medium and large machine product management and development while the newly formed U.S. Operations Division and the EAME Operations Division will be primarily responsible for medium and large machine manufacturing in their respective geographic regions. Heavy Construction and Mining Division is a reportable segment and the remaining three new divisions are included in the "All Other" category. Products included in Heavy Construction and Mining are medium and large track-type tractors, mining trucks, quarry and aggregate trucks, large wheel loaders, wheel tractor scrapers and track loaders. The segment information for 2006 has been reclassified to conform to the 2007 presentation.

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

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page 25.

**Business Segments**  
**Three Months Ended June 30,**  
**(Millions of dollars)**

|                                    | <b>Machinery and Engines</b>  |                                   |                   |                   |                            |                  |                               |                               |              |           | Financing<br>&<br>Insurance<br>Services | Consolidated<br>Total |
|------------------------------------|-------------------------------|-----------------------------------|-------------------|-------------------|----------------------------|------------------|-------------------------------|-------------------------------|--------------|-----------|---|-----------------------|
|                                    | Asia/<br>Pacific<br>Marketing | Heavy<br>Construction<br>& Mining | EAME<br>Marketing | Electric<br>Power | Large<br>Power<br>Products | Latin<br>America | North<br>America<br>Marketing | Power<br>Systems<br>Marketing | All<br>Other | Total     |   |                       |
| <b>2007</b>                        |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| External sales and revenues .....  | \$ 821                        | \$ (14)                           | \$ 1,987          | \$ 751            | \$ (95)                    | \$ 918           | \$ 2,474                      | \$ 1,283                      | \$ 2,421     | \$ 10,546 | \$ 913                                  | \$ 11,459             |
| Inter-segment sales & revenues..   | —                             | 2,050                             | —                 | 74                | 2,124                      | 480              | 47                            | 24                            | 7,922        | 12,721    | —                                       | 12,721                |
| Total sales and revenues.....      | \$ 821                        | \$ 2,036                          | \$ 1,987          | \$ 825            | \$ 2,029                   | \$ 1,398         | \$ 2,521                      | \$ 1,307                      | \$ 10,343    | \$ 23,267 | \$ 913                                  | \$ 24,180             |
| Depreciation and amortization..... | \$ 1                          | \$ —                              | \$ —              | \$ 6              | \$ 45                      | \$ 12            | \$ 1                          | \$ 2                          | \$ 164       | \$ 231    | \$ 165                                  | \$ 396                |
| Imputed interest expense .....     | \$ 2                          | \$ —                              | \$ 3              | \$ 6              | \$ 16                      | \$ 8             | \$ (1)                        | \$ 2                          | \$ 96        | \$ 132    | \$ 282                                  | \$ 414                |
| Accountable profit (loss) .....    | \$ 23                         | \$ 279                            | \$ 83             | \$ 70             | \$ 87                      | \$ 75            | \$ 7                          | \$ 23                         | \$ 727       | \$ 1,374  | \$ 203                                  | \$ 1,577              |
| Accountable assets at              |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| June 30, 2007.....                 | \$ 200                        | \$ 31                             | \$ 373            | \$ 728            | \$ 2,101                   | \$ 1,019         | \$ (200)                      | \$ 174                        | \$ 12,856    | \$ 17,282 | \$ 28,806                               | \$ 46,088             |
| Capital Expenditures.....          | \$ 5                          | \$ —                              | \$ —              | \$ 5              | \$ 56                      | \$ 15            | \$ (1)                        | \$ 1                          | \$ 212       | \$ 293    | \$ 402                                  | \$ 695                |

|                                    | <b>Machinery and Engines</b>  |                                   |                   |                   |                            |                  |                               |                               |              |           | Financing<br>&<br>Insurance<br>Services | Consolidated<br>Total |
|------------------------------------|-------------------------------|-----------------------------------|-------------------|-------------------|----------------------------|------------------|-------------------------------|-------------------------------|--------------|-----------|---|-----------------------|
|                                    | Asia/<br>Pacific<br>Marketing | Heavy<br>Construction<br>& Mining | EAME<br>Marketing | Electric<br>Power | Large<br>Power<br>Products | Latin<br>America | North<br>America<br>Marketing | Power<br>Systems<br>Marketing | All<br>Other | Total     |   |                       |
| <b>2006</b>                        |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| External sales and revenues .....  | \$ 689                        | \$ (16)                           | \$ 1,411          | \$ 633            | \$ (57)                    | \$ 724           | \$ 3,335                      | \$ 1,413                      | \$ 1,770     | \$ 9,902  | \$ 830                                  | \$ 10,732             |
| Inter-segment sales & revenues..   | —                             | 1,993                             | 2                 | 67                | 2,128                      | 483              | 100                           | 23                            | 7,963        | 12,759    | —                                       | 12,759                |
| Total sales and revenues.....      | \$ 689                        | \$ 1,977                          | \$ 1,413          | \$ 700            | \$ 2,071                   | \$ 1,207         | \$ 3,435                      | \$ 1,436                      | \$ 9,733     | \$ 22,661 | \$ 830                                  | \$ 23,491             |
| Depreciation and amortization..... | \$ —                          | \$ —                              | \$ 1              | \$ 6              | \$ 43                      | \$ 11            | \$ 1                          | \$ 2                          | \$ 137       | \$ 201    | \$ 167                                  | \$ 368                |
| Imputed interest expense .....     | \$ 2                          | \$ —                              | \$ 1              | \$ 5              | \$ 13                      | \$ 7             | \$ 1                          | \$ 1                          | \$ 80        | \$ 110    | \$ 262                                  | \$ 372                |
| Accountable profit (loss) .....    | \$ 21                         | \$ 287                            | \$ 57             | \$ 44             | \$ 208                     | \$ 81            | \$ 148                        | \$ 33                         | \$ 876       | \$ 1,755  | \$ 176                                  | \$ 1,931              |
| Accountable assets at              |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| December 31, 2006.....             | \$ 352                        | \$ 28                             | \$ 285            | \$ 702            | \$ 2,022                   | \$ 941           | \$ (196)                      | \$ 207                        | \$ 12,160    | \$ 16,501 | \$ 28,406                               | \$ 44,907             |
| Capital Expenditures .....         | \$ 1                          | \$ 1                              | \$ —              | \$ 16             | \$ 48                      | \$ 16            | \$ 1                          | \$ 1                          | \$ 166       | \$ 250    | \$ 328                                  | \$ 578                |

**Business Segments**  
**Six Months Ended June 30,**  
**(Millions of dollars)**

|  | <b>Machinery and Engines</b>  |                                   |                   |                   |                            |                  |                               |                               |              |           | Financing<br>&<br>Insurance<br>Services | Consolidated<br>Total |
|--|-------------------------------|-----------------------------------|-------------------|-------------------|----------------------------|------------------|-------------------------------|-------------------------------|--------------|-----------|---|-----------------------|
|  | Asia/<br>Pacific<br>Marketing | Heavy<br>Construction<br>& Mining | EAME<br>Marketing | Electric<br>Power | Large<br>Power<br>Products | Latin<br>America | North<br>America<br>Marketing | Power<br>Systems<br>Marketing | All<br>Other | Total     |   |                       |
| <b>2007</b>                            |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| External sales and revenues ...        | \$ 1,617                      | \$ (29)                           | \$ 3,559          | \$ 1,439          | \$ (184)                   | \$ 1,691         | \$ 4,799                      | \$ 2,399                      | \$ 4,499     | \$ 19,790 | \$ 1,788                                | \$ 21,578             |
| Inter-segment sales &<br>revenues..... | —                             | 3,833                             | 1                 | 141               | 4,033                      | 933              | 101                           | 49                            | 15,211       | 24,302    | 1                                       | 24,303                |
| Total sales and revenues.....          | \$ 1,617                      | \$ 3,804                          | \$ 3,560          | \$ 1,580          | \$ 3,849                   | \$ 2,624         | \$ 4,900                      | \$ 2,448                      | \$ 19,710    | \$ 44,092 | \$ 1,789                                | \$ 45,881             |
| Depreciation and amortization..        | \$ 2                          | \$ 1                              | \$ —              | \$ 12             | \$ 88                      | \$ 22            | \$ 1                          | \$ 4                          | \$ 319       | \$ 449    | \$ 320                                  | \$ 769                |
| Imputed interest expense .....         | \$ 5                          | \$ —                              | \$ 5              | \$ 11             | \$ 32                      | \$ 15            | \$ (2)                        | \$ 3                          | \$ 187       | \$ 256    | \$ 556                                  | \$ 812                |
| Accountable profit (loss) .....        | \$ 55                         | \$ 522                            | \$ 131            | \$ 121            | \$ 234                     | \$ 140           | \$ (3)                        | \$ 23                         | \$ 1,469     | \$ 2,692  | \$ 388                                  | \$ 3,080              |
| Accountable assets at                  |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| June 30, 2007.....                     | \$ 200                        | \$ 31                             | \$ 373            | \$ 728            | \$ 2,101                   | \$ 1,019         | \$ (200)                      | \$ 174                        | \$ 12,856    | \$ 17,282 | \$ 28,806                               | \$ 46,088             |
| Capital Expenditures.....              | \$ 6                          | \$ —                              | \$ —              | \$ 3              | \$ 95                      | \$ 22            | \$ —                          | \$ 2                          | \$ 355       | \$ 483    | \$ 669                                  | \$ 1,152              |

|  | <b>Machinery and Engines</b>  |                                   |                   |                   |                            |                  |                               |                               |              |           | Financing<br>&<br>Insurance<br>Services | Consolidated<br>Total |
|--|-------------------------------|-----------------------------------|-------------------|-------------------|----------------------------|------------------|-------------------------------|-------------------------------|--------------|-----------|---|-----------------------|
|  | Asia/<br>Pacific<br>Marketing | Heavy<br>Construction<br>& Mining | EAME<br>Marketing | Electric<br>Power | Large<br>Power<br>Products | Latin<br>America | North<br>America<br>Marketing | Power<br>Systems<br>Marketing | All<br>Other | Total     |   |                       |
| <b>2006</b>                            |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| External sales and revenues ....       | \$ 1,321                      | \$ (30)                           | \$ 2,489          | \$ 1,173          | \$ (127)                   | \$ 1,356         | \$ 6,460                      | \$ 2,720                      | \$ 3,219     | \$ 18,581 | \$ 1,628                                | \$ 20,209             |
| Inter-segment sales &<br>revenues..... | —                             | 3,843                             | 2                 | 118               | 4,085                      | 905              | 195                           | 45                            | 15,057       | 24,250    | 1                                       | 24,251                |
| Total sales and revenues.....          | \$ 1,321                      | \$ 3,813                          | \$ 2,491          | \$ 1,291          | \$ 3,958                   | \$ 2,261         | \$ 6,655                      | \$ 2,765                      | \$ 18,276    | \$ 42,831 | \$ 1,629                                | \$ 44,460             |
| Depreciation and amortization..        | \$ 1                          | \$ —                              | \$ 1              | \$ 11             | \$ 85                      | \$ 23            | \$ 1                          | \$ 4                          | \$ 272       | \$ 398    | \$ 333                                  | \$ 731                |
| Imputed interest expense .....         | \$ 4                          | \$ —                              | \$ 2              | \$ 10             | \$ 25                      | \$ 14            | \$ 3                          | \$ 2                          | \$ 156       | \$ 216    | \$ 498                                  | \$ 714                |
| Accountable profit (loss) .....        | \$ 46                         | \$ 533                            | \$ 122            | \$ 73             | \$ 385                     | \$ 158           | \$ 279                        | \$ 63                         | \$ 1,607     | \$ 3,266  | \$ 354                                  | \$ 3,620              |
| Accountable assets at                  |                               |                                   |                   |                   |                            |                  |                               |                               |              |           |   |                       |
| December 31, 2006.....                 | \$ 352                        | \$ 28                             | \$ 285            | \$ 702            | \$ 2,022                   | \$ 941           | \$ (196)                      | \$ 207                        | \$ 12,160    | \$ 16,501 | \$ 28,406                               | \$ 44,907             |
| Capital Expenditures.....              | \$ 1                          | \$ 1                              | \$ —              | \$ 19             | \$ 82                      | \$ 23            | \$ 1                          | \$ 2                          | \$ 305       | \$ 434    | \$ 591                                  | \$ 1,025              |

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**Reconciliation of Sales and Revenues:**

| (Millions of dollars)                    | <u>Machinery<br/>and<br/>Engines</u> | <u>Financing &amp;<br/>Insurance<br/>Services</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated<br/>Total</u> |
|--|--------------------------------------|---|--------------------------------------|-------------------------------|
| <b>Three Months Ended June 30, 2007:</b> |                                      |   |                                      |                               |
| Total external sales and revenues from   |                                      |   |                                      |                               |
| business segments .....                  | \$ 10,546                            | \$ 913  | \$ —                                 | \$ 11,459                     |
| Other .....                              | 67                                   | (67)  | (103) <sup>1</sup>                   | (103)                         |
| Total sales and revenues.....            | <u>\$ 10,613</u>                     | <u>\$ 846</u>                                     | <u>\$ (103)</u>                      | <u>\$ 11,356</u>              |
| <b>Three Months Ended June 30, 2006:</b> |                                      |   |                                      |                               |
| Total external sales and revenues from   |                                      |   |                                      |                               |
| business segments .....                  | \$ 9,902                             | \$ 830  | \$ —                                 | \$ 10,732                     |
| Other .....                              | 54                                   | (62)  | (119) <sup>1</sup>                   | (127)                         |
| Total sales and revenues.....            | <u>\$ 9,956</u>                      | <u>\$ 768</u>                                     | <u>\$ (119)</u>                      | <u>\$ 10,605</u>              |

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<sup>1</sup> Elimination of Financial Products revenues from Machinery and Engines.

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**Reconciliation of Sales and Revenues:**

| (Millions of dollars)                  | <u>Machinery<br/>and<br/>Engines</u> | <u>Financing &amp;<br/>Insurance<br/>Services</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated<br/>Total</u> |
|--|--------------------------------------|---|--------------------------------------|-------------------------------|
| <b>Six Months Ended June 30, 2007:</b> |                                      |   |                                      |                               |
| Total external sales and revenues from |                                      |   |                                      |                               |
| business segments .....                | \$ 19,790                            | \$ 1,788  | \$ —                                 | \$ 21,578                     |
| Other .....                            | 144                                  | (143)   | (207) <sup>1</sup>                   | (206)                         |
| Total sales and revenues.....          | <u>\$ 19,934</u>                     | <u>\$ 1,645</u>                                   | <u>\$ (207)</u>                      | <u>\$ 21,372</u>              |
| <b>Six Months Ended June 30, 2006:</b> |                                      |   |                                      |                               |
| Total external sales and revenues from |                                      |   |                                      |                               |
| business segments .....                | \$ 18,581                            | \$ 1,628  | \$ —                                 | \$ 20,209                     |
| Other .....                            | 118                                  | (114)   | (216) <sup>1</sup>                   | (212)                         |
| Total sales and revenues.....          | <u>\$ 18,699</u>                     | <u>\$ 1,514</u>                                   | <u>\$ (216)</u>                      | <u>\$ 19,997</u>              |

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<sup>1</sup> Elimination of Financial Products revenues from Machinery and Engines.

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**Reconciliation of Profit Before Taxes:**

| (Millions of dollars)   | Machinery<br>and<br>Engines | Financing &<br>Insurance<br>Services | Consolidated<br>Total |
|---|-----------------------------|--------------------------------------|-----------------------|
| <b>Three Months Ended June 30, 2007:</b>                      |                             |                                      |                       |
| Total accountable profit from business segments .....         | \$ 1,374                    | \$ 203                               | \$ 1,577              |
| Corporate costs .....   | (273)                       | —                                    | (273)                 |
| Timing .....  | (4)                         | —                                    | (4)                   |
| Methodology differences:                                      |                             |                                      |                       |
| Inventory/cost of sales .....                                 | (23)                        | —                                    | (23)                  |
| Postretirement benefit expense .....                          | (56)                        | —                                    | (56)                  |
| Financing costs .....   | (17)                        | —                                    | (17)                  |
| Equity in profit of unconsolidated affiliated companies ..... | (4)                         | (1)                                  | (5)                   |
| Currency .....  | 22                          | —                                    | 22                    |
| Other methodology differences .....                           | —                           | —                                    | —                     |
| Other .....   | (18)                        | —                                    | (18)                  |
| Total profit before taxes .....                               | <u>\$ 1,001</u>             | <u>\$ 202</u>                        | <u>\$ 1,203</u>       |
| <b>Three Months Ended June 30, 2006:</b>                      |                             |                                      |                       |
| Total accountable profit from business segments .....         | \$ 1,755                    | \$ 176                               | \$ 1,931              |
| Corporate costs .....   | (254)                       | —                                    | (254)                 |
| Timing .....  | (41)                        | —                                    | (41)                  |
| Methodology differences:                                      |                             |                                      |                       |
| Inventory/cost of sales .....                                 | 7                           | —                                    | 7                     |
| Postretirement benefit expense .....                          | (83)                        | —                                    | (83)                  |
| Financing costs .....   | (31)                        | —                                    | (31)                  |
| Equity in profit of unconsolidated affiliated companies ..... | (32)                        | —                                    | (32)                  |
| Currency .....  | (3)                         | —                                    | (3)                   |
| Other methodology differences .....                           | (32)                        | 16                                   | (16)                  |
| Other .....   | (15)                        | —                                    | (15)                  |
| Total profit before taxes .....                               | <u>\$ 1,271</u>             | <u>\$ 192</u>                        | <u>\$ 1,463</u>       |

**Reconciliation of Profit Before Taxes:**

| (Millions of dollars)   | Machinery<br>and<br>Engines | Financing &<br>Insurance<br>Services | Consolidated<br>Total |
|---|-----------------------------|--------------------------------------|-----------------------|
| <b>Six Months Ended June 30, 2007:</b>                        |                             |                                      |                       |
| Total accountable profit from business segments .....         | \$ 2,692                    | \$ 388                               | \$ 3,080              |
| Corporate costs .....   | (539)                       | —                                    | (539)                 |
| Timing .....  | 12                          | —                                    | 12                    |
| Methodology differences:                                      |                             |                                      |                       |
| Inventory/cost of sales .....                                 | (11)                        | —                                    | (11)                  |
| Postretirement benefit expense .....                          | (106)                       | —                                    | (106)                 |
| Financing costs .....   | (37)                        | —                                    | (37)                  |
| Equity in profit of unconsolidated affiliated companies ..... | (22)                        | (2)                                  | (24)                  |
| Currency .....  | 36                          | —                                    | 36                    |
| Other methodology differences .....                           | 4                           | 4                                    | 8                     |
| Other .....   | (44)                        | —                                    | (44)                  |
| Total profit before taxes .....                               | <u>\$ 1,985</u>             | <u>\$ 390</u>                        | <u>\$ 2,375</u>       |
| <b>Six Months Ended June 30, 2006:</b>                        |                             |                                      |                       |
| Total accountable profit from business segments .....         | \$ 3,266                    | \$ 354                               | \$ 3,620              |
| Corporate costs .....   | (484)                       | —                                    | (484)                 |
| Timing .....  | (102)                       | —                                    | (102)                 |
| Methodology differences:                                      |                             |                                      |                       |
| Inventory/cost of sales .....                                 | (65)                        | —                                    | (65)                  |
| Postretirement benefit expense .....                          | (164)                       | —                                    | (164)                 |
| Financing costs .....   | (51)                        | —                                    | (51)                  |
| Equity in profit of unconsolidated affiliated companies ..... | (48)                        | (1)                                  | (49)                  |
| Currency .....  | 2                           | —                                    | 2                     |
| Other methodology differences .....                           | (48)                        | 20                                   | (28)                  |
| Other .....   | (23)                        | —                                    | (23)                  |
| Total profit before taxes .....                               | <u>\$ 2,283</u>             | <u>\$ 373</u>                        | <u>\$ 2,656</u>       |

**Reconciliation of Assets:**

| (Millions of dollars)                                  | Machinery<br>and Engines | Financing &<br>Insurance<br>Services | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|--------------------------|--------------------------------------|------------------------------|-----------------------|
| <b>June 30, 2007:</b>                                  |                          |                                      |                              |                       |
| Total accountable assets from business segments.....   | \$ 17,282                | \$ 28,806                            | \$ —                         | \$ 46,088             |
| Items not included in segment assets:                  |                          |                                      |                              |                       |
| Cash and short-term investments .....                  | 379                      | 183                                  | —                            | 562                   |
| Intercompany trade receivables .....                   | 158                      | 77                                   | (235)                        | —                     |
| Trade and other receivables .....                      | 184                      | —                                    | —                            | 184                   |
| Investment in unconsolidated affiliated companies..... | 436                      | —                                    | (16)                         | 420                   |
| Investment in Financial Products .....                 | 3,853                    | —                                    | (3,853)                      | —                     |
| Deferred income taxes and prepaids .....               | 3,702                    | 122                                  | (280)                        | 3,544                 |
| Intangible assets and other assets .....               | 1,213                    | —                                    | —                            | 1,213                 |
| Service center assets.....                             | 1,003                    | —                                    | —                            | 1,003                 |
| Liabilities included in segment assets .....           | 2,832                    | 14                                   | —                            | 2,846                 |
| Inventory methodology differences .....                | (2,387)                  | —                                    | —                            | (2,387)               |
| Other .....  | 280                      | (247)                                | —                            | 33                    |
| Total assets .....                                     | <u>\$ 28,935</u>         | <u>\$ 28,955</u>                     | <u>\$ (4,384)</u>            | <u>\$ 53,506</u>      |
| <b>December 31, 2006:</b>                              |                          |                                      |                              |                       |
| Total accountable assets from business segments.....   | \$ 16,501                | \$ 28,406                            | \$ —                         | \$ 44,907             |
| Items not included in segment assets:                  |                          |                                      |                              |                       |
| Cash and short-term investments .....                  | 319                      | 211                                  | —                            | 530                   |
| Intercompany trade receivables .....                   | 205                      | 85                                   | (290)                        | —                     |
| Trade and other receivables .....                      | 281                      | —                                    | —                            | 281                   |
| Investment in unconsolidated affiliated companies..... | 439                      | —                                    | (9)                          | 430                   |
| Investment in Financial Products .....                 | 3,513                    | —                                    | (3,513)                      | —                     |
| Deferred income taxes and prepaids .....               | 3,167                    | 116                                  | (327)                        | 2,956                 |
| Intangible assets and other assets .....               | 1,283                    | (1)                                  | —                            | 1,282                 |
| Service center assets.....                             | 990                      | —                                    | —                            | 990                   |
| Liabilities included in segment assets .....           | 2,337                    | 21                                   | —                            | 2,358                 |
| Inventory methodology differences .....                | (2,290)                  | —                                    | —                            | (2,290)               |
| Other .....  | 250                      | (245)                                | —                            | 5                     |
| Total assets .....                                     | <u>\$ 26,995</u>         | <u>\$ 28,593</u>                     | <u>\$ (4,139)</u>            | <u>\$ 51,449</u>      |

**14. Income Taxes**

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$742 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$486 million. We classify interest and penalties on tax uncertainties as a component of the provision for income taxes. The total amount of interest and penalties accrued as of adoption was \$62 million. The corresponding amounts at June 30, 2007 were not materially different from the amounts at the date of adoption. It is expected that the amount of unrecognized tax benefits will change in the next 12 months. However, we do not expect the change to have a significant impact on our results of operations or financial position.

The Internal Revenue Service (IRS) has completed its field examination of our U.S. tax returns for 1992 to 2004. For tax years 1992 to 1994, we expect to litigate the unagreed adjustments related to transfer pricing. We anticipate the appeals process for tax years 1995 to 1999, primarily related to foreign sales corporation commissions, foreign tax credit calculations and research and development credits, will be settled within the next 12 months. For tax years 2000 to 2004, we intend to appeal the unagreed adjustments primarily related to export tax benefits. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to six years.

## 15. Alliances and Acquisitions

### Acquisition of Franklin Power Products

In February 2007, we acquired certain assets and assumed certain liabilities of Franklin Power Products, Inc. (FPP) and International Fuel Systems, Inc. (IFS), subsidiaries of Remy International. In June 2007, pursuant to the acquisition agreement, additional assets were purchased from Remy International for \$7 million which increased the total purchase price to approximately \$165 million, consisting of \$160 million paid at the closings and an additional \$5 million post closing adjustment paid in July 2007. FPP is a remanufacturer of on-highway light and medium duty truck diesel engines and engine components. IFS provides remanufactured diesel components such as high-pressure fuel pumps, fuel injectors and turbochargers. This acquisition represents a strategic expansion of our engine and engine component remanufacturing operations.

This transaction was financed with available cash and commercial paper borrowings. Net tangible assets acquired and liabilities assumed of \$44 million were recorded at their fair values. Finite-lived intangible assets acquired of \$89 million related to customer relationships are primarily being amortized on a straight-line basis over 20 years. Goodwill of \$32 million, deductible for income tax purposes, represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. These values represent a preliminary allocation of the purchase price subject to finalization of fair value appraisals and other post-closing procedures. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and reported in the "All Other" category in Note 13. Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.



## *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*

### Overview

We reported record second-quarter sales and revenues of \$11.356 billion. We also reported *profit* of \$823 million, or \$1.24 per share, for the second quarter ending June 30, 2007.

Our second-quarter sales and revenues demonstrated the strength of our global reach. Sales growth outside of North America largely offset the impact of the planned decline in North American dealer machine inventories, the severe drop in demand for on-highway truck engines and weakness in North American construction markets. Sales and revenues were up 7 percent from last year's second quarter. The strength of economies outside of North America, our broad global footprint and growth in *diversified service businesses* all helped us deliver higher sales.

Sales and revenues of \$11.356 billion increased \$751 million from the second quarter of 2006. The increase was a result of:

- \$943 million improvement in *sales volume* outside North America
- \$411 million of sales from Progress Rail, which was acquired in June of 2006
- \$198 million of higher sales related to the impact of *currency*
- \$168 million of improved *price realization*, despite an unfavorable geographic sales mix
- \$ 94 million of additional *Financial Products* revenues.

The increase was partially offset by a \$1.063 billion decline in physical sales volume in North America, which was largely a result of the following three factors:

- Impact of dealer machine inventory reduction — North American dealers reduced inventory, as planned, by about \$800 million during the second quarter of 2007 as compared with a \$200 million reduction in the second quarter of 2006. The improvement this year is a joint effort with dealers, is a key element of the *Cat Production System (CPS)* and is consistent with our goal of improving velocity throughout the value chain.
- On-highway truck — a \$366 million drop in on-highway truck engine sales.
- Weak construction activity in North America, notably U.S. housing related markets, resulted in lower sales.

Profit of \$823 million was down \$223 million from the second quarter of 2006, and profit per share (PPS) decreased \$0.28—from \$1.52 per share in the second quarter of 2006 to \$1.24.

Disappointing earnings in the second quarter were attributable to the sharp negative swing in on-highway truck engine profitability, weakness in North American machine sales, continued selected supply chain disruptions and higher material costs. *Manufacturing costs* were also higher, in part, due to transitional costs associated with the launch of the Cat Production System.

While costs were a challenge, we were pleased with the spectacular sales growth outside North America and the performance of our engine businesses other than on-highway truck. We are encouraged by the strength of our order board overall, particularly for our large machines and engines.

### Outlook

We are maintaining our full-year outlook for profit per share. The company expects full-year sales and revenues of about \$44 billion, up from \$41.5 billion in 2006, and profit in a range of \$5.30 to \$5.80 per share, up from \$5.17 per share in 2006.

With six months under our belt we are confident in the top-line and have adjusted our expectation for sales and revenues to about \$44 billion. While we have more work to do on costs, we are maintaining our per share profit outlook of between \$5.30 and \$5.80 for the full year. We expect *core operating cost* comparisons to improve and are taking action to lower discretionary spending. However, we'll continue to aggressively implement the Cat Production System. We know that CPS deployment and *6 Sigma* discipline are the keys to realizing our 2010 targets for safety, quality, velocity and PPS growth.

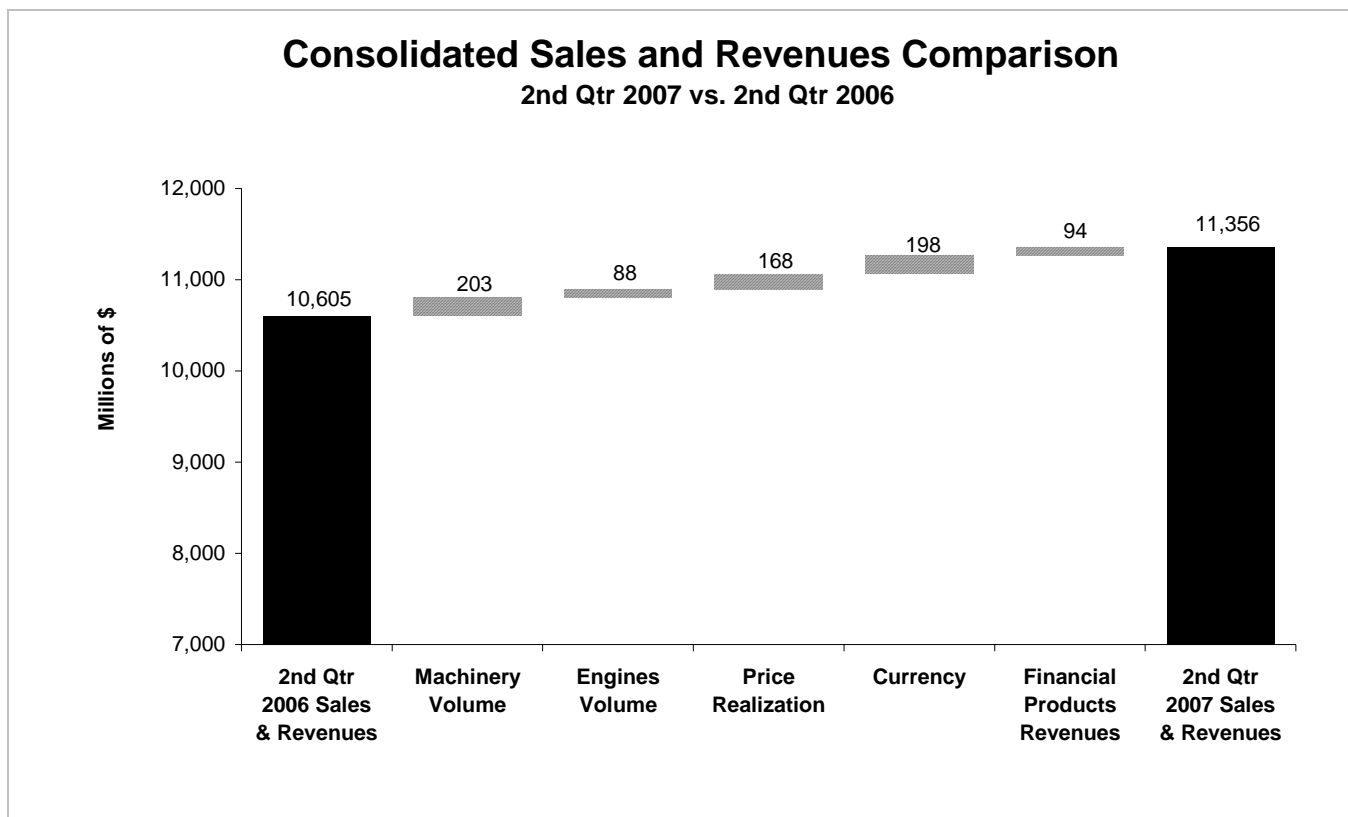
We are making substantial investments in new product technology, expanded capacity, CPS deployment and selective acquisitions that will help us to deliver solid top-line growth and our goal of 15-20 percent average annual growth in PPS to 2010. Our leadership team is committed to delivering these results, and we have a good line of sight to achieving these goals.

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

Consolidated Results of Operations

THREE MONTHS ENDED JUNE 30, 2007 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2006

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in consolidated sales and revenues between second quarter 2006 (at left) and second quarter 2007 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. The bar entitled *Machinery* Volume includes Progress Rail sales. Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Sales and revenues for second quarter 2007 were \$11.356 billion, up \$751 million, or 7 percent, from second quarter 2006. Machinery volume including Progress Rail was up \$203 million. Excluding Progress Rail, Machinery volume was down \$208 million. *Engines* volume was up \$88 million. Currency had a positive impact on sales of \$198 million due primarily to the strengthening of the euro. Price realization improved \$168 million despite unfavorable geographic mix. In addition, Financial Products revenues increased \$94 million.

**Sales and Revenues by Geographic Region**

| (Millions of dollars)                 | Total            |          | North America   |          | EAME            |          | Latin America   |          | Asia/Pacific    |          |
|---------------------------------------|------------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|
|                                       | Total            | % Change | North America   | % Change | EAME            | % Change | Latin America   | % Change | Asia/Pacific    | % Change |
| <b>2nd Quarter 2007</b>               |                  |          |                 |          |                 |          |                 |          |                 |          |
| Machinery.....                        | \$ 7,275         | 6%       | \$ 3,250        | (14%)    | \$ 2,260        | 35%      | \$ 823          | 23%      | \$ 942          | 23%      |
| Engines <sup>1</sup> .....            | 3,338            | 8%       | 1,338           | (8%)     | 1,263           | 27%      | 262             | 12%      | 475             | 18%      |
| Financial Products <sup>2</sup> ..... | 743              | 14%      | 508             | 11%      | 109             | 15%      | 66              | 38%      | 60              | 25%      |
|                                       | <u>\$ 11,356</u> | 7%       | <u>\$ 5,096</u> | (10%)    | <u>\$ 3,632</u> | 31%      | <u>\$ 1,151</u> | 21%      | <u>\$ 1,477</u> | 22%      |
| <b>2nd Quarter 2006</b>               |                  |          |                 |          |                 |          |                 |          |                 |          |
| Machinery.....                        | \$ 6,875         |          | \$ 3,764        |          | \$ 1,680        |          | \$ 667          |          | \$ 764          |          |
| Engines <sup>1</sup> .....            | 3,081            |          | 1,447           |          | 998             |          | 233             |          | 403             |          |
| Financial Products <sup>2</sup> ..... | 649              |          | 458             |          | 95              |          | 48              |          | 48              |          |
|                                       | <u>\$ 10,605</u> |          | <u>\$ 5,669</u> |          | <u>\$ 2,773</u> |          | <u>\$ 948</u>   |          | <u>\$ 1,215</u> |          |

<sup>1</sup> Does not include internal engines transfers of \$647 million and \$599 million in second quarter 2007 and 2006, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

<sup>2</sup> Does not include internal revenues earned from *Machinery and Engines* of \$103 million and \$119 million in second quarter 2007 and 2006, respectively.

**Machinery Sales** - Sales were \$7.275 billion in second quarter 2007, an increase of \$400 million, or 6 percent, from second quarter 2006.

- Excluding Progress Rail, machine volume decreased \$208 million. Sales volume declined in North America but increased in all other regions.
- Price realization increased \$62 million.
- Currency benefited sales by \$135 million.
- Geographic mix between regions (included in price realization) was \$59 million unfavorable due to a decrease in North American sales compared to second quarter 2006.
- The acquisition of Progress Rail added \$411 million to sales in North America.
- A primary driver of the decline in sales volume was the joint undertaking with dealers to reduce their inventories. Dealers reported inventories at the end of the quarter lower than a year earlier in both dollars and months of supply.
- Sales volume declined significantly in North America due to sizable reductions in dealer inventories and an unfavorable economic environment for key industries in the United States. Problems included a severe downturn in housing construction, a decline in contracting for both nonresidential building and highway construction and much lower coal production.
- As in the first quarter, sales volume increased in all regions outside North America with the Europe, Africa and the Middle East (*EAME*) region particularly strong. Interest rates generally remained favorable, and most economies experienced strong growth. Higher commodity prices improved budget revenues for many governments, particularly in emerging markets. As a result, construction grew in many countries, often 10 percent or more.
- Throughout the world, including the United States, metals mining and petroleum remained favorable for machine sales. Metals prices continued to rise during the quarter and were well above year earlier prices. Oil and natural gas prices, although not much different from a year earlier, remained extremely favorable for new investment. Both drill rig and pipeline activity increased.
- Coal mining was favorable, except in the United States. International contract prices for thermal coal increased 6 percent, and output increased in the major producing countries of China, Indonesia and South Africa.

**North America** – Sales declined \$514 million, or 14 percent.

- Progress Rail sales were \$411 million. Excluding Progress Rail, sales volume decreased \$922 million.
- The major contributor to lower sales volume was a joint effort to significantly reduce dealer inventories to improve velocity and better cope with weaker economic conditions. Dealer inventories declined almost \$800 million in the second quarter compared to a decline of about \$200 million in second quarter 2006. As a result, reported dealer inventories at the end of the quarter were well below a year earlier in both dollars and months of supply.
- Price realization decreased \$3 million.
- Nonresidential building construction underway remains strong, but contracting for new projects slowed abruptly, possibly in response to lower returns on industrial and retail projects and fewer new home developments. Compared to a year earlier, contracts awarded for commercial and industrial construction declined almost 7 percent, and those for institutional buildings fell 19 percent.
- Highway contracts awarded in the second quarter, net of inflation, were almost 7 percent lower than a year earlier. Delays in passing the federal government budget limited the increase in federal funding early in the year.
- The economic environment facing many key industries in the United States was unfavorable. Activity declined in some sectors, output prices fell in others and uncertainty about the future increased. As a result, users curtailed fleet expansions and delayed replacement purchases, even in some applications where activity and output prices were favorable. In addition, dealers added fewer units to their rental fleets and let existing fleets age.
- Housing construction continued to decline in the second quarter. Housing starts in the United States were 21 percent lower than in second quarter 2006. New home prices declined, and the inventory of unsold homes remained above normal. Mortgage interest rates increased during the quarter, and lenders tightened standards.
- Coal production fell 6 percent from second quarter 2006, depressing sales of machines used in coal mining. Electric utilities increased output slightly more than 1 percent and continued shifting fuel usage towards natural gas. At the start of the quarter, coal stockpiles were almost 20 percent higher than a year earlier. Spot coal prices improved during the quarter but still averaged more than 10 percent lower than a year earlier.

- Metals mining and petroleum were favorable since metals, oil and natural gas prices were attractive for investment. In addition, metals mine output increased almost 2 percent, and pipeline activity strengthened.

**EAME** – Sales increased \$580 million, or 35 percent.

- Sales volume increased \$405 million.
- Price realization increased \$72 million.
- European currencies strengthened against the U.S. dollar and benefited sales by \$103 million.
- The gain in sales volume resulted largely from increases in deliveries to end users, as reported by dealers. Dealers also increased inventories to support that growth, but reported inventories in months of supply were lower than a year earlier.
- Sales volume in Europe continued to benefit from good economic growth. Housing permits have declined, but both nonresidential and infrastructure construction grew rapidly. Total construction activity has increased about 7 percent this year. Within the Eurozone, improved corporate profits and increased lending to businesses contributed to growth in nonresidential construction. Governments also increased capital spending, which benefited infrastructure construction.
- Sales volume increased rapidly in Africa/Middle East, with most countries participating in that growth. Favorable crude oil prices encouraged a 15 percent increase in drill rig activity, and high metals prices led to more mine development. Higher coal prices caused South African coal production to increase more than 7 percent this year. Favorable commodity prices, along with greater output, let governments increase foreign exchange holdings more than 20 percent and expand spending. Significant construction activity is underway; year to date construction increased 17 percent in South Africa, 16 percent in Turkey and 10 percent in Egypt. Infrastructure booms are underway in several Middle Eastern countries.
- Sales volume in the Commonwealth of Independent State (CIS) nearly doubled with the gain largely occurring in Russia. Higher commodity prices and low interest rates allowed strong economic growth and improved the government's budget. The Russian government raised expenditures more than 35 percent year to date, increased the budget surplus and increased foreign exchange reserves more than 60 percent. As a result, construction has increased 25 percent year to date.

**Latin America** – Sales increased \$156 million, or 23 percent.

- Sales volume increased \$132 million.
- Price realization rose \$13 million.
- Currency benefited sales by \$11 million.
- Dealers increased machine inventories in anticipation of stronger customer demand which accounted for the growth in sales volume. However, reported inventories in months of supply were about even with last year's low supply figures.
- Dealers reported a slight decline in deliveries compared to second quarter last year, which was the highest quarter on record. Economic factors impacting sales remained positive.
- Most governments kept inflation under control, allowing them to maintain low interest rates. Regional exports grew about 13 percent, and governments increased foreign exchange reserves 25 percent. These factors contributed to good growth in construction.
- Favorable prices encouraged increased mining output. Chile, the world's largest copper producer, increased exports 24 percent year to date, and Brazil, a major iron ore producer, increased exports 35 percent.

**Asia/Pacific** – Sales increased \$178 million, or 23 percent.

- Sales volume increased \$118 million.
- Price realization increased \$39 million.
- Currency benefited sales by \$21 million.
- The gain in sales volume resulted from an increase in deliveries to end users as reported by dealers. Dealers reduced reported inventories during the quarter, leaving them lower than last year in terms of both dollars and months of supply.
- China and India both raised interest rates, but those changes had little impact on economic growth. Most other countries either held rates steady or lowered them. As a result, regional economic growth likely continued near a 7 percent rate. Construction increased rapidly, with 11 percent growth in both Australia and India. In China, year to date spending on housing construction increased 30 percent, and spending on office construction rose 29 percent.

- Mining benefited from higher metals and coal prices. Australia increased exploration spending 40 percent in the first quarter, and mine production increased 13 percent. Year to date, China's production of coal rose 12 percent, and Indonesia, a major coal exporter, had a 49 percent increase in all mineral exports.

**Engines Sales** - Sales were \$3.338 billion in second quarter 2007, an increase of \$257 million, or 8 percent, from second quarter 2006.

- Sales volume increased \$88 million.
- Price realization increased \$106 million.
- Currency benefited sales by \$63 million.
- Geographic mix between regions (included in price realization) was \$12 million favorable.
- Dealer reported inventories in constant dollars and months of supply were up but continued to be supported by strong delivery rates.
- Significant increases in sales for electric power, petroleum, marine and industrial applications have more than offset a \$380 million decline in on-highway truck engine sales.
- Price realization for the second quarter 2007 benefited from price increases implemented in the third quarter 2006 and first quarter 2007.

**North America** – Sales decreased \$109 million, or 8 percent.

- Sales volume decreased \$141 million.
- Price realization increased \$32 million.
- Sales for on-highway truck applications declined \$366 million due to less than anticipated demand for the 2007 model year engines and continuing transition of several original equipment manufacturers (OEMs) to the 2007 emissions technology engines.
- Sales for petroleum applications increased 47 percent due to high oil and gas commodity prices leading to strong engine demand from exploration and production companies along with success from gas pipeline and storage construction projects. Turbine sales increased with strong sales in North American natural gas transmission.
- Sales for electric power applications increased 41 percent supported by data center installations.

**EAME** – Sales increased \$265 million, or 27 percent.

- Sales volume increased \$184 million.
- Price realization increased \$34 million.
- Currency benefited sales by \$47 million.
- Sales for electric power applications increased 32 percent with strong demand for large gas units and Middle East rental fleet expansion. Turbines increased with sales into large power plant projects.
- Sales for petroleum applications increased 50 percent based on widespread demand for engines used in drilling applications and turbines and turbine-related services to support oil production.
- Sales for marine applications increased 24 percent with increased demand for workboats, commercial oceangoing vessels and cruise ships.
- Sales for industrial applications increased 9 percent with widespread demand for agriculture and other types of OEM equipment.

**Latin America** – Sales increased \$29 million, or 12 percent.

- Sales volume increased \$26 million.
- Price realization increased \$3 million.

- Sales for electric power engines increased 61 percent from widespread investment supported by strong oil and commodity prices.
- Sales into truck applications declined 48 percent as a result of reduced demand. Latin American truck facilities decreased exports of trucks destined for North America.
- Sales for marine applications more than tripled due to increased workboat activity, which supports the petroleum industry.

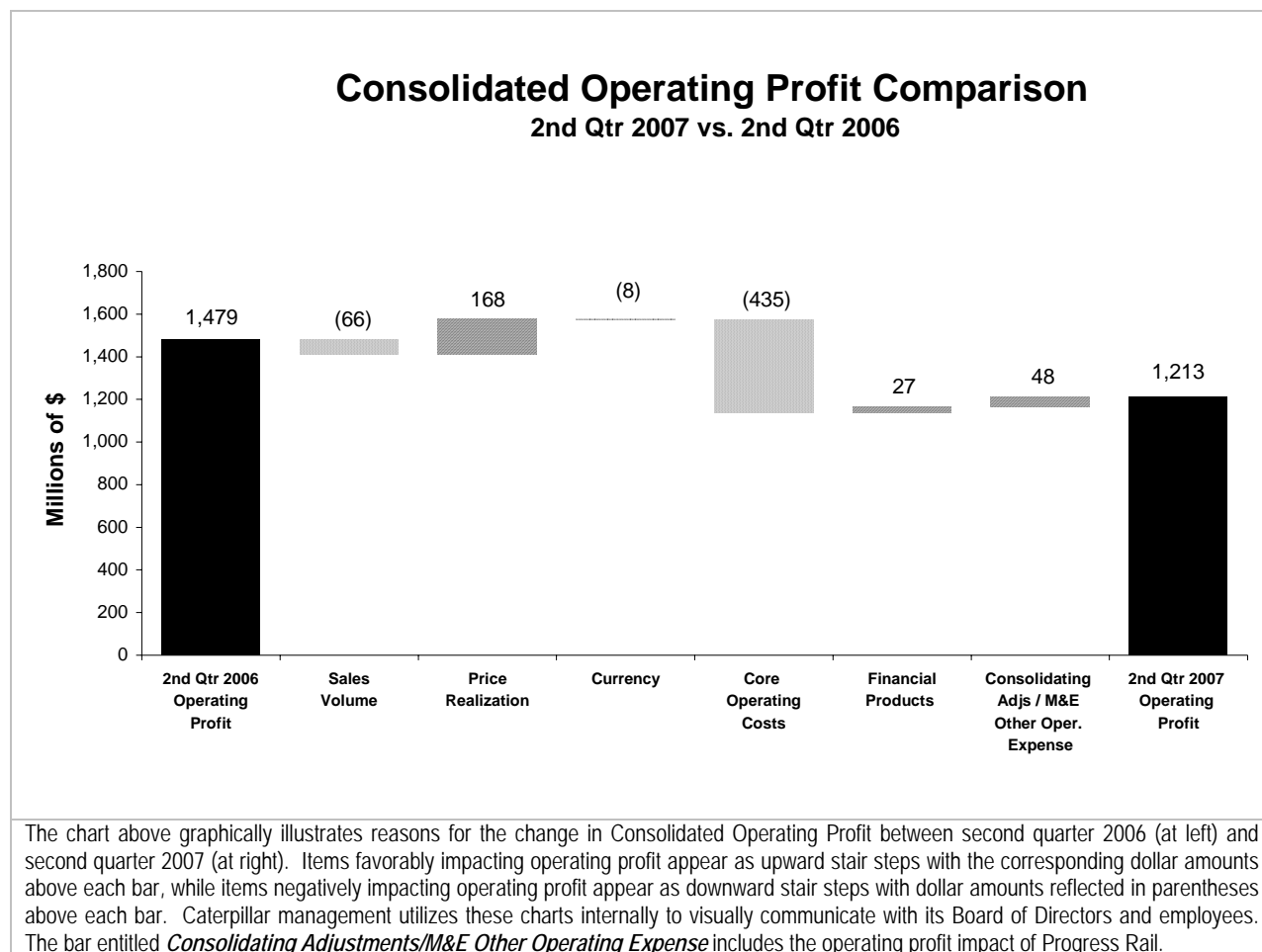
**Asia/Pacific** – Sales increased \$72 million, or 18 percent.

- Sales volume increased \$31 million.
- Price realization increased \$25 million.
- Currency benefited sales by \$16 million.
- Sales for petroleum applications increased 30 percent as Chinese drill rig builders manufactured at record levels for domestic and export use.
- Sales for marine applications increased 54 percent with continued strong demand for workboat and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.
- Sales for electric power applications decreased by 24 percent driven by delays in securing financing for several key projects.
- Sales for industrial applications increased 60 percent with widespread demand for engines used in agriculture and other types of OEM applications.

**Financial Product Revenues** - Revenues were \$743 million in second quarter 2007, an increase of \$94 million, or 14 percent, from second quarter 2006.

- Growth in average *earning assets* increased revenues \$40 million.
- The impact of higher interest rates on new and existing finance receivables benefited revenues \$30 million.
- Other revenues increased \$16 million due to the absence of a write-down of a marine-related asset in second quarter 2007 compared to second quarter 2006.
- Revenues from earned premiums at Cat Insurance increased \$14 million.

OPERATING PROFIT



Operating profit in second quarter 2007 decreased \$266 million, or 18 percent, from last year, driven by higher core operating costs, partially offset by higher price realization.

Core operating costs rose \$435 million from second quarter 2006. Of this increase, \$394 million was due to increased manufacturing costs. The increase in manufacturing costs was due primarily to operating inefficiencies and higher material costs. Operating inefficiencies were the result of a significant decline in on-highway truck engine production, selected supply chain challenges, inefficiencies related to new product introductions and capacity increases. Our manufacturing costs were also up from last year's levels due to transitional costs associated with the launch of the Cat Production System. SG&A and R&D combined as a percent of sales remained essentially flat with last year.

Manufacturing and non-manufacturing costs were impacted about equally by a second quarter 2007 charge of \$44 million to recognize previously unrecorded liabilities related to a subsidiary pension plan.

**Operating Profit by Principal Line of Business**

| (Millions of dollars)               | Second Quarter<br>2006 | Second Quarter<br>2007 | \$<br>Change | %<br>Change |
|-------------------------------------|------------------------|------------------------|--------------|-------------|
| Machinery <sup>1</sup> .....        | \$ 986                 | \$ 741                 | \$ (245)     | (25%)       |
| Engines <sup>1</sup> .....          | 435                    | 379                    | (56)         | (13%)       |
| Financial Products .....            | 157                    | 184                    | 27           | 17%         |
| Consolidating Adjustments .....     | (99)                   | (91)                   | 8            |             |
| Consolidated Operating Profit ..... | \$ 1,479               | \$ 1,213               | \$ (266)     | (18%)       |

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

## Operating Profit by Principal Line of Business

- **Machinery** operating profit of \$741 million was down \$245 million, or 25 percent, from second quarter 2006. Improved price realization was offset by the unfavorable impact of lower sales volume and higher core operating costs.
- **Engines** operating profit of \$379 million was down \$56 million, or 13 percent, from second quarter 2006. Higher sales volume and improved price realization were offset by higher core operating costs including a \$44 million charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.

The decline in truck engine sales has had a significant negative effect on overall engine sales and operating profit. Overall engine sales in the quarter were up \$257 million, despite a decline in truck-related sales of \$380 million (\$366 million in North America). Continued strength in our commercial engines industries has allowed us to offset much of the profit decline in the on-highway truck engine industry. Sales of electric power, petroleum, marine and industrial engines were up \$637 million and reflect continued end market strength in those areas. The negative impact on operating profit from the drop in on-highway truck was about \$150 million.

- **Financial Products** operating profit of \$184 million was up \$27 million, or 17 percent, from second quarter 2006. The increase was primarily attributable to a \$26 million impact from improved net yield on average earning assets and the absence of a \$16 million write-down of a marine-related asset, partially offset by an \$11 million decrease in operating profit at Cat Insurance due to higher claims experience.

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

| (Millions of dollars)  | Three Months Ended<br>June 30, |                 |
|--|--------------------------------|-----------------|
|  | 2007                           | 2006            |
| North America Geographic Region.....                               | \$ 4,588                       | \$ 5,211        |
| Sales included in the Power Systems Marketing segment.....         | (731)                          | (1,000)         |
| Sales included in the Electric Power segment.....                  | (206)                          | (167)           |
| Company owned dealer sales included in the All Other category..... | (172)                          | (233)           |
| Other <sup>1</sup> .....   | (1,005)                        | (476)           |
| North America Marketing external sales.....                        | <u>\$ 2,474</u>                | <u>\$ 3,335</u> |
| EAME Geographic Region.....  | \$ 3,523                       | \$ 2,678        |
| Sales included in the Power Systems Marketing segment.....         | (304)                          | (220)           |
| Sales included in the Electric Power segment.....                  | (416)                          | (326)           |
| Other <sup>1</sup> .....   | (816)                          | (721)           |
| EAME Marketing external sales.....                                 | <u>\$ 1,987</u>                | <u>\$ 1,411</u> |
| Latin America Geographic Region.....                               | \$ 1,085                       | \$ 900          |
| Sales included in the Power Systems Marketing segment.....         | (28)                           | (52)            |
| Sales included in the Electric Power segment.....                  | (27)                           | (15)            |
| Other <sup>1</sup> .....   | (112)                          | (109)           |
| Latin America Marketing external sales.....                        | <u>\$ 918</u>                  | <u>\$ 724</u>   |
| Asia/Pacific Geographic Region.....                                | \$ 1,417                       | \$ 1,167        |
| Sales included in the Power Systems Marketing segment.....         | (220)                          | (141)           |
| Sales included in the Electric Power segment.....                  | (102)                          | (125)           |
| Other <sup>1</sup> .....   | (274)                          | (212)           |
| Asia/Pacific Marketing external sales.....                         | <u>\$ 821</u>                  | <u>\$ 689</u>   |

<sup>1</sup> Mostly represents external sales of the All Other category.

## Other Profit/Loss Items

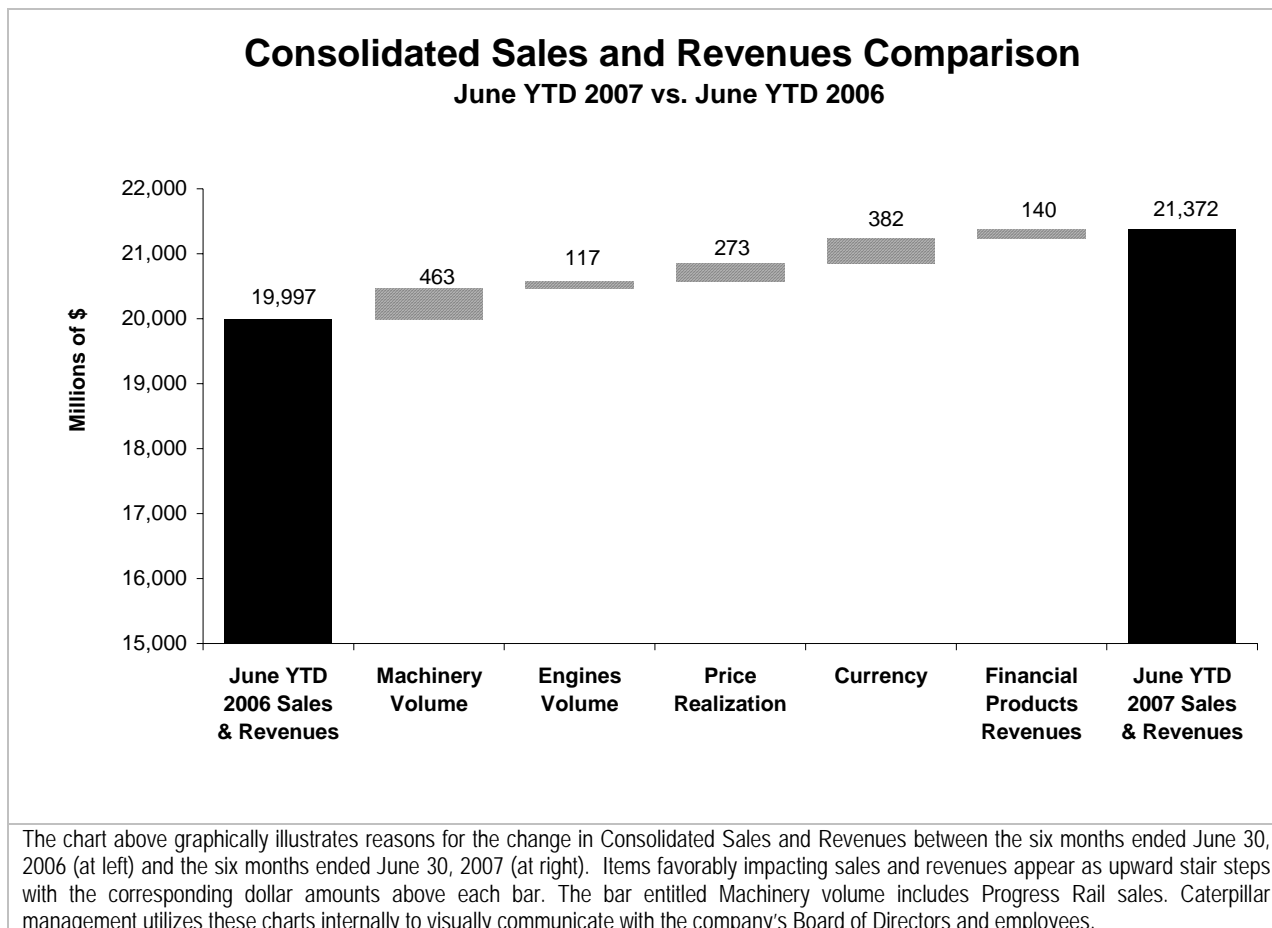
- **Other income/(expense)** was \$70 million of income compared with \$50 million of income in second quarter 2006. The improvement was due to favorable impacts of currency.
- **The provision for income taxes** in the second quarter reflects an estimated annual tax rate of 32 percent for 2007 compared to 31 percent for the second quarter 2006 and 29 percent for the full year 2006. The increase is primarily due to the repeal of Extraterritorial Income Exclusion (ETI) benefits in 2007 as well as a change in our geographic mix of profits.



- **Equity in profit/(loss) of unconsolidated affiliated companies** was income of \$5 million compared with income of \$32 million in the second quarter of 2006. As previously announced, we are currently negotiating definitive agreements with Mitsubishi Heavy Industries that would result in Caterpillar owning a majority stake in Shin Caterpillar Mitsubishi Ltd. (SCM). Second quarter equity in profit/(loss) of unconsolidated affiliated companies reflects a \$13 million after-tax charge for net adjustments that were identified during our due diligence procedures. Lower profit at SCM also contributed to the decrease.

SIX MONTHS ENDED JUNE 30, 2007 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2006

SALES AND REVENUES



Sales and revenues for the six months ended June 30, 2007 were \$21.372 billion, up \$1.375 billion, or 7 percent, from the six months ended June 30, 2006. Machinery volume including Progress Rail was up \$463 million. Excluding Progress Rail, Machinery volume was down \$337 million. Engines volume was up \$117 million. Currency had a positive impact on sales of \$382 million due primarily to the strengthening of the euro. Price realization improved \$273 million despite unfavorable geographic mix. In addition, Financial Products revenues increased \$140 million.

## Sales and Revenues by Geographic Region

| (Millions of dollars)                 | Total            | % Change | North America    | % Change | EAME            | % Change | Latin America   | % Change | Asia/Pacific    | % Change |
|---------------------------------------|------------------|----------|------------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|
| <b>Six months ended June 30, 2007</b> |                  |          |                  |          |                 |          |                 |          |                 |          |
| Machinery.....                        | \$ 13,776        | 6%       | \$ 6,328         | (13%)    | \$ 4,100        | 39%      | \$ 1,515        | 21%      | \$ 1,833        | 23%      |
| Engines <sup>1</sup> .....            | 6,158            | 8%       | 2,506            | (8%)     | 2,266           | 26%      | 512             | 9%       | 874             | 21%      |
| Financial Products <sup>2</sup> ..... | 1,438            | 11%      | 993              | 9%       | 211             | 14%      | 119             | 28%      | 115             | 7%       |
|                                       | <u>\$ 21,372</u> | 7%       | <u>\$ 9,827</u>  | (10%)    | <u>\$ 6,577</u> | 33%      | <u>\$ 2,146</u> | 18%      | <u>\$ 2,822</u> | 22%      |
| <b>Six months ended June 30, 2006</b> |                  |          |                  |          |                 |          |                 |          |                 |          |
| Machinery.....                        | \$ 12,987        |          | \$ 7,292         |          | \$ 2,960        |          | \$ 1,249        |          | \$ 1,486        |          |
| Engines <sup>1</sup> .....            | 5,712            |          | 2,729            |          | 1,793           |          | 469             |          | 721             |          |
| Financial Products <sup>2</sup> ..... | 1,298            |          | 913              |          | 185             |          | 93              |          | 107             |          |
|                                       | <u>\$ 19,997</u> |          | <u>\$ 10,934</u> |          | <u>\$ 4,938</u> |          | <u>\$ 1,811</u> |          | <u>\$ 2,314</u> |          |

<sup>1</sup> Does not include internal engines transfers of \$1.268 billion and \$1.169 billion in 2007 and 2006, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

<sup>2</sup> Does not include internal revenues earned from Machinery and Engines of \$207 million and \$216 million in 2007 and 2006, respectively.

**Machinery Sales** - Sales were \$13.776 billion, an increase of \$789 million, or 6 percent, from the six months ended June 30, 2006.

- Excluding Progress Rail, machine volume decreased \$337 million. Sales volume declined in North America but increased in all other regions.
- Price realization increased \$74 million.
- Geographic mix between regions (included in price realization) was \$124 million unfavorable due to a decrease in North American sales compared to the six months ended June 30, 2006.
- Currency benefited sales by \$252 million.
- The acquisition of Progress Rail added \$800 million to sales in North America.
- A primary driver of the decline in sales volume was the joint undertaking with dealers to reduce their inventories. Dealers reported inventories at June 30, 2007 lower than a year earlier in both dollars and months of supply.
- Sales volume declined significantly in North America due to sizable reductions in dealer inventories and an unfavorable economic environment for key industries in the United States. Problems included a severe downturn in housing construction, a decline in contracting for both nonresidential building and highway construction, and much lower coal production.
- Sales volume increased in all regions outside North America, with the Europe, Africa and the Middle East (EAME) region particularly strong. Interest rates generally remained favorable, and most economies experienced strong growth. Higher commodity prices improved budget revenues for many governments, particularly in emerging markets. As a result, construction grew in many countries, often 10 percent or more.
- Metals mining and petroleum prices were attractive for investment, the result of increased demand and tight supplies. Metals exploration, drill rig counts and pipeline activity increased.

**North America** – Sales declined \$964 million, or 13 percent.

- Progress Rail sales were \$800 million. Excluding Progress Rail, sales volume decreased \$1.773 billion.
- The major contributor to lower sales volume was a joint effort to significantly reduce dealer inventories to improve velocity and better cope with weaker economic conditions. Dealer inventories declined almost \$900 million in the six months ended June 30, compared to an increase of about \$300 million in the six months ended June 30, 2006. As a result, reported dealer inventories at the end of the first half were well below a year earlier in both dollars and months of supply.
- Price realization increased \$9 million.
- Contracts awarded for nonresidential construction declined 5 percent, likely due to lower returns on industrial and retail projects, fewer new home developments and delays in passing a federal budget. Compared to first half 2006, contracts awarded for commercial and industrial construction declined 8 percent and those for institutional buildings dropped 2 percent. Highway contracts awarded were even with last year.

- Unfavorable economic conditions in the United States caused users to curtail fleet expansions and delay replacement purchases. In addition, dealers added fewer units to their rental fleets and let existing fleets age.
- U.S. housing starts in the first half were 27 percent lower than a year earlier and the inventory of unsold homes remained above normal. Mortgage interest rates averaged almost the same as a year earlier, when the decline in new construction started.
- Coal mining fared poorly. Electric utilities increased their coal burn only slightly and coal stockpiles increased. Appalachian spot coal prices averaged 18 percent lower than in first half 2006 and coal production was down almost 5 percent.
- Metals mining and petroleum benefited from prices that were attractive for investment. Metals mine output increased slightly and pipeline activity strengthened. The latter is benefiting from changes in supply locations and two decades of underinvestment.

**EAME** – Sales increased \$1.140 billion, or 39 percent.

- Sales volume increased \$853 million.
- Price realization increased \$80 million.
- European currencies strengthened against the U.S. dollar and benefited sales by \$207 million.
- The gain in sales volume resulted primarily from increases in deliveries to end users, as reported by dealers. Dealers also increased inventories to support that growth but reported inventories in months of supply were lower than a year earlier.
- Sales volume in Europe benefited from past low interest rates, economic growth over 3 percent and 6 percent growth in construction. Housing permits have declined but both nonresidential and infrastructure construction grew rapidly. Positives for nonresidential construction included better corporate profits, increased lending to businesses and more government capital spending.
- Sales volume increased sharply in Africa/Middle East, which is well into its fourth consecutive year of rapid growth. Domestic interest rates were low, exports increased and foreign exchange reserves grew over 20 percent. Higher commodity prices drove more investment in petroleum, coal and metals mining and provided additional funds for governments to upgrade infrastructures.
- Sales volume nearly doubled in the CIS, with large gains occurring in Russia and Ukraine. Governments in these countries kept interest rates low and increased spending. Economic growth was over 7 percent, with both mining and construction increasing. The region solidified its position as the world's largest oil producer, with almost a 6 percent increase in output. Russia more than doubled the amount of funds held in official reserves and its Stabilization Fund to over \$500 billion.

**Latin America** – Sales increased \$266 million, or 21 percent.

- Sales volume increased \$215 million.
- Price realization rose \$38 million.
- Currency benefited sales by \$13 million.
- Latin American dealers reported more deliveries to customers and increased inventories to support this higher demand. Reported inventories in months of supply were slightly higher than last year, when months of supply were already low.
- Inflation was contained and most central banks maintained low interest rates. Export competitiveness improved; exports grew 13 percent and foreign exchange reserves increased 25 percent. These factors contributed to good growth in construction.
- Favorable metals prices encouraged increased mining output and more investment in mines. Favorable oil prices led to a 10 percent increase in the drill rig count.

**Asia/Pacific** – Sales increased \$347 million, or 23 percent.

- Sales volume increased \$244 million.
- Price realization increased \$71 million.
- Currency benefited sales by \$32 million.

- Interest rates remained low and exports increased nearly 17 percent. As a result, economic growth was strong in most countries, which benefited construction. Construction increased 11 percent in both Australia and India; China increased spending 30 percent on housing construction and 29 percent on office construction.
- The gain in sales volume resulted from an increase in deliveries to end users, as reported by dealers. Dealers reduced reported inventories during the first half, leaving them lower than last year in terms of both dollars and months of supply.
- Mining benefited from higher metals and coal prices. Australia increased exploration; spending 40 percent in the first quarter and mine production increased 13 percent. Year to date, China's production of coal rose 12 percent and Indonesia, a major coal exporter, had a 49 percent increase in mineral exports.

**Engines Sales** - Sales were \$6.158 billion, an increase of \$446 million, or 8 percent, from the six months ended June 30, 2006.

- Sales volume increased \$117 million.
- Price realization increased \$199 million.
- Geographic mix between regions (included in price realization) was \$12 million favorable.
- Currency benefited sales by \$130 million.
- Dealer reported inventories in constant dollars and months of supply were up, but continued to be supported by strong delivery rates.
- Price realization for the six months ended June 30, 2007 benefited from price increases implemented in the third quarter 2006 and first quarter 2007.

**North America** – Sales decreased \$223 million, or 8 percent.

- Sales volume decreased \$286 million.
- Price realization increased \$63 million.
- Sales for on-highway truck applications declined \$711 million due to lower industry demand for the 2007 model year engines and continuing transition of several OEMs to the 2007 emissions technology engines.
- Sales for petroleum applications increased 45 percent due to high oil and gas commodity prices leading to strong engine demand from exploration, and production companies along with success from gas pipeline and storage construction projects. Turbine sales increased with strong sales in North American natural gas transmission.
- Sales for electric power applications increased 45 percent supported by data center installations.

**EAME** – Sales increased \$473 million, or 26 percent.

- Sales volume increased \$307 million.
- Price realization increased \$66 million.
- Currency benefited sales by \$100 million.
- Sales for electric power applications increased 25 percent with strong demand for large gas units and Middle East rental fleet expansion.
- Sales for industrial applications increased 22 percent with widespread demand for agriculture and other types of OEM equipment.
- Sales for petroleum applications increased 45 percent based on widespread demand for engines used in drilling applications and turbines and turbine-related services to support oil production.
- Sales for marine applications increased 31 percent with increased demand for workboats, commercial oceangoing vessels and cruise ships.

**Latin America** – Sales increased \$43 million, or 9 percent.

- Sales volume increased \$36 million.
- Price realization increased \$7 million.
- Sales for electric power engines increased 63 percent from widespread investment supported by strong oil and commodity prices.
- Sales into truck applications declined 37 percent as a result of reduced demand. Latin American truck facilities decreased exports of trucks destined for North America.
- Sales for petroleum applications declined 11 percent due to the absence of larger project sales of turbines and turbine-related services to support production and transmission.
- Sales for marine applications increased 65 percent due to increased workboat activity, which supports the petroleum industry.

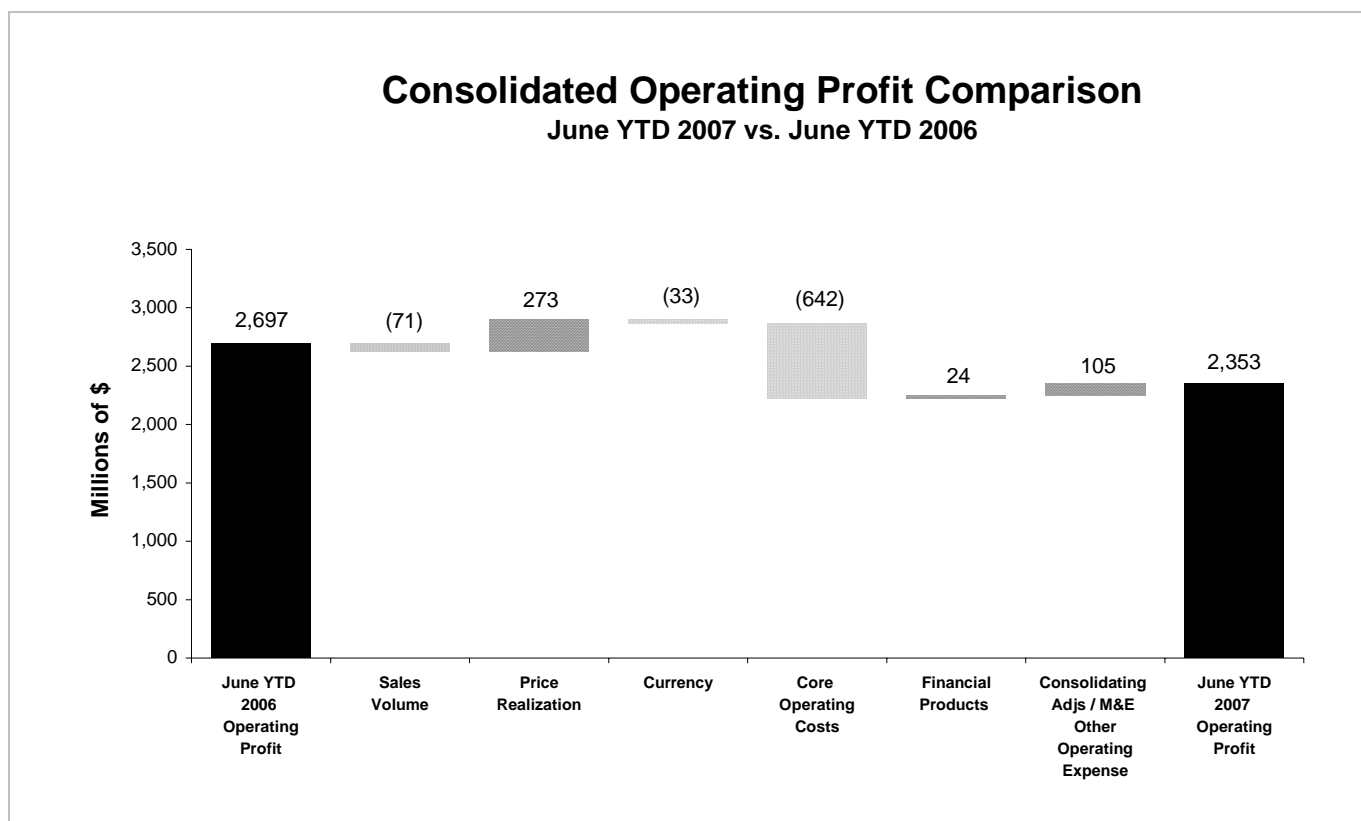
**Asia/Pacific** – Sales increased \$153 million, or 21 percent.

- Sales volume increased \$72 million.
- Price realization increased \$51 million.
- Currency benefited sales by \$30 million.
- Sales for marine applications increased 48 percent with continued strong demand for workboat and offshore shipbuilding. Large diesel demand grew in the offshore and general cargo industries.
- Sales for petroleum applications increased 27 percent as Chinese drill rig builders are manufacturing at record levels for domestic and export use.
- Sales for industrial applications increased 36 percent with widespread demand for engines used in agriculture and other types of OEM applications.

**Financial Product Revenues** - Revenues were \$1.438 billion, an increase of \$140 million, or 11 percent, from the six months ended June 30, 2006.

- Growth in average earning assets increased revenues \$76 million.
- The impact of higher interest rates on new and existing finance receivables benefited revenues \$50 million.
- Cat Insurance revenues increased \$23 million due to earned premiums.
- Other revenues benefited due to the absence of a \$16 million write-down of a marine-related asset in the six months ended June 30, 2006.

## OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between the six months ended June 30, 2006 (at left) and the six months ended June 30, 2007 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board of Directors and employees. The bar entitled Consolidating Adjustments/M&E Other Operating Expense includes the operating profit impact of Progress Rail.

Operating profit in the six months ended June 30, 2007 decreased \$344 million, or 13 percent, from last year, driven by higher core operating costs, partially offset by higher price realization.

Core operating costs rose \$642 million from the six months ended June 30, 2006. Of this increase, \$550 million was due to increased manufacturing costs. The increase in manufacturing costs was due primarily to operating inefficiencies and higher material costs. Operating inefficiencies were the result of a significant decline in on-highway truck engine production, selected supply chain challenges, inefficiencies related to new product introductions, and capacity increases. Our manufacturing costs were also up from last year's levels due to transitional costs associated with the launch of the Cat Production System. SG&A and R&D combined as a percent of sales remained essentially flat with last year.

Manufacturing and non-manufacturing costs were impacted about equally by a charge of \$44 million in the six months ended June 30, 2007 to recognize previously unrecorded liabilities related to a subsidiary pension plan.

### Operating Profit by Principal Line of Business

| (Millions of dollars)               | Six Months Ended<br>June 30, 2006 | Six Months Ended<br>June 30, 2007 | \$<br>Change | %<br>Change |
|-------------------------------------|-----------------------------------|-----------------------------------|--------------|-------------|
| Machinery <sup>1</sup> .....        | \$ 1,823                          | \$ 1,458                          | \$ (365)     | (20%)       |
| Engines <sup>1</sup> .....          | 729                               | 726                               | (3)          | (0%)        |
| Financial Products.....             | 327                               | 351                               | 24           | 7%          |
| Consolidating Adjustments .....     | (182)                             | (182)                             | —            |             |
| Consolidated Operating Profit ..... | \$ 2,697                          | \$ 2,353                          | \$ (344)     | (13%)       |

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

## Operating Profit by Principal Line of Business

- **Machinery** operating profit of \$1.458 billion was down \$365 million, or 20 percent, from the six months ended June 30, 2006. Improved price realization was offset by the unfavorable impact of lower sales volume and higher core operating costs.
- **Engines** operating profit of \$726 million was down \$3 million from the six months ended June 30, 2006. Higher sales volume and improved price realization were offset by higher core operating costs including a \$44 million charge to recognize previously unrecorded liabilities related to a subsidiary pension plan.

The decline in truck engine sales has had a significant negative effect on overall engine sales and operating profit. Overall engine sales were up \$446 million, compared to the first half of 2006, despite a decline in truck-related sales of \$738 million. Continued strength in our commercial engines industries has allowed us to offset nearly all of the profit decline in the on-highway truck engine industry. Sales of electric power, petroleum, marine and industrial engines were up \$1.184 billion and reflect continued end market strength in those areas. The negative impact on operating profit from the drop in on-highway truck was about \$270 million.

- **Financial Products** operating profit of \$351 million was up \$24 million, or 7 percent, from the six months ended June 30, 2006. The increase was primarily attributable to \$39 million from improved net yield on average earning assets and \$11 million from the continued growth of earning assets. Higher claims experience at Cat Insurance, along with increased operating expenses, compared to the first half of 2006, were partially offset by the absence of a \$16 million write-down of a marine-related asset.

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

| (Millions of dollars)  | Six Months Ended<br>June 30, |                 |
|--|------------------------------|-----------------|
|  | 2007                         | 2006            |
| North America Geographic Region.....                               | \$ 8,834                     | \$ 10,021       |
| Sales included in the Power Systems Marketing segment.....         | (1,420)                      | (1,985)         |
| Sales included in the Electric Power segment.....                  | (412)                        | (317)           |
| Company owned dealer sales included in the All Other category..... | (339)                        | (435)           |
| Other <sup>1</sup> .....   | (1,864)                      | (824)           |
| North America Marketing external sales.....                        | <u>\$ 4,799</u>              | <u>\$ 6,460</u> |
| EAME Geographic Region.....  | \$ 6,366                     | \$ 4,753        |
| Sales included in the Power Systems Marketing segment.....         | (530)                        | (373)           |
| Sales included in the Electric Power segment.....                  | (773)                        | (622)           |
| Other <sup>1</sup> .....   | (1,504)                      | (1,269)         |
| EAME Marketing external sales.....                                 | <u>\$ 3,559</u>              | <u>\$ 2,489</u> |
| Latin America Geographic Region.....                               | \$ 2,027                     | \$ 1,718        |
| Sales included in the Power Systems Marketing segment.....         | (64)                         | (95)            |
| Sales included in the Electric Power segment.....                  | (46)                         | (25)            |
| Other <sup>1</sup> .....   | (226)                        | (242)           |
| Latin America Marketing external sales.....                        | <u>\$ 1,691</u>              | <u>\$ 1,356</u> |
| Asia/Pacific Geographic Region.....                                | \$ 2,707                     | \$ 2,207        |
| Sales included in the Power Systems Marketing segment.....         | (385)                        | (267)           |
| Sales included in the Electric Power segment.....                  | (208)                        | (209)           |
| Other <sup>1</sup> .....   | (497)                        | (410)           |
| Asia/Pacific Marketing external sales.....                         | <u>\$ 1,617</u>              | <u>\$ 1,321</u> |

<sup>1</sup> Mostly represents external sales of the All Other category.

## OTHER PROFIT/LOSS ITEMS

- **Other income/(expense)** was \$181 million of income compared with \$93 million of income in the six months ended June 30, 2006. The change was due to a \$46 million gain on the sale of a security and favorable impacts of currency.
- **The provision for income taxes** in the first six months of 2007 reflects an estimated annual tax rate of 32 percent compared to 31 percent for the first six months of 2006 and 29 percent for the full-year 2006. The increase is primarily due to the repeal of Extraterritorial Income Exclusion (ETI) benefits in 2007 as well as a change in our geographic mix of profits.
- **Equity in profit/(loss) of unconsolidated affiliated companies** was income of \$24 million compared with income of \$49 million in the six months ended June 30, 2006. As previously announced, we are currently negotiating definitive agreements with Mitsubishi Heavy Industries that would result in Caterpillar owning a majority stake in Shin Caterpillar Mitsubishi Ltd. (SCM). Six months ended June 30, 2007 equity in profit/(loss) of unconsolidated affiliated companies reflects a \$13 million after-tax charge for net adjustments that were identified during our due diligence procedures. Lower profit at SCM also contributed to the decrease.

## GLOSSARY OF TERMS

1. **Cat Production System (CPS)** – The Caterpillar Production System is the common Order-to-Delivery process being implemented enterprise-wide to achieve our safety, quality and velocity goals for 2010 and beyond.
2. **Consolidating Adjustments** – Eliminations of transactions between Machinery and Engines and Financial Products.
3. **Core Operating Costs** – Machinery and Engines variable manufacturing cost change adjusted for volume and change in *period costs*. Excludes the impact of currency.
4. **Currency** – With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency includes the impacts on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results.
5. **Diversified Service Businesses** – A service business or a business containing an important service component. These businesses include, but are not limited to, aftermarket parts, Cat Financial, Cat Insurance, Cat Logistics, Cat Reman, Progress Rail, OEM Solutions and Solar Turbine Customer Services.
6. **EAME** – Geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
7. **Earning Assets** – These assets consist primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.
8. **Engines** – A principal line of business including the design, manufacture, marketing and sales of engines for Caterpillar machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural and other applications; and related parts. Also includes remanufacturing of Caterpillar engines and a variety of Caterpillar machine and engine components and remanufacturing services for other companies. Reciprocating engines meet power needs ranging from 5 to 21,500 horsepower (4 to more than 16 000 kilowatts). Turbines range from 1,600 to 20,500 horsepower (1 200 to 15 000 kilowatts).
9. **Financial Products** – A principal line of business consisting primarily of Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings, Inc. (Cat Insurance), Caterpillar Power Ventures Corporation (Cat Power Ventures) and their respective subsidiaries. Cat Financial provides a wide range of financing alternatives to customers and dealers for Caterpillar machinery and engines, Solar gas turbines as well as other equipment and marine vessels. Cat Financial also extends loans to customers and dealers. Cat Insurance provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment. Cat Power Ventures is an investor in independent power projects using Caterpillar power generation equipment and services.



10. **Latin America** – Geographic region including Central and South American countries and Mexico.
11. **Machinery** – A principal line of business which includes the design, manufacture, marketing and sales of construction, mining and forestry machinery—track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, off-highway trucks, articulated trucks, paving products, skid steer loaders and related parts. Also includes logistics services for other companies and the design, manufacture, remanufacture, maintenance and services of rail-related products.
12. **Machinery and Engines (M&E)** – Due to the highly integrated nature of operations, it represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.
13. **Manufacturing Costs** – Manufacturing costs represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machine and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.
14. **M&E Other Operating Expenses** – Comprised primarily of gains (losses) on disposal of long-lived assets, long-lived asset impairment charges and impairment of goodwill.
15. **Operating Profit** – Sales and revenues minus operating costs.
16. **Period Costs** – Comprised of Machinery and Engines period manufacturing costs, SG&A expense and R&D expense.
17. **Price Realization** – The impact of net price changes excluding currency and new product introductions. Consolidated price realization includes the impact of changes in the relative weighting of sales between geographic regions.
18. **Profit** – Consolidated profit before taxes less provision for income taxes plus equity in profit (loss) of unconsolidated affiliated companies.
19. **Sales Volume** – With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for machines, engines and parts as well as the incremental revenue impact of new product introductions. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for machines, engines and parts combined with product mix—the net operating profit impact of changes in the relative weighting of machines, engines and parts sales with respect to total sales.
20. **6 Sigma** – On a technical level, 6 Sigma represents a measure of variation that achieves 3.4 defects per million opportunities. At Caterpillar, 6 Sigma represents a much broader cultural philosophy to drive continuous improvement throughout the value chain. It is a fact-based, data-driven methodology that we are using to improve processes, enhance quality, cut costs, grow our business and deliver greater value to our customers through Black Belt-led project teams. At Caterpillar, 6 Sigma goes beyond mere process improvement—it has become the way we work as teams to process business information, solve problems and manage our business successfully.

## Liquidity & Capital Resources

### Sources of funds

We generate our capital resources primarily through operations. For the first half of 2007, consolidated operating cash flow was \$3.24 billion. For the first half of 2006, consolidated operating cash flow was \$1.92 billion. The significant increase of \$1.32 billion is primarily the result of timing of receivables collections, primarily in North America. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from profits. See our Outlook on page 56.

Total debt as of June 30, 2007, was \$27.56 billion, an increase of \$260 million from year-end 2006. Debt related to Machinery and Engines of \$4.58 billion increased \$298 million as cash used for stock repurchase, capital expenditures, dividends and acquisitions more than offset operating cash flow. Debt related to Financial Products of \$22.98 billion decreased slightly from December 31, 2006. We have three global credit facilities with a syndicate of banks totaling \$6.45 billion available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. On May 1, 2007, based on management's allocation decision, which can be revised at any time, the portion of the credit facility allocated to Cat Financial was reduced from \$5.45 billion to \$4.95

billion. The five-year facility of \$1.63 billion, which expires in September 2010, has not changed from December 2006. The five-year facility of \$2.98 billion expires in September 2011. A 364-day facility of \$1.85 billion expires in September 2007. The facility expiring in September 2007 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2007 that would mature in September 2008. At June 30, 2007, there were no borrowings under these lines. Our total credit commitments as of June 30, 2007 were:

|  | (Millions of dollars) |                             |                       |
|--|-----------------------|-----------------------------|-----------------------|
|  | Consolidated          | Machinery<br>and<br>Engines | Financial<br>Products |
| Credit lines available:  |                       |                             |                       |
| Global credit facility .....                                   | \$ 6,450              | \$ 1,500                    | \$ 4,950              |
| Other external .....   | 3,469                 | 1,703                       | 1,766                 |
| Total credit lines available .....                             | 9,919                 | 3,203                       | 6,716                 |
| Less: Global credit facility supporting commercial paper ..... | (4,579)               | (336)                       | (4,243)               |
| Less: Utilized credit .....                                    | (1,184)               | (229)                       | (955)                 |
| Available credit .....   | \$ 4,156              | \$ 2,638                    | \$ 1,518              |

### Machinery and Engines

Net cash provided by operating activities was \$1.48 billion compared to \$1.94 billion for the same period a year ago. The unfavorable change is due to lower profit and higher working capital requirements. Inventory has continued to increase in the first half of 2007, but slightly less than the first half of 2006. We continue to have challenges with certain elements of our supply base meeting high production levels resulting in inefficiencies. We are focused on improving the flow of quality product with the execution of the Caterpillar Production System.

Capital expenditures, excluding equipment leased to others, during the six months ended June 30, 2007 were \$575 million, an increase of \$39 million from the same period a year ago. The expenditures were primarily used for additional capacity, including replacement of older machines, and new product introductions. Cash used for acquisitions (net of cash acquired) was \$181 million, primarily for the purchase of Franklin Power Products, Inc.

Pursuant to the stock repurchase program authorized by the Board of Directors in October 2003, which was completed in April 2007, and the new stock repurchase program approved in February 2007, \$1.02 billion was spent to purchase 14.7 million shares during the first half of 2007.

Dividends paid totaled \$386 million for the first half of 2007, representing a quarterly dividend rate of 30 cents per share. On June 13, 2007, we increased the quarterly cash dividend 20 percent to 36 cents per share payable August 20, 2007 to stockholders of record at the close of business on July 20, 2007.

A key measure of Machinery and Engines financial strength used by both management and our credit rating agencies is Machinery and Engines' debt to debt plus equity. Debt to debt plus equity is defined as short-term borrowings, long-term debt due within one year, and long-term debt due after one year (debt) divided by the sum of debt and stockholders' equity. Debt also includes borrowings from Financial Products. At June 30, 2007, Machinery and Engines' debt to debt plus equity was 37.2 percent compared to 38.6 percent at December 31, 2006.

### Financial Products

Operating cash flow was \$478 million through the first half of 2007, compared with \$499 million for the same period a year ago. Net cash used for investing activities was \$104 million for the first half of 2007, compared to a \$1.10 billion use of cash for the same period in 2006. This change is primarily a result of less net cash used for finance receivables due to slower portfolio growth, offset by the absence of a securitization in 2007. Net cash used in financing activities was \$406 million, compared to a source of cash of \$632 million for the first half of 2006, primarily due to lower funding requirements.

Financial Products total borrowings were \$22.98 billion at June 30, 2007, a slight decrease from December 31, 2006. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At June 30, 2007, finance receivables past due over 30 days were 2.09 percent, compared with 1.70 percent at the end of June 30, 2006, primarily attributable to the softening of the U.S. housing industry. The allowance for credit losses was 1.39 percent of finance receivables, net of unearned income at June 30, 2007, compared to 1.33 percent at June 30, 2006. Receivables written off due to uncollectibility, net of recoveries on receivables previously written off, were \$27 million and \$20 million for the six months ended June 30, 2007 and 2006, respectively.

## UPDATE ON CONTRACTUAL OBLIGATIONS

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$742 million. We do not expect a significant tax payment related to these obligations within the next year. The liability at June 30, 2007 was not materially different from the liability at the date of adoption.

## CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, warranty liability, stock-based compensation and reserves for product liability and insurance losses, postretirement benefits, post-sale discounts, credit losses and income taxes. We have incorporated many years of data into the determination of each of these estimates and we have not historically experienced significant adjustments. These assumptions are reviewed at least annually with the Audit Committee of the Board of Directors. Following are the methods and assumptions used in determining our estimates and an indication of the risks inherent in each.

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

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

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

**Stock-based compensation**—We use a lattice-based option-pricing model to calculate the fair value of our stock options and SARs. The calculation of the fair value of the awards using the lattice-based option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

- Volatility is a measure of the amount by which the stock price is expected to fluctuate each year during the expected life of the award and is based on historical and current implied volatilities from traded options on Caterpillar stock. The implied volatilities from traded options are impacted by changes in market conditions. An increase in the volatility would result in an increase in our expense.
- The expected term represents the period of time that awards granted are expected to be outstanding and is an output of the lattice-based option-pricing model. In determining the expected term of the award, future exercise and forfeiture patterns are estimated from Caterpillar employee historical exercise behavior. These patterns are also affected by the vesting conditions of the award. Changes in the future exercise behavior of employees or in the vesting period of the award could result in a change in the expected term. An increase in the expected term would result in an increase to our expense.
- The dividend yield is based on Caterpillar's historical dividend yields. As holders of stock-based awards do not receive dividend payments, this could result in employees retaining the award for a longer period of time if dividend yields decrease or exercising the award sooner if dividend yields increase. A decrease in the dividend yield would result in an increase in our expense.
- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at time of grant. As the risk-free interest rate increases, the expected term increases, resulting in an increase in our expense.

The fair value of our RSUs is determined by reducing the stock price on the date of grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends are based on Caterpillar's historical dividend yields. A decrease in the dividend yield would result in an increase in our expense.

Stock-based compensation expense recognized during the period is based on the value of the number of awards that are expected to vest. In determining the stock-based compensation expense to be recognized, a forfeiture rate is applied to the fair value of the award. This rate represents the number of awards that are expected to be forfeited prior to vesting and is based on Caterpillar employee historical behavior. Changes in the future behavior of employees could impact this rate. A decrease in this rate would result in an increase in our expense.

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

**Postretirement benefits**—Primary actuarial assumptions were determined as follows:

- The U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our plan assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. A similar process is used to determine the rate for our non-U.S. pension plans. This rate is impacted by changes in general market conditions, but because it represents a long-term rate, it is not significantly impacted by short-term market swings. Changes in our allocation of plan assets would also impact this rate. For example, a shift to more fixed income securities would lower the rate. A decrease in the rate would increase our expense.
- The assumed discount rate is used to discount future benefit obligations back to today's dollars. The U.S. discount rate is based on the Moody's Aa bond yield as of our measurement date, November 30, and represents the rate at which our benefit obligations could effectively be settled. To validate the discount rate, a detailed analysis of the individual plans' expected cash flows is made annually. This involves analyzing Caterpillar's projected cash flows against a high quality bond yield curve, calculated using a wide population of corporate Aa bonds. The modeled discount rate that results from matching the aggregate expected future cash flow from the Caterpillar benefit plans to the yield curve of high quality corporate bonds is consistent with the annualized Moody's Aa rate. A comprehensive process is also used to determine the assumed discount rate for our non-U.S. plans. This rate is sensitive to changes in interest rates. A decrease in the discount rate would increase our obligation and expense.
- The expected rate of compensation increase is used to develop benefit obligations using projected pay at retirement. It represents average long-term salary increases. This rate is influenced by our long-term compensation policies. An increase in the rate would increase our obligation and expense.
- The assumed health care trend rate represents the rate at which health care costs are assumed to increase and is based on historical and expected experience. Changes in our projections of future health care costs due to general economic conditions and those specific to health care (e.g. technology driven cost changes) will impact this trend rate. An increase in the trend rate would increase our obligation and expense.

**Post-sale discount reserve**—We provide discounts to dealers and OEMs through merchandising programs that are administered by our marketing profit centers. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. OEM programs provide discounts designed to encourage the use of our engines. The cost of discounts is estimated based on historical experience and planned changes in merchandising programs and is reported as a reduction to sales when the product sale is recognized. The amount of accrued post-sale discounts was \$632 million and \$726 million as of June 30, 2007 and December 31, 2006, respectively. The reserve represents discounts that we expect to pay on previously sold units and is reviewed at least quarterly. The reserve is adjusted if discounts paid differ from those estimated. Historically, those adjustments have not been material.

**Credit loss reserve**—Management's ongoing evaluation of the adequacy of the allowance for credit losses considers both impaired and unimpaired finance receivables and takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable losses we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at risk for potential credit loss. Accounts are identified as at risk for potential credit loss using information available about the customer, such as financial statements, news reports, and published credit ratings as well as general information regarding industry trends and the general economic environment.

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value we estimate current fair market value of collateral and factor in credit enhancements such as additional collateral and third party guarantees. The allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio, primarily using probabilities of default and an estimate of associated losses. In addition qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

While management believes it has exercised prudent judgment and applied reasonable assumptions which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance that in the future, changes in economic conditions or other factors might cause changes in the financial health of our customers which could change the timing and level of payments received thus necessitating a change to our estimated losses.

**Income tax reserve**—Despite our belief that our tax return positions are consistent with applicable tax laws, we believe that certain positions are likely to be challenged by taxing authorities. Settlement of any challenge can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. Our tax reserves reflect the difference between the tax benefit claimed on tax returns and the amount recognized in financial statements in accordance with FIN 48. FIN 48 requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefit recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in making these determinations. As the examination process progresses with tax authorities, adjustments to tax reserves may be necessary to reflect taxes payable upon settlement. Tax reserve adjustments related to positions impacting the effective tax rate affect the provision for income taxes. Tax reserves adjustments related to positions impacting the timing of deductions impact deferred tax assets and liabilities.

## **EMPLOYMENT**

Caterpillar's worldwide employment was 96,315 at the end of second quarter, up 4,001, or 4 percent from a year ago. Of the increase, about 1,000 was the result of acquisitions, about 2,000 were salaried and management employees and 1,000 were hourly employees.

## **OTHER MATTERS**

### **Environmental and Legal Matters**

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

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

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

On May 14, 2007, the U.S. Environmental Protection Agency (EPA) issued a Notice of Violation to Caterpillar Inc., alleging various violations of Clean Air Act Sections 203, 206, and 207. EPA claims that Caterpillar violated such sections by shipping engines and catalytic converter after-treatment devices separately, introducing into commerce a number of uncertified and/or misbuilt engines, and failing to timely report emissions-related defects. Caterpillar is currently engaging in negotiations with EPA to resolve these issues, but it is too early in the process to place precise estimates on the potential exposure to penalties. However, Caterpillar is cooperating with EPA and, based upon initial discussions, and although penalties could potentially exceed \$100 thousand, management does not believe that this issue will have a material adverse impact on Caterpillar's financial position.

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

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

## Retirement Benefits

We recognized pension expense of \$121 million and \$197 million for the three and six months ended June 30, 2007, as compared to \$80 million and \$160 million for the three and six months ended June 30, 2006. The increase in expense was primarily a result of a \$44 million adjustment to recognize previously unrecorded liabilities related to a subsidiary pension plan, partially offset by the impact of expected asset returns on plan assets. SFAS 87, "Employers' Accounting for Pensions", requires companies to discount future benefit obligations back to today's dollars using a discount rate that is based on high-quality fixed-income investments. A decrease in the discount rate increases the pension benefit obligation. This increase is amortized into earnings as an actuarial loss. SFAS 87 also requires companies to use an expected long-term rate of asset return for computing current year pension expense. Differences between the actual and expected returns are amortized into earnings as actuarial gains and losses. At the end of 2006, actuarial losses (recognized in accumulated other comprehensive income (loss)) related to pensions were \$3.50 billion. The majority of the actuarial losses are due to declining discount rates, slightly offset by asset gains in recent years.

Other postretirement benefit expense was \$75 million and \$150 million for the three and six months ended June 30, 2007, and \$91 million and \$183 million for the three and six months ended June 30, 2006. The decrease in expense is primarily the result of lower amortization of actuarial losses due to favorable demographic and health care claims experience and the impact of expected asset returns on plan assets. Actuarial losses (recognized in accumulated other comprehensive income (loss)) for other postretirement benefit plans were \$1.16 billion at the end of 2006. These losses mainly reflect a declining discount rate and an increase in expected health care inflation.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost are recognized in accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. As required by SFAS 158, we adopted the balance sheet recognition provisions at December 31, 2006 and will adopt the year-end measurement date in 2008 using the prospective method.

Actuarial losses for both pensions and other postretirement benefits will be impacted in future periods by actual asset returns, actual health care inflation, discount rate changes, actual demographic experience and other factors that impact these expenses. These losses, now recorded as a component of accumulated other comprehensive income (loss) upon the adoption of SFAS 158, will be amortized as a component of net benefit cost on a straight-line basis over the average remaining service period of active employees expected to receive benefits under the benefit plans. At the end of 2006, the average remaining service period of active employees was 10 years for our U.S. pension plans, 12 years for our non-U.S. pension plans and 7 years for other postretirement benefit plans. We expect our amortization of net actuarial losses to decrease approximately \$60 million in 2007 as compared to 2006, primarily due to favorable asset returns.

We made \$33 million of contributions to pension plans during the six months ended June 30, 2007 and we currently anticipate additional contributions of approximately \$15 million during the remainder of the year. Although we have no ERISA (Employee Retirement Income Security Act) funding requirements in 2007, we will continue to evaluate additional contributions to both pension and other postretirement benefit plans. We have adequate liquidity resources to fund all U.S. and non-U.S. plans.

## Supplemental Consolidating Data

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

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

**Machinery and Engines** – The Machinery and Engines data contained in the schedules on pages 48 to 55 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Item 10(e) of Regulation S-K. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

**Financial Products** – Our finance and insurance subsidiaries, primarily Cat Financial and Cat Insurance.

**Consolidating Adjustments** – Eliminations of transactions between Machinery and Engines and Financial Products.

Pages 48 to 55 reconcile Machinery and Engines with Financial Products on the Equity Basis to Caterpillar Inc. Consolidated financial information.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Three Months Ended June 30, 2007**  
**(Unaudited)**  
**(Millions of dollars)**

|   | <b>Supplemental Consolidating Data</b> |   |                           |                                  |
|---|--|---|---------------------------|----------------------------------|
|   | <u>Consolidated</u>                    | <u>Machinery and Engines <sup>1</sup></u> | <u>Financial Products</u> | <u>Consolidating Adjustments</u> |
| <b>Sales and revenues:</b>  |  |   |                           |                                  |
| Sales of Machinery and Engines.....                                 | \$ 10,613                              | \$ 10,613                                 | \$ —                      | \$ —                             |
| Revenues of Financial Products.....                                 | 743                                    | —   | 846                       | (103) <sup>2</sup>               |
| Total sales and revenues .....                                      | <u>11,356</u>                          | <u>10,613</u>                             | <u>846</u>                | <u>(103)</u>                     |
| <b>Operating costs:</b>   |  |   |                           |                                  |
| Cost of goods sold.....   | 8,300                                  | 8,300                                     | —                         | —                                |
| Selling, general and administrative expenses .....                  | 968                                    | 853                                       | 120                       | (5) <sup>3</sup>                 |
| Research and development expenses .....                             | 350                                    | 350                                       | —                         | —                                |
| Interest expense of Financial Products .....                        | 279                                    | —   | 279                       | —                                |
| Other operating expenses .....                                      | 246                                    | (10)                                      | 263                       | (7) <sup>3</sup>                 |
| Total operating costs .....   | <u>10,143</u>                          | <u>9,493</u>                              | <u>662</u>                | <u>(12)</u>                      |
| <b>Operating profit</b> .....                                       | <b>1,213</b>                           | <b>1,120</b>                              | <b>184</b>                | <b>(91)</b>                      |
| Interest expense excluding Financial Products .....                 | 80                                     | 83  | —                         | (3) <sup>4</sup>                 |
| Other income (expense).....   | <u>70</u>                              | <u>(36)</u>                               | <u>18</u>                 | <u>88<sup>5</sup></u>            |
| <b>Consolidated profit before taxes</b> .....                       | <b>1,203</b>                           | <b>1,001</b>                              | <b>202</b>                | <b>—</b>                         |
| Provision for income taxes .....                                    | 385                                    | 316                                       | 69                        | —                                |
| Profit of consolidated companies.....                               | <u>818</u>                             | <u>685</u>                                | <u>133</u>                | <u>—</u>                         |
| Equity in profit (loss) of unconsolidated affiliated companies..... | 5                                      | 4   | 1                         | —                                |
| Equity in profit of Financial Products' subsidiaries .....          | <u>—</u>                               | <u>134</u>                                | <u>—</u>                  | <u>(134)<sup>6</sup></u>         |
| <b>Profit</b> .....   | <b><u>\$ 823</u></b>                   | <b><u>\$ 823</u></b>                      | <b><u>\$ 134</u></b>      | <b><u>\$ (134)</u></b>           |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Engines.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Engines.

<sup>5</sup> Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.



**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Three Months Ended June 30, 2006**  
(Unaudited)  
(Millions of dollars)

|   | Supplemental Consolidating Data |                                       |                       |                              |
|---|---------------------------------|---------------------------------------|-----------------------|------------------------------|
|   | Consolidated                    | Machinery<br>and Engines <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Sales and revenues:</b>  |                                 |                                       |                       |                              |
| Sales of Machinery and Engines .....                                    | \$ 9,956                        | \$ 9,956                              | \$ —                  | \$ —                         |
| Revenues of Financial Products .....                                    | 649                             | —                                     | 768                   | (119) <sup>2</sup>           |
| Total sales and revenues.....   | <u>10,605</u>                   | <u>9,956</u>                          | <u>768</u>            | <u>(119)</u>                 |
| <b>Operating costs:</b>   |                                 |                                       |                       |                              |
| Cost of goods sold .....  | 7,416                           | 7,416                                 | —                     | —                            |
| Selling, general and administrative expenses .....                      | 881                             | 777                                   | 113                   | (9) <sup>3</sup>             |
| Research and development expenses .....                                 | 343                             | 343                                   | —                     | —                            |
| Interest expense of Financial Products .....                            | 256                             | —                                     | 259                   | (3) <sup>4</sup>             |
| Other operating expenses .....  | 230                             | (1)                                   | 239                   | (8) <sup>3</sup>             |
| Total operating costs .....   | <u>9,126</u>                    | <u>8,535</u>                          | <u>611</u>            | <u>(20)</u>                  |
| <b>Operating profit</b> .....   | 1,479                           | 1,421                                 | 157                   | (99)                         |
| Interest expense excluding Financial Products .....                     | 66                              | 70                                    | —                     | (4) <sup>4</sup>             |
| Other income (expense) .....  | 50                              | (80)                                  | 35                    | 95 <sup>5</sup>              |
| <b>Consolidated profit before taxes</b> .....                           | 1,463                           | 1,271                                 | 192                   | —                            |
| Provision for income taxes.....   | 449                             | 384                                   | 65                    | —                            |
| Profit of consolidated companies.....                                   | <u>1,014</u>                    | <u>887</u>                            | <u>127</u>            | <u>—</u>                     |
| Equity in profit (loss) of unconsolidated<br>affiliated companies ..... | 32                              | 32                                    | —                     | —                            |
| Equity in profit of Financial Products' subsidiaries.....               | —                               | 127                                   | —                     | (127) <sup>6</sup>           |
| <b>Profit</b> .....   | <u>\$ 1,046</u>                 | <u>\$ 1,046</u>                       | <u>\$ 127</u>         | <u>\$ (127)</u>              |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Engines.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Engines.

<sup>5</sup> Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For The Six Months Ended June 30, 2007**  
**(Unaudited)**  
**(Millions of dollars)**

|   | <b>Supplemental Consolidating Data</b> |   |                               |                                      |
|---|--|---|-------------------------------|--------------------------------------|
|   | <b>Consolidated</b>                    | <b>Machinery<br/>and Engines <sup>1</sup></b> | <b>Financial<br/>Products</b> | <b>Consolidating<br/>Adjustments</b> |
| <b>Sales and revenues:</b>  |  |   |                               |                                      |
| Sales of Machinery and Engines.....                                     | \$ 19,934                              | \$ 19,934                                     | \$ —                          | \$ —                                 |
| Revenues of Financial Products.....                                     | 1,438                                  | —   | 1,645                         | (207) <sup>2</sup>                   |
| Total sales and revenues .....  | <u>21,372</u>                          | <u>19,934</u>                                 | <u>1,645</u>                  | <u>(207)</u>                         |
| <b>Operating costs:</b>   |  |   |                               |                                      |
| Cost of goods sold.....   | 15,436                                 | 15,436  | —                             | —                                    |
| Selling, general and administrative expenses .....                      | 1,858                                  | 1,638   | 230                           | (10) <sup>3</sup>                    |
| Research and development expenses .....                                 | 690                                    | 690   | —                             | —                                    |
| Interest expense of Financial Products .....                            | 550                                    | —   | 551                           | (1) <sup>4</sup>                     |
| Other operating expenses .....  | 485                                    | (14)  | 513                           | (14) <sup>3</sup>                    |
| Total operating costs .....   | <u>19,019</u>                          | <u>17,750</u>                                 | <u>1,294</u>                  | <u>(25)</u>                          |
| <b>Operating profit</b> .....   | <b>2,353</b>                           | <b>2,184</b>                                  | <b>351</b>                    | <b>(182)</b>                         |
| Interest expense excluding Financial Products .....                     | 159                                    | 163   | —                             | (4) <sup>4</sup>                     |
| Other income (expense) .....  | 181                                    | (36)  | 39                            | 178 <sup>5</sup>                     |
| <b>Consolidated profit before taxes</b> .....                           | <b>2,375</b>                           | <b>1,985</b>                                  | <b>390</b>                    | <b>—</b>                             |
| Provision for income taxes .....  | 760                                    | 629   | 131                           | —                                    |
| Profit of consolidated companies.....                                   | 1,615                                  | 1,356   | 259                           | —                                    |
| Equity in profit (loss) of unconsolidated<br>affiliated companies ..... | 24                                     | 22  | 2                             | —                                    |
| Equity in profit of Financial Products' subsidiaries .....              | —                                      | 261   | —                             | (261) <sup>6</sup>                   |
| <b>Profit</b> .....   | <b>\$ 1,639</b>                        | <b>\$ 1,639</b>                               | <b>\$ 261</b>                 | <b>\$ (261)</b>                      |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Engines.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Engines.

<sup>5</sup> Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

Caterpillar Inc.  
Supplemental Data for Results of Operations  
For The Six Months Ended June 30, 2006  
(Unaudited)  
(Millions of dollars)

|   | Supplemental Consolidating Data |                                       |                       |                              |
|---|---------------------------------|---------------------------------------|-----------------------|------------------------------|
|   | Consolidated                    | Machinery<br>and Engines <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Sales and revenues:</b>  |                                 |                                       |                       |                              |
| Sales of Machinery and Engines .....                                    | \$ 18,699                       | \$ 18,699                             | \$ —                  | \$ —                         |
| Revenues of Financial Products .....                                    | 1,298                           | —                                     | 1,514                 | (216) <sup>2</sup>           |
| Total sales and revenues .....  | <u>19,997</u>                   | <u>18,699</u>                         | <u>1,514</u>          | <u>(216)</u>                 |
| <b>Operating costs:</b>   |                                 |                                       |                       |                              |
| Cost of goods sold .....  | 13,968                          | 13,968                                | —                     | —                            |
| Selling, general and administrative expenses .....                      | 1,702                           | 1,501                                 | 216                   | (15) <sup>3</sup>            |
| Research and development expenses .....                                 | 650                             | 650                                   | —                     | —                            |
| Interest expense of Financial Products .....                            | 488                             | —                                     | 492                   | (4) <sup>4</sup>             |
| Other operating expenses .....  | 492                             | 28                                    | 479                   | (15) <sup>3</sup>            |
| Total operating costs .....   | <u>17,300</u>                   | <u>16,147</u>                         | <u>1,187</u>          | <u>(34)</u>                  |
| <b>Operating profit</b> .....   | 2,697                           | 2,552                                 | 327                   | (182)                        |
| Interest expense excluding Financial Products .....                     | 134                             | 138                                   | —                     | (4) <sup>4</sup>             |
| Other income (expense) .....  | 93                              | (131)                                 | 46                    | 178 <sup>5</sup>             |
| <b>Consolidated profit before taxes</b> .....                           | 2,656                           | 2,283                                 | 373                   | —                            |
| Provision for income taxes .....  | 819                             | 693                                   | 126                   | —                            |
| Profit of consolidated companies .....                                  | <u>1,837</u>                    | <u>1,590</u>                          | <u>247</u>            | <u>—</u>                     |
| Equity in profit (loss) of unconsolidated<br>affiliated companies ..... | 49                              | 48                                    | 1                     | —                            |
| Equity in profit of Financial Products' subsidiaries .....              | —                               | 248                                   | —                     | (248) <sup>6</sup>           |
| <b>Profit</b> .....   | <u>\$ 1,886</u>                 | <u>\$ 1,886</u>                       | <u>\$ 248</u>         | <u>\$ (248)</u>              |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' revenues earned from Machinery and Engines.

<sup>3</sup> Elimination of net expenses recorded by Machinery and Engines paid to Financial Products.

<sup>4</sup> Elimination of interest expense recorded between Financial Products and Machinery and Engines.

<sup>5</sup> Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

<sup>6</sup> Elimination of Financial Products' profit due to equity method of accounting.

Caterpillar Inc.  
Supplemental Data for Financial Position  
At June 30, 2007  
(Unaudited)  
(Millions of dollars)

|  | Supplemental Consolidating Data |                                       |                       |                              |
|--|---------------------------------|---------------------------------------|-----------------------|------------------------------|
|  | Consolidated                    | Machinery<br>and Engines <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Assets</b>  |                                 |                                       |                       |                              |
| Current assets:  |                                 |                                       |                       |                              |
| Cash and short-term investments .....                    | \$ 562                          | \$ 379                                | \$ 183                | \$ —                         |
| Receivables - trade and other .....                      | 7,835                           | 4,022                                 | 395                   | 3,418 <sup>2,3</sup>         |
| Receivables - finance .....                              | 6,821                           | —                                     | 10,444                | (3,623) <sup>3</sup>         |
| Deferred and refundable income taxes .....               | 1,055                           | 979                                   | 76                    | —                            |
| Prepaid expenses and other current assets .....          | 751                             | 724                                   | 40                    | (13) <sup>4</sup>            |
| Inventories .....  | 7,106                           | 7,106                                 | —                     | —                            |
| Total current assets .....                               | 24,130                          | 13,210                                | 11,138                | (218)                        |
| Property, plant and equipment – net .....                | 9,127                           | 6,166                                 | 2,961                 | —                            |
| Long-term receivables - trade and other .....            | 706                             | 133                                   | 30                    | 543 <sup>2,3</sup>           |
| Long-term receivables – finance .....                    | 12,711                          | —                                     | 13,284                | (573) <sup>3</sup>           |
| Investments in unconsolidated affiliated companies ..... | 551                             | 552                                   | 15                    | (16) <sup>5</sup>            |
| Investments in Financial Products subsidiaries .....     | —                               | 3,853                                 | —                     | (3,853) <sup>6</sup>         |
| Noncurrent deferred and refundable income taxes .....    | 2,111                           | 2,332                                 | 46                    | (267) <sup>7</sup>           |
| Intangible assets .....                                  | 467                             | 462                                   | 5                     | —                            |
| Goodwill .....   | 1,937                           | 1,937                                 | —                     | —                            |
| Other assets .....                                       | 1,766                           | 290                                   | 1,476                 | —                            |
| <b>Total assets</b> .....                                | <b>\$ 53,506</b>                | <b>\$ 28,935</b>                      | <b>\$ 28,955</b>      | <b>\$ (4,384)</b>            |
| <b>Liabilities</b>                                       |                                 |                                       |                       |                              |
| Current liabilities:                                     |                                 |                                       |                       |                              |
| Short-term borrowings .....                              | \$ 5,716                        | \$ 462                                | \$ 5,335              | \$ (81) <sup>8</sup>         |
| Accounts payable .....                                   | 4,130                           | 3,948                                 | 306                   | (124) <sup>9</sup>           |
| Accrued expenses .....                                   | 2,952                           | 1,759                                 | 1,206                 | (13) <sup>10</sup>           |
| Accrued wages, salaries and employee benefits .....      | 814                             | 802                                   | 12                    | —                            |
| Customer advances .....                                  | 1,275                           | 1,275                                 | —                     | —                            |
| Dividends payable .....                                  | 230                             | 230                                   | —                     | —                            |
| Other current liabilities .....                          | 803                             | 691                                   | 119                   | (7) <sup>7</sup>             |
| Long-term debt due within one year .....                 | 3,885                           | 469                                   | 3,416                 | —                            |
| Total current liabilities .....                          | 19,805                          | 9,636                                 | 10,394                | (225)                        |
| Long-term debt due after one year .....                  | 17,955                          | 3,700                                 | 14,285                | (30) <sup>8</sup>            |
| Liability for postemployment benefits .....              | 5,906                           | 5,906                                 | —                     | —                            |
| Other liabilities .....                                  | 2,009                           | 1,862                                 | 423                   | (276) <sup>5,7</sup>         |
| <b>Total liabilities</b> .....                           | <b>45,675</b>                   | <b>21,104</b>                         | <b>25,102</b>         | <b>(531)</b>                 |
| <b>Commitments and Contingencies</b>                     |                                 |                                       |                       |                              |
| <b>Stockholders' equity</b>                              |                                 |                                       |                       |                              |
| Common stock .....                                       | 2,655                           | 2,655                                 | 860                   | (860) <sup>6</sup>           |
| Treasury stock .....                                     | (8,154)                         | (8,154)                               | —                     | —                            |
| Profit employed in the business .....                    | 15,951                          | 15,951                                | 2,575                 | (2,575) <sup>6</sup>         |
| Accumulated other comprehensive income (loss) .....      | (2,621)                         | (2,621)                               | 418                   | (418) <sup>6</sup>           |
| <b>Total stockholders' equity</b> .....                  | <b>7,831</b>                    | <b>7,831</b>                          | <b>3,853</b>          | <b>(3,853)</b>               |
| <b>Total liabilities and stockholders' equity</b> .....  | <b>\$ 53,506</b>                | <b>\$ 28,935</b>                      | <b>\$ 28,955</b>      | <b>\$ (4,384)</b>            |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of receivables between Machinery and Engines and Financial Products.

<sup>3</sup> Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Machinery and Engines' investment in Financial Products subsidiary.

<sup>6</sup> Elimination of Financial Products' equity which is accounted for on Machinery and Engines on the equity basis.

<sup>7</sup> Reclassification reflecting required netting of deferred tax assets/liabilities by taxing jurisdiction.

<sup>8</sup> Elimination of debt between Machinery and Engines and Financial Products.

<sup>9</sup> Elimination of payables between Machinery and Engines and Financial Products.

<sup>10</sup> Elimination of prepaid insurance in Financial Products' accrued expenses.

**Caterpillar Inc.**  
**Supplemental Data for Financial Position**  
**At December 31, 2006**  
**(Unaudited)**  
**(Millions of dollars)**

|  | <b>Supplemental Consolidating Data</b> |  |                               |                                      |
|--|--|--|-------------------------------|--------------------------------------|
|  | <b>Consolidated</b>                    | <b>Machinery<br/>and Engines<sup>1</sup></b> | <b>Financial<br/>Products</b> | <b>Consolidating<br/>Adjustments</b> |
| <b>Assets</b>  |  |  |                               |                                      |
| Current assets:  |  |  |                               |                                      |
| Cash and short-term investments .....                    | \$ 530                                 | \$ 319                                       | \$ 211                        | \$ —                                 |
| Receivables – trade and other .....                      | 8,607                                  | 3,924  | 368                           | 4,315 <sup>2,3</sup>                 |
| Receivables – finance .....                              | 6,804                                  | —  | 11,379                        | (4,575) <sup>3</sup>                 |
| Deferred and refundable income taxes .....               | 733                                    | 656  | 77                            | —                                    |
| Prepaid expenses and other current assets.....           | 638                                    | 616  | 41                            | (19) <sup>4</sup>                    |
| Inventories .....  | 6,351                                  | 6,351  | —                             | —                                    |
| <b>Total current assets</b> .....                        | <b>23,663</b>                          | <b>11,866</b>                                | <b>12,076</b>                 | <b>(279)</b>                         |
| Property, plant and equipment – net .....                | 8,851                                  | 6,046  | 2,805                         | —                                    |
| Long-term receivables – trade and other .....            | 860                                    | 155  | 30                            | 675 <sup>2,3</sup>                   |
| Long-term receivables – finance .....                    | 11,531                                 | —  | 12,236                        | (705) <sup>3</sup>                   |
| Investments in unconsolidated affiliated companies ..... | 562                                    | 559  | 12                            | (9) <sup>5</sup>                     |
| Investments in Financial Products subsidiaries.....      | —                                      | 3,513  | —                             | (3,513) <sup>6</sup>                 |
| Noncurrent deferred and refundable income taxes.....     | 1,949                                  | 2,218  | 39                            | (308) <sup>7</sup>                   |
| Intangible assets.....                                   | 387                                    | 382  | 5                             | —                                    |
| Goodwill.....  | 1,904                                  | 1,904  | —                             | —                                    |
| Other assets .....                                       | 1,742                                  | 352  | 1,390                         | —                                    |
| <b>Total assets</b> .....                                | <b>\$ 51,449</b>                       | <b>\$ 26,995</b>                             | <b>\$ 28,593</b>              | <b>\$ (4,139)</b>                    |
| <b>Liabilities</b>                                       |  |  |                               |                                      |
| Current liabilities:                                     |  |  |                               |                                      |
| Short-term borrowings.....                               | \$ 5,155                               | \$ 165                                       | \$ 5,077                      | \$ (87) <sup>8</sup>                 |
| Accounts payable .....                                   | 4,085                                  | 3,907  | 344                           | (166) <sup>9</sup>                   |
| Accrued expenses .....                                   | 2,923                                  | 1,848  | 1,101                         | (26) <sup>10</sup>                   |
| Accrued wages, salaries and employee benefits.....       | 938                                    | 922  | 16                            | —                                    |
| Customer advances .....                                  | 921                                    | 921  | —                             | —                                    |
| Dividends payable .....                                  | 194                                    | 194  | —                             | —                                    |
| Other current liabilities.....                           | 1,145                                  | 1,026  | 127                           | (8) <sup>7</sup>                     |
| Long-term debt due within one year.....                  | 4,461                                  | 418  | 4,043                         | —                                    |
| <b>Total current liabilities</b> .....                   | <b>19,822</b>                          | <b>9,401</b>                                 | <b>10,708</b>                 | <b>(287)</b>                         |
| Long-term debt due after one year.....                   | 17,680                                 | 3,724  | 13,986                        | (30) <sup>8</sup>                    |
| Liability for postemployment benefits .....              | 5,879                                  | 5,879  | —                             | —                                    |
| Other liabilities .....                                  | 1,209                                  | 1,132  | 386                           | (309) <sup>5,7</sup>                 |
| <b>Total liabilities</b> .....                           | <b>44,590</b>                          | <b>20,136</b>                                | <b>25,080</b>                 | <b>(626)</b>                         |
| <b>Commitments and contingencies</b>                     |  |  |                               |                                      |
| <b>Stockholders' equity</b>                              |  |  |                               |                                      |
| Common stock.....  | 2,465                                  | 2,465  | 862                           | (862) <sup>6</sup>                   |
| Treasury stock.....                                      | (7,352)                                | (7,352)                                      | —                             | —                                    |
| Profit employed in the business .....                    | 14,593                                 | 14,593                                       | 2,325                         | (2,325) <sup>6</sup>                 |
| Accumulated other comprehensive income (loss).....       | (2,847)                                | (2,847)                                      | 326                           | (326) <sup>6</sup>                   |
| <b>Total stockholders' equity</b> .....                  | <b>6,859</b>                           | <b>6,859</b>                                 | <b>3,513</b>                  | <b>(3,513)</b>                       |
| <b>Total liabilities and stockholders' equity</b> .....  | <b>\$ 51,449</b>                       | <b>\$ 26,995</b>                             | <b>\$ 28,593</b>              | <b>\$ (4,139)</b>                    |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of receivables between Machinery and Engines and Financial Products.

<sup>3</sup> Reclassification of Machinery and Engines' trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.

<sup>4</sup> Elimination of Machinery and Engines' insurance premiums that are prepaid to Financial Products.

<sup>5</sup> Elimination of Machinery and Engines' investment in Financial Products subsidiary.

<sup>6</sup> Elimination of Financial Products' equity which is accounted for on Machinery and Engines on the equity basis.

<sup>7</sup> Reclassification reflecting required netting of deferred tax assets/liabilities by taxing jurisdiction.

<sup>8</sup> Elimination of debt between Machinery and Engines and Financial Products.

<sup>9</sup> Elimination of payables between Machinery and Engines and Financial Products.

<sup>10</sup> Elimination of prepaid insurance in Financial Products' accrued expenses.

Caterpillar Inc.  
Supplemental Data for Cash Flow  
For the Six Months Ended June 30, 2007  
(Unaudited)  
(Millions of dollars)

|   | Supplemental Consolidating Data |                                       |                       |                              |
|---|---------------------------------|---------------------------------------|-----------------------|------------------------------|
|   | Consolidated                    | Machinery<br>and Engines <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Cash flow from operating activities:</b>                                       |                                 |                                       |                       |                              |
| Profit.....   | \$ 1,639                        | \$ 1,639                              | \$ 261                | \$ (261) <sup>2</sup>        |
| Adjustments for non-cash items:   |                                 |                                       |                       |                              |
| Depreciation and amortization .....   | 849                             | 512                                   | 337                   | —                            |
| Undistributed profit of Financial Products .....                                  | —                               | (261)                                 | —                     | 261 <sup>3</sup>             |
| Other .....   | 71                              | 47                                    | (146)                 | 170 <sup>4</sup>             |
| Changes in assets and liabilities:  |                                 |                                       |                       |                              |
| Receivables - trade and other .....   | 987                             | (57)                                  | (20)                  | 1,064 <sup>4,5</sup>         |
| Inventories .....   | (691)                           | (691)                                 | —                     | —                            |
| Accounts payable and accrued expenses .....                                       | (46)                            | (146)                                 | 36                    | 64 <sup>4</sup>              |
| Other assets - net .....  | (300)                           | (255)                                 | 2                     | (47) <sup>4</sup>            |
| Other liabilities - net .....   | 727                             | 689                                   | 8                     | 30 <sup>4</sup>              |
| Net cash provided by (used for) operating activities .....                        | <u>3,236</u>                    | <u>1,477</u>                          | <u>478</u>            | <u>1,281</u>                 |
| <b>Cash flow from investing activities:</b>                                       |                                 |                                       |                       |                              |
| Capital expenditures - excluding equipment leased<br>to others.....               | (582)                           | (575)                                 | (7)                   | —                            |
| Expenditures for equipment leased to others .....                                 | (621)                           | —                                     | (627)                 | 6                            |
| Proceeds from disposals of property, plant and equipment .....                    | 208                             | 13                                    | 196                   | (1) <sup>4</sup>             |
| Additions to finance receivables .....  | (6,356)                         | —                                     | (17,369)              | 11,013 <sup>5</sup>          |
| Collections of finance receivables .....  | 5,233                           | —                                     | 16,846                | (11,613) <sup>5</sup>        |
| Proceeds from sales of finance receivables .....                                  | 84                              | —                                     | 777                   | (693) <sup>5</sup>           |
| Net intercompany borrowings .....   | —                               | 35                                    | (29)                  | (6) <sup>6</sup>             |
| Investments and acquisitions (net of cash acquired).....                          | (174)                           | (181)                                 | —                     | 7 <sup>7</sup>               |
| Proceeds from sales of available-for-sale securities .....                        | 119                             | 7                                     | 112                   | —                            |
| Investments in available-for-sale securities .....                                | (217)                           | (8)                                   | (209)                 | —                            |
| Other - net .....   | 285                             | 81                                    | 206                   | (2) <sup>7</sup>             |
| Net cash provided by (used for) investing activities .....                        | <u>(2,021)</u>                  | <u>(628)</u>                          | <u>(104)</u>          | <u>(1,289)</u>               |
| <b>Cash flow from financing activities:</b>                                       |                                 |                                       |                       |                              |
| Dividends paid .....  | (386)                           | (386)                                 | —                     | —                            |
| Common stock issued, including treasury<br>shares reissued .....                  | 223                             | 223                                   | (2)                   | 2 <sup>7</sup>               |
| Treasury shares purchased .....   | (1,017)                         | (1,017)                               | —                     | —                            |
| Excess tax benefit from stock-based compensation .....                            | 97                              | 97                                    | —                     | —                            |
| Net intercompany borrowings .....   | —                               | 29                                    | (35)                  | 6 <sup>6</sup>               |
| Proceeds from debt issued (original maturities<br>greater than three months)..... | 5,259                           | 43                                    | 5,216                 | —                            |
| Payments on debt (original maturities greater<br>than three months).....          | (5,453)                         | (49)                                  | (5,404)               | —                            |
| Short-term borrowings (original maturities three<br>months or less) - net .....   | 86                              | 267                                   | (181)                 | —                            |
| Net cash provided by (used for) financing activities .....                        | <u>(1,191)</u>                  | <u>(793)</u>                          | <u>(406)</u>          | <u>8</u>                     |
| Effect of exchange rate changes on cash.....                                      | 8                               | 4                                     | 4                     | —                            |
| <b>Increase (decrease) in cash and short-term investments .....</b>               | <u>32</u>                       | <u>60</u>                             | <u>(28)</u>           | <u>—</u>                     |
| Cash and short-term investments at beginning of period .....                      | 530                             | 319                                   | 211                   | —                            |
| Cash and short-term investments at end of period.....                             | <u>\$ 562</u>                   | <u>\$ 379</u>                         | <u>\$ 183</u>         | <u>\$ —</u>                  |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Non-cash adjustment for the undistributed earnings from Financial Products.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Net proceeds and payments to/from Machinery and Engines and Financial Products.

<sup>7</sup> Elimination of the effect of exchange on intercompany balances.

Caterpillar Inc.  
Supplemental Data for Cash Flow  
For the Six Months Ended June 30, 2006  
(Unaudited)  
(Millions of dollars)

|   | Supplemental Consolidating Data |                                       |                       |                              |
|---|---------------------------------|---------------------------------------|-----------------------|------------------------------|
|   | Consolidated                    | Machinery<br>and Engines <sup>1</sup> | Financial<br>Products | Consolidating<br>Adjustments |
| <b>Cash flow from operating activities:</b>                                       |                                 |                                       |                       |                              |
| Profit .....  | \$ 1,886                        | \$ 1,886                              | \$ 248                | \$ (248) <sup>2</sup>        |
| Adjustments for non-cash items:   |                                 |                                       |                       |                              |
| Depreciation and amortization .....   | 802                             | 470                                   | 332                   | —                            |
| Undistributed profit of Financial Products .....                                  | —                               | (248)                                 | —                     | 248 <sup>3</sup>             |
| Other .....   | 94                              | 90                                    | (186)                 | 190 <sup>4</sup>             |
| Changes in assets and liabilities:  |                                 |                                       |                       |                              |
| Receivables - trade and other .....   | (762)                           | (53)                                  | 7                     | (716) <sup>4,5</sup>         |
| Inventories .....   | (755)                           | (755)                                 | —                     | —                            |
| Accounts payable and accrued expenses .....                                       | 356                             | 271                                   | 72                    | 13 <sup>4</sup>              |
| Other assets - net .....  | 23                              | 9                                     | (5)                   | 19 <sup>4</sup>              |
| Other liabilities - net .....   | 277                             | 273                                   | 31                    | (27) <sup>4</sup>            |
| Net cash provided by (used for) operating activities .....                        | <u>1,921</u>                    | <u>1,943</u>                          | <u>499</u>            | <u>(521)</u>                 |
| <b>Cash flow from investing activities:</b>                                       |                                 |                                       |                       |                              |
| Capital expenditures - excluding equipment leased to others.....                  | (552)                           | (536)                                 | (27)                  | 11 <sup>4</sup>              |
| Expenditures for equipment leased to others.....                                  | (532)                           | —                                     | (548)                 | 16 <sup>4</sup>              |
| Proceeds from disposals of property,<br>plant and equipment.....                  | 319                             | 20                                    | 310                   | (11) <sup>4</sup>            |
| Additions to finance receivables.....   | (5,114)                         | —                                     | (18,013)              | 12,899 <sup>5</sup>          |
| Collections of finance receivables.....   | 4,079                           | —                                     | 15,969                | (11,890) <sup>5</sup>        |
| Proceeds from sales of finance receivables.....                                   | 980                             | —                                     | 1,484                 | (504) <sup>5</sup>           |
| Net intercompany borrowings.....  | —                               | 36                                    | (383)                 | 347 <sup>6</sup>             |
| Investments and acquisitions (net of cash acquired) .....                         | (419)                           | (419)                                 | —                     | —                            |
| Proceeds from sales of available-for-sale securities.....                         | 219                             | 13                                    | 206                   | —                            |
| Investments in available-for-sale securities .....                                | (296)                           | (30)                                  | (266)                 | —                            |
| Other - net.....  | 167                             | 13                                    | 166                   | (12) <sup>7</sup>            |
| Net cash provided by (used for) investing activities.....                         | <u>(1,149)</u>                  | <u>(903)</u>                          | <u>(1,102)</u>        | <u>856</u>                   |
| <b>Cash flow from financing activities:</b>                                       |                                 |                                       |                       |                              |
| Dividends paid .....  | (335)                           | (335)                                 | —                     | —                            |
| Common stock issued, including treasury shares reissued .....                     | 349                             | 349                                   | (12)                  | 12 <sup>7</sup>              |
| Treasury shares purchased.....  | (2,411)                         | (2,411)                               | —                     | —                            |
| Excess tax benefit from stock-based compensation.....                             | 147                             | 147                                   | —                     | —                            |
| Net intercompany borrowings.....  | —                               | 383                                   | (36)                  | (347) <sup>6</sup>           |
| Proceeds from debt issued (original maturities<br>greater than three months)..... | 5,033                           | 102                                   | 4,931                 | —                            |
| Payments on debt (original maturities greater<br>than three months) .....         | (5,595)                         | (501)                                 | (5,094)               | —                            |
| Short-term borrowings (original maturities three<br>months or less) - net.....    | 1,564                           | 721                                   | 843                   | —                            |
| Net cash provided by (used for) financing activities .....                        | <u>(1,248)</u>                  | <u>(1,545)</u>                        | <u>632</u>            | <u>(335)</u>                 |
| Effect of exchange rate changes on cash.....                                      | 16                              | 9                                     | 7                     | —                            |
| <b>Increase (decrease) in cash and short-term investments .....</b>               | <b>(460)</b>                    | <b>(496)</b>                          | <b>36</b>             | <b>—</b>                     |
| Cash and short-term investments at beginning of period .....                      | 1,108                           | 951                                   | 157                   | —                            |
| Cash and short-term investments at end of period.....                             | <u>\$ 648</u>                   | <u>\$ 455</u>                         | <u>\$ 193</u>         | <u>\$ —</u>                  |

<sup>1</sup> Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

<sup>2</sup> Elimination of Financial Products' profit after tax due to equity method of accounting.

<sup>3</sup> Non-cash adjustment for the undistributed earnings from Financial Products.

<sup>4</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>5</sup> Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>6</sup> Net proceeds and payments to/from Machinery and Engines and Financial Products.

<sup>7</sup> Change in investment and common stock related to Financial Products.

## Sales & Revenues Outlook for 2007

We are raising our projection of 2007 sales and revenues to about \$44 billion, or a 6 percent increase, from 2006. The previous outlook was a range of \$42 to \$44 billion. The expected improvement from 2006 is from increased volume outside North America, price realization, and the impact of Progress Rail and currency impacts. North American machinery and engines sales volume, excluding Progress Rail, is expected to be down.

Sales outside North America are expected to be up about \$4.5 billion, or 24 percent—more than offsetting a \$2.4 billion, or 12 percent, decline in North America. This improvement reflects a continued strong economic performance outside North America.

- We expect dealers to further reduce inventories in the second half of this year, mostly in North America and EAME. Dealers should end the year with inventories well below last year, both in dollars and months of supply.
- North America will continue to be a weak area in the second half, the result of further dealer inventory reductions, a sharp drop in North American on-highway engine sales and unfavorable economic conditions for many key industries. The improvement in second quarter economic growth and the Fed's continuing focus on inflation concerns prompted us to drop our forecast of interest rate cuts in the second half.
- The North American machine industry continued to decline in the second quarter despite the improvement in the economy. Without interest rate relief, we believe economic growth will slow again in the last half, and the machine industry will decline further. Housing, nonresidential construction and coal mining will likely remain weak.
- Fortunately, economies outside North America should remain robust. Central banks raised interest rates in the first half, and additional increases in the second half are likely. However, in most countries, rates remain low relative to inflation, and economies should grow almost as fast as last year.
- Data for the early months of 2007 indicate strong growth in construction in most countries outside North America. For the year, nonresidential building construction should do well—office rents are up, employment is increasing and business profits are good. Improved government budgets should mean increased spending to upgrade inadequate infrastructures. Housing construction likely will slow since permits are declining in Europe and Australia.
- Coal mining should do well outside North America. Contract prices for thermal coal increased 6 percent on April 1, and spot prices have traded above contract prices. Major producing countries increased production early this year, and our forecasts for economic growth indicate coal demand will increase this year. Transportation problems, not demand, are likely to limit coal production.
- Metals mining should do well throughout the world, including the United States. Prices of most metals increased over the first half of this year, and we expect only moderate easing in the last half. The past surge in investment should finally result in more consistent growth in mine output this year.
- West Texas Intermediate crude oil prices averaged \$61.55 per barrel in the first half, and we expect it will average about \$64 for the year. That price will be attractive for increased exploration, drilling, pipeline expenditures and tar sands development which should benefit both machine and engine sales.
- Contract rates for oceangoing vessels are up this year with the Baltic Exchange Dry Index more than double last year's rate. Shipyards are contracting for 2009 berths, so demand for marine engines should be strong this year.

North America (United States and Canada) - Machinery and Engines sales are expected to decrease about 12 percent in 2007.

- We expect dealers will continue to reduce machine inventories in the second half, although not as much as in the first half.
- The North American on-highway truck industry should decline about 40 percent this year. Most of this decline is a correction for advance buying and inventory building undertaken last year to cope with the risks of new diesel engine emission standards. However, declining freight volume and some deterioration in truck carrier profit margins have emerged as additional negative factors.
- The initial estimate for U.S. second quarter economic growth was 3.4 percent, up from the depressed rate of the first quarter. This improvement means the Fed is unlikely to reduce interest rates this year.
- Without interest rate relief, we believe the second-quarter improvement will prove temporary, and economic growth will slow to 2.5 percent or less in the second half. For the year, we project the economy will grow about 2 percent. As in the past four quarters, industries critical to our businesses are likely to fare worse than the overall economy, and the machine industry should decline further in the second half. Slow economic growth would also unfavorably impact demand for marine pleasure craft engines and standby electric power.
- The housing industry took a tremendous battering this past year as housing starts plunged 30 percent from the 2006 peak. The recent increase in mortgage interest rates, tighter lending standards, declining home prices and an overhang of unsold homes suggest even lower starts in the second half. We reduced our forecast of 2007 starts to near 1.4 million units. Total housing units supplied, including mobile homes, should be about 1.5 million units—the lowest since 1992.



- Although nonresidential building contracting declined in the first half, leading indicators for this sector are positive, and businesses are borrowing more money. We project some recovery in the second half so that contracting for the full year will be about even with last year. However, the lack of any growth would be unfavorable for construction machinery demand.
- Late authorization of federal highway funding means states should have an opportunity to accelerate requests for funds in coming months. We expect that highway contracts awarded will increase in the last half of 2007, resulting in 2 percent growth for the full year. The budget proposal for the next fiscal year (starts October 1) calls for only a 3 percent increase in federal funding which could keep contractors cautious about buying new machines.
- Electric utilities have large coal stockpiles and appear to be reducing coal burn in favor of natural gas, so we expect coal production will decline almost 2 percent this year. Lower coal production, mine permitting delays and environmental concerns could discourage mining investment the rest of this year.
- We expect metals mining production will increase almost 3 percent this year and expect most metals prices will decline moderately over the last half. However, prices should remain high enough to make new investments profitable.
- Oil and natural gas prices should remain attractive for new investments this year. As a result, we expect increased opportunities for machine sales into pipelines and turbine and engine sales for gas compression, drill rigs and well servicing equipment.
- The Canadian economy likely will grow more than 2 percent this year. Increased construction, tar sands development and mining growth should create a more favorable environment for the construction machinery industry than in the United States.

EAME - Machinery and Engines sales are expected to increase about 29 percent in 2007.

- Dealers built inventories in the first half to prepare for increased customer demand. As they complete deliveries to customers, we expect reported inventories will decline in coming months.
- Regional growth should exceed 3 percent this year, slightly slower than last year. Europe, Africa/Middle East and the CIS should have above-average growth in both their economies and construction. The good growth should benefit machine sales and demand for standby electric power.
- The European Union economy grew at more than a 3 percent rate in the first quarter, and both business surveys and leading indicators suggest continued good growth. We project growth for the full year will be about 2.5 percent.
- Both the European Central Bank and the Bank of England raised interest rates this year, and we expect one more increase from both in the last half. Although rate increases have not slowed economies, currencies have strengthened.
- Construction was strong in the first half, and we expect growth will continue. Residential building permits declined, and business surveys suggest housing construction will soften. However, both nonresidential and infrastructure construction should strengthen. Industrial capacity utilization reached 84.4 percent in the second quarter, highest since 1990, and businesses have good profits. Government finances improved, allowing increased capital expenditures.
- We forecast economic growth will be about 5.5 percent in Africa/Middle East this year, the same as in 2006. Countries will benefit from high energy, metals and agriculture prices and increased production of many of these commodities. Most governments improved budgets and are allocating more funds to infrastructure development.
- Inflation rates in both Turkey and South Africa are higher than central banks like, and both will continue high interest rate policies. However, construction has been strong in both countries, and we anticipate good growth for the year. South Africa should also increase production of coal and copper.
- We expect the CIS economy will grow more than 7 percent this year, slightly slower than last year. The Russian government's budget is in excellent shape, which should allow further large increases in spending for infrastructure development and housing construction. Favorable oil, natural gas and metals prices should drive capacity investments in these industries. The Ukrainian economy is growing rapidly, and construction, which was up 12 percent year to date, should continue growing.

Latin America - Machinery and Engines sales are expected to increase about 15 percent in 2007.

- We project the Latin American economy will grow almost 5 percent this year, compared to 5.5 percent growth last year. Favorable interest rates and better economic growth should support good construction growth in most countries. Mining investment surged sharply the past few years, and production began to improve in the first half of this year. We expect mining investment and production to increase this year.
- Brazil steadily lowered interest rates from a peak of 19.75 percent in 2005 to 12 percent in June, and we expect another 50 basis point reduction in the last half of 2007. Lower interest rates should result in faster economic growth this year and an improvement in construction activity. Mining, which was up 5 percent year to date, should have good growth this year.
- Economic growth in Chile improved this year, and we forecast better growth than last year despite a recent reversal of an interest rate reduction. Copper mining increased in the first quarter, so the industry should be able to recover from two years of decline. Construction, which rose 7 percent so far this year, should also be up.

- We expect Mexico's economy to slow significantly this year, the result of declining oil production and little growth in exports to the United States. Construction, which rose 2 percent year to date, likely will remain sluggish.

Asia/Pacific - Machinery and Engines sales are expected to increase about 20 percent in 2007.

- Regional growth should be about 7.5 percent this year, down slightly from last year. Favorable interest rates, good growth in construction and increased mining investment should all support growth in machinery and engine sales.
- China has raised both reserve requirements and interest rates several times to slow economic growth and contain inflation. So far these actions have not had much impact, and we forecast economic growth of about 10.5 percent this year, marginally lower than in 2006. Construction and coal mining were up year to date about 25 percent and 12 percent, respectively; and both should continue rapid growth.
- Australian economic growth improved in the first quarter, which should prompt the central bank to raise interest rates. However, nonresidential building permits indicate such construction should grow this year, and mining investment should be up significantly. Growth in mining production likely will be limited by transportation capacity.
- Indonesia's recovery in sales should continue in the second half. Interest rates declined 150 basis points this year, and economic growth was almost 6 percent in the first quarter. Both mining and construction should have good years.
- The Indian economy started the year strong, with growth of 9 percent overall, 7 percent for mining and 11 percent for construction. Inflation is back within target, so the central bank should be on hold for the rest of the year. Businesses remain confident, and interest rates seem low relative to inflation. As a result, we project that construction and mining will do well.

### Financial Products Revenues

- We expect continued growth in Financial Products for 2007. Revenues are expected to increase approximately 13 percent versus 2006, primarily due to higher average earning assets and interest rates at Cat Financial and increased premiums at Cat Insurance.

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### Sales and Revenues Outlook - Midpoint of Range<sup>1</sup>

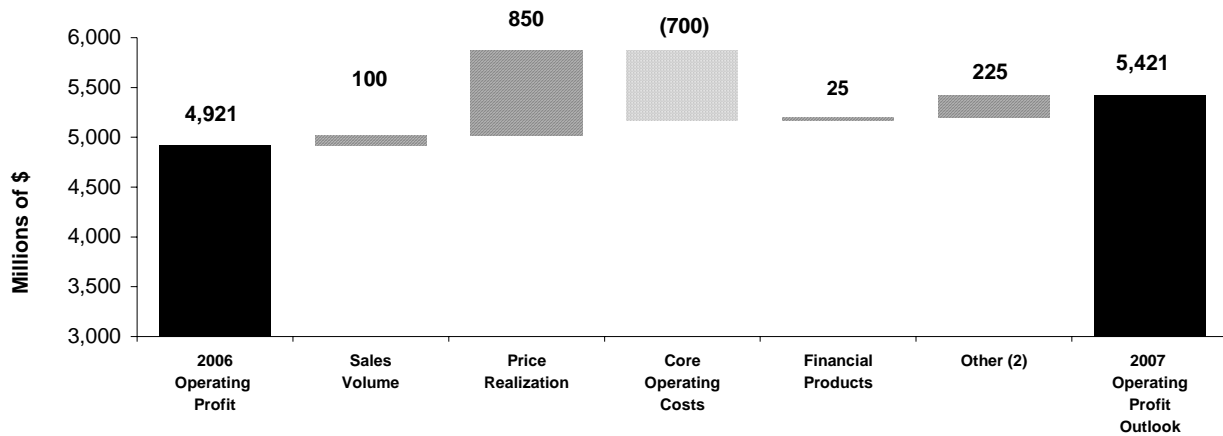
| (Millions of dollars)                 | 2006<br>Actual   | 2007<br>Outlook  | %<br>Change |
|---------------------------------------|------------------|------------------|-------------|
| Machinery and Engines                 |                  |                  |             |
| North America .....                   | \$ 20,155        | \$ 17,800        | (12%)       |
| EAME .....                            | 10,287           | 13,250           | 29%         |
| Latin America .....                   | 3,646            | 4,200            | 15%         |
| Asia/Pacific.....                     | 4,781            | 5,750            | 20%         |
| Total Machinery and Engines.....      | <u>38,869</u>    | <u>41,000</u>    | 5%          |
| Financial Products <sup>2</sup> ..... | <u>2,648</u>     | <u>3,000</u>     | 13%         |
| Total .....                           | <u>\$ 41,517</u> | <u>\$ 44,000</u> | 6%          |

<sup>1</sup> The Consolidated Operating Profit chart below reflects sales and revenues at \$44 billion.

<sup>2</sup> Does not include revenues earned from Machinery and Engines of \$380 million and \$466 million in 2007 and 2006, respectively.

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## Consolidated Operating Profit Comparison <sup>(1)</sup> 2007 Outlook vs. 2006



<sup>(1)</sup> The PPS outlook is between \$5.30 and \$5.80. The above chart illustrates operating profit at the midpoint of this profit range. Each of the stair steps in the chart may individually vary within the outlook range.

<sup>(2)</sup> Other includes the impact of currency, consolidating adjustments, M&E other operating expenses, operating profit of Progress Rail and the effects of rounding.

### 2007 Outlook – Profit

We expect profit per share to be in the range of \$5.30 to \$5.80. 2007 is expected to benefit from improved price realization and sales volume, partially offset by higher core operating costs and a higher effective tax rate.

Factors driving expected improved price realization in the second half, compared with the first half of 2007 include timing of merchandising program spending and stronger sales volume in the second half of 2007 as well as weak price realization in the fourth quarter of 2006.

We expect 2007 core operating costs to be \$700 million higher than full year 2006. We now expect material costs to be up about 1 percent this year. In our previous outlook, we had expected overall material cost increases to be minimal in 2007. Commodities, like nickel and aluminum, are higher than we expected, and some component suppliers are pushing through higher prices than we planned. Operationally, the first half of 2007 included a significant number of new product introductions that tend to temporarily slow production. The second half of 2007 includes much less new product introduction. We are taking action to address the lower volumes forecasted for truck engines, and we are focused on improving our operating efficiencies through the Cat Production System. Cost comparisons with the second half of 2006 should improve. Costs increased in the second half of 2006 and included an expense for a legal dispute settlement. We are also taking action to lower discretionary spending.

### Safe Harbor

Certain statements in this Form 10-Q relate to future events and expectations and as such 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 "will", "expect", "anticipate" or other similar words and phrases often identify forward-looking statements made on behalf of Caterpillar. It is important to note that 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 economic conditions; currency exchange or interest rates; political stability; market acceptance of the company's products and services; significant changes in the competitive environment; epidemic diseases; 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 Form 10-K filed with the Securities and Exchange Commission on February 23, 2007. This filing is available on our website at [www.cat.com/secfilings](http://www.cat.com/secfilings). We do not undertake to update our forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is incorporated by reference from Note 4 – “Derivatives Instruments and Hedging Activities” included in Part I, Item 1 and Management’s Discussion and Analysis included in Part I, Item 2 of this Form 10-Q.

### Item 4. Controls and Procedures

#### Evaluation of disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of the company’s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company’s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the company’s management, including the CEO and CFO, concluded that the company’s disclosure controls and procedures are effective as of the end of the period covered by this quarterly report.

#### Changes in internal control over financial reporting

During the second quarter 2007, there has been no significant change in the company’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The information required by this Item is incorporated by reference from Note 12 included in Part I, Item 1 of this Form 10-Q.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Issuer Purchases of Equity Securities

| Period           | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased Under the Program | Approximate Dollar Value of Shares that may yet be Purchased under the Program (Dollars in billions) |
|------------------|----------------------------------|------------------------------|--|--|
| April 1-30, 2007 | 1,353,000                        | \$ 68.61                     | 1,353,000  | \$ 7.434 <sup>1</sup>  |
| May 1-31, 2007   | 1,708,000                        | \$ 76.11                     | 1,708,000  | \$ 7.304 <sup>1</sup>  |
| June 1-30, 2007  | 3,581,000                        | \$ 79.13                     | 3,581,000  | \$ 7.020 <sup>1</sup>  |
| <b>Total</b>     | <b>6,642,000</b>                 | <b>\$ 76.21</b>              | <b>6,642,000</b>                                   |  |

<sup>1</sup> On October 8, 2003, the Board of Directors approved an extension of the share repurchase program (through October 2008) with the goal of reducing the company’s outstanding shares to 320,000,000. The share repurchase program goal was adjusted for the stock split announced on June 8, 2005, to reflect an adjusted goal of 640,000,000 shares outstanding by October 2008. In February 2007, the Board of Directors authorized a \$7.5 billion stock repurchase program over the next five years, expiring on December 31, 2011. Purchases under the new authorization commenced on completion of the 2003 authorization, which was exhausted by purchasing 395,899 shares in April 2007 to reduce the company’s outstanding shares to 640,000,000.

#### Other Purchases of Equity Securities

| Period           | Total Number of Shares Purchased <sup>1</sup> | Average Price Paid per Share | Total Number of Shares Purchased Under the Program | Approximate Dollar Value of Shares that may yet be Purchased under the Program |
|------------------|---|------------------------------|--|--|
| April 1-30, 2007 | 2,000   | \$ 66.03                     | NA   | NA   |
| May 1-31, 2007   | 322   | \$ 72.55                     | NA   | NA   |
| June 1-30, 2007  | —   | \$ —                         | NA   | NA   |
| <b>Total</b>     | <b>2,322</b>                                  | <b>\$ 66.93</b>              |  |  |

<sup>1</sup> Represents shares delivered back to issuer for the payment of taxes resulting from the exercise of stock options by employees and Directors.

### *Non-U.S. Employee Stock Purchase Plans*

We have 30 employee stock purchase plans administered outside the United States for our foreign employees. As of June 30, 2007, those plans had approximately 12,700 participants in the aggregate. During the second quarter of 2007, approximately 215,000 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

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

The Annual Meeting of Stockholders of Caterpillar Inc. was held on June 13, 2007, for the purpose of electing directors and voting on the proposals described below. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation. A plurality vote of the shares present at the meeting was required for election of directors. An affirmative vote of the majority (50 percent or greater) of shares present at the meeting (quorum) was required for approval of all other proposals. Abstentions and broker non-votes have the effect of a vote against matters other than director elections. Quorum exists if at least one-third of Caterpillar stockholders are present in person or by proxy at the meeting. Abstentions and broker non-votes are counted as present for establishing a quorum.

#### *Proposal 1 - Election of Directors*

All of management's nominees for Class III directors as listed in the proxy statement were **ELECTED** with the following vote:

|                     | Shares Voted "FOR" | Shares "WITHHELD" | Broker Non-Votes |
|---------------------|--------------------|-------------------|------------------|
| John T. Dillon      | 551,702,500        | 15,038,351        | 0                |
| Juan Gallardo       | 467,016,385        | 99,724,466        | 0                |
| William A. Osborn   | 551,324,253        | 15,416,598        | 0                |
| Edward B. Rust, Jr. | 551,110,707        | 15,630,144        | 0                |

The Class III directors received an average affirmative vote of **93.57%**. Class I and II directors that were not up for election will continue in office for the remainder of their terms.

#### *Proposal 2 - Ratification of Independent Registered Public Accounting Firm*

A management proposal requesting ratification of Independent Registered Public Accounting Firm received the affirmative vote of **96.84%** of the shares present at the meeting was **APPROVED** with the following vote:

| Shares Voted "FOR" | Shares Voted "AGAINST" | Shares "ABSTAINING" | Broker Non-Votes |
|--------------------|------------------------|---------------------|------------------|
| 548,819,697        | 9,221,987              | 8,699,166           | 0                |

#### *Proposal 3 - Stockholder Proposal - Separate CEO & Chair*

A stockholder proposal requesting the Board of Directors to separate the roles of Chairman and Chief Executive Officer received the affirmative vote of **12.58%** of the shares present at the meeting was **DEFEATED** with the following vote:

| Shares Voted "FOR" | Shares Voted "AGAINST" | Shares "ABSTAINING" | Broker Non-Votes |
|--------------------|------------------------|---------------------|------------------|
| 71,312,759         | 386,071,087            | 10,600,851          | 98,756,154       |

#### *Proposal 4 - Stockholder Proposal - Director Election Majority Vote Standard*

The stockholder proposal requesting the Board of Directors to adopt majority vote standard received the affirmative vote of **31.18%** of the shares present at the meeting was **DEFEATED** with the following vote:

| Shares Voted "FOR" | Shares Voted "AGAINST" | Shares "ABSTAINING" | Broker Non-Votes |
|--------------------|------------------------|---------------------|------------------|
| 176,692,441        | 280,244,272            | 11,047,985          | 98,756,154       |

## Item 6. Exhibits

### Exhibits:

- 3.1 Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).
- 3.2 Bylaws, amended and restated as of February 11, 2004 (incorporated by reference from Exhibit 3.3 to the Form 10-Q filed for the quarter ended March 31, 2004).
- 4.1 Indenture dated as of May 1, 1987, between the Registrant and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.1 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.2 First Supplemental Indenture, dated as of June 1, 1989, between Caterpillar Inc. and The First National Bank of Chicago, as Trustee (incorporated by reference from Exhibit 4.2 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.3 Appointment of Citibank, N.A. as Successor Trustee, dated October 1, 1991, under the Indenture, as supplemented, dated as of May 1, 1987 (incorporated by reference from Exhibit 4.3 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.4 Second Supplemental Indenture, dated as of May 15, 1992, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.4 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.5 Third Supplemental Indenture, dated as of December 16, 1996, between Caterpillar Inc. and Citibank, N.A., as Successor Trustee (incorporated by reference from Exhibit 4.5 to Form S-3 (Registration No. 333-22041) filed February 19, 1997).
- 4.6 Tri-Party Agreement, dated as of November 2, 2006, between Caterpillar Inc., Citibank, N.A. and U.S. Bank National Association appointing U.S. Bank as Successor Trustee under the Indenture dated as of May 1, 1987, as amended and supplemented (incorporated by reference from Exhibit 4.6 to the 2006 Form 10-K).
- 10.1 Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of August 18, 2004 (incorporated by reference from Exhibit 10.1 to the 2004 Form 10-K).
- 10.2 Caterpillar Inc. 2006 Long-Term Incentive Plan as amended and restated through June 14, 2006 (incorporated by reference from Exhibit 10.2 to the 2006 Form 10-K).
- 10.3 Supplemental Pension Benefit Plan, as amended and restated January 2003 (incorporated by reference from Exhibit 10.3 to the 2004 Form 10-K).
- 10.4 Supplemental Employees' Investment Plan, as amended and restated through December 1, 2002 (incorporated by reference from Exhibit 10.4 to the 2002 Form 10-K).
- 10.5 Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the 2002 Form 10-K).
- 10.6 Directors' Deferred Compensation Plan, as amended and restated through January 1, 2005 (incorporated by reference from Exhibit 10.6 to the 2006 Form 10-K).
- 10.7 Directors' Charitable Award Program (incorporated by reference from Exhibit 10(h) to the 1993 Form 10-K).
- 10.8 Deferred Employees' Investment Plan, as amended and restated through February 16, 2005 (incorporated by reference as Exhibit 10.8 to the 2005 Form 10-K).
- 10.9 Five year Credit Agreement ("Five-Year Facility") dated September 21, 2006 among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance p.l.c and Caterpillar Finance Corporation ("Borrowers"), certain financial institutions named therein ("Banks"), Citibank, N.A., ("Agent"), The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("Japan Local Currency Agent"), Citibank International p.l.c., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale ("Arrangers") and Citigroup Global Markets Inc. ("Lead Arranger and Sole Book Manager") (incorporated by reference from Exhibit 99.1 to Form 8-K filed on September 26, 2006).
- 10.10 Japan Local Currency Addendum to the Five-Year Facility dated September 21, 2006 among Caterpillar Financial Services Corporation, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. ("Agent"), and The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("Japan Local Currency Agent") (incorporated by reference from Exhibit 99.2 to Form 8-K filed on September 26, 2006).
- 11 Computations of Earnings per Share (included in Note 11 of this Form 10-Q filed for the quarter ended June 30, 2007).
- 31.1 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc. and David B. Burritt, Vice President and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.











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