



## **Caterpillar Corporation**

Caterpillar, Inc was founded in 1925. Headquartered in Peoria, Illinois, the company manufactures construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. The company operates in three primary lines of business: machinery, engines, and financial products. The machinery line of business designs, manufactures, markets, and sells construction, mining, and forestry machinery, such as track and wheel tractors, track and wheel loaders, pipelayers, motor graders, wheel tractor-scrappers, track and wheel excavators, backhoe loaders, log skidders, log loaders, offhighway trucks, articulated trucks, paving products, telescopic handlers, skid steer loaders, and related parts. It also offers logistics services for other companies.

The engines business line designs, manufactures, markets, and sells engines for the company's machinery; electric power generation systems; on-highway vehicles and locomotives; marine, petroleum, construction, industrial, agricultural, and other applications; and related parts.

The financial products line of business includes provision of various financing alternatives to customers and dealers for the company's machinery and engines, and solar gas turbines, as well as other equipment and marine vessels. It also offers various forms of insurance to customers and dealers to support the purchase and lease of Caterpillar's equipment; and invests in independent power projects using the company's power generation equipment and services. Caterpillar markets its products through various distribution centers and dealers worldwide.

Your task is to evaluate the possibility of a divestiture of caterpillar's finance division. You should base your analysis on the Summary Statistics and the excerpts from Caterpillar's Financial Statements shown on the following pages. Please try to answer the following questions:

- Show, with a diagram, your recommended method of divesting the division
- What assets would go with the new company?
- What liabilities?
- Estimate the new division's value.

**VALUATION MEASURES**

Market Cap (intraday):	39.18B
Enterprise Value (7-Jan-07) <sup>3</sup> :	66.23B
Trailing P/E (ttm, intraday):	11.90
Forward P/E (fye 31-Dec-07) <sup>1</sup> :	10.73
PEG Ratio (5 yr expected):	0.75
Price/Sales (ttm):	0.99
Price/Book (mrq):	4.40
Enterprise Value/Revenue (ttm) <sup>3</sup> :	1.65
Enterprise Value/EBITDA (ttm) <sup>3</sup> :	10.125

**FINANCIAL HIGHLIGHTS****Fiscal Year**

Fiscal Year Ends:	31-Dec
Most Recent Quarter (mrq):	30-Sep-06

**Profitability**

Profit Margin (ttm):	8.71%
Operating Margin (ttm):	12.12%

**Management Effectiveness**

Return on Assets (ttm):	6.43%
Return on Equity (ttm):	40.20%

**Income Statement**

Revenue (ttm):	40.18B
Revenue Per Share (ttm):	60.432
Qtrly Revenue Growth (yoy):	17.20%
Gross Profit (ttm):	9.78B
EBITDA (ttm):	6.54B
Net Income Avl to Common (ttm):	3.50B
Diluted EPS (ttm):	5.062
Qtrly Earnings Growth (yoy):	15.30%

**Balance Sheet**

Total Cash (mrq):	361.00M
Total Cash Per Share (mrq):	0.555
Total Debt (mrq):	27.41B
Total Debt/Equity (mrq):	3.036
Current Ratio (mrq):	1.29
Book Value Per Share (mrq):	13.878

**Cash Flow Statement**

Operating Cash Flow (ttm):	4.55B
Levered Free Cash Flow (ttm):	777.63M

CATERPILLAR INC  
as of 5-Jan-2007

Splits: ▼

**TRADING INFORMATION****Stock Price History**

Beta:	1.86
52-Week Change <sup>3</sup> :	-0.38%
S&P500 52-Week Change <sup>3</sup> :	9.67%
52-Week High (10-May-06) <sup>3</sup> :	82.03
52-Week Low (20-Oct-06) <sup>3</sup> :	58.82
50-Day Moving Average <sup>3</sup> :	61.7391
200-Day Moving Average <sup>3</sup> :	66.0758

**Share Statistics**

Average Volume (3 month) <sup>3</sup> :	7,291,530
Average Volume (10 day) <sup>3</sup> :	3,704,810
Shares Outstanding:	650.53M
Float:	648.65M
% Held by Insiders <sup>4</sup> :	0.30%
% Held by Institutions <sup>4</sup> :	68.60%
Shares Short (as of 12-Dec-06) <sup>3</sup> :	7.80M
Short Ratio (as of 12-Dec-06) <sup>3</sup> :	1.4
Short % of Float (as of 12-Dec-06) <sup>3</sup> :	1.20%
Shares Short (prior month) <sup>3</sup> :	7.04M

**Dividends & Splits**

Forward Annual Dividend Rate <sup>5</sup> :	1.20
Forward Annual Dividend Yield <sup>5</sup> :	2.00%
Trailing Annual Dividend Rate <sup>3</sup> :	1.10
Trailing Annual Dividend Yield <sup>3</sup> :	1.80%
5 Year Average Dividend Yield <sup>5</sup> :	2.10%
Payout Ratio <sup>5</sup> :	27%

**STATEMENT 1****Caterpillar Inc.****Consolidated Results of Operations for the Years Ended December 31**

(Dollars in millions except per share data)

	<u>2005</u>	2004	2003
<b>Sales and revenues:</b>			
Sales of Machinery and Engines .....	<b>\$34,006</b>	\$28,336	\$21,048
Revenues of Financial Products .....	<b>2,333</b>	1,970	1,759
Total sales and revenues .....	<b>36,339</b>	30,306	22,807
<b>Operating costs:</b>			
Cost of goods sold .....	<b>26,558</b>	22,497	16,997
Selling, general and administrative expenses .....	<b>3,190</b>	2,926	2,322
Research and development expenses .....	<b>1,084</b>	928	669
Interest expense of Financial Products .....	<b>768</b>	524	474
Other operating expenses .....	<b>955</b>	747	675
Total operating costs .....	<b>32,555</b>	27,622	21,137
<b>Operating profit</b> .....	<b>3,784</b>	2,684	1,670
Interest expense excluding Financial Products .....	<b>260</b>	230	246
Other income (expense) .....	<b>377</b>	253	53
<b>Consolidated profit before taxes</b> .....	<b>3,901</b>	2,707	1,477
Provision for income taxes .....	<b>1,120</b>	731	398
Profit of consolidated companies .....	<b>2,781</b>	1,976	1,079
Equity in profit (loss) of unconsolidated affiliated companies .....	<b>73</b>	59	20
<b>Profit</b> .....	<b>\$ 2,854</b>	\$ 2,035	\$ 1,099
<b>Profit per common share</b> .....	<b>\$ 4.21</b>	\$ 2.97	\$ 1.59
<b>Profit per common share — diluted<sup>(1)</sup></b> .....	<b>\$ 4.04</b>	\$ 2.88	\$ 1.56
<b>Weighted-average common shares outstanding (millions)</b>			
— Basic .....	<b>678.4</b>	684.5	690.4
— Diluted <sup>(1)</sup> .....	<b>705.8</b>	707.4	702.7
<b>Cash dividends declared per common share</b> .....	<b>\$ .96</b>	\$ .80	\$ .72

<sup>(1)</sup> Diluted by assumed exercise of stock options, using the treasury stock method.

See accompanying Notes to Consolidated Financial Statements.

## STATEMENT 2

### Consolidated Financial Position at December 31

(Dollars in millions)

	2005	2004	2003
<b>Assets</b>			
Current assets:			
Cash and short-term investments .....	\$ 1,108	\$ 445	\$ 342
Receivables — trade and other .....	7,526	7,463	4,030
Receivables — finance .....	6,442	5,182	5,167
Retained interests in securitized trade receivables .....	—	—	1,550
Deferred and refundable income taxes .....	344	398	707
Prepaid expenses .....	2,146	1,369	1,424
Inventories .....	5,224	4,675	3,047
Total current assets .....	22,790	19,532	16,267
Property, plant and equipment — net .....	7,988	7,682	7,251
Long-term receivables — trade and other .....	1,037	764	510
Long-term receivables — finance .....	10,301	9,903	7,735
Investments in unconsolidated affiliated companies .....	565	517	800
Deferred income taxes .....	768	674	616
Intangible assets .....	424	315	239
Goodwill .....	1,451	1,450	1,398
Other assets .....	1,745	2,258	1,895
<b>Total assets</b> .....	<b>\$47,069</b>	<b>\$43,095</b>	<b>\$36,711</b>
<b>Liabilities</b>			
Current liabilities:			
Short-term borrowings:			
— Machinery and Engines .....	\$ 871	\$ 93	\$ 72
— Financial Products .....	4,698	4,064	2,685
Accounts payable .....	3,471	3,580	2,259
Accrued expenses .....	2,617	2,261	1,952
Accrued wages, salaries and employee benefits .....	1,845	1,730	1,802
Customer advances .....	395	447	253
Dividends payable .....	168	141	127
Deferred and current income taxes payable .....	528	259	216
Long-term debt due within one year:			
— Machinery and Engines .....	340	6	32
— Financial Products .....	4,159	3,525	2,949
Total current liabilities .....	19,092	16,106	12,347
Long-term debt due after one year:			
— Machinery and Engines .....	2,717	3,663	3,603
— Financial Products .....	12,960	12,174	10,943
Liability for postemployment benefits .....	2,991	2,986	3,172
Deferred income taxes and other liabilities .....	877	699	568
<b>Total liabilities</b> .....	<b>38,637</b>	<b>35,628</b>	<b>30,633</b>
<b>Stockholders' equity</b>			
Common stock of \$1.00 par value:			
Authorized shares: 900,000,000			
Issued shares (2005, 2004 and 2003 — 814,894,624) at paid-in amount .....	1,859	1,231	1,059
Treasury stock (2005 — 144,027,405 shares; 2004 — 129,020,726 shares; and 2003 — 127,370,544 shares) at cost .....	(4,637)	(3,277)	(2,914)
Profit employed in the business .....	11,808	9,937	8,450
Accumulated other comprehensive income .....	(598)	(424)	(517)
<b>Total stockholders' equity</b> .....	<b>8,432</b>	<b>7,467</b>	<b>6,078</b>
<b>Total liabilities and stockholders' equity</b> .....	<b>\$47,069</b>	<b>\$43,095</b>	<b>\$36,711</b>

See accompanying Notes to Consolidated Financial Statements.

**STATEMENT 4****Consolidated Statement of Cash Flow for the Years Ended December 31**

(Millions of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Cash flow from operating activities:</b>			
Profit .....	<b>\$ 2,854</b>	\$ 2,035	\$ 1,099
Adjustments for non-cash items:			
Depreciation and amortization .....	<b>1,477</b>	1,397	1,347
Other .....	<b>(20)</b>	(113)	(69)
Changes in assets and liabilities:			
Receivables — trade and other (see non-cash item below) .....	<b>(908)</b>	(7,616)	(8,115)
Inventories .....	<b>(568)</b>	(1,391)	(286)
Accounts payable and accrued expenses .....	<b>532</b>	1,457	542
Other assets — net .....	<b>(866)</b>	337	(277)
Other liabilities — net .....	<b>612</b>	(97)	148
Net cash provided by (used for) operating activities .....	<b><u>3,113</u></b>	<u>(3,991)</u>	<u>(5,611)</u>
<b>Cash flow from investing activities:</b>			
Capital expenditures — excluding equipment leased to others .....	<b>(1,201)</b>	(926)	(682)
Expenditures for equipment leased to others .....	<b>(1,214)</b>	(1,188)	(1,083)
Proceeds from disposals of property, plant and equipment .....	<b>637</b>	486	761
Additions to finance receivables .....	<b>(10,334)</b>	(8,930)	(6,868)
Collections of finance receivables .....	<b>7,057</b>	6,216	5,251
Proceeds from sale of finance receivables .....	<b>900</b>	700	661
Collections of retained interests in securitized trade receivables .....	<b>—</b>	5,722	7,129
Investments and acquisitions (net of cash acquired) .....	<b>(13)</b>	(290)	(268)
Proceeds from sale of partnership investment .....	<b>—</b>	290	—
Proceeds from release of security deposit .....	<b>530</b>	—	—
Proceeds from sale of available-for-sale securities .....	<b>257</b>	408	329
Investments in available-for-sale securities .....	<b>(338)</b>	(609)	(425)
Other — net .....	<b>194</b>	198	79
Net cash provided by (used for) investing activities .....	<b><u>(3,525)</u></b>	<u>2,077</u>	<u>4,884</u>
<b>Cash flow from financing activities:</b>			
Dividends paid .....	<b>(618)</b>	(534)	(491)
Common stock issued, including treasury shares reissued .....	<b>482</b>	317	157
Treasury shares purchased .....	<b>(1,684)</b>	(539)	(405)
Proceeds from debt issued (original maturities greater than three months):			
— Machinery and Engines .....	<b>574</b>	55	164
— Financial Products .....	<b>14,000</b>	10,435	11,825
Payments on debt (original maturities greater than three months):			
— Machinery and Engines .....	<b>(654)</b>	(78)	(499)
— Financial Products .....	<b>(10,966)</b>	(8,612)	(9,562)
Short-term borrowings (original maturities three months or less) — net .....	<b>19</b>	830	(444)
Net cash provided by financing activities .....	<b><u>1,153</u></b>	<u>1,874</u>	<u>745</u>
Effect of exchange rate changes on cash .....	<b>(78)</b>	143	15
<b>Increase in cash and short-term investments .....</b>	<b><u>663</u></b>	<u>103</u>	<u>33</u>
Cash and short-term investments at beginning of period .....	<b><u>445</u></b>	<u>342</u>	<u>309</u>
Cash and short-term investments at end of period .....	<b><u>\$ 1,108</u></b>	<u>\$ 445</u>	<u>\$ 342</u>

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:

Trade receivables of \$6,786 million and \$7,534 million were exchanged for retained interests in securitized trade receivables in 2004 and 2003, respectively. See Notes 2 and 6 on pages A-12 and A-16, respectively, for further discussion.

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

See accompanying Notes to Consolidated Financial Statements.

As of December 31, 2005, amounts and expiration dates of U.S. foreign tax credits available to carry forward were:

(Millions of dollars)					
2006-2011	2012	2013	2014	2015	Total
\$0	\$36	\$109	\$74	\$18	\$237

As of December 31, 2005, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)						
2006	2007	2008	2009	2010-2015	Unlimited	Total
\$7	\$3	\$0	\$5	\$137	\$569	\$721

A valuation allowance has been recorded at certain non-U.S. subsidiaries that have not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred tax assets.

As of December 31, 2005, approximately \$890 million of state tax net operating losses (NOLs) and \$36 million of state tax credit carryforwards were available. Of the NOLs, 67% expire after 2015. The state tax credit carryforwards expire over the next ten years. We established a valuation allowance for those NOLs and credit carryforwards likely to expire prior to utilization.

In December 2004, the FASB issued FASB Staff Position No. 109-1 "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (FSP 109-1). FSP 109-1 provides accounting guidance for companies that will be eligible for a tax deduction resulting from "qualified production activities income" as defined in the American Jobs Creation Act of 2004 (the Act). FSP 109-1 requires this deduction be treated as a special deduction in accordance with SFAS 109, which does not require a revaluation of our U.S. deferred tax assets. We applied the guidance in FSP 109-1 upon recognition of this tax deduction beginning January 1, 2005. The application of FSP 109-1 did not have a material impact on our financial statements.

In December 2004, the FASB issued FASB Staff Position No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" (FSP 109-2). FSP 109-2 provides accounting guidance for the one-time tax deduction of 85% of non-U.S. earnings that are repatriated in excess of a base amount as defined in the Act. SFAS 109 requires a company to reflect in the period of enactment the effect of a new tax law. Due to the lack of clarification of certain provisions within the Act, FSP 109-2 allowed companies time beyond the financial reporting period of enactment to evaluate the effect of the Act. We completed our evaluation in the second quarter and recognized a provision for income taxes of \$33 million in 2005 under the provisions of the Act. We repatriated earnings of \$1.4 billion in 2005, which includes approximately \$500 million subject to the preferential treatment allowed by the Act. In connection with our repatriation plan, we now intend to indefinitely reinvest earnings of a few selected non-U.S. subsidiaries and have reversed the associated deferred tax liability of \$38 million.

The 2005 provision for income taxes also includes the impact of favorable tax settlements of \$26 million primarily related to non-U.S. tax jurisdictions. The net impact of repatriation planning and these favorable tax settlements was a \$31 million decrease to our 2005 provision for income taxes. Excluding these discrete items, the effective tax rate for 2005 was 29.5%.

During the second quarter of 2005, the Internal Revenue Service (IRS) completed its field examination of our 1995 through 1999 U.S. tax returns. In connection with this examination, we received notices of certain adjustments proposed by the IRS, primarily related to foreign sales corporation (FSC) commissions, foreign tax credit calculations and R&D credits. We disagree with these proposed adjustments and are vigorously disputing this matter through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain, in the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

## 6. Sales and servicing of trade receivables

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

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

For 2003 and through August of 2004, the trust was a qualifying special purpose entity (QSPE) and thus, in accordance with SFAS 140, was not consolidated. The outstanding principal balance of the CTO was not included in our Consolidated Financial Position during these periods. As of December 31, 2003, the certificated retained interests of \$1,550 million were included in "Retained Interests in Securitized Trade Receivables" in Statement 2.

From September 2004 through May 2005, because of a significant increase in Machinery and Engines' sales and subsequent sale of the receivables to Cat Financial, our certificated retained interests in the trust exceeded 90% of the fair value of trust assets. Thus, during this period, the trust did not qualify as a QSPE as defined by SFAS 140. We therefore consolidated the trust in accordance with FIN 46R, "Consolidation of Variable Interest Entities" (revised) as it represents a variable interest entity for which Cat Financial is the primary beneficiary. As of December 31, 2004, assets of the trust of \$2,587 million were included in "Receivables — trade and other" in Statement 2 and the CTO of \$240 million was included in "Short-term Borrowings." Please refer to Note 15.

Cat Financial serviced the dealer receivables and received an annual servicing fee of approximately 1% of the average outstanding principal balance of the securitized trade receivables transferred to third party purchasers. Consolidated expenses of \$7 million and \$6 million related to the securitized receivables were recognized during 2004 and 2003, respectively, and are included in "Other income (expense)" on Statement 1. Expected credit losses were assumed to be 0% because dealer receivables have historically had no losses and none were expected. The carrying value of the certificated retained interests approximated fair value due to their short-term nature. Other than the certificated retained interests (assets of the trust when consolidated), the investors and the securitization facilities had no recourse to Cat Financial's assets for failure of debtors to pay when due.

(Millions of dollars)	2004	2003
<b>Cash flow from securitizations:</b>		
Proceeds from collections reinvested		
in revolving securitization <sup>(1)</sup> .....	\$ 663	\$ 1,099
Servicing fees received <sup>(1)</sup> .....	2	2
<b>Characteristics of securitized receivables:</b>		
Principal balance at December 31:		
Certificated retained interests .....	\$ —	\$ 1,550
Collateralized trust obligation .....	—	240
Average balance for the year ended December 31 <sup>(1)</sup> :		
Certificated retained interests .....	\$ 1,936	\$ 1,350
Collateralized trust obligation .....	240	240

<sup>(1)</sup> For 2004, proceeds, servicing fees received and average balances include only the periods the trust was a QSPE.

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

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

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

## 7. Wholesale inventory receivables

Wholesale inventory receivables are receivables of Cat Financial that arise when Cat Financial provides financing for a dealer's purchase of inventory. These receivables are included in "Receivables — trade and other" and "Long-term receivables — trade and other" in Statement 2 and were \$1,282 million, \$991 million and \$764 million at December 31, 2005, 2004 and 2003, respectively. Please refer to Note 20 on page A-28 and Table III on page A-29 for fair value information.

### Contractual maturities of outstanding wholesale inventory receivables:

(Millions of dollars)	December 31, 2005			
	Wholesale Installment Contracts	Wholesale Finance Leases	Wholesale Notes	Total
Amounts Due In				
2006 .....	\$ 37	\$ 73	\$ 441	\$ 551
2007 .....	13	52	254	319
2008 .....	14	36	250	300
2009 .....	10	19	18	47
2010 .....	7	7	14	28
Thereafter .....	—	—	3	3
	81	187	980	1,248
Guaranteed residual value ..	—	85	—	85
Less: Unearned income .....	4	18	29	51
Total .....	<u>\$ 77</u>	<u>\$ 254</u>	<u>\$ 951</u>	<u>\$ 1,282</u>

## 8. Finance receivables

Finance receivables are receivables of Cat Financial, which generally can be repaid or refinanced without penalty prior to contractual maturity. Total finance receivables reported in Statement 2 are net of an allowance for credit losses.

During 2005, 2004 and 2003, Cat Financial securitized retail installment sale contracts and finance leases into public asset-backed securitization facilities. The securitization facilities are qualifying special purpose entities and thus, in accordance with SFAS 140, are not consolidated. These finance receivables, which are being held in securitization trusts, are secured by new and used equipment. Cat Financial retained servicing responsibilities and subordinated interests related to these securitizations. For 2005, subordinated interests included subordinated certificates with an initial fair value of \$8 million, an interest in certain future cash flow (excess) with an initial fair value of \$1 million and a reserve account with an initial fair value of \$12 million. For 2004, subordinated interests included subordinated certificates with an initial fair value of \$8 million, an interest in certain future cash flow (excess) with an initial fair value of \$2 million and a reserve account with an initial fair value of \$10 million. For 2003, subordinated interests included subordinated certificates with an initial fair value of \$9 million, an interest in certain future cash flow (excess) with an initial fair value of \$14 million and a reserve account with an initial fair value of \$10 million. The company's retained interests generally are subordinate to the investors' interests. Net gains of \$12 million, \$13 million and \$22 million were recognized on these transactions in 2005, 2004 and 2003, respectively.

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

	2005	2004	2003
Discount rate .....	<b>10.8%</b>	10.7%	11.0%
Weighted-average prepayment rate .....	<b>14.0%</b>	14.0%	14.0%
Expected credit losses .....	<b>1.0%</b>	1.0%	1.0%

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

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

As of December 31, 2005, 2004 and 2003, the subordinated retained interests in the public securitizations totaled \$72 million, \$73 million and \$73 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2005	2004	2003
Cash flow discount rates			
on retained interests and			
subordinated tranches .....	<b>10.7%</b>	10.7%	9.1-10.8%
Weighted-average maturity .....	<b>30 months</b>	28 months	27 months
Average prepayment rate .....	<b>14.0%</b>	14.0%	14.0%
Expected credit losses .....	<b>1.0%</b>	1.0%	1.0%

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

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An

**TABLE I — Finance Receivables Information (Millions of dollars)**

**Contractual maturities of outstanding finance receivables:**

Amounts Due In	December 31, 2005					Total
	Retail Installment Contracts	Retail Finance Leases	Retail Notes	Wholesale Notes		
2006	\$ 2,760	\$ 2,085	\$ 1,896	\$ 137		\$ 6,878
2007	1,988	1,465	850	15		4,318
2008	1,312	951	626	7		2,896
2009	657	516	439	—		1,612
2010	214	218	374	—		806
Thereafter	39	205	731	—		975
	<u>6,970</u>	<u>5,440</u>	<u>4,916</u>	<u>159</u>		<u>17,485</u>
Residual value	—	938	—	—		938
Less: Unearned income	681	623	74	—		1,378
Total	<u>\$ 6,289</u>	<u>\$ 5,755</u>	<u>\$ 4,842</u>	<u>\$ 159</u>		<u>\$ 17,045</u>

**Impaired loans and leases:**

	2005	2004	2003
Average recorded investment	<u>\$ 143</u>	<u>\$ 265</u>	<u>\$ 321</u>
At December 31:			
Recorded investment	\$ 106	\$ 181	\$ 275
Impaired loans/finance leases for which there is a related allowance for credit losses	\$ 33	\$ 51	\$ 98
Impaired loans/finance leases for which there is no related allowance for credit losses	\$ 73	\$ 130	\$ 177

**Cash flow from securitizations:**

Proceeds from initial sales of receivables	\$ 829	\$ 639	\$ 661
Servicing fees received	11	9	8
Cash flows received on retained interests	38	34	15

**Characteristics of securitized receivables:**

	2005	2004	2003
At December 31:			
Total securitized principal balance	\$ 980	\$ 815	\$ 813
Loans more than 30 days past due	23	26	34
Weighted average maturity (in months)	30	28	27
For the year ended December 31:			
Average securitized principal balance	\$1,085	\$ 873	\$ 884
Net credit losses	3	4	6

independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired loans or finance leases are recorded against the receivable and then to any unrecognized income. Investment in loans/finance leases on non-accrual status were \$175 million, \$176 million and \$233 million and past due over 90 days and still accruing were \$31 million, \$11 million and \$25 million as of December 31, 2005, 2004 and 2003, respectively.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength and intended use

**Allowance for credit loss activity:**

	2005	2004	2003
Balance at beginning of year	\$ 278	\$ 241	\$ 207
Provision for credit losses	92	105	101
Receivables written off	(62)	(88)	(104)
Recoveries on receivables previously written off	17	16	22
Other — net	(23)	4	15
Balance at end of year	<u>\$ 302</u>	<u>\$ 278</u>	<u>\$ 241</u>

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

**Cat Financial's net retail finance leases:**

	December 31,		
	2005	2004	2003
Total minimum lease payments receivable	\$5,440	\$ 4,876	\$ 4,096
Estimated residual value of leased assets:			
Guaranteed	384	379	323
Unguaranteed	554	540	558
	<u>6,378</u>	<u>5,795</u>	<u>4,977</u>
Less: Unearned income	623	550	498
Net retail finance leases	<u>\$5,755</u>	<u>\$ 5,245</u>	<u>\$ 4,479</u>

	2005	2004	2003
Proceeds from initial sales of receivables	\$ 829	\$ 639	\$ 661
Servicing fees received	11	9	8
Cash flows received on retained interests	38	34	15
Total securitized principal balance	\$ 980	\$ 815	\$ 813
Loans more than 30 days past due	23	26	34
Weighted average maturity (in months)	30	28	27
Average securitized principal balance	\$1,085	\$ 873	\$ 884
Net credit losses	3	4	6

of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

Please refer to Table I above for additional finance receivables information and Note 20 on page A-28 and Table III on page A-29 for fair value information.

**9. Inventories**

	December 31,		
(Millions of dollars)	2005	2004	2003
Raw materials	\$1,689	\$ 1,592	\$ 1,105
Work-in-process	814	664	377
Finished goods	2,493	2,209	1,381
Supplies	228	210	184
Total inventories	<u>\$5,224</u>	<u>\$ 4,675</u>	<u>\$ 3,047</u>

We had long-term material purchase obligations of approximately \$890 million at December 31, 2005.

**16. Long-term debt**

(Millions of dollars)	December 31,		
	2005	2004	2003
<b>Machinery and Engines:</b>			
Notes — 6.550% due 2011 .....	\$ 250	\$ 250	\$ 250
Debentures — 9.000% due 2006 .....	—	206	208
Debentures — 7.250% due 2009 .....	310	313	315
Debentures — 9.375% due 2011 .....	123	123	123
Debentures — 9.375% due 2021 .....	120	236	236
Debentures — 8.000% due 2023 .....	82	199	199
Debentures — 6.625% due 2028 .....	299	299	299
Debentures — 7.300% due 2031 .....	348	348	348
Debentures — 5.300% due 2035 .....	200	—	—
Debentures — 6.950% due 2042 .....	249	249	249
Debentures — 7.375% due 2097 .....	297	297	297
Capital lease obligations .....	66	665	611
Commercial paper .....	—	40	45
Deposit obligations .....	231	245	236
Other .....	142	193	187
<b>Total Machinery and Engines .....</b>	<b>2,717</b>	<b>3,663</b>	<b>3,603</b>
<b>Financial Products:</b>			
Commercial paper .....	\$ 299	\$ 1,400	\$ 1,825
Medium-term notes .....	12,187	10,468	8,775
Deposit obligations .....	232	232	232
Other .....	242	74	111
<b>Total Financial Products .....</b>	<b>12,960</b>	<b>12,174</b>	<b>10,943</b>
<b>Total long-term debt due after one year .....</b>	<b>\$15,677</b>	<b>\$ 15,837</b>	<b>\$14,546</b>

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

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

We may redeem the 6.55% notes and the 5.30%, 7.25%, 6.625%, 7.3%, 6.95% and 7.375% debentures in whole or in part at our option at any time at a redemption price equal to the greater of 100% of the principal amount of the debentures to be redeemed or the sum of the present value of the remaining scheduled payments.

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

Based on long-term credit agreements, \$299 million, \$1,440 million and \$1,870 million of commercial paper outstanding at December 31, 2005, 2004 and 2003, respectively, was classified as long-term debt due after one year.

Medium-term notes are offered by prospectus and are issued through agents at fixed and floating rates. Financial Products medium-term notes have a weighted average interest rate of 4.1% with remaining maturities up to 20 years at December 31, 2005.

The aggregate amounts of maturities of long-term debt during each of the years 2006 through 2010, including amounts due within one year and classified as current, are:

(Millions of dollars)	December 31,				
	2006	2007	2008	2009	2010
Machinery and Engines .....	\$ 340	\$ 88	\$ 25	\$ 550	\$ 1
Financial Products .....	4,159	3,882	2,731	1,994	2,333
	<u>\$ 4,499</u>	<u>\$ 3,970</u>	<u>\$ 2,756</u>	<u>\$ 2,544</u>	<u>\$ 2,334</u>

The above table includes \$708 million of medium-term notes that can be called at par.

Interest paid on short-term and long-term borrowings for 2005, 2004 and 2003 was \$1,030 million, \$766 million and \$718 million, respectively.

Please refer to Note 20 on page A-28 and Table III on page A-29 for fair value information on long-term debt.

**17. Credit commitments**

(Millions of dollars)	December 31, 2005		
	Consolidated	Machinery and Engines	Financial Products
<b>Credit lines available:</b>			
Global credit facilities .....	\$5,750 <sup>(1)</sup>	\$ 600 <sup>(1)</sup>	\$5,150 <sup>(1)</sup>
Other external .....	2,177	911	1,266
<b>Total credit lines available .....</b>	<b>7,927</b>	<b>1,511</b>	<b>6,416</b>
Less: Global credit facilities supporting commercial paper ...	4,563	328	4,235
Less: Utilized credit .....	531	143	388
<b>Available credit .....</b>	<b>\$2,833</b>	<b>\$1,040</b>	<b>\$1,793</b>

<sup>(1)</sup> We have three global credit facilities with a syndicate of banks totaling \$5,750 million available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. Based on management's allocation decision, which can be revised at any time during the year, the portion of the facility available to Cat Financial at December 31, 2005 was \$5,150 million. The five-year facility of \$2,500 million expires in September 2009. The five-year facility of \$1,625 million expires in September 2010. The 364-day facility of \$1,625 million expires in September 2006. The facility expiring in September 2006 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2006 that would mature in September 2007.

As part of Cat Financial's 2005 global credit facilities renewal, the year-end leverage covenant (debt-to-equity ratio) has been increased to 8.5:1, from previous level of 8:1 which aligns it with the 8.5:1 six-month moving average leverage covenant. At December 31, 2005, there were no borrowings under these lines and Cat Financial was in compliance with all debt covenants.

**18. Capital stock****A. Stock options**

In 1996, stockholders approved the Stock Option and Long-Term Incentive Plan (the Plan) providing for the granting of options to purchase common stock to officers and other key employees, as well as non-employee directors. The Plan reserves 144 million shares of common stock for issuance (128 million under the Plan and 16 million under prior stock option plans). Options granted prior to 2004 vest at the rate of one-third per year over the three year period following the date of grant. In anticipation of delaying vesting until three years after the grant date for future grants, the 2004 grant vested on December 31, 2004. In order to better align our employee stock option program with the overall market, the number of options granted in 2005 (issued in February) was significantly reduced from the previous year. In response to this decrease, we elected to immediately vest the 2005 option grant. All grants continue to have a maximum term of 10 years. Common

TABLE III — Fair Values of Financial Instruments

	2005		2004		2003		Reference
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
(Millions of dollars)							
Asset (Liability) at December 31							
Cash and short-term investments .....	\$ 1,108	\$ 1,108	\$ 445	\$ 445	\$ 342	\$ 342	Statement 2
Long-term investments .....	1,356	1,356	1,852	1,852	1,574	1,574	Notes 13 and 21
Foreign currency contracts .....	(1)	(1)	176	176	167	167	Note 3
Finance receivables — net (excluding tax leases <sup>(1)</sup> ) .....	15,214	15,210	13,457	13,445	11,439	11,489	Note 8
Wholesale inventory receivables — net (excluding finance type leases <sup>(1)</sup> ) .....	1,089	1,085	882	857	681	666	Note 7
Short-term borrowings .....	(5,569)	(5,569)	(4,157)	(4,157)	(2,757)	(2,757)	Note 15
Long-term debt (including amounts due within one year)							
Machinery and Engines .....	(3,057)	(3,465)	(3,669)	(4,186)	(3,635)	(4,109)	Note 16
Financial Products .....	(17,119)	(17,176)	(15,699)	(15,843)	(13,892)	(14,078)	Note 16
Interest rate swaps							
Financial Products —							
in a net receivable position .....	94	94	75	75	87	87	Note 3
in a net payable position .....	(114)	(114)	(69)	(69)	(59)	(59)	Note 3
Guarantees <sup>(2)</sup> .....	(9)	(10)	(10)	(10)	(5)	(9)	Note 23

<sup>(1)</sup> Total excluded items have a net carrying value at December 31, 2005, 2004 and 2003 of \$1,719 million, \$1,737 million and \$1,546 million, respectively.

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

guarantees generally have one-year terms and are secured, primarily by dealer assets.

We provide loan guarantees to a third party lender 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 an average three-year term and are secured by the machinery.

Cat Financial has provided a limited indemnity to a third party bank for \$40 million resulting from the assignment of certain leases to that bank. The indemnity is for the remote chance that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2005, 2004 and 2003, the related book value was \$9 million, \$10 million and \$5 million, respectively. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees at December 31 are as follows:

(Millions of dollars)	2005	2004	2003
Guarantees with Caterpillar Dealers .....	\$ 434	\$ 364	\$ 380
Guarantees with Customers .....	27	29	—
Limited Indemnity .....	40	45	—
Guarantees — other .....	53	17	37
Total guarantees .....	\$ 554	\$ 455	\$ 417

We are party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved

basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing. We do not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2005 was \$4,729 million compared to \$5,019 million at December 31, 2004 and \$4,784 million at December 31, 2003. The amount of the unused commitments and lines of credit for customers as of December 31, 2005 was \$1,972 million compared to \$1,499 million at December 31, 2004 and \$1,336 million at December 31, 2003.

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. Effective in the third quarter of 2004, we refined our process to utilize more detailed claim rates by product. This provides more comprehensive product warranty information for management. This change did not have a material impact on our financial statements.

(Millions of dollars)	2005	2004	2003
Warranty liability, January 1 .....	\$ 785	\$ 624	\$ 693
Reduction in liability (payments) .....	(712)	(571)	(503)
Increase in liability (new warranties) .....	806	732	434
Warranty liability, December 31 .....	\$ 879	\$ 785	\$ 624

TABLE IV — Segment Information (Millions of dollars)

## Business Segments:

	Machinery and Engines										Financing & Insurance Services	Consoli- dated Total
	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Electric Power	Large Power Products	Latin America	North America Marketing	Power Systems Marketing	All Other	Total		
<b>2005</b>												
External sales and revenues .....	\$ 2,462	5	4,441	2,119	(260)	2,275	10,988	4,669	7,110	\$ 33,809	2,867	\$ 36,676
Intersegment sales and revenues.....	\$ 3	9,925	5	187	7,303	1,703	385	87	14,388	\$ 33,986	35	\$ 34,021
Total sales and revenues.....	\$ 2,465	9,930	4,446	2,306	7,043	3,978	11,373	4,756	21,498	\$ 67,795	2,902	\$ 70,697
Depreciation and amortization.....	\$ 2	89	1	18	154	44	2	8	373	\$ 691	646	\$ 1,337
Imputed interest expense .....	\$ 7	42	4	18	48	26	4	3	247	\$ 399	798	\$ 1,197
Accountable profit (loss).....	\$ 91	1,473	75	110	490	200	276	112	1,884	\$ 4,711	566	\$ 5,277
Accountable assets at Dec. 31.....	\$ 257	1,559	103	592	1,657	878	31	40	8,583	\$ 13,700	26,815	\$ 40,515
Capital expenditures .....	\$ 2	177	1	27	186	51	5	5	517	\$ 971	1,232	\$ 2,203
<b>2004</b>												
External sales and revenues .....	\$ 2,110	(47)	3,878	1,757	(176)	1,730	8,882	3,930	6,059	\$ 28,123	2,439	\$ 30,562
Intersegment sales and revenues.....	\$ —	7,565	6	141	6,242	1,236	323	75	11,806	\$ 27,394	1	\$ 27,395
Total sales and revenues.....	\$ 2,110	7,518	3,884	1,898	6,066	2,966	9,205	4,005	17,865	\$ 55,517	2,440	\$ 57,957
Depreciation and amortization.....	\$ 1	82	1	35	158	46	1	(6)	359	\$ 677	604	\$ 1,281
Imputed interest expense .....	\$ 9	34	4	17	50	20	1	4	211	\$ 350	543	\$ 893
Accountable profit (loss).....	\$ 134	900	82	(37)	243	228	392	9	1,320	\$ 3,271	460	\$ 3,731
Accountable assets at Dec. 31.....	\$ 240	1,348	107	618	1,578	775	(61)	124	8,064	\$ 12,793	24,450	\$ 37,243
Capital expenditures .....	\$ —	109	—	19	108	41	6	—	436	\$ 719	1,327	\$ 2,046
<b>2003</b>												
External sales and revenues .....	\$ 1,569	(31)	3,131	1,226	(110)	1,153	6,437	2,971	4,521	\$ 20,867	2,076	\$ 22,943
Intersegment sales and revenues.....	\$ —	5,655	5	154	4,637	719	209	47	9,048	\$ 20,474	2	\$ 20,476
Total sales and revenues.....	\$ 1,569	5,624	3,136	1,380	4,527	1,872	6,646	3,018	13,569	\$ 41,341	2,078	\$ 43,419
Depreciation and amortization.....	\$ 1	86	1	19	167	43	1	2	367	\$ 687	551	\$ 1,238
Imputed interest expense .....	\$ 7	31	4	13	47	22	8	7	189	\$ 328	477	\$ 805
Accountable profit (loss).....	\$ 109	450	48	(47)	32	107	269	(114)	772	\$ 1,626	337	\$ 1,963
Accountable assets at Dec. 31.....	\$ 266	1,096	88	489	1,656	640	251	164	6,369	\$ 11,019	20,467	\$ 31,486
Capital expenditures .....	\$ —	68	—	13	102	35	8	4	355	\$ 585	1,220	\$ 1,805

## Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
<b>Sales &amp; Revenues</b>				
<b>2005</b>				
Total external sales and revenues from business segments .....	\$ 33,809	\$ 2,867	\$ —	\$ 36,676
Other .....	197	(217)	(317) <sup>(1)</sup>	(337)
Total sales and revenues.....	\$ 34,006	\$ 2,650	\$ (317)	\$ 36,339
<b>2004</b>				
Total external sales and revenues from business segments .....	\$ 28,123	\$ 2,439	\$ —	\$ 30,562
Other .....	213	(270)	(199) <sup>(1)</sup>	(256)
Total sales and revenues.....	\$ 28,336	\$ 2,169	\$ (199)	\$ 30,306
<b>2003</b>				
Total external sales and revenues from business segments .....	\$ 20,867	\$ 2,076	\$ —	\$ 22,943
Other .....	181	(123)	(194) <sup>(1)</sup>	(136)
Total sales and revenues.....	\$ 21,048	\$ 1,953	\$ (194)	\$ 22,807

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

Continued on Page A-34

TABLE IV Continued — Segment Information (Millions of dollars)

**Reconciliations:**

	Machinery and Engines	Financing & Insurance Services	Consolidated Total	
<b>Profit before taxes</b>				
<b>2005</b>				
Total accountable profit from business segments .....	\$ 4,711	\$ 566	\$ 5,277	
Corporate costs .....	(728)	—	(728)	
Timing .....	(133)	—	(133)	
Methodology differences:				
Inventory/cost of sales .....	14	—	14	
Postretirement benefit expense .....	(386)	—	(386)	
Financing costs .....	(14)	—	(14)	
Equity in profit of unconsolidated affiliated companies .....	(64)	(9)	(73)	
Currency .....	(21)	—	(21)	
Other methodology differences .....	(33)	23	(10)	
Other .....	(25)	—	(25)	
Total profit before taxes .....	<u>\$ 3,321</u>	<u>\$ 580</u>	<u>\$ 3,901</u>	
<b>2004</b>				
Total accountable profit from business segments .....	\$ 3,271	\$ 460	\$ 3,731	
Corporate costs .....	(601)	—	(601)	
Timing .....	(94)	—	(94)	
Methodology differences:				
Inventory/cost of sales .....	(62)	—	(62)	
Postretirement benefit expense .....	(270)	—	(270)	
Financing costs .....	52	—	52	
Equity in profit of unconsolidated affiliated companies .....	(56)	(3)	(59)	
Currency .....	35	—	35	
Other methodology differences .....	(89)	48	(41)	
Other .....	16	—	16	
Total profit before taxes .....	<u>\$ 2,202</u>	<u>\$ 505</u>	<u>\$ 2,707</u>	
<b>2003</b>				
Total accountable profit from business segments .....	\$ 1,626	\$ 337	\$ 1,963	
Corporate costs .....	(512)	—	(512)	
Timing .....	54	—	54	
Methodology differences:				
Inventory/cost of sales .....	(30)	—	(30)	
Postretirement benefit expense .....	(162)	—	(162)	
Financing costs .....	84	—	84	
Equity in profit of unconsolidated affiliated companies .....	(16)	(4)	(20)	
Currency .....	48	—	48	
Other methodology differences .....	(32)	38	6	
Other .....	46	—	46	
Total profit before taxes .....	<u>\$ 1,106</u>	<u>\$ 371</u>	<u>\$ 1,477</u>	
	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
<b>Assets</b>				
<b>2005</b>				
Total accountable assets from business segments .....	\$ 13,700	\$ 26,815	\$ —	\$ 40,515
Items not included in segment assets:				
Cash and short-term investments .....	951	157	—	1,108
Intercompany receivables .....	310	67	(377)	—
Trade and other receivables .....	332	—	—	332
Investments in unconsolidated affiliated companies .....	407	—	—	407
Investment in Financial Products .....	3,253	—	(3,253)	—
Deferred income taxes and prepaids .....	3,282	100	(340)	3,042
Intangible assets and other assets .....	1,692	—	—	1,692
Service center assets .....	1,030	—	—	1,030
Liabilities included in segment assets .....	1,242	14	—	1,256
Inventory methodology differences .....	(2,300)	—	—	(2,300)
Other .....	88	(101)	—	(13)
Total assets .....	<u>\$ 23,987</u>	<u>\$ 27,052</u>	<u>\$ (3,970)</u>	<u>\$ 47,069</u>

Continued on Page A-35

TABLE IV Continued — Segment Information (Millions of dollars)

## Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
<b>Assets</b>				
2004				
Total accountable assets from business segments.....	\$ 12,793	\$ 24,450	\$ —	\$ 37,243
Items not included in segment assets:				
Cash and short-term investments.....	270	175	—	445
Intercompany receivables.....	443	18	(461)	—
Trade and other receivables.....	547	—	—	547
Investments in unconsolidated affiliated companies.....	367	—	(1)	366
Investment in Financial Products.....	3,012	—	(3,012)	—
Deferred income taxes and prepaids.....	2,477	92	(317)	2,252
Intangible assets and other assets.....	2,158	—	—	2,158
Service center assets.....	1,001	—	—	1,001
Liabilities included in segment assets.....	1,346	—	—	1,346
Inventory methodology differences.....	(2,235)	—	—	(2,235)
Other.....	90	(123)	5	(28)
Total assets.....	<u>\$ 22,269</u>	<u>\$ 24,612</u>	<u>\$ (3,786)</u>	<u>\$ 43,095</u>
2003				
Total accountable assets from business segments.....	\$ 11,019	\$ 20,467	\$ —	\$ 31,486
Items not included in segment assets:				
Cash and short-term investments.....	220	122	—	342
Intercompany receivables.....	572	397	(969)	—
Trade and other receivables.....	232	—	—	232
Investments in unconsolidated affiliated companies.....	325	—	—	325
Investment in Financial Products.....	2,547	—	(2,547)	—
Deferred income taxes and prepaids.....	2,736	77	(228)	2,585
Intangible assets and other assets.....	2,110	—	—	2,110
Service center assets.....	943	—	—	943
Liabilities included in segment assets.....	925	—	—	925
Inventory methodology differences.....	(2,035)	—	—	(2,035)
Other.....	(143)	(91)	32	(202)
Total assets.....	<u>\$ 19,451</u>	<u>\$ 20,972</u>	<u>\$ (3,712)</u>	<u>\$ 36,711</u>

## Enterprise-wide Disclosures:

## External sales and revenues from products and services:

	2005	2004	2003
Machinery.....	\$22,931	\$18,844	\$13,678
Engines.....	11,075	9,492	7,370
Financial Products.....	2,333	1,970	1,759
Total consolidated.....	<u>\$36,339</u>	<u>\$30,306</u>	<u>\$22,807</u>

## Information about Geographic Areas:

	External Sales & Revenues <sup>(1)</sup>			Net property, plant and equipment		
	2005	2004	2003	December 31,		
	2005	2004	2003	2005	2004	2003
Inside United States.....	\$ 17,348	\$ 14,198	\$ 10,064	\$ 4,725	\$ 4,424	\$ 4,276
Outside United States.....	18,991	16,108	12,743	3,263 <sup>(2)</sup>	3,258 <sup>(2)</sup>	2,975 <sup>(2)</sup>
Total.....	<u>\$ 36,339</u>	<u>\$ 30,306</u>	<u>\$ 22,807</u>	<u>\$ 7,988</u>	<u>\$ 7,682</u>	<u>\$ 7,251</u>

<sup>(1)</sup> Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.

<sup>(2)</sup> Amount includes \$692 million, \$681 million and \$675 million of net property, plant and equipment located in the United Kingdom as of December 31, 2005, 2004 and 2003, respectively.

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

**Caterpillar Inc.**

<b>Years ended December 31,</b>	<b>2005</b>	2004 <sup>(5)</sup>	2003 <sup>(5)</sup>	2002 <sup>(5)</sup>	2001 <sup>(5)</sup>
Sales and revenues .....	<b>\$ 36,339</b>	30,306	22,807	20,185	20,510
Sales .....	<b>\$ 34,006</b>	28,336	21,048	18,648	19,027
Percent inside the United States .....	<b>47%</b>	46%	44%	45%	49%
Percent outside the United States .....	<b>53%</b>	54%	56%	55%	51%
Revenues .....	<b>\$ 2,333</b>	1,970	1,759	1,537	1,483
Profit <sup>(1)</sup> .....	<b>\$ 2,854</b>	2,035	1,099	798	805
Profit per common share <sup>(1)(2)</sup> .....	<b>\$ 4.21</b>	2.97	1.59	1.16	1.17
Profit per common share — diluted <sup>(1)(3)</sup> .....	<b>\$ 4.04</b>	2.88	1.56	1.15	1.16
Dividends declared per share of common stock .....	<b>\$ 0.955</b>	0.800	0.720	0.700	0.695
Return on average common stockholders' equity <sup>(4)</sup> .....	<b>35.9%</b>	30.0%	19.0%	14.4%	14.4%
Capital expenditures:					
Property, plant and equipment .....	<b>\$ 1,201</b>	926	682	728	1,100
Equipment leased to others .....	<b>\$ 1,214</b>	1,188	1,083	1,045	868
Depreciation and amortization .....	<b>\$ 1,477</b>	1,397	1,347	1,220	1,169
Research and development expenses .....	<b>\$ 1,084</b>	928	669	656	696
As a percent of sales and revenues .....	<b>3.0%</b>	3.1%	2.9%	3.3%	3.4%
Wages, salaries and employee benefits .....	<b>\$ 6,928</b>	6,025	4,980	4,360	4,272
Average number of employees .....	<b>81,673</b>	73,033	67,828	70,973	70,678
<b>December 31,</b>					
Total assets .....	<b>\$ 47,069</b>	43,095	36,711	32,705	30,489
Long-term debt due after one year:					
Consolidated .....	<b>\$ 15,677</b>	15,837	14,546	11,774	11,452
Machinery and Engines .....	<b>\$ 2,717</b>	3,663	3,603	3,581	3,653
Financial Products .....	<b>\$ 12,960</b>	12,174	10,943	8,193	7,799
Total debt:					
Consolidated .....	<b>\$ 25,745</b>	23,525	20,284	17,861	16,763
Machinery and Engines .....	<b>\$ 3,928</b>	3,762	3,707	3,903	3,945
Financial Products .....	<b>\$ 21,817</b>	19,763	16,577	13,958	12,818

<sup>(1)</sup> In 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" and therefore no longer amortize goodwill.

<sup>(2)</sup> Computed on weighted-average number of shares outstanding.

<sup>(3)</sup> Computed on weighted-average number of shares outstanding diluted by assumed exercise of stock options, using the treasury stock method.

<sup>(4)</sup> Represents profit divided by average stockholders' equity (beginning of year stockholders' equity plus end of year stockholders' equity divided by two).

<sup>(5)</sup> The per share data reflects the 2005 2-for-1 stock split, applied retroactively, to all periods presented.

## MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

**Machinery** operating profit of \$2.431 billion was up \$675 million, or 38 percent, from 2004. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs and higher retirement benefits.

**Engines** operating profit of \$1.071 billion was up \$482 million, or 82 percent, from 2004. The favorable impact of improved price realization and higher sales volume was partially offset by higher core operating costs and higher retirement benefits.

**Financial Products** operating profit of \$531 million was up \$61 million, or 13 percent, from 2004. The increase was primarily due to \$123 million favorable impact from the continued growth of earning assets at Cat Financial. Partially offsetting this increase were \$33 million in higher operating expenses, primarily related to growth at Cat Financial and a \$28 million decrease in operating profit at Cat Insurance, primarily due to less favorable insurance reserve adjustments in 2005 than in 2004.

### OTHER PROFIT/LOSS ITEMS

**Other income/expense** was income of \$377 million compared with income of \$253 million in 2004. The improvement was due to the favorable impact of currency, higher interest income and the absence of a number of expense items incurred during 2004 that were individually not significant.

**The provision for income taxes** in 2005 reflects an annual tax rate of 29.5 percent, excluding the discrete items discussed below, and compares to a 27 percent rate in 2004. The increase is primarily due to a reduction in our Extraterritorial Income Exclusion (ETI) benefits, partially attributable to the impact of the American Jobs Creation Act (AJCA) permitting only 80 percent of ETI benefits in 2005 and to a change in our geographic mix of profits.

During 2005, we repatriated earnings of \$1.4 billion, which includes approximately \$500 million subject to preferential tax treatment allowed by the AJCA. We recognized a charge of \$33 million related to this repatriation. In connection with our current repatriation plan, we changed our intention of repatriating earnings for a few selected non-U.S. subsidiaries and recognized an income tax benefit of \$38 million. In addition, we recognized an income tax benefit of \$26 million from the settlement of several

non-U.S. tax issues. The net impact of these items is a \$31 million discrete benefit to our 2005 provision for income taxes.

### Supplemental Information

(Millions of dollars)	2005	2004	2003
<b>Identifiable Assets:</b>			
Machinery .....	\$ 14,877	\$ 13,717	\$ 11,806
Engines .....	9,110	8,552	7,645
Financial Products .....	27,052	24,612	20,972
Consolidating Adjustments...	(3,970)	(3,786)	(3,712)
Total .....	<u>\$ 47,069</u>	<u>\$ 43,095</u>	<u>\$ 36,711</u>
<b>Capital Expenditures:</b>			
Machinery .....	\$ 685	\$ 546	\$ 386
Engines .....	426	297	278
Financial Products .....	1,304	1,271	1,101
Total .....	<u>\$ 2,415</u>	<u>\$ 2,114</u>	<u>\$ 1,765</u>
<b>Depreciation and Amortization:</b>			
Machinery .....	\$ 476	\$ 442	\$ 453
Engines .....	359	353	345
Financial Products .....	642	602	549
Total .....	<u>\$ 1,477</u>	<u>\$ 1,397</u>	<u>\$ 1,347</u>

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

### UAW LABOR AGREEMENT

In January 2005 the company and about 9,000 employees represented by the United Auto Workers reached a new six-year labor agreement that will expire on March 1, 2011. This agreement positions the company and all our employees for long-term competitiveness. While the initial impact was about a \$100 million increase in retirement benefits in 2005, with the establishment of a very competitive market-based new hire wage package, the introduction of employee and retiree health care cost-sharing and other operational effectiveness improvements, we believe we have a long-term cost structure that enables us to compete from our traditional manufacturing and logistics locations.

## FOURTH QUARTER 2005 COMPARED WITH FOURTH QUARTER 2004

### Sales and Revenues by Geographic Region

(Millions of dollars)	Total	% Change	North America	% Change	EAME	% Change	Latin America	% Change	Asia/ Pacific	% Change
<b>Fourth Quarter 2005</b>										
Machinery .....	\$ 5,857	14%	\$ 3,375	21 %	\$ 1,238	(3)%	\$ 465	4%	\$ 779	20%
Engines <sup>(1)</sup> .....	3,184	10%	1,162	(4)%	1,130	18 %	347	26%	545	19%
Financial Products <sup>(2)</sup> ...	622	18%	447	23 %	85	(3)%	43	26%	47	21%
	<u>\$ 9,663</u>	13%	<u>\$ 4,984</u>	14 %	<u>\$ 2,453</u>	6 %	<u>\$ 855</u>	13%	<u>\$ 1,371</u>	20%
<b>Fourth Quarter 2004</b>										
Machinery .....	\$ 5,157		\$ 2,783		\$ 1,279		\$ 447		\$ 648	
Engines <sup>(1)</sup> .....	2,902		1,213		955		276		458	
Financial Products <sup>(2)</sup> ...	525		364		88		34		39	
	<u>\$ 8,584</u>		<u>\$ 4,360</u>		<u>\$ 2,322</u>		<u>\$ 757</u>		<u>\$ 1,145</u>	

<sup>(1)</sup> Does not include internal engine transfers of \$458 million and \$420 million in 2005 and 2004, respectively. Internal engines transfers are valued at prices comparable to those for unrelated parties.

<sup>(2)</sup> Does not include revenues earned from Machinery and Engines of \$93 million and \$57 million in 2005 and 2004, respectively.

**Supplemental Data for Financial Position  
At December 31**

(Millions of dollars)

	Supplemental consolidating data							
	Consolidated		Machinery and Engines <sup>(1)</sup>		Financial Products		Consolidating Adjustments	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Assets</b>								
Current assets:								
Cash and short-term investments	\$ 1,108	\$ 445	\$ 951	\$ 270	\$ 157	\$ 175	\$ —	\$ —
Receivables — trade and other	7,526	7,463	2,833	3,276	419	465	4,274 <sup>(2)(3)</sup>	3,722 <sup>(2)(3)</sup>
Receivables — finance	6,442	5,182	—	—	11,058	9,325	(4,616) <sup>(3)</sup>	(4,143) <sup>(3)</sup>
Deferred and refundable income taxes	344	398	276	333	68	65	—	—
Prepaid expenses	2,146	1,369	2,139	1,367	26	16	(19) <sup>(4)</sup>	(14) <sup>(4)</sup>
Inventories	5,224	4,675	5,224	4,675	—	—	—	—
Total current assets	22,790	19,532	11,423	9,921	11,728	10,046	(361)	(435)
Property, plant and equipment — net	7,988	7,682	5,067	4,820	2,921	2,862	—	—
Long-term receivables — trade and other	1,037	764	301	255	36	37	700 <sup>(2)(3)</sup>	472 <sup>(2)(3)</sup>
Long-term receivables — finance	10,301	9,903	—	—	11,036	10,410	(735) <sup>(3)</sup>	(507) <sup>(3)</sup>
Investments in unconsolidated affiliated companies	565	517	526	479	39	39	—	(1) <sup>(5)</sup>
Investments in Financial Products subsidiaries	—	—	3,253	3,012	—	—	(3,253) <sup>(6)</sup>	(3,012) <sup>(6)</sup>
Deferred income taxes	768	674	1,057	950	32	27	(321) <sup>(7)</sup>	(303) <sup>(7)</sup>
Intangible assets	424	315	418	307	6	8	—	—
Goodwill	1,451	1,450	1,451	1,450	—	—	—	—
Other assets	1,745	2,258	491	1,075	1,254	1,183	—	—
<b>Total assets</b>	<b>\$ 47,069</b>	<b>\$ 43,095</b>	<b>\$ 23,987</b>	<b>\$ 22,269</b>	<b>\$ 27,052</b>	<b>\$ 24,612</b>	<b>\$ (3,970)</b>	<b>\$ (3,786)</b>
<b>Liabilities</b>								
Current liabilities:								
Short-term borrowings	\$ 5,569	\$ 4,157	\$ 871	\$ 93	\$ 4,897	\$ 4,396	\$ (199) <sup>(8)</sup>	\$ (332) <sup>(8)</sup>
Accounts payable	3,471	3,580	3,347	3,459	261	205	(137) <sup>(9)</sup>	(84) <sup>(9)</sup>
Accrued expenses	2,617	2,261	1,605	1,426	1,038	855	(26) <sup>(10)</sup>	(20) <sup>(10)</sup>
Accrued wages, salaries and employee benefits	1,845	1,730	1,826	1,716	19	14	—	—
Customer advances	395	447	395	447	—	—	—	—
Dividends payable	168	141	168	141	—	—	—	—
Deferred and current income taxes payable	528	259	448	212	84	47	(4) <sup>(7)</sup>	—
Long-term debt due within one year	4,499	3,531	340	6	4,159	3,525	—	—
Total current liabilities	19,092	16,106	9,000	7,500	10,458	9,042	(366)	(436)
Long-term debt due after one year	15,677	15,837	2,752	3,697	12,960	12,175	(35) <sup>(8)</sup>	(35) <sup>(8)</sup>
Liability for postemployment benefits	2,991	2,986	2,991	2,986	—	—	—	—
Deferred income taxes and other liabilities	877	699	812	619	381	383	(316) <sup>(7)</sup>	(303) <sup>(7)</sup>
<b>Total liabilities</b>	<b>38,637</b>	<b>35,628</b>	<b>15,555</b>	<b>14,802</b>	<b>23,799</b>	<b>21,600</b>	<b>(717)</b>	<b>(774)</b>
<b>Stockholders' equity</b>								
Common stock	1,859	1,231	1,859	1,231	875	888	(875) <sup>(6)</sup>	(888) <sup>(6)</sup>
Treasury stock	(4,637)	(3,277)	(4,637)	(3,277)	—	—	—	—
Profit employed in the business	11,808	9,937	11,808	9,937	2,197	1,824	(2,197) <sup>(6)</sup>	(1,824) <sup>(6)</sup>
Accumulated other comprehensive income	(598)	(424)	(598)	(424)	181	300	(181) <sup>(6)</sup>	(300) <sup>(6)</sup>
<b>Total stockholders' equity</b>	<b>8,432</b>	<b>7,467</b>	<b>8,432</b>	<b>7,467</b>	<b>3,253</b>	<b>3,012</b>	<b>(3,253)</b>	<b>(3,012)</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 47,069</b>	<b>\$ 43,095</b>	<b>\$ 23,987</b>	<b>\$ 22,269</b>	<b>\$ 27,052</b>	<b>\$ 24,612</b>	<b>\$ (3,970)</b>	<b>\$ (3,786)</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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

## Supplemental Data for Statement of Cash Flow For The Years Ended December 31

(Millions of dollars)

	Supplemental consolidating data							
	Consolidated		Machinery and Engines <sup>(1)</sup>		Financial Products		Consolidating Adjustments	
	2005	2004	2005	2004	2005	2004	2005	2004
<b>Cash flow from operating activities:</b>								
Profit .....	\$ 2,854	\$ 2,035	\$ 2,854	\$ 2,035	\$ 395	\$ 343	\$ (395) <sup>(2)</sup>	\$ (343) <sup>(2)</sup>
Adjustments for non-cash items:								
Depreciation and amortization .....	1,477	1,397	835	795	642	602	—	—
Undistributed profit of Financial Products .....	—	—	(373)	(328)	—	—	373 <sup>(3)</sup>	328 <sup>(3)</sup>
Other .....	(20)	(113)	7	(111)	(205)	(145)	178 <sup>(4)</sup>	143 <sup>(4)</sup>
Changes in assets and liabilities:								
Receivables — trade and other .....	(908)	(7,616)	(39)	(531)	7	43	(876) <sup>(4)(5)</sup>	(7,128) <sup>(4)(5)</sup>
Inventories .....	(568)	(1,391)	(568)	(1,391)	—	—	—	—
Accounts payable and accrued expenses .....	532	1,457	353	1,325	238	11	(59) <sup>(4)</sup>	121 <sup>(4)</sup>
Other assets — net .....	(866)	337	(854)	240	(34)	7	22 <sup>(4)</sup>	90 <sup>(4)</sup>
Other liabilities — net .....	612	(97)	595	(116)	34	101	(17) <sup>(4)</sup>	(82) <sup>(4)</sup>
Net cash provided by (used for) operating activities .....	<u>3,113</u>	<u>(3,991)</u>	<u>2,810</u>	<u>1,918</u>	<u>1,077</u>	<u>962</u>	<u>(774)</u>	<u>(6,871)</u>
<b>Cash flow from investing activities:</b>								
Capital expenditures — excluding equipment leased to others .....	(1,201)	(926)	(1,162)	(841)	(39)	(85)	—	—
Expenditures for equipment leased to others .....	(1,214)	(1,188)	—	(2)	(1,265)	(1,186)	51 <sup>(4)</sup>	—
Proceeds from disposals of property, plant and equipment .....	637	486	45	27	592	459	—	—
Additions to finance receivables .....	(10,334)	(8,930)	—	—	(33,961)	(20,515)	23,627 <sup>(5)</sup>	11,585 <sup>(5)</sup>
Collections of finance receivables .....	7,057	6,216	—	—	29,449	16,963	(22,392) <sup>(5)</sup>	(10,747) <sup>(5)</sup>
Proceeds from sale of finance receivables .....	900	700	—	—	1,430	1,363	(530) <sup>(5)</sup>	(663) <sup>(5)</sup>
Additions to retained interests in securitized trade receivables .....	—	—	—	—	—	(6,686)	—	6,686 <sup>(6)</sup>
Collections of retained interests in securitized trade receivables .....	—	5,722	—	—	—	5,722	—	—
Net intercompany borrowings .....	—	—	111	159	—	209	(111) <sup>(7)</sup>	(368) <sup>(7)</sup>
Investments and acquisitions (net of cash acquired) .....	(13)	(290)	(13)	(295)	—	—	—	5 <sup>(4)</sup>
Proceeds from sale of partnership investment .....	—	290	—	—	—	290	—	—
Proceeds from release of security deposit .....	530	—	530	—	—	—	—	—
Proceeds from sale of available-for-sale securities .....	257	408	15	13	242	395	—	—
Investments in available-for-sale securities .....	(338)	(609)	(20)	(107)	(318)	(502)	—	—
Other — net .....	194	198	10	12	197	192	(13) <sup>(8)</sup>	(6) <sup>(8)</sup>
Net cash provided by (used for) investing activities .....	<u>(3,525)</u>	<u>2,077</u>	<u>(484)</u>	<u>(1,034)</u>	<u>(3,673)</u>	<u>(3,381)</u>	<u>632</u>	<u>6,492</u>
<b>Cash flow from financing activities:</b>								
Dividends paid .....	(618)	(534)	(618)	(534)	(22)	(15)	22 <sup>(9)</sup>	15 <sup>(9)</sup>
Common stock issued, including treasury shares reissued .....	482	317	482	317	(14)	(2)	14 <sup>(8)</sup>	2 <sup>(8)</sup>
Treasury shares purchased .....	(1,684)	(539)	(1,684)	(539)	—	—	—	—
Net intercompany borrowings .....	—	—	—	(209)	(111)	(159)	111 <sup>(7)</sup>	368 <sup>(7)</sup>
Proceeds from debt issued (original maturities greater than three months) .....	14,574	10,490	574	55	14,000	10,435	—	—
Payments on debt (original maturities greater than three months) .....	(11,620)	(8,690)	(654)	(78)	(10,966)	(8,612)	—	—
Short-term borrowings (original maturities three months or less) — net .....	19	830	317	18	(298)	812	—	—
Net cash provided by (used for) financing activities .....	<u>1,153</u>	<u>1,874</u>	<u>(1,583)</u>	<u>(970)</u>	<u>2,589</u>	<u>2,459</u>	<u>147</u>	<u>385</u>
Effect of exchange rate changes on cash .....	(78)	143	(62)	136	(11)	13	(5) <sup>(10)</sup>	(6) <sup>(10)</sup>
<b>Increase (decrease) in cash and short-term investments .....</b>	<b>663</b>	<b>103</b>	<b>681</b>	<b>50</b>	<b>(18)</b>	<b>53</b>	<b>—</b>	<b>—</b>
Cash and short-term investments at beginning of period .....	445	342	270	220	175	122	—	—
Cash and short-term investments at end of period .....	<u>\$ 1,108</u>	<u>\$ 445</u>	<u>\$ 951</u>	<u>\$ 270</u>	<u>\$ 157</u>	<u>\$ 175</u>	<u>\$ —</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. 2004 receivables amounts include adjustment for consolidated non-cash receipt of retained interests in securitized trade receivables. See Notes 2 and 6 on pages A-12 and A-16, respectively, for further discussion.

<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> Elimination of Cat Financial's additions to retained interests in securitized trade receivables that arose from an intercompany purchase of receivables.

<sup>(7)</sup> Net proceeds and payments to/from Machinery and Engines and Financial Products.

<sup>(8)</sup> Change in investment and common stock related to Financial Products.

<sup>(9)</sup> Elimination of dividend from Financial Products to Machinery and Engines.

<sup>(10)</sup> Elimination of the effect of exchange on intercompany balances.

Current View : Summary by Sector

Price Date: 01-Jan-2007 Last Update Date: 02-Jan-2007

Name	EV/Sales (calendarised)			EV/EBITDA (calendarised)			EV/EBIT (calendarised)			P/Book Value		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
<b>Ag &amp; Construction</b>												
AGCO Corp.	0.70	0.72	0.69	9.6	11.3	9.8	13.1	16.1	13.4	2.1	1.9	1.8
Caterpillar Inc.	1.39	1.22	1.15	10.9	8.0	7.5	13.5	9.5	9.0	5.1	5.2	5.1
CNH Global	0.79	0.78	0.74	10.7	8.6	7.5	15.4	11.5	9.7	1.3	1.2	1.1
Deere & Co.	1.14	1.11	NM	10.2	9.6	NM	12.4	11.7	NM	3.3	3.0	2.9
Gammon India Ltd	1.95	1.57	1.18	30.2	24.2	16.5	24.0	19.1	13.8	168.2	165.3	165.3
H&E Equipment Services, Inc.	1.63	1.19	1.00	7.5	4.5	3.8	13.9	7.4	5.9	-122.9	2.2	1.7
Hindustan Construction Company	NM	NM	NM	NM	NM	NM	NM	NM	NM	164.3	147.0	147.0
IVRCL Infrastructure Ltd	2.18	1.37	0.99	30.1	19.0	12.6	27.3	17.3	11.7	192.6	152.9	136.7
Jaiprakash Associates Ltd	5.91	5.35	4.52	56.4	56.1	38.3	38.8	35.0	25.5	12.4	10.7	5.0
Keppel Corporation	2.90	2.72	2.18	49.3	33.8	22.8	35.3	25.3	17.9	3.8	3.3	2.9
Komatsu Ltd	1.53	1.43	1.35	9.2	8.3	NM	12.5	11.1	10.3	3.9	3.3	2.9
Nagarjuna Construction Company Limited	1.07	0.71	0.51	15.8	9.6	6.6	14.1	8.6	5.9	NM	NM	NM
Punji Lloyd Ltd.	1.86	0.95	0.68	46.6	13.7	8.8	23.5	10.5	7.1	103.0	48.0	44.4
Terex Corp	1.12	0.93	0.82	14.9	9.1	7.5	17.8	10.1	8.2	5.7	4.2	3.1
United Rentals, Inc	1.58	1.43	1.34	5.8	5.0	4.4	11.3	8.8	7.5	2.3	1.9	1.5
<b>Average (simple)</b>	<b>1.84</b>	<b>1.53</b>	<b>1.32</b>	<b>22.0</b>	<b>15.8</b>	<b>12.2</b>	<b>19.5</b>	<b>14.4</b>	<b>11.2</b>	<b>38.9</b>	<b>39.3</b>	<b>37.2</b>
<b>Average (mkt-weighted)</b>	<b>1.56</b>	<b>1.42</b>	<b>1.34</b>	<b>15.1</b>	<b>11.9</b>	<b>10.7</b>	<b>15.9</b>	<b>12.5</b>	<b>10.8</b>	<b>7.2</b>	<b>7.0</b>	<b>6.4</b>
<b>Diversified</b>												
ABB Ltd	5.17	3.58	2.58	89.2	56.4	37.2	79.6	52.0	34.8	371.2	371.2	371.2
Alfa Laval AB	2.30	1.95	1.79	19.0	12.7	11.1	27.3	16.2	13.9	6.1	5.2	4.4
Amada Co. Ltd.	NM	NM	NM	NM	NM	NM	NM	NM	NM	1.3	1.2	1.1
Assa Abloy	2.43	2.17	NM	7.5	8.4	NM	16.6	18.9	NM	3.9	3.7	NM
Atlas Copco	2.88	2.39	NM	11.9	9.4	NM	16.1	12.1	NM	5.6	4.8	NM
Basso Industry Corp	2.49	2.70	2.45	9.2	9.3	9.5	7.9	7.8	7.8	5.2	4.3	3.8
Daikin Industries, Ltd.	1.56	1.43	1.31	13.8	12.1	10.7	19.9	17.3	15.0	3.2	2.9	2.5
Eaton Corp.	1.26	1.11	1.07	9.3	8.6	8.0	12.8	11.7	10.8	3.0	2.6	2.3
Fanuc, Ltd.	5.21	4.97	4.70	12.7	11.8	11.2	13.6	12.7	12.1	3.2	3.0	2.7
Fong's Industries	1.41	1.18	1.02	14.7	11.9	9.8	12.8	10.4	8.1	52.5	52.5	52.5
Fu Sheng	1.14	1.03	0.93	18.0	12.5	12.0	10.3	9.7	9.5	3.3	3.3	3.3
GEA AG	0.77	0.69	0.65	12.4	9.9	8.1	16.6	12.7	10.3	2.1	1.9	1.8
Giant Manufacturing	0.72	0.74	0.69	13.8	14.3	13.3	11.1	11.3	10.8	5.4	5.4	5.4
Heidelberger Druck	0.98	0.93	0.89	9.9	7.7	6.8	15.2	10.9	9.4	2.4	2.6	2.4
HK Aircraft Eng. (HAECO)	5.36	4.19	3.58	56.0	29.4	23.1	33.4	20.9	17.5	NM	NM	NM
Illinois Tool Works	2.15	1.97	1.83	11.3	9.7	8.6	12.9	11.0	9.6	3.5	2.9	2.5
Ingersoll Rand	1.42	1.33	1.28	9.6	9.2	8.9	11.0	10.4	10.1	2.3	2.3	2.2
Kennametal Inc.	1.15	1.12	NM	8.6	7.6	NM	11.2	9.7	NM	2.4	1.8	1.7
Komori Corp.	0.26	0.25	0.24	2.5	2.2	2.1	2.9	2.6	2.5	1.0	1.0	0.9
KONE	0.34	0.34	0.35	4.5	2.9	2.6	6.0	3.4	3.0	1.2	1.1	1.0
Kurita Water Industries	1.80	1.66	1.55	14.7	12.0	10.6	18.1	15.0	13.3	2.3	2.1	2.0
Lincoln Electric Holdings	1.67	1.36	1.20	13.5	9.3	7.5	17.4	11.1	8.8	3.9	3.1	2.5
Lung Kee (Bermuda) Holdings	1.32	1.18	NM	NM	NM	NM	9.3	12.4	NM	NM	NM	NM
Manitowoc Co.	1.75	1.34	1.13	18.8	10.1	7.6	27.0	12.9	9.3	6.7	5.0	3.7
Metso	1.46	1.23	NM	14.1	10.7	NM	18.4	13.2	NM	4.2	3.7	NM
Milacron	0.59	0.57	0.55	15.6	15.7	9.6	39.8	38.5	14.6	-16.2	-2.4	-2.1
Mori Seiki Co. Ltd.	1.61	1.48	1.40	9.8	8.6	7.9	12.4	10.6	9.8	2.1	2.0	1.8
NSK Ltd.	1.20	1.15	1.12	10.4	9.5	9.2	17.5	15.4	14.8	2.7	2.5	2.3
NTN Corp.	1.48	1.43	1.38	9.7	9.1	8.6	18.2	17.3	16.4	2.7	2.5	2.3
Parker Hannifin	1.26	1.11	NM	9.4	8.1	NM	12.2	10.2	NM	2.8	2.2	1.9
Sandvik	2.14	1.92	NM	11.1	9.3	NM	14.2	11.7	NM	4.8	4.1	NM
Schindler Holding AG	1.06	0.96	0.87	18.3	12.3	12.2	14.9	14.5	14.6	5.4	4.5	4.0
Singamas Container Holdings	0.27	0.26	0.26	5.0	8.9	8.7	4.0	5.6	4.5	NM	NM	NM
SKF	1.27	1.20	1.15	9.2	7.8	7.3	11.9	9.6	8.9	3.7	3.2	2.8
SMC Corp	3.72	3.44	3.28	13.3	12.1	11.5	15.0	13.8	13.1	2.6	2.4	2.2
Sung Kwang Bend Co Ltd	1.99	1.54	1.29	24.6	10.2	9.6	19.8	9.3	8.1	NM	NM	NM
Taewoong	2.36	1.98	1.56	28.3	20.0	13.3	18.4	15.3	11.2	NM	NM	NM
The Timken Company	0.77	0.75	0.71	6.5	6.4	5.6	10.1	9.5	7.9	1.8	1.6	1.4
Vestas	1.57	1.48	1.32	631.7	15.6	11.3	NM	24.7	16.5	5.5	4.1	3.6
<b>Average (simple)</b>	<b>1.80</b>	<b>1.58</b>	<b>1.42</b>	<b>32.4</b>	<b>11.9</b>	<b>10.4</b>	<b>17.2</b>	<b>14.0</b>	<b>11.5</b>	<b>15.1</b>	<b>15.1</b>	<b>16.3</b>
<b>Average (mkt-weighted)</b>	<b>2.25</b>	<b>2.02</b>	<b>1.92</b>	<b>32.2</b>	<b>11.0</b>	<b>10.2</b>	<b>16.1</b>	<b>13.6</b>	<b>12.1</b>	<b>9.5</b>	<b>9.0</b>	<b>10.1</b>

Current View : Summary by Sector

Price Date: 01-Jan-2007 Last Update Date: 02-Jan-2007

Name	ROaE			Price / Book Value			Price / Tangible Book			Tier 1 Capital		
	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
<a href="#">Janus Capital Group</a>	4,255.3%	10,219.0%	NM	1,716.8	NM	NM	23,372.1	NM	NM			
<a href="#">Korea Investment Holdings</a>	33.9%	14.0%	15.2%	1.4	1.2	1.1	1.4	1.2	1.1			
<a href="#">Lehman Brothers</a>	20.1%	21.7%	21.6%	2.5	2.3	2.2	3.1	2.3	2.2			
<a href="#">Man Group Plc</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Merrill Lynch</a>	15.9%	14.8%	17.6%	2.6	2.4	2.2	2.6	2.4	2.2			
<a href="#">MGIC Investment Corporation</a>	11.3%	10.5%	11.1%	1.3	1.4	1.4	1.3	1.4	1.4			
<a href="#">Morgan Stanley</a>	18.1%	23.2%	21.2%	3.0	2.6	2.4	3.3	2.6	2.4			
<a href="#">T. Rowe Price Group, Inc</a>	NM	NM	NM	NM	NM	NM	-18.3	NM	NM			
<b>Average (simple)</b>	<b>377.3%</b>	<b>954.6%</b>	<b>29.8%</b>	<b>147.1</b>	<b>3.2</b>	<b>2.3</b>	<b>1,802.1</b>	<b>6.7</b>	<b>2.3</b>			
<b>Average (mkt-weighted)</b>	<b>72.1%</b>	<b>160.8%</b>	<b>21.6%</b>	<b>24.5</b>	<b>2.6</b>	<b>2.3</b>	<b>284.7</b>	<b>2.8</b>	<b>2.3</b>			
<b>Exchanges</b>												
<a href="#">Australian Stock Exchange</a>	42.8%	41.6%	16.3%	13.7	10.5	1.4	13.9	10.9	7.5			
<a href="#">Hong Kong Exchanges &amp; Clearing</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Knight Capital Group</a>	-4.6%	NM	NM	0.0	NM	NM	0.0	NM	NM			
<b>Average (simple)</b>	<b>19.1%</b>	<b>41.6%</b>	<b>16.3%</b>	<b>6.8</b>	<b>10.5</b>	<b>1.4</b>	<b>6.9</b>	<b>10.9</b>	<b>7.5</b>			
<b>Average (mkt-weighted)</b>	<b>42.8%</b>	<b>41.6%</b>	<b>16.3%</b>	<b>13.7</b>	<b>10.5</b>	<b>1.4</b>	<b>13.9</b>	<b>10.9</b>	<b>7.5</b>			
<b>Average (simple)</b>	<b>326.2%</b>	<b>878.5%</b>	<b>28.4%</b>	<b>127.0</b>	<b>3.9</b>	<b>2.2</b>	<b>1,562.8</b>	<b>7.2</b>	<b>3.0</b>			
<b>Average (mkt-weighted)</b>	<b>71.9%</b>	<b>159.7%</b>	<b>21.5%</b>	<b>24.4</b>	<b>2.6</b>	<b>2.3</b>	<b>282.5</b>	<b>2.9</b>	<b>2.3</b>			
<b>Mortgage Finance</b>												
<b>Mortgage Finance</b>												
<a href="#">Assured Guaranty Limited</a>	12.1%	9.0%	NM	0.0	0.0	NM	0.0	0.0	NM			
<a href="#">Astoria Financial</a>	17.2%	14.6%	15.1%	2.4	2.7	2.8	2.8	3.2	3.3			
<a href="#">Countrywide Financial Corporation</a>	21.9%	19.1%	17.2%	2.1	1.7	1.5	2.1	1.7	1.5			
<a href="#">HDFC (Housing Development Finance Corporation)</a>	28.5%	29.3%	29.4%	10.3	8.8	7.3	10.3	8.8	7.3	38,831	45,629	54,532
<a href="#">Hypo Real Estate Holding AG</a>	NM	NM	NM	4.6	4.2	3.8	4.7	4.2	3.8	4,372	4,639	4,918
<a href="#">LandAmerica Financial Group</a>	9.2%	6.8%	NM	0.9	0.9	NM	2.2	1.9	NM			
<a href="#">New York Community Bank</a>	9.9%	9.6%	NM	1.3	1.2	NM	3.2	2.9	NM			
<a href="#">The PML Group</a>	13.1%	13.2%	0.0%	0.0	0.0	NM	0.0	0.0	NM			
<a href="#">Washington Mutual</a>	14.1%	13.8%	NM	1.7	1.6	1.6	2.4	2.3	2.2			
<b>Average (simple)</b>	<b>15.7%</b>	<b>14.4%</b>	<b>15.4%</b>	<b>2.6</b>	<b>2.3</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>	<b>3.6</b>			
<b>Average (mkt-weighted)</b>	<b>17.7%</b>	<b>16.7%</b>	<b>19.8%</b>	<b>3.0</b>	<b>2.7</b>	<b>2.5</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>			
<b>Average (simple)</b>	<b>15.7%</b>	<b>14.4%</b>	<b>15.4%</b>	<b>2.6</b>	<b>2.3</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>	<b>3.6</b>			
<b>Average (mkt-weighted)</b>	<b>17.7%</b>	<b>16.7%</b>	<b>19.8%</b>	<b>3.0</b>	<b>2.7</b>	<b>2.5</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>			
<b>Specialty Finance</b>												
<b>Specialty Finance</b>												
<a href="#">3i Group PLC</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">American Capital</a>	12.0%	14.6%	18.2%	0.0	0.0	0.0	0.0	0.0	0.0			
<a href="#">American Express Co.</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Bursa Malaysia Bhd</a>	32.1%	41.1%	46.4%	15.7	15.7	15.7	15.5	15.5	15.5			
<a href="#">Cathay Financial Holding</a>	11.9%	7.9%	12.8%	0.0	0.0	0.0	0.0	0.0	0.0	77,928	75,695	89,608
<a href="#">CIT Group, Inc.</a>	11.2%	9.5%	9.8%	1.1	1.1	1.1	1.1	1.1	1.1			
<a href="#">Computershare Limited</a>	13.7%	21.4%	27.0%	7.2	5.7	6.1	-9.7	-9.5	-8.6			
<a href="#">Evercore Partners Inc.</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Infrastructure Development Finance Company</a>	16.9%	18.5%	18.4%	4.1	3.0	2.7	4.1	3.0	2.7	18,019	25,520	28,582
<a href="#">IOOF Holdings Limited</a>	6.7%	9.6%	15.0%	2.4	3.9	3.7	7.3	6.7	12.7			
<a href="#">Macquarie Bank</a>	26.7%	23.5%	25.5%	5.4	4.3	3.0	5.4	4.3	3.0	2,853	3,556	5,555
<a href="#">Nelnet, Inc</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Perpetual Limited</a>	37.7%	34.9%	43.5%	8.6	9.6	10.9	9.9	11.9	13.9			
<a href="#">Public Financial Holdings Limited</a>	19.6%	12.9%	10.4%	1.8	0.9	0.8	1.8	0.9	0.8	1,307	3,000	3,000
<a href="#">Remgro Ltd</a>	24.9%	21.9%	14.9%	0.0	0.0	0.0	0.0	0.0	0.0			
<a href="#">Samsung Securities</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Singapore Exchange</a>	NM	NM	NM	NM	NM	NM	NM	NM	NM			
<a href="#">Solomon Mutual Savings Bank</a>	32.5%	31.0%	27.0%	0.0	0.0	0.0	0.0	0.0	0.0	182,000	237,773	291,913
<a href="#">Suncorp-Metway Limited</a>	18.9%	20.5%	19.4%	2.5	2.6	2.3	2.5	2.6	2.3	2,770	2,715	3,015
<a href="#">Taishin FHC</a>	-2.3%	-4.1%	5.7%	0.0	0.0	0.0	0.0	0.0	0.0	45,918	39,029	45,780
<a href="#">Thanachart Capital Public Company Ltd</a>	11.3%	10.2%	10.1%	0.8	0.8	0.8	0.8	0.8	0.8	11,142	12,410	13,738
<a href="#">TISCO Bank</a>	14.4%	12.2%	12.5%	1.3	1.3	1.3	1.3	1.3	1.3	10,947	10,916	10,852
<b>Average (simple)</b>	<b>18.0%</b>	<b>17.8%</b>	<b>19.8%</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>2.5</b>	<b>2.4</b>	<b>2.8</b>			
<b>Average (mkt-weighted)</b>	<b>20.1%</b>	<b>19.7%</b>	<b>21.3%</b>	<b>4.2</b>	<b>3.7</b>	<b>3.3</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>			
<b>Average (simple)</b>	<b>18.0%</b>	<b>17.8%</b>	<b>19.8%</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>2.5</b>	<b>2.4</b>	<b>2.8</b>			
<b>Average (mkt-weighted)</b>	<b>20.1%</b>	<b>19.7%</b>	<b>21.3%</b>	<b>4.2</b>	<b>3.7</b>	<b>3.3</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>			