SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

CATERPILLAR INC CIK:**18230**| IRS No.: **370602744** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **10-K** | Act: **34** | File No.: **001-00768** | Film No.: **05637850** SIC: **3531** Construction machinery & equip	Mailing Address *100 NE ADAMS ST* *PEORIA IL 61629*	Business Address *100 NE ADAMS ST* *PEORIA IL 61629* *3096751000*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.

Commission File No. 1-768

CATERPILLAR INC.

(Exact name of Registrant as specified in its charter)

Delaware	37-0602744
(State or other jurisdiction of incorporation)	(IRS Employer I.D. No.)
100 NE Adams Street, Peoria, Illinois	61629
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock ($1.00 par value)	Chicago Stock Exchange
	New York Stock Exchange
	Pacific Exchange, Inc.
Preferred Stock Purchase Rights	Chicago Stock Exchange
	New York Stock Exchange
	Pacific Exchange, Inc.
9% Debentures due April 15, 2006	New York Stock Exchange

9 3/8% Debentures due August 15, 2011	New York Stock Exchange
9 3/8% Debentures due March 15, 2021	New York Stock Exchange
8% Debentures due February 15, 2023	New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

As of December 31, 2004, there were 342,936,949 shares of common stock of the Registrant outstanding, and the aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming only for purposes of this computation that directors and officers may be affiliates) was $32,772,664,307.

Documents Incorporated by Reference

Portions of the documents listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

- Part III — 2005 Annual Meeting Proxy Statement (Proxy Statement) filed with the Securities and Exchange Commission (SEC) on February 24, 2005.
- Parts I, II, IV — General and Financial Information for 2004 containing the information required by SEC Rule 14a-3 for an annual report to security holders filed with the SEC as an appendix to the 2005 Annual Meeting Proxy Statement (Appendix) on February 24, 2005, and furnished as Exhibit 13 to this Form 10-K.

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PART I

Item 1. Business.

Principal Lines of Business / Nature of Operations

We operate in three principal lines of business:

1. **Machinery** - This principal line of business 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, telescopic handlers, skid steer loaders and related parts. We also include logistics services for other companies in this line of business.

2. **Engines** - This principal line of business includes 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. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,200 to 20,500 horsepower (900 to 15 000 kilowatts).

3. **Financial Products** - This principal line of business consists 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 active investor in independent power projects using Caterpillar power generation equipment and services.

Due to financial information required by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we have also divided our business into eight reportable segments for financial reporting purposes. Information about our reportable segments, including geographic information, appears in Note 25 on pages A-29 through A-33 of the Appendix.

Other information about our operations in 2004 and outlook for 2005, including risks associated with foreign operations is incorporated by reference from "Management's Discussion and Analysis" on pages A-36 through A-61 of the Appendix.

Company Strengths

Caterpillar is the leader in construction and mining equipment, diesel and natural gas engines and industrial gas turbines in our size range. Annual sales and revenues top $30 billion, making Caterpillar the largest manufacturer in its industry. Caterpillar is also a leading U.S. exporter, with more than one-half of its sales outside the United States. Through a global network of independent dealers, Caterpillar builds long-term relationships with customers around the world. For over 75 years, the Caterpillar name has been associated with the highest level of quality products and services.

Competitive Environment

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

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

Machinery

The competitive environment for Caterpillar's machinery business consists of global competitors, regional competitors, and specialized local competitors. Principal global competitors include Komatsu, Volvo Construction Equipment (part of the Volvo Group AB), CNH Global, Hitachi Construction Machinery, John Deere (part of Deere & Co.), Terex, JCB, and Ingersoll-Rand. Each has particular regional pockets of strength. John Deere Construction and Forestry Division (part of Deere & Co.), for example, is a principal competitor in North America. Some competitors have broad ranges of products which compete with Caterpillar. Others, like Ingersoll-Rand, only offer a limited range of products that compete with Caterpillar.

During 2004, the machinery business in general enjoyed an increase in industry demand. Most of our competitors saw sales and operating profits improve from years of stagnant sales and difficult profitability. The sharp industry upturn created supply chain challenges in addition to the material cost challenges of high commodity prices for all competitors. Several competitors continued to face distribution channel challenges. Asia-based competitors were impacted the most by the industry slowdown in China. Europe-based competitors were most impacted by the strong euro. Most North America-based competitors benefited from the very strong North American industry upturn. While the competitive environment in the machinery business continued to be intense, the financial health of the industry as a whole improved.

Engines

Caterpillar operates in a very competitive engine/turbine manufacturing and packaging environment. The company manufactures diesel, heavy fuel and natural gas reciprocating engines for the on- and off-highway mobile markets - as well as for a wide array of stationary applications - and manufactures industrial turbines for the oil and gas and power generation markets. In North America, on-highway heavy-duty and mid-range diesel engine competitors include but are not limited to Cummins Inc., Volvo Group AB, Mack Trucks, Inc. (part of the Volvo Group AB), Detroit Diesel Corp. and Mercedes-Benz (both part of DaimlerChrysler AG), Isuzu Motors, Ltd. and Navistar International Corp. Overseas on-highway diesel engine competitors include but are not limited to Mercedes-Benz (part of DaimlerChrysler AG), Volvo Group AB, Mitsubishi Fuso Truck & Bus Corp. (part of Daimler Chrysler AG), Scania AB, MAN Aktiengesellschaft, Iveco Motors, Isuzu Motors, Ltd., Hino Motors, Ltd. and MWM Motores Diesel.

In the North America off-highway mobile and stationary markets, domestic-based competitors include but are not limited to Cummins Inc., John Deere Power Systems (part of Deere & Co.), Detroit Diesel Corp., Ford Power Products (part of Ford Motor Co.), General Electric Co. and Waukesha (part of Dresser Inc.). Overseas-based off-highway mobile and stationary application competitors include but are not limited to Wartsila NSD, MAN B&W Diesel AG, MTU Friedrichshafen GmbH (part of DaimlerChrysler AG), Volvo Penta (part of the Volvo Group AB), Mitsubishi Heavy Industries, Ltd., Deutz AG, GE Jenbacher (part of General Electric Co.), Kubota Corp., Isuzu Motors, Ltd., Kawasaki Heavy Industries Ltd., Yanmar Diesel Engine Co. Ltd., Bergen (part of Rolls Royce plc), Rolls-Royce plc, Siemens AG and Alstom.

In the packaging area, Caterpillar also faces a wide variety of generator set packagers and other engine and turbine-related packaging competitors. North America-based packagers include but are not limited to General Electric Co., Cummins Inc., Kohler Co., Katolight Corp., Generac Power Systems, Inc., Multiquip Inc., Detroit Diesel Corp., Stewart & Stevenson Services, Inc., Hanover Compressor Co. and other regional companies. Overseas-based packagers include but are not limited to Alstom, Siemens AG, Rolls Royce plc, Wartsila NSD, MAN B&W Diesel AG, GE Jenbacher, SDMO, Himoinsa s.l., Mitsubishi Heavy Industries, Ltd., Atlas Copco AB, Kawasaki Heavy Industries, Ltd., AKSA Power Generation (Kazanci Holding) and many other regional packagers dispersed around the world. These packagers source emission compliant as well as non-compliant engines and turbines and other components from domestic and international suppliers, and market their products regionally and internationally through a variety of company owned, independent, on-line and multi-brand distribution channels.

In the North America market, heavy-duty and midrange on-highway truck engine competitors continued to market emission certified engines meeting the January 1, 2004 United States Environmental Protection Agency (EPA) emission limits using cooled exhaust gas re-circulation technology (EGR). In addition, the industry continued to invest heavily in new technology to meet future on- and off-highway emission regulations in North America, Europe, and Asia. Furthermore, competitors formed or continued joint ventures and partnerships in an effort to share development costs, strengthen customer relationships, reach new markets and leverage core competencies. Moreover, key component suppliers such as Delphi Corp., Bosch GmbH, Denso Corp., Stanadyne Corp. and Fleetguard Inc. (part of Cummins Inc.) continued to play visible roles as emission technology drivers, partners, and key suppliers to the reciprocating engine business.

During 2004, Caterpillar completed the introduction of its full line of ACERT® engines into the North America on-highway truck market, and continued to maintain its leadership position in this market. In addition, Caterpillar established itself as a leading provider of truck engines for the specialty, bus and recreational vehicle (RV) markets. Customer acceptance of Caterpillar ACERT engine performance, quality and reliability is strong. As a result of strong industry growth, Caterpillar experienced some heavy-duty ACERT engines capacity constraints in 2004.

Caterpillar also focused 2004 investment and resources on leveraging its success with ACERT engines in on-highway truck markets into off-road markets, as well as the remainder of its engine platforms. The building blocks for ACERT Technology are very flexible and scaleable, and are being applied as needed based on engine platform and application. We have announced that 13 Caterpillar machine models are being upgraded to ACERT engine technology, and 6 of these 13 models are already shipping. A full line of seven ACERT industrial engines has been released, and plans are in place to leverage ACERT Technology throughout Caterpillar's businesses and engine platforms. We expect this to establish Caterpillar as the first company to offer a full line of Tier 3/Stage 3a emission compliant off-highway engines.

We believe ACERT provides Caterpillar a competitive advantage now and in the future to meet emission and performance requirements, and we plan to continue investing in developing and leveraging ACERT Technology systems and components. While Caterpillar is able to leverage its ACERT Technology directly into its off-highway businesses, our competitors must pursue alternative technologies or further develop their existing technologies to meet off-highway market needs and emission requirements.

Financial Products

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

Cat Financial has over 20 years of experience in providing financing in the various markets in which it participates, contributing to its knowledge of asset values, industry trends, product structuring and customer needs. As of December 31, 2004, Cat Financial had 1,399 full-time employees.

In certain instances, Cat Financial's operations are subject to supervision and regulation by state, federal and various foreign government authorities, and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things, (i) regulate credit granting activities, (ii) establish maximum interest rates, finance charges and other charges, (iii) require disclosures to customers, (iv) govern secured transactions, (v) set collection, foreclosure, repossession and other trade practices, (vi) prohibit discrimination in the extension of credit and administration of loans, and (vii) regulate the use and reporting of information related to a borrower's credit experience.

Cat Financial's retail financing leases and installment sale contracts (total 58 percent*) include:

- Tax leases that are classified as either operating or finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, Cat Financial is considered the owner of the equipment (19 percent*).

- Finance (non-tax) leases where the lessee is considered the owner of the equipment during the term of the lease that either require or allow the customer to purchase the equipment for a fixed price at the end of the term (14 percent*).

- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structure payments over time (24 percent*).

- Governmental lease-purchase plans in the United States that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

Retail notes receivable includes:

- Loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing (20 percent*).

Wholesale notes receivable, finance leases, and installment sale contracts (total 22 percent*) include:

- Inventory/rental programs which provide assistance to dealers by financing their inventory, rental fleets and rental facilities (6 percent*).

- Short-term dealer receivables Cat Financial purchases from Caterpillar and subsidiaries at a discount (16 percent*).

*Indicates the percentage of Cat Financial's total portfolio at December 31, 2004. For more information on the above and Cat Financial's concentration of credit risk, please refer to Note 21 on pages A-26 and A-27 of the Appendix.

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Cat Financial's competitors include CIT Group, Citibank, General Electric Capital Corporation and local banks. In addition, many of our competitor manufacturers use below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. Caterpillar and Cat Financial work together to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

Cat Financial's results are largely dependent upon Caterpillar dealers' ability to sell equipment and customers' willingness to enter into financing or leasing agreements with it. It is also affected by the availability of funds from its financing sources and general economic conditions such as inflation and market interest rates.

Cat Financial has a "match funding" policy whereby the interest rate profile (fixed rate or floating rate) of its debt portfolio largely matches the interest rate profile of its receivable portfolio plus retained interests in securitized wholesale receivables within established guidelines. In connection with that policy, Cat Financial uses interest rate derivative instruments to modify the debt structure to match these assets. This "match funding" reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. Cat Financial also uses these instruments to gain an economic and/or competitive advantage through a lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt. For more information regarding match funding, please see Note 3 on pages A-12 and A-13 of the Appendix.

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

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength, and equipment application. Cat Financial typically maintains a security interest in retail-financed equipment and requires physical damage insurance coverage on financed equipment. Cat Financial finances a significant portion of Caterpillar dealers' sales and inventory of Caterpillar equipment, especially in North America. Cat Financial's competitive position is improved by marketing programs, subsidized by Caterpillar and/or Caterpillar dealers, which allow it to offer below-market interest rates. Under these programs, Caterpillar, or the dealer, subsidizes an amount at the outset of the transaction, which Cat Financial then recognizes as revenue over the term of the financing. Transaction processing time and the supporting technologies continue to drive Cat Financial in its efforts to respond quickly to customers and improve internal processing efficiencies. We believe Cat Financial's web-based Cat Financ*Express*[SM] transaction processing and information tool currently available in the United States, France, Canada and Australia helps to give Cat Financial a competitive advantage in those areas. Cat Financ*Express* collects information on-line to provide finance quotes and credit decisions and then prints the related documents, all in a very short time frame.

Caterpillar Insurance Company, a wholly owned subsidiary of Cat Insurance (Cat Insurance and its subsidiaries are referred to herein collectively as Cat Holdings), is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. The insurance company is licensed to conduct Property and Casualty Insurance business in forty-eight states and the District of Columbia, and as such, is regulated in those jurisdictions as well. The state of Missouri acts as the lead regulatory authority and monitors the company's financial status to ensure that the company is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners.

Caterpillar Life Insurance Company, a wholly owned subsidiary of Caterpillar, is a U.S. insurance company domiciled in Missouri and primarily regulated by the Missouri Department of Insurance. The insurance company is licensed to conduct Life and Accident and Health Insurance business in fourteen states and the District of Columbia, and as such, is regulated in those jurisdictions as well. As the state of Missouri acts as the lead regulatory authority, it monitors the financial status to ensure that the company is in compliance with minimum solvency requirements, as well as other financial ratios prescribed by the National Association of Insurance Commissioners.

Caterpillar Insurance Co. Ltd., a wholly owned subsidiary of Cat Insurance is a captive insurance company domiciled in Bermuda and regulated by the Bermuda Monetary Authority. The company is a Class 2 insurer (as defined by the Bermuda Insurance Amendment Act of 1995), which primarily insures affiliates and, as such, the Bermuda Monetary Authority requires an Annual Financial Filing for purposes of monitoring compliance with solvency requirements.

Caterpillar Product Services Corporation, a wholly owned subsidiary of Caterpillar, is a warranty company domiciled in Missouri. It is regulated as a special purpose warranty company in a limited number of jurisdictions and conducts the Caterpillar engine extended service contract business (parts and labor) in all states except Virginia, Washington and Wisconsin. It also conducts the machine extended service contract program in Italy, France and Germany.

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

Cat Holdings provides protection for claims under the following programs:

- Contractual Liability Insurance to Caterpillar dealers and Original Equipment Manufacturers (OEM) for extended service contracts (parts and labor) offered by third party dealers and OEMs.
- Reinsurance for the worldwide cargo risks of Caterpillar products.
- Contractors' Equipment physical damage insurance to equipment manufactured by Caterpillar, which is leased, rented, or sold by third party dealers.
- Inventory Protection Insurance for Caterpillar dealer floor-plan property risks.

- Insurance for Caterpillar general liability, employer's liability, auto liability, property, and retiree medical stop loss insurance.
- Brokerage services for property and casualty and life and health business.

Cat Power Ventures, a wholly owned subsidiary of Caterpillar, primarily invests equity and takes an ownership interest in power generation projects throughout the world that utilize Caterpillar power generation equipment. In some cases, these projects also utilize construction and operations and maintenance services that are provided by other Caterpillar subsidiaries. Currently, Cat Power Ventures has investments in power projects in Poland, the Dominican Republic, Tunisia, Cambodia, India and Sri Lanka. Cat Power Ventures has created direct and indirect subsidiaries and affiliates to hold these investments.

Business Developments in 2004

2004 was a year of many milestones, accomplishments and celebrations for Caterpillar. We reached the $30 billion sales and revenues milestone we set in 1997 ahead of schedule. We delivered record sales and revenues and profits. We celebrated our 50th year of operations in Brazil, 20th in Indonesia and 10th in Xuzhou, China. Cat Financial was one of seven recipients of the Malcolm Baldrige National Quality Award feted by President George W. Bush at the White House in March. This award is given to U.S. organizations with exemplary achievements in seven areas - leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management and results. November of 2004 marked the 100-year anniversary of the introduction of our signature track-type tractor design. In December, our Chairman and CEO James W. Owens rang the closing bell at the New York Stock Exchange to commemorate the 75th anniversary of our listing on the Exchange.

We continued to make progress on our strategy to establish a market leadership position in China in 2004. In January, Caterpillar shipped the 10,000th Cat hydraulic excavator from Caterpillar Xuzhou Ltd. This achievement demonstrated the company's commitment to maintaining a strong presence in China and its excellent execution by committed people. In April, the Chinese Ministry of Commerce granted Caterpillar (China) Financial Leasing Co., Ltd. a business license to provide leasing services in China. By November, Caterpillar (China) Financial Leasing Co., Ltd. had announced the signing of its first customer lease contracts. Also in November, Caterpillar announced the signing of a definitive agreement to acquire an equity interest in Shandong SEM Machinery Co., Ltd. (SEM), one of China's key wheel loader manufacturers. Caterpillar Logistics Services Inc., a wholly owned subsidiary of Caterpillar, launched a project to develop a parts distribution center based in China to serve the company's dealers and their branches. Each accomplishment in China continued Caterpillar's rapid implementation of its business model in China, including financing, logistics, distribution, procurement, rental and used equipment.

2004 also marked Caterpillar's announcement of the expansion of Caterpillar Remanufacturing Services' business to provide services for manufacturers and customers in industries beyond those Caterpillar currently serves. This expansion of Caterpillar's remanufacturing strategy builds on our successful services business model, which includes Caterpillar Logistics Services and Financial Products. In August, we announced the acquisitions of Williams Technologies, Inc. - a leading remanufacturer of automatic transmissions, torque converters, and engines for automotive and medium- and heavy-duty truck applications, located in Summerville, South Carolina - and Wealdstone Engineering Ltd., one of Europe's leading remanufacturers of gasoline and diesel engines located in the United Kingdom. These two acquisitions provide Caterpillar the opportunity to leverage our core remanufacturing strengths to provide remanufacturing services to original equipment manufacturers in the diesel engine and automotive industries.

We also continued to leverage our award-winning ACERT Technology to solidify our position as the emissions reduction leader in both on- and off-highway applications. In July, shortly after two Caterpillar employees, Jim Weber and Scott Leman, received the national Inventors of the Year award from the Intellectual Property Owners Association, Caterpillar became the first company to offer a full line of EPA Tier 3 compliant engines in the 175-300 horsepower range. ACERT Technology enabled us to meet this requirement ahead of the January 2005 and January 2006 planned implementation dates. In November, our new D8T track-type tractor powered by a Caterpillar engine using ACERT Technology became the first machine to meet EPA Tier 3 standards, and 6 of an additional 12 machine upgrades to ACERT Technology have already begun shipping. These milestones continue to establish the importance of our ACERT Technology, demonstrating the competitive advantage it provides to Caterpillar and the value it provides to our customers and the public at large.

Acquisitions

Information about charges related to Turbomach S.A., MG Rover Ltd. and Williams Technology, Inc. appears in Note 26 on page A-32 of the Appendix.

Order Backlog

The dollar amount of backlog believed to be firm was approximately $9.1 billion at December 31, 2004 and $4.9 billion at December 31, 2003. Of the total backlog, approximately $613 million at December 31, 2004 and $320 million at December 31, 2003, was not expected to be filled in the following year. Our backlog is generally highest in the first and second quarters because of seasonal buying trends in our industry.

Dealers

Our machines are distributed principally through a worldwide organization of dealers (dealer network), 53 located in the United States and 145 located outside the United States. Worldwide, these dealers serve 178 countries and operate 3,324 places of business, including 1,437 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in their products. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 170 distributors located in 150 countries. Most of the electric power generation systems manufactured by FG Wilson are sold through a worldwide network of 250 dealers located in 170 countries.

These dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar Turbines and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

The company's relationship with each independent dealer within the dealer network is memorialized in a standard sales and service agreement. Pursuant to this agreement, the company grants the dealer the right to purchase and sell its products and to service the products in a specified geographic region. Prices to dealers are established by the company after receiving input from dealers on transactional pricing in the marketplace. The company also agrees to defend its intellectual property and to provide warranty and technical support to the dealer. The agreement further grants the dealer a non-exclusive license to the company's trademarks, service marks and brand names.

In exchange for these rights, the agreement obligates the dealer to develop and promote the sale of the company's products to current and prospective customers in the dealer's region. Each dealer specifically agrees to employ adequate sales and support personnel to market, sell and promote the company's products, demonstrate and exhibit the products, perform the company's product improvement programs, inform the company concerning any features that might affect the safe operation of any of the company's products and maintain detailed books and records of the dealer's financial condition, sales and inventories and make these books and records available at the company's reasonable request.

These sales and service agreements are terminable at will by either party upon 90 days written notice and terminate automatically if the dealer files for bankruptcy protection or upon the occurrence of comparable action seeking protection from creditors.

Patents and Trademarks

Our products are sold primarily under the brands "Caterpillar," "Cat," design versions of "Cat" and "Caterpillar," "Solar Turbines," "MaK," "Perkins," "FG Wilson" and "Olympian." We own a number of patents and trademarks relating to the products we manufacture, which have been obtained over a period of years. These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. We do not regard any of our business as being dependent upon any single patent or group of patents.

<u>Research and Development</u>

We have always placed strong emphasis on product-oriented research and development relating to the development of new or improved machines, engines and major components. In 2004, 2003, and 2002, we spent $928 million, $669 million, and $656 million, or 3.1 percent, 2.9 percent, and 3.3 percent of our sales and revenues, respectively, on our research and development programs.

<u>Employment</u>

As of December 31, 2004, we employed 76,920 persons of whom 38,792 were located outside the United States. From a global, enterprise perspective, we believe our relationship with our employees is very good. We build and maintain a productive, motivated workforce by treating all employees fairly and equitably.

In the United States, most of our 38,128 employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. At select business units, certain highly specialized employees have been hired under employment contracts that specify a term of employment and specify pay and other benefits.

As of December 31, 2004, there were 11,465 U.S. hourly production employees who were covered by collective bargaining agreements with various labor unions. The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) represents 9,450 Caterpillar employees under a six-year central labor agreement that will expire March 1, 2011. The International Association of Machinists (IAM) represents 1,999 employees under labor agreements expiring on April 30, 2005, and May 29, 2005. Based on our historical experience during periods when labor unrest or work stoppage by union-represented employees has occurred, we do not expect that the occurrence of such events, if any, arising in connection with the expiration of these agreements will have a material impact on our operations or results.

Outside the United States, the company enters into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

<u>Sales</u>

Sales outside the United States were 54 percent of consolidated sales for 2004, 56 percent for 2003, and 55 percent for 2002.

<u>Environmental Matters</u>

The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions in all our operations. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings, or competitive position.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In doing that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount recorded for environmental clean-up is not material and is included in Statement 3 on page A-7 of the Appendix under "Accrued Expenses." If a range of liability estimates is available on a particular site, we accrue at the lower end of that range.

We cannot estimate costs on sites in the very early stages of clean-up. Currently, we have several sites in the very early stages of clean-up, and there is no more than a remote chance that a material amount for clean-up at any individual site or at all sites in the aggregate will be required.

Pursuant to a consent decree Caterpillar entered with the EPA, the company was required to meet certain emission standards by October 2002. The decree provides that if engine manufacturers were unable to meet the standards at that time, they would be required to pay a Non-Conformance Penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came - the more out of compliance the higher the penalty. The company began introduction of fully compliant ACERT engines in 2003 and by the end of 2003 Caterpillar was only producing fully compliant engine models. As a result, NCPs were not payable for any engines built in 2004. NCPs of $153 million were paid in 2003.

In addition, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998 and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects are $34.9 million, of which $5.9 million was made during 2004. Caterpillar expects to reach the $35 million requirement during the first quarter of 2005. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

Available Information

The company files electronically with the SEC required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; and registration statements on Forms S-3 and S-8, as necessary. The public may read and copy any materials the company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed with the SEC are available free of charge through our Internet site (www.CAT.com/secfilings) as soon as reasonably practicable after filing with the SEC. Copies of our board committee charters, our board's Guidelines on Corporate Governance Issues, Worldwide Code of Business Conduct, and other corporate governance information are available on our Internet site (www.CAT.com/governance), or upon written request to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

Additional company information may be obtained as follows:

Current information -

- phone our Information Hotline - (800) 228-7717 (U.S. or Canada) or (858) 244-2080 (outside U.S. or Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by facsimile or mail
- request, view, or download materials on-line or register for email alerts at www.CAT.com/materialsrequest

Historical information -

- view/download on-line at www.CAT.com/historical

Item 1A. Executive Officers of the Registrant as of December 31, 2004 (except as otherwise noted)

Name and Age	Present Caterpillar Inc. position and date of initial election	Principal positions held during the past five years if other than Caterpillar Inc. position currently held

James W. Owens (58)	Chairman and Chief Executive Officer (2004)	• Group President (1995-2003) • Vice Chairman (2003-2004)
Stuart L. Levenick (51)	Group President (2004)	• General Manager, Commonwealth of Independent States (1998-2000) • Chairman, Shin Caterpillar Mitsubishi Ltd. (2000-present) • Vice President (2000-2004)
Douglas R. Oberhelman (51)	Group President (2001)	• Vice President (1995-2001)
Gerald L. Shaheen (60)	Group President (1998)	
Gérard R. Vittecoq (56)	Group President (2004)	• Managing Director, Caterpillar Belgium S.A. (1998-2000) • Vice President (2000-2004)
Steven H. Wunning (53)	Group President (2004)	• Vice President (1998-2004)
Kent M. Adams (50) [1]	Vice President (2005)	• Vice President, Caterpillar Financial Services Corporation (1998-2000) • Corporate Support Vice President, Caterpillar Financial Services Corporation (2001-2003) • Executive Vice President, Caterpillar Financial Services Corporation (2004)
Ali M. Bahaj (51)	Vice President (2002)	• Director, Division Services, Engine Products Division (1998-2001) • Director, Business Development & Consulting Services (2001-2002)
Sidney C. Banwart (59)	Vice President (1998)	• Chief Information Officer (2001- 2004)
Michael J. Baunton (53)	Vice President (1998)	• President, Perkins Engine Company Limited (1998 - 2004)
James S. Beard (63) [2]	Vice President (1990)	• President, Director and Principal Executive Officer, Caterpillar Financial Services Corporation (1987-present)
Rodney C. Beeler (47)	Vice President (2004)	• Customer Segments Manager, Caterpillar Overseas, S.A. (1999-2000) • Manager, Rental and Used Equipment Services Department, North American Commercial Division (2000-2004)
Mary H. Bell (44)	Vice President (2004)	• Service Support Department Manager, Parts & Service Support Division (1999-2000) • Service Support Department Manager, Product Support Division (2000) • Dealer Capability Department Manager, Product Support Division (2000-2002) • Cat Distribution Services General Manager, Logistics Division (2002-2003)
Richard A. Benson (61) [3]	Vice President (1989)	
James B. Buda (57)	Vice President, General Counsel and Secretary (2001)	• Associate General Counsel, UK (1999-2001)
David B. Burritt (49)	Vice President and Chief Financial Officer (2004)	• General Manager, Strategic & Business Services - Europe, Caterpillar Overseas S.A. (1999-2001) • Corporate 6 Sigma Champion (2001-2002) • Controller (2002 - 2004)
Rodney L. Bussell (58)	Vice President (2001)	• General Manager, Large Engine Products & Fuel Systems Division (1998-2001)
Christopher C. Curfman (52)	Vice President (2004)	• Managing Director, Caterpillar of Australia Ltd. (1999-2001) • Managing Director-Marketing, Caterpillar of Australia Ltd. (2001) • Managing Director-Marketing, Asia-Pacific Division (2001-2004) • Alliance Development Director, Global Mining Division (2004)
Paolo Fellin (50)	Vice President (2004)	• General Manager, Caterpillar Work Tools & Services (1999-2003) • Marketing Manager, North American Commercial Division (2003-2004)
Thomas A. Gales (56)	Vice President (2000)	• Managing Director, Caterpillar France, S.A. (1998-2000)
Stephen A. Gosselin (47)	Vice President (2002)	• North American Distribution Manager, Engine Products Division (1999-2000) • Regional Manager, North American Commercial Division (2000-2002)

Hans A. Haefeli (46)	Vice President (2004)	• Managing Director Product Supply, Perkins Engines Company Limited (1999-2002) • General Manager, Building Construction Products Division (2002-2003) • President, Perkins Engine Company Limited (01/2004 to present)

John S. Heller (50)	Vice President (2004)	• Engine Division Technology Manager, Engine Products Division (2000-2001) • Engine Division Technology Manager, Systems & Processes Division (2001-2001) • Director, Corporate Information Services, Systems & Processes Division (2001-2002) • Director, Global IT Solutions, Systems & Processes Division (2002-2004) • Chief Information Officer (2004 - Present)
Richard P. Lavin (52)	Vice President (2001)	• Director, Compensation & Benefits (1999-2001)
Robert R. Macier (56)	Vice President (1998)	• President, Solar Turbines Incorporated (2002-present)
F. Lynn McPheeters (62) (3)	Vice President and Chief Financial Officer (1998)	
Daniel M. Murphy (57)	Vice President (1996)	
Gerald Palmer (59)	Vice President (1992)	
James J. Parker (54)	Vice President (2001)	• Director, Electric Power (1998-2001)
Mark R. Pflederer (48)	Vice President (2004)	• Electronics & Electrical Business Unit Manager, Control Systems Products Division (1999-2001) • Electronics & Electrical Business Unit Manager, Component Products & Control Systems Division (2001-2003)
Edward J. Rapp (47)	Vice President (2000)	• Regional Manager, Caterpillar Overseas S.A. (1998-2000)
William J. Rohner (52)	Vice President (2004)	• CBL Managing Director, Latin America Division (2000-2004)
Christiano V. Schena (55)	Vice President (2002)	• Managing Director, Caterpillar Brasil Ltda. (1996-2000) • Managing Director, Caterpillar France S.A. (2000) • General Manager, EAME Product Development Division (2000-2002) • Managing Director, Building Construction Products Europe (2002)
William F. Springer (53)	Vice President (2002)	• President, Caterpillar Logistics (1998-2002)
Gary A. Stroup (55)	Vice President (1992)	• President, Solar Turbines Incorporated (1998-2002)
Donald G. Western (56)	Vice President (1995)	
Robert T. Williams (56)	Vice President (2004)	• General Manager, Performance Engine Products Division (1998-2002) • Director-Manufacturing, Operations Support & Technology, Technical Services Division (2002) • Director, Technical Services Division (2003-2004)
Bradley M. Halverson (44)	Controller (2004)	• Business Resource Manager, Performance Engines Products Division (1998-2001) • Business Resource Manager, Large Engine Products & Fuel Systems Division (2001) • Business Resource Manager, Large Power Systems Division (2002) • Corporate Business Development Manager, Corporate Services Division (2002-2004)
Kevin E. Colgan (52)	Treasurer (2001)	• Vice President, Caterpillar Financial Services Corporation (1997-2001)
(1) Effective February 1, 2005.		
(2) Will retire effective March 1, 2005.		
(3) Retired effective February 1, 2005.		

Item 2. Properties.

General Information

Caterpillar's operations are highly integrated. Although the majority of our plants are involved primarily in the production of either machines or engines, several plants are involved in the manufacturing of both. In addition, several plants are involved in the manufacturing of components which are used in the assembly of both machines and engines. Caterpillar's parts distribution centers are involved in the storage and distribution of parts for machines and engines. Also, the research and development activities carried on at our Technical Center (as described below) involve both machines and engines.

Properties we own are believed to be generally well maintained and adequate for present use. Through planned capital expenditures, we expect these properties to remain adequate for future needs. Properties we lease are covered by leases expiring over terms of generally 1 to 10 years. We anticipate no difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or by replacing them with equivalent leased facilities.

Headquarters

Our corporate headquarters are in Peoria, Illinois. Additional marketing headquarters are located both inside and outside the United States. The Financial Products Division is headquartered in leased offices located in Nashville, Tennessee.

Distribution

Distribution of our parts is conducted from parts distribution centers inside and outside the United States. Caterpillar Logistics Services, Inc., distributes other companies' products utilizing certain of our distribution facilities as well as other non-Caterpillar facilities located both inside and outside the United States. We also own or lease other storage facilities that support distribution activities.

Changes in Fixed Assets

During the five years ended December 31, 2004, changes in our investment in property, plant and equipment were as follows (stated in millions of dollars):

	Expenditures		Acquisitions			Disposals	Net Increase
					Provision for	and Other	(Decrease)
Year	U.S.	Outside U.S.	U.S.	Outside U.S.	Depreciation	Adjustments	During Period
2000	$ 1,067	$ 526	$ 0	$ 9	$ (969)	$ (62)	$ 571
2001	$ 1,345	$ 623	$ 2	$ 32	$ (1,070)	$ (280)	$ 652
2002	$ 1,030	$ 743	$ 15	$ 0	$ (1,199)	$ (151)	$ 438
2003	$ 1,000	$ 765	$ 0	$ 0	$ (1,332)	$ (191)	$ 242
2004	$ 1,212	$ 902	$ 10	$ 44	$ (1,366)	$ (371)	$ 431

At December 31, 2004, the net book value of properties located outside the United States represented about 42 percent of the net book value of all properties reflected in our consolidated financial position. Additional information about our investment in property, plant, and equipment appears in Note 1F on page A-10 and Note 10 on page A-17 of the Appendix.

Technical Center, Training Centers, Demonstration Areas, and Proving Grounds

We own a Technical Center located in Mossville, Illinois, and various other training centers, demonstration areas, and proving grounds located both inside and outside the United States.

Manufacturing, Remanufacturing, and Overhaul

Manufacturing, remanufacturing, and overhaul of our products are conducted at the following locations. These facilities are believed to be suitable for their intended purposes with adequate capacities for current and projected needs for existing products.

Manufacturing

Inside the U.S.

California
- Gardena
- San Diego

Florida
- Jacksonville

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

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

Indiana
- Lafayette

Kansas
- Wamego

Kentucky
- Danville

Michigan
- Menominee

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

Mississippi
- Oxford

Missouri
- Boonville
- West Plains

North Carolina
- Clayton
- Franklin
- Morganton
- Sanford

Ohio
- Dayton[1]

South Carolina
- Greenville
- Sumter

Tennessee
- Dyersburg

Texas
- Channelview

Outside the U.S.

Australia
- Burnie
- Melbourne

Belgium
- Gosselies

Brazil
- Curitiba
- Piracicaba

Canada
- Laval

England
- Barwell
- Leicester
- Peterborough
- Peterlee
- Skinningrove
- Stafford
- Stockton
- Wimborne
- Wolverhampton

France
- Arras
- Grenoble
- Rantigny

Germany
- Kiel
- Rostock

Hungary
- Gödöllö

India
- Bangalore[2]
- Pondicherry
- Thiruvallur

Indonesia
- Jakarta

Italy
- Anagni[1]
- Bazzano
- Fano
- Frosinone[1]
- Jesi
- Marignano
- Milan[1]
- Minerbio

Japan
- Akashi[1]
- Sagamihara[1]

Mexico
- Monterrey
- Reynosa
- Saltillo
- Tijuana
- Torreon

The Netherlands
- s'-Hertogenbosch

Northern Ireland
- Larne
- Monkstown
- Springvale

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

Poland
- Janow Lubelski

Russia
- Tosno

South Africa
- Boksburg

Switzerland
- Riazzino

Remanufacturing and Overhaul

Inside the U.S.

Louisiana
- New Orleans

Mississippi
- Corinth
- Prentiss County

South Carolina
- Summerville

Texas
- De Soto
- Mabank

Outside the U.S.

Australia
- Melbourne

Belgium
- Gosselies

Canada
- Edmonton

England
- Rushden
- Shrewsbury

Indonesia
- Bandung[2]

Malaysia
- Kuala Lumpur[1]

Mexico
- Nuevo Laredo
- Tijuana
- Veracruz

Nigeria
- Port Harcourt

Scotland
- Aberdeen

[1] Facility of affiliated company (50% or less owned)

[2] Facility of partially owned subsidiary (more than 50%, less than 100%)

Item 3. Legal Proceedings.

We are a party to litigation matters and claims that are normal in the course of our operations, and, while the results of such litigation and claims cannot be predicted with certainty, management believes, based on the advice of counsel, the final outcome of any single proceeding or all proceedings in the aggregate would not have a materially adverse effect on our consolidated financial position or results of operations or cash flows.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. As of December 31, 2004, the net past due receivable from Navistar regarding the foregoing and included in "Long-term receivables - trade and other" in Statement 3 on page A-7 of the Appendix totaled $139 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. As of December 31, 2004, the net past due receivables for the foregoing, included in "Long-term receivables - trade and other" in Statement 3 on page A-7 of the Appendix totaled $13 million. The pending complaint further alleges that Sturman Industries, Inc., and Sturman Engine Systems, Inc., colluded with Navistar to utilize technology that Sturman Industries, Inc., misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc., and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois, that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fifth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International has also asserted a claim for "unjust enrichment" related to certain revenues received by Caterpillar from another customer. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar denies International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar also asserts that International has released Caterpillar from certain of its claims. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled to begin in June 2005 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

In 2004, the European Union (EU) imposed retaliatory tariffs on certain U.S. origin goods as a result of a WTO decision that found the extraterritorial income exclusion (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constituted a prohibited export subsidy. These tariffs, which began in March of 2004 at 5 percent, increased 1 percentage point per month. Given the makeup of the final retaliation list, some Caterpillar parts and components were subject to these tariffs. However, these tariffs have not materially impacted our financial results. In addition to the United States, the company has production facilities in the EU, Russia, Asia, and South America. Products sold into the EU from these plants were not affected by this retaliatory tariff. The American Jobs Creation Act of 2004 (Act), enacted on October 22, 2004, phases-out the ETI provisions. As a result, the EU has lifted the sanctions effective January 1, 2005 pending the outcome of a WTO review to determine whether certain provisions of the Act are compliant with the ruling against the FSC/ETI regime.

In a letter dated November 15, 2004, the EPA proposed a civil penalty of $641,392 to Caterpillar for the alleged failure to comply with certain requirements of the Federal Clean Air Act. The EPA alleges that Caterpillar constructed a facility in Emporia, Kansas, and failed to comply with Section 112(g)(2)(B) of the Clean Air Act. Caterpillar sold the Emporia facility in December 2002. We are seeking a settlement of this matter with all concerned parties and the company believes the outcome will not have a material impact on our financial statements.

PART II

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

Information required by Item 5 is incorporated by reference from "Price Ranges" and "Number of Stockholders" on page A-62 and from "Dividends paid per common share" on page A-51 of the Appendix.

Non-U.S. Employee Stock Purchase Plans

We have 27 employee stock purchase plans administered outside the United States for our foreign employees. As of December 31, 2004, those plans had approximately 9,108 participants in the aggregate. During the fourth quarter of 2004, a total of 121,086 shares of Caterpillar common stock or foreign denominated equivalents were distributed under the plans. Participants in some foreign plans have the option of receiving non-U.S. share certificates (foreign-denominated equivalents) in lieu of U.S. shares of Caterpillar common stock upon withdrawal from the plan. These equivalent certificates are tradable only on the local stock market and are included in our determination of shares outstanding.

Issuer Purchases of Equity Securities

Period	Total number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1-31, 2004	1,005,000	$ 79.53	1,005,000	20,826,904[1]
November 1-30, 2004	-		-	22,909,109[1]
December 1-31, 2004	631,400	93.18	631,400	22,936,949[1]
Total	**1,636,400**	**$ 84.80**	**1,636,400**	

[1] On October 8, 2003, the board of directors approved an extension of the share repurchase program (through October 2008) with the goal of reducing the company's outstanding shares to 320,000,000. Amount represents the shares outstanding at the end of the period less 320,000,000.

Other Purchases of Equity Securities

Period	Total number of Shares	Average Price Paid per Share	Total Number	Maximum Number of Shares that May

	Purchased[1]		of Shares Purchased Under the Program	Yet Be Purchased Under the Program
October 1-31, 2004	30	$ 72.12	N/A	N/A
November 1-30, 2004	1,261	80.30	N/A	N/A
December 1-31, 2004	251	85.90	N/A	N/A
Total	**1,542**	**$ 81.05**		

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

Item 6. Selected Financial Data.

Information required by Item 6 is incorporated by reference from the "Five-year Financial Summary" on page A-35, "Contractual obligations" on page A-51, and "Supplemental consolidating data" on pages A-57 through A-59 of the Appendix.

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

Information required by Item 7 is incorporated by reference from pages A-36 through A-61 of the Appendix.

SAFE HARBOR STATEMENT UNDER THE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in our Management's Discussion and Analysis are forward-looking and involve uncertainties that could significantly impact results. The words "believes," "expects," "estimates," "anticipates," "will be", "should" and similar words or expressions identify forward-looking statements made on behalf of Caterpillar. Uncertainties include factors that affect international businesses, as well as matters specific to the company and the markets it serves.

World Economic Factors

The world economy had its best recovery in years in 2004 and we expect that recovery to continue, but at a somewhat slower pace, in 2005. That outlook assumes central banks will cautiously raise interest rates so as not to slow growth too much. Low interest rates, and continued good economic growth, should encourage further growth in construction and mining. Should central banks raise interest rates aggressively, both the world economic recovery and our Machinery and Engines sales likely would be weaker.

The U.S. economy is growing at more than a three percent rate, which up to now has not created an inflation problem. While the Federal Reserve has raised interest rates, we assume the continuation of moderate growth and low inflation will result in interest rates of no more than 3.5 percent by the end of 2005. Long-term interest rates are expected to rise less than short-term rates. That environment should support further growth in construction and manufacturing, helping to keep commodity prices favorable. Should financial conditions tighten noticeably, causing economic growth to slow below 3 percent, expected improvements in Machinery and Engines sales likely would be lower than projected.

Our projection of increased sales of Machinery and Engines in Europe, Africa, Middle East (EAME) assumes that low interest rates will allow slightly faster economic growth in Europe and that favorable commodity prices will extend healthy recoveries in both Africa and Middle East (AME) and the CIS. Key risks are that the European Central Bank will raise interest rates sharply to reduce inflation or that commodity prices collapse. Those developments would negatively impact our results.

Favorable commodity prices, increased capital inflows and an improved foreign debt situation are expected to contribute to another year of economic recovery in Latin America. As a result, we project that both mining production and construction spending will increase, supporting an increase in Machinery and Engines sales. This forecast is vulnerable to a significant weakening in commodity prices, a slowing in world economic growth or widespread increases in interest rates.

In Asia/Pacific, we project sales growth in Australia, India and the developing Asian economies will offset a further decline in China. Critical assumptions are continued growth in coal demand, low domestic interest rates in most countries, further gains in exports and continued good economic growth in China. Some developments that could lower expected results include reduced demand for thermal and coking coal, significant revaluations of regional currencies, restrictions on regional exports and sharp interest rate hikes, particularly in China.

Commodity Prices

Commodities represent a significant sales opportunity, with prices and production as key drivers. Prices have improved sharply over the past year and a half and our outlook assumes continued growth in world industrial production will cause metals prices to remain high enough in 2005 to encourage further mine investment. Any unexpected weakening in world industrial production, however, could cause prices to drop sharply to the detriment of our results.

Coal production and prices improved last year and our sales have benefited. We expect these trends to continue in 2005. Should coal prices soften, due to a slowing in world economic growth or otherwise, the ongoing sales recovery would be vulnerable.

Oil and natural gas prices increased sharply over the past two years due to strong demand and high capacity usage. Higher energy prices did not halt economic recoveries last year since a strong demand boosted prices and world production increased. High prices are encouraging more exploration and development and we expect increased production in 2005 will constrain price increases. However, should significant supply cuts occur, such as from OPEC production cuts or political unrest in a major producing country, the resulting oil shortages and price spikes could slow economies, potentially with a depressing impact on our sales.

Monetary and Fiscal Policies

For most companies operating in a global economy, monetary and fiscal policies implemented in the United States and abroad could have a significant impact on economic growth, and accordingly, demand for a product. In general, higher than expected interest rates, reductions in government spending, higher taxes, excessive currency movements, and uncertainty over key policies are some factors likely to lead to slower economic growth and lower industry demand.

With economic data looking more favorable, central banks in developed countries have started raising interest rates from the lowest rates in decades. Our outlook assumes that central banks will take great care to ensure that economic recoveries continue and that interest rates will remain low throughout the forecast period. Should central banks raise interest rates more aggressively than anticipated, both economic growth and our sales could suffer.

Budget deficits in many countries have increased, which has limited the ability of governments to boost economies with tax cuts and more spending. Our outlook assumes that governments will not aggressively raise taxes and slash spending to deal with their budget imbalances. Such actions could disrupt growth and negatively affect our sales.

Political Factors

Political factors in the United States and abroad can impact global companies. Our outlook assumes that no major disruptive changes in economic policies occur in either the United States or other major economies. Significant changes in either taxing or spending policies could reduce activities in sectors important to our businesses, thereby reducing sales.

Our outlook assumes that there will be no additional significant military conflicts in either North Korea or the Middle East in the forecast period. Such military conflicts could severely disrupt sales into countries affected, as well as nearby countries.

Our outlook also assumes that there will be no major terrorist attacks. If there is a major terrorist attack, confidence could be undermined, potentially causing a sharp drop in economic activities and our sales. Attacks in major developed economies would be the most disruptive.

Our outlook assumes that efforts by countries to increase their exports will not result in retaliatory countermeasures by other countries to block such exports, particularly in the Asia/Pacific region. Our outlook includes a negative impact from the phase-out of the Extraterritorial Income Exclusion (ETI) as enacted by the American Jobs Creation Act of 2004 (the Act). However, our outlook does not include any impact from the provision of the Act allowing preferential tax treatment of the repatriation of non-U.S. earnings in 2005. Further, our outlook assumes any other tax law changes will not negatively impact our provision for income taxes.

Currency Fluctuations

The company has costs and revenues in many currencies and is therefore exposed to risks arising from currency fluctuations. Our outlook assumes no significant changes in currency values from current rates. Should currency rates change sharply, our results could be negatively impacted.

The company's largest manufacturing presence is in the United States, so any unexpected strengthening of the dollar tends to raise the foreign currency costs to our end users and reduce our global competitiveness.

Dealer Practices

The company sells primarily through an independent dealer network. Dealers carry inventories of both new and rental equipment and adjust those inventories based on their assessments of future needs. Such adjustments can impact our results either positively or negatively. The current outlook assumes dealers will increase inventories in line with higher deliveries. Should dealers control inventories more tightly, our sales would be lower.

Financial Products Division Factors

Inherent in the operation of Cat Financial is the credit risk associated with its customers. The creditworthiness of each customer, and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions, the availability of capital, the experience and expertise of the customer's management team, commodity prices, political events, and the sustained value of the underlying collateral. Additionally, interest rate movements create a degree of risk to our operations by affecting the amount of our interest payments and the value of our fixed rate debt. Our match funding policy manages interest rate risk by matching the interest rate profile (fixed rate or floating rate) of our debt portfolio with the interest rate profile of our receivables portfolio within certain parameters. To achieve our match funding objectives, we issue debt with similar interest rate profile to our receivables and also use interest rate swap agreements to manage our interest rate risk exposure to interest rate changes and in some cases to lower our cost of borrowed funds. If interest rates move upward more sharply than anticipated, our financial results could be negatively impacted. With respect to our insurance and investment management operations, changes in the equity and bond markets could cause an impairment of the value of our investment portfolio, thus requiring a negative adjustment to earnings.

Other Factors

The rate of infrastructure spending, housing starts, commercial construction and mining plays a significant role in the company's results. Our products are an integral component of these activities and as these activities increase or decrease in the United States or abroad, demand for our products may be significantly impacted.

Projected cost savings or synergies from alliances with new partners could also be negatively impacted by a variety of factors. These factors could include, among other things, higher than expected wages, energy and/or material costs, and/or higher than expected financing costs due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any of the jurisdictions in which the alliances conduct their operations.

As of December 31, 2004, there were 11,465 U.S. hourly production employees who were covered by collective bargaining agreements with various labor unions. The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) represents 9,450 Caterpillar employees under a six-year central labor agreement that will expire March 1, 2011. The International Association of Machinists (IAM) represents 1,999 employees under labor agreements expiring on April 30, 2005, and May 29, 2005. Based on our historical experience during periods when labor unrest or work stoppage by union-represented employees has occurred, we do not expect that the occurrence of such events, if any, arising in connection with the expiration of these agreements will have a material impact on our operations or results.

Results may be impacted positively or negatively by changes in the sales mix. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

The company operates in a highly competitive environment and our outlook depends on a forecast of the company's share of industry sales. An unexpected reduction in that share could result from pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, a failure to price the product competitively, or an unexpected buildup in competitors' new machine or dealer owned rental fleets, leading to severe downward pressure on machine rental rates and/or used equipment prices.

The environment remains competitive from a pricing standpoint. Our 2005 sales outlook assumes that the company will be successful in implementing worldwide machine price increases communicated to dealers with an effective date of January 3, 2005. While we expect that the environment will absorb these price actions, delays in the marketplace acceptance would negatively impact our results. Moreover, additional price discounting to maintain our competitive position could result in lower than anticipated price realization.

In general, our results are sensitive to changes in economic growth, particularly those originating in construction, mining and energy. Developments reducing such activities also tend to lower our sales. In addition to the factors mentioned above, our results could be negatively impacted by any of the following:

- Any sudden drop in consumer or business confidence;
- Delays in legislation needed to fund public construction;
- Regulatory or legislative changes that slow activity in key industries; and/or
- Unexpected collapses in stock markets.

This discussion of uncertainties is by no means exhaustive, but is designed to highlight important factors that may impact our outlook. Obvious factors such as general economic conditions throughout the world do not warrant further discussion, but are noted to further emphasize the myriad of contingencies that may cause the company's actual results to differ from those currently anticipated.

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

Information required by Item 7A appears in Note 1 under "Impairment of available-for-sale securities" on page A-11, Note 3 on pages A-13 and A-14, Note 20 on pages A-25 and A-26 and Note 21 on pages A-26 and A-27 of the Appendix. Other information required by Item 7A is incorporated by reference from pages A-55 and A-56 of the Appendix under "Sensitivity."

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is incorporated by reference from the Report of Independent Registered Public Accounting Firm on page A-4 and from the Financial Statements and Notes to Consolidated Financial Statements on pages A-5 through A-34 of the Appendix. Other information required by Item 8 is included in "Computation of Ratios of Earnings to Fixed Charges" filed as Exhibit 12 to this Form 10-K.

Item 9A. Controls and Procedures.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2004, the company's internal control over financial reporting was effective based on those criteria.

Our management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears on page A-4 of the Appendix.

PART III

Item 10. Directors and Executive Officers of the Registrant

Identification of Directors and Business Experience

Information required by this Item is incorporated by reference from "Directors Up For Election This Year for Terms Expiring in 2008," "Directors Remaining in Office Until 2006," and "Directors Remaining in Office Until 2007" on pages 2 through 4 of the Proxy Statement.

Identification of Executive Officers and Business Experience

Information required by this Item appears in Item 1A of this Form 10-K.

Family Relationships

There are no family relationships between the officers and directors of the company. All officers serve at the pleasure of the board of directors and are regularly elected at a meeting of the board in April of each year.

Legal Proceedings Involving Officers and Directors

Information required by this SK Item 401(f) is incorporated by reference from "Legal Proceedings" on page 7 of the Proxy Statement.

Audit Committee Financial Expert

Information required by this Item is incorporated by reference from "Board Meetings, Communications and Committees" on pages 4 through 6 of the Proxy Statement.

Identification of Audit Committee

Information required by this Item is incorporated by reference from "Board Meetings, Communications and Committees" on pages 4 through 6 of the Proxy Statement.

Shareholder Recommendation of Board Nominees

Information required by this Item is incorporated by reference from "Governance Committee Report" on pages 10 and 11 of the Proxy Statement.

Compliance with Section 16(a) of the Exchange Act

Information required by this Item relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from "Section 16(a) Beneficial Ownership Reporting Compliance" on pages 33 and 34 of the Proxy Statement.

Code of Ethics

Our Code of Worldwide Business Conduct (Code), first published in 1974 and most recently amended in 2000, sets a high standard for honesty and ethical behavior by every employee, including the principal executive officer, principal financial officer, and principal accounting officer/controller. The Code is posted on our website at www.CAT.com under "About CAT" - Company Information and is incorporated by reference as Exhibit 14 to this Form 10-K. To obtain a copy of the Code at no charge, submit a written request to the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629-7310. We will post on our website any required amendments to or waivers granted under our Code pursuant to SEC or New York Stock Exchange disclosure rules.

Item 11. Executive Compensation.

Information required by this item is incorporated by reference from "Director Compensation" on page 6, "Performance Graph" on page 13, "Compensation Committee Report on Executive Officer and Chief Executive Officer Compensation" on pages 14 through 21, and "Executive Compensation Tables" on pages 22 through 24 of the Proxy Statement.

On February 18, 2005, the Compensation Committee authorized the following with respect to the compensation of the company's named executive officers as defined in Regulation S-K Item 402(a)(3).

	2005 Salary	2004 Bonus[1]	Shares of Restricted Stock	Shares Underlying 2005 Option Grant[2]	LTCPP Payouts[3]
James W. Owens	$ 1,200,000	$ 1,649,811	10,000	230,000	$ 1,371,886
Stuart L. Levenick	$ 588,000	$ 547,197		65,000	$ 533,814
Douglas R. Oberhelman	$ 700,000	$ 764,340	1,000	70,000	$ 708,745
Gerald L. Shaheen	$ 778,000	$ 843,739		70,000	$ 788,135
Gérard L. Vittecoq	$ 819,950[4]	$ 887,295		65,000	$ 771,808
Steven H. Wunning	$ 612,000	$ 625,387		65,000	$ 550,432

[1]Granted under the Executive Incentive Compensation Plan (Ex.10.5 hereto) and based on company performance versus profit per share and 6 Sigma value proposition metrics set by the Compensation Committee in February 2004 and in recognition of outstanding individual performance in 2004.

[2]Granted under the 1996 Stock Option and Long Term Incentive Plan (Ex. 10.1 hereto).

[3]Granted under the 1996 Stock Option and Long Term Incentive Plan (Ex.10.1 hereto) and based on company performance from 2002 through 2004 against profit per share and return on equity metrics set by the Compensation Committee in February 2002.

[4]Estimated based on exchange rate for Swiss francs as of February 18, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this item relating to security ownership of certain beneficial owners and management is incorporated by reference from "Caterpillar Stock Owned by Officers and Directors (as of December 31, 2004)" on page 12 and "Persons Owning More than Five Percent of Caterpillar Stock (as of December 31, 2004)" on page 13 of the Proxy Statement.

Information required by this item relating to securities authorized for issuance under equity compensation plans is included in the following table:

Equity Compensation Plan Information
(as of December 31, 2004)

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding

			securities reflected in column (a))
Equity compensation plans approved by security holders	41,425,377	57.61	19,402,200
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	41,425,377	57.61	19,402,200

Item 13. Certain Relationships and Related Transactions.

Information required by this item is incorporated by reference from "Certain Related Transactions" on page 7 of the Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information required by this Item is incorporated by reference from "Audit Committee Report" on pages 7 through 9 and "Audit Fees" on page 10 of the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

1. Financial Statements:

- Report of Independent Registered Public Accounting Firm (A-4)
- Statement 1 - Results of Operations (A-5)
- Statement 2 - Changes in Consolidated Stockholders' Equity (A-6)
- Statement 3 - Financial Position (A-7)
- Statement 4 - Statement of Cash Flow (A-8)
- Notes to Consolidated Financial Statements (A-9 through A-34)

2. Financial Statement Schedules:

- All schedules are omitted because the required information is shown in the financial statements or the notes thereto incorporated by reference from the Appendix or considered to be immaterial.

(b) Exhibits:

3.1	Restated Certificate of Incorporation (incorporated by reference from Exhibit 3(i) to the Form 10-Q filed for the quarter ended March 31, 1998).

3.2	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock (incorporated by reference from Exhibit 2 to Form 8-A filed December 11, 1996).
3.3	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	Third Amended and Restated Rights Agreement dated as of June 12, 2003, between Caterpillar Inc. and Mellon Investor Services LLC (incorporated by reference from Exhibit 4 to Form 10-K/A for 2002 filed July 17, 2003).
10.1	Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan, amended and restated as of August 18, 2004.**
10.2	Caterpillar Inc. 1987 Stock Option Plan, as amended and restated and Long Term Incentive Supplement, amended and restated as of December 31, 2000 (incorporated by reference from Exhibit 10.2 to Form 10-K for 2002 filed March 31, 2003).**
10.3	Supplemental Pension Benefit Plan, as amended and restated January 2003.**
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 for 2002).**
10.5	Caterpillar Inc. Executive Incentive Compensation Plan, effective as of January 1, 2002 (incorporated by reference from Exhibit 10.5 to the 2002 Form 10-K).**
10.6	Directors' Deferred Compensation Plan, as amended and restated through April 12, 1999 (incorporated by reference from Exhibit 10.6 to the 1999 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 December 1, 2002 (incorporated by reference from Exhibit 10.8 to the 2002 Form 10-K).**
11	Computations of Earnings per Share (incorporated by reference from Note 19 on page A-25 of the Appendix).
12	Computation of Ratios of Earnings to Fixed Charges.
13	Annual Report to Security Holders attached as an Appendix to the company's 2005 Annual Meeting Proxy Statement.
14	Caterpillar Code of Worldwide Business Conduct (incorporated by reference from Exhibit 14 to the 2003 Form 10-K).
21	Subsidiaries and Affiliates of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of James W. Owens, Chairman and Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of David B. Burritt, 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, Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Annual CEO certification to the New York Stock Exchange.
99.2	Form 11-K for Caterpillar Foreign Service Employees' Stock Purchase Plan.

** Compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CATERPILLAR INC.
(Registrant)

February 24, 2005 By: /s/James B. Buda
James B. Buda, *Secretary*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the company and in the capacities and on the dates indicated.

February 24, 2005	*/s/James W. Owens*	Chairman of the Board, Director and Chief Executive Officer
February 24, 2005	*/s/Stuart L. Levenick*	Group President
February 24, 2005	*/s/Douglas R. Oberhelman*	Group President
February 24, 2005	*/s/Gerald L. Shaheen*	Group President
February 24, 2005	*/s/Gerard R. Vittecoq*	Group President
February 24, 2005	*/s/Steven H. Wunning*	Group President
February 24, 2005	*/s/David B. Burritt*	Vice President and Chief Financial Officer
February 24, 2005	*/s/Bradley M. Halverson*	Controller and Chief Accounting Officer

February 24, 2005	*/s/W. Frank Blount*	Director
February 24, 2005	*/s/John R. Brazil*	Director
February 24, 2005	*/s/John T. Dillon*	Director
February 24, 2005	*/s/Eugene V. Fife*	Director
February 24, 2005	*/s/Gail D. Fosler*	Director
February 24, 2005	*/s/Juan Gallardo*	Director
February 24, 2005	*/s/David R. Goode*	Director
February 24, 2005	*/s/Peter A. Magowan*	Director
February 24, 2005	*/s/William A. Osborn*	Director
February 24, 2005	*/s/Gordon R. Parker*	Director
February 24, 2005	*/s/Charles D. Powell*	Director
February 24, 2005	*/s/Edward B. Rust, Jr.*	Director
February 24, 2005	*/s/Joshua I. Smith*	Director

EXHIBIT 10.1

CATERPILLAR INC.
1996 STOCK OPTION AND LONG-TERM INCENTIVE PLAN
(as Amended and Restated effective August 18, 2004)

Section 1. Purpose

The Caterpillar Inc. 1996 Stock Option and Long-Term Incentive Plan ("Plan") is designed to attract and retain outstanding individuals as non-employee directors, officers and key employees of Caterpillar Inc. and its subsidiaries (collectively, the "Company"), and to furnish incentives to such individuals through awards based upon the performance of the Company and its stock. To this end, the Plan provides for grants of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, and performance awards, or combinations thereof, to non-employee directors, officers and other key employees of the Company, on the terms and subject to the conditions set forth in the Plan.

Section 2. Shares Subject to the Plan

2.1 *Shares Reserved for Issuance*

Sixty-Four Million shares of Company common stock ("Shares") shall be available for issuance under the Plan either from authorized but unissued Shares or from Shares acquired by the Company, including Shares purchased in the open market. An additional four million Shares authorized but unissued under prior Company stock option plans shall be available for issuance under this Plan.

2.2 *Reacquired Shares*

If Shares subject to an award under the Plan are not acquired by participants, or Shares issued under the Plan are reacquired by the Company, because of lapse, expiration, or termination of an award, such Shares shall again become available for issuance under the Plan. Shares tendered upon exercise of an option by a Plan participant may be added back and made available solely for future awards under the Plan.

2.3 *Adjustments in Authorized Shares*

In the event of any corporate event or transaction (including, but not limited to, a change in the shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Committee, in its sole discretion, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall substitute or adjust, as applicable, the number and kind of Shares that may be issued under the Plan or under particular forms of awards, the number and kind of Shares subject to outstanding awards, the option exercise price or base price applicable to outstanding awards, the annual award limits, the limits on awards set forth in Sections 5.1(a), 6.1(b) and 8.2, and other value determinations applicable to outstanding awards.

The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any awards under the Plan related to such changes or distributions and to modify any other terms of outstanding awards, including modifications of performance goals and changes in the length of Performance Periods. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

Section 3. Administration

Unless otherwise provided in the Plan, the Committee shall have the authority to grant awards under the Plan to non-employee directors, officers, and other key employees of the Company. Except as limited by the express provisions of the Plan or by resolutions adopted by the Board, the Committee also shall have the authority and discretion to interpret the Plan, to establish and revise rules and regulations relating to the Plan, and to make any other determinations that it believes necessary or advisable for administration of the Plan, except to the extent that such authority or discretion would cause an award to fail to qualify as performance based compensation for purposes of Section 162(m) of the Code.

The Committee shall be composed solely of members of the Board that satisfy applicable tax, securities and stock exchange rules, and other requirements determined to be necessary or advisable by the Board. The Committee may delegate to one or more of its members or to one or more officers of the Company, and/or its Subsidiaries and Affiliates or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any person to whom it has delegated duties or powers as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

Section 4. Eligibility and Participation

4.1 *Eligibility*

Individuals eligible to participate in this Plan include non-employee directors, officers, and other key employees.

4.2 *Actual Participation*

Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible officers and key Employees those to whom awards shall be granted. The Committee shall determine, in its sole discretion, the nature of any and all terms (as permissible by law) and the amount of each award. Directors who are not employees shall only receive awards in accordance with the terms set forth in this Plan.

Section 5. Stock Options

5.1 *Company Employees*

(a) Eligibility

The Committee shall determine Company officers and key employees to whom options shall be granted, the timing of such grants, and the number of shares subject to the option; provided that the maximum number of Shares upon which options may be granted to any employee in any calendar year shall be 400,000. All Options granted under the Plan will be evidenced by an Award Agreement.

(b) Option Exercise Price

The exercise price of each option shall not be less than 100% of the fair market value of Shares underlying the option at the time the option is granted. The fair market value for purposes of determining the exercise price shall be the mean between the high and the low prices at which Shares are traded on the New York Stock Exchange on the day the option is granted. In the event this method for determining fair market value is not practicable, fair market value shall be determined by such other reasonable method as the Committee shall select.

(c) Option Exercise

Options shall be exercisable in such installments and during such periods as may be fixed by the Committee at the time of grant. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10^{th}) anniversary date of its grant.

Payment of the exercise price shall be made upon exercise of all or a portion of any option. Payment of the exercise price may be in the form of cash utilizing the exercise method of "exercise and hold", or by tendering shares in a stock "swap" transaction, in which the fair market value of the shares tendered must equal 100% of the exercise price. The fair market value of Shares for this purpose shall be the mean between the high and low prices at which shares are traded on the New York Stock Exchange on the date of exercise. When shares are immediately exercised and sold to satisfy the option exercise price, the selling price of the shares shall be the price at which the shares are traded on the New York Stock Exchange at the time of exercise. Upon exercise of an option, any applicable taxes the Company is required to withhold shall be paid to the Company. Shares to be received upon exercise may be surrendered to satisfy withholding obligations.

(d) Termination of Employment

The Committee may require a period of continued employment before an option can be exercised. That period shall not be less than one year, except that the Committee may permit a shorter period in the event of termination of employment by retirement or death. An exception to the one year period other than retirement or death is applicable only for the 2004 year grant, of which the options may be exercised as of January 3, 2005.

Termination of employment with the Company shall terminate remaining rights under options then held; provided, however, that an option grant may provide that if employment terminates after completion of a specific period, the option may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employment is caused by retirement or death or sixty days where termination results from any other cause provided that such period shall not extend beyond the original maximum term of the option. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause provided that such period shall not extend beyond the original maximum term of the option. In the event of termination within two years after a Change of Control as defined in Section 10.2 of the Plan, options shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the option, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of an option provided that change does not extend the original maximum term of the option.

(e) Transferability of Options

(i) Except as otherwise permitted in Section 4.1(e)(ii), options shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or the Employee Retirement Income Security Act. Options are exercisable during the holder’s lifetime only by the holder, unless the holder becomes incapacitated or disabled, in which case the option may be exercised by the holder’s authorized representative. A holder may file with the Company a written designation of beneficiaries with the authority to exercise options in the event of the holder’s death.

(ii) Notwithstanding the provisions of Section 4.1(e)(i), and in addition to the permissible transfers under that provision, options granted to persons at the level of Vice President and above, as well as directors of the Company and persons retired from those positions, may be transferred to any one or more “Permitted Transferees,” as long as those options are not incentive stock options as defined below and are fully vested. Options granted to employees below the level of Vice President may be transferred upon prior approval of the Company’s Director of Compensation and Benefits pursuant to the terms of this section.

(iii) For purposes of Section 4.1(e)(ii), the term "Permitted Transferees" shall mean the members of the group that consists exclusively of the individual to whom the option is granted, the spouse of the individual to whom the option is granted, the lineal descendants of the individual to whom the option is granted, the spouses of the lineal descendents to whom the option is granted, the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the spouses of the lineal descendants of any spouse or former spouse of the individual to whom the option is granted, the estate (and any trust that serves a distributive function of an estate) of the Permitted Transferee, all trusts that an individual who is a Permitted Transferee can revoke and all trusts, corporations, partnerships, limited liability companies and other entities in which, directly or indirectly, but for the exercise of a power of appointment or the death of the survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

(f) Incentive Stock Options

Incentive stock options (“ISOs”), as defined in Section 422 of the Code, may be granted to key employees under the Plan. The decision to grant ISOs to particular persons is within the Committee’s discretion. An Option Award Agreement shall specify whether the Option is intended to be an ISO or a Non-Qualified Stock Option (“NQSO”). A NQSO is an option that does not meet the definition of an ISO. ISOs shall not be exercisable after expiration of ten years from the date of grant. The amount of ISOs vesting in a particular calendar year for an option recipient under this Plan and all incentive stock option plans of the Company or any parent or subsidiary corporation cannot exceed $100,000, based on the fair market value of the Shares subject to the options on the date of grant; provided that any portion of an option that cannot be exercised as an ISO because of this limitation may be converted by the Committee to another form of option. If any employee or former employee shall make any disposition of Shares issued pursuant to the exercise of an ISO under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), such employee or former employee shall notify the Company of such disposition within ten (10) days thereof. The Board may amend the Plan to comply with Section 422 of the Code or other applicable laws and to permit options previously granted to be converted to ISOs.

5.2 *Non-Employee Directors*

(a) Terms

Subject to the share ownership requirements, options with a term of ten years are granted to each non-employee director for 4,000 Shares, effective as of the close of each annual meeting of stockholders at which an individual is elected a director or following which such individual continues as a director. Options granted to non-employee directors shall become exercisable by one-third at the end of each of the three successive one-year periods since the date of grant. The exercise price of each option shall be 100% of the fair market value of Shares underlying the option on the date of grant.

(b) Termination of Directorship

An option awarded to a non-employee director may be exercised any time within sixty months of the date the director terminates such status. In the event of a director's death, the director's authorized representative may exercise the option within sixty months of the date of death, provided that if the director dies after cessation of director status, the option is exercisable within sixty-six months of such cessation. In no event shall an option awarded to a non-employee director be exercisable beyond the expiration date of that option.

Section 6. Stock Appreciation Rights

6.1 *Company Employees*

(a) Types of SARs

The Committee may grant "tandem" and "non-tandem" SARs under the Plan. A tandem SAR shall be granted at the same time as an option and may be exercised by the recipient as an alternative to the option. The term of a tandem SAR, its exercisability and any conditions or restrictions applicable to it shall be the same as its related option, and its base price shall be equal to the exercise price of the related option. In addition, upon the exercise of the option, the tandem SAR (or the portion related to the exercise) shall expire and upon exercise of the tandem SAR, the related option (or such portion) shall expire. The terms of a non-tandem SAR shall be established by the Committee. A SAR that is not otherwise designated but is granted at the same time as an option shall be a tandem SAR.

(b) Eligibility

The Committee shall determine Company officers and employees to whom SARs shall be granted, the timing of such grants, and the number of shares subject to the SAR; provided that the maximum number of Shares upon which non-tandem SARs may be granted to any employee in any calendar year shall be 400,000.

(c) SAR Base Price

The base price of each non-tandem SAR shall not be less than one hundred percent of the fair market value of Shares underlying the SAR at the time the SAR is granted. The fair market value for purposes of determining the base price shall be the mean between the high and the low prices at which Shares are traded on the New York Stock Exchange on the day the SAR is granted. In the event this method for determining fair market value is not practicable, fair market value shall be determined by such other reasonable method as the Committee shall select.

(d) SAR Exercise

Non-tandem SARs shall be exercisable in such installments and during such periods as may be fixed by the Committee at the time of grant. Non-tandem SARs shall not be exercisable after the expiration of ten years from the date of grant.

Upon exercise of an SAR, the recipient shall be entitled to receive from the Company that number of Shares having an aggregate fair market value as of the date of exercise equal to the product of (i) the number of Shares as to which the recipient is exercising the SAR, and (ii) the excess of the fair market value (at the date of exercise) of a Share over the base price of the SAR, provided that the Committee may elect to settle all or a portion of the Company's obligation arising out of the exercise of an SAR by the payment of cash in an amount equal to the fair market value as of the date of exercise of the Shares it would otherwise be obligated to deliver. The fair market value of Shares for this purpose shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on the date of exercise. Upon exercise of an SAR, any applicable taxes the Company is required to withhold shall be paid to the Company. Shares to be received upon exercise may be surrendered to satisfy withholding obligations.

(d) Termination of Employment

The Committee may require a period of continued employment before a non-tandem SAR can be exercised. That period shall not be less than one year, except that the Committee may permit a shorter period in the event of termination of employment by retirement or death.

Termination of employment with the Company shall terminate remaining rights under non-tandem SARs then held; provided, however, that a non-tandem SAR grant may provide that if employment terminates after completion of a specific period, the SAR may be exercised during a period of time after termination. That period may not exceed sixty months where termination of employment is caused by retirement or death or sixty days where termination results from any other cause provided that such period shall not extend beyond the original maximum term of the SAR. If death occurs after termination of employment but during the period of time specified, such period may be extended to not more than sixty-six months after retirement, or thirty-eight months after termination of employment for any other cause provided that such period shall not extend beyond the original maximum term of the SAR. In the event of termination within two years after a Change of Control as defined in Section 10.2 of the Plan, non-tandem SARs shall be exercisable for a period of sixty months following the date of termination or for the maximum term of the SAR, whichever is shorter. Notwithstanding the foregoing, the Committee may change the post-termination period of exercisability of a non-tandem SAR provided that change does not extend the original maximum term of the SAR.

(f) Transferability of SARs

(i) Except as otherwise permitted in Section 6(f)(ii), non-tandem SARs shall not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or the Employee Retirement Income Security Act. Non-tandem SARs are exercisable during the holder’s lifetime only by the holder, unless the holder becomes incapacitated or disabled, in which case the SAR may be exercised by the holder’s authorized representative. A holder may file with the Company a written designation of beneficiaries with the authority to exercise non-tandem SARs in the event of the holder’s death.

(ii) Notwithstanding the provisions of Section 6(f)(i), and in addition to the permissible transfers under that provision, non-tandem SARs granted to persons at the level of Vice President and above, as well as directors of this corporation and persons retired from those positions, may be transferred to any one or more “Permitted Transferees,” as long as those SARs are fully vested. Non-tandem SARs granted to employees below the level of Vice President may be transferred upon prior approval of the Company’s Director of Compensation and Benefits pursuant to the terms of this section.

(iii) For purposes of Section 6(f)(ii), the term "Permitted Transferees" shall mean the members of the group that consists exclusively of the individual to whom the non-tandem SAR is granted, the spouse of the individual to whom the non-tandem SAR is granted, the lineal descendants of the individual to whom the non-tandem SAR is granted, the spouses of the lineal descendents to whom the non-tandem SAR is granted, the lineal descendants of any spouse or former spouse of the individual to whom the non-tandem SAR is granted, the spouses of the lineal descendants of any spouse or former spouse of the individual to whom the non-tandem SAR is granted, the estate (and any trust that serves a distributive function of an estate) of the Permitted Transferee, all trusts that an individual who is a Permitted Transferee can revoke and all trusts, corporations, partnerships, limited liability companies and other entities in which, directly or indirectly, but for the exercise of a power of appointment or the death of the survivor of the individual who are Permitted Transferees. Each owner of an equitable interest is an individual who is a Permitted Transferee.

6.2 *Non-Employee Directors*

(a) Terms

The Committee may grant SARs to non-employee directors. With respect to the grant of SARs to non-employee directors and subject to any share ownership requirements, each year the Committee shall determine (i) the type of such SAR grant (i.e., tandem or non-tandem), (ii) the timing of such SAR grant and (iii) the number of shares subject to the SAR. All SARs granted under this provision of the Plan will be evidenced by an Award Agreement.

SARs granted to non-employee directors shall have a term of ten years and become exercisable by one-third at the end of each of the three successive one-year periods since the date of grant. The base price of each SAR shall be 100% of the fair market value of Shares underlying the SAR on the date the SAR is granted.

(b) Termination of Directorship

A SAR granted to a non-employee director may be exercised any time within sixty months of the date the director terminates such status. In the event of a director's death, the director's authorized representative may exercise the SAR within sixty months of the date of death, provided that if the director dies after cessation of director status, the authorized representative may exercise the SAR within sixty-six months of such cessation. In no event shall a SAR granted to a non-employee director be exercisable beyond the original expiration date of that SAR.

Section 7. Restricted Stock

7.1 *Company Employees*

(a) Eligibility

The Committee may determine whether restricted stock or restricted stock units shall be awarded to Company officers and employees, the timing of award, and the conditions and restrictions imposed on the award. Restricted stock units are similar to restricted stock except that no Shares are actually awarded to the employee on the date of grant. Shares are awarded only on the date of exercise.

(b) Terms

With respect to restricted stock grants, during the restriction period the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends, subject to any restrictions imposed by the Committee at the time of grant. The recipient shall have no voting or dividend rights with respect to any restricted stock units granted hereunder. The Committee may grant dividend equivalents on restricted stock units with such terms and conditions as the Committee shall specify.

The following restrictions will be imposed on Shares of restricted stock (and restricted stock units where specified) until expiration of the restriction period:

(i) The recipient shall not be entitled to delivery of the certificates for the Shares;

(ii) None of the restricted stock units or Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Restricted stock units or Shares issued as restricted stock shall be forfeited if the recipient terminates employment with the Company, except for termination due to retirement after a specified age, disability, death or other special circumstances approved by the Committee.

Shares awarded as restricted stock will be issued subject to a restriction period set by the Committee of no less than two nor more than ten years. The Committee, except for restrictions specified in the preceding paragraphs, shall have the discretion to remove any or all of the restrictions on a restricted stock award whenever it determines such action appropriate. Except with respect to a maximum of five percent of the Shares authorized in Section 2, any awards of restricted stock or restricted stock units which vest on the basis of the recipient's continued employment with or provision of service to the Company shall not provide for vesting which is any more rapid than annual pro rata vesting over a three year period and any awards of restricted stock or restricted stock units which vest upon the attainment of performance goals shall provide for a performance period of at least twelve months. Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

7.2 *Non-Employee Directors*

(a) On January 1 of each year, 400 Shares of restricted stock shall be granted to each director who is not currently an employee of the Company. The stock will be subject to a restriction period of three years from the date of grant. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder, including the right to vote and receive dividends.

The following restrictions will be imposed on restricted stock until expiration of the restricted period:

(i) The recipient shall not be entitled to delivery of the Shares;

(ii) None of the Shares issued as restricted stock may be transferred other than by will or by the laws of descent and distribution; and

(iii) Shares issued as restricted stock shall be forfeited if the recipient ceases to serve as a director of the Company, except for termination due to death, disability, or retirement under the Company's Directors' Retirement Plan.

Upon expiration of the restriction period, the Shares will be made available to the recipient, subject to satisfaction of applicable tax withholding requirements.

(b) Each January 1st, 350 shares of restricted stock, in addition to shares described in Section 7.2(a), shall be awarded to each director who is not currently and has not been an employee of the Company. Shares awarded under this Section 7.2(b) will be held in escrow until the director terminates service with the Company. During the restriction period, the recipient shall have a beneficial interest in the restricted stock and all associated rights and privileges of a stockholder except as discussed below.

The following restrictions will be imposed on restricted stock awarded under this Section 7.2(b) until it is made available to the recipient:

(i) The recipient shall not receive dividends on the shares, but an amount equal to such dividends will be credited to the director's stock equivalent account in the Company's Directors' Deferred Compensation Plan;

(ii) The recipient shall not be entitled to delivery of the shares;

(iii) None of the shares awarded may be transferred other than by will or by the laws of descent and distribution; and

(iv) The right to receive shares shall be subordinate to the claims of general creditors of the Company.

Upon termination of service, restricted shares will be made available to the recipient subject to satisfaction of applicable tax withholding requirements; provided, however, that if the recipient has not served on the Board for at least five years at the time of such termination, all restricted shares awarded under this Section 7.2(b) shall be forfeited.

Pursuant to termination of the Company's Directors' Retirement Plan effective December 31, 1996, each director continuing in office was awarded an amount of restricted stock equal to the accumulated value of past pension accruals as determined by the Company's actuary. Those shares will be subject to the same restrictions as shares awarded annually pursuant to this Section 7.2(b).

(c) Effective January 1, 2002, shares of restricted stock shall no longer be granted under Section 7.2(a) of the Plan or awarded under Section 7.2(b) of the Plan. Shares of restricted stock that were granted or awarded prior to January 1, 2002, shall be subject to the same restrictions and provisions as determined in 7.2(a) and 7.2(b).

(d) With respect to the award of restricted stock units, the Committee in its sole discretion may determine (i) whether restricted stock units shall be awarded to non-employee directors, (ii) the timing of award, and (iii) the conditions and restrictions imposed on the award.

Section 8 Performance Awards

8.1 *Eligibility and Terms*

The Committee may grant awards to officers and other key employees ("Performance Awards") based upon Company performance over a period of years ("Performance Period"). The Committee shall have sole discretion to determine persons eligible to participate, the Performance Period, Company performance factors applicable to the award ("Performance Measures"), and the method of Performance Award calculation.

At the time the Committee establishes a Performance Period for a particular award, it shall also establish Performance Measures and targets to be attained relative to those measures ("Performance Targets"). Performance Measures may be based on any of the following factors, alone or in combination, as the Committee deems appropriate: (i) return on assets; (ii) return on equity; (iii) return on sales; (iv) total stockholder return; (v) cash flow; (vi) economic value added; (vii) net earnings; and (viii) earnings per share relative to a peer group. The Committee may establish the peer group referenced above and amend the peer group as the Committee determines desirable. Performance Targets may include a minimum, maximum and target level of performance with the size of Performance Awards based on the level attained. Once established, Performance Targets and Performance Measures shall not be changed during the Performance Period; provided, however, that the Committee may eliminate or decrease the amount of a Performance Award otherwise payable to a participant. Upon completion of a Performance Period, the Committee shall determine the Company's performance in relation to the Performance Targets for that period and certify in writing the extent to which Performance Targets were satisfied.

8.2 *Payment of Awards*

Performance Awards may be paid in cash, stock, restricted stock (pursuant to terms applicable to restricted stock awarded to Company employees as described in the Plan), or a combination thereof as determined by the Committee. Performance Awards shall be made not later than ninety days following the end of the relevant Performance Period. The fair market value of a Performance Award payment to any individual employee in any calendar year shall not exceed Two Million Five Hundred Thousand and NO/100 Dollars ($2,500,000.00). The fair market value of Shares to be awarded shall be determined by the average of the high and low price of Shares on the New York Stock Exchange on the last business day of the Performance Period. Federal, state and local taxes will be withheld as appropriate.

8.3 *Termination*

To receive a Performance Award, the participant must be employed by the Company on the last day of the Performance Period. If a participant terminates employment during the Performance Period by reason of death, disability or retirement, a payout based on the time of employment during the Performance Period shall be distributed. Participants employed on the last day of the Performance Period, but not for the entire Performance Period, shall receive a payout prorated for that part of the Performance Period for which they were participants. If the participant is deceased at the time of Performance Award payment, the payment shall be made to the recipient's designated representative.

Section 9. Election to Receive Non-Employee Director Fees in Shares

Effective April 8, 1998, non-employee directors shall have the option of receiving all or a portion of their annual retainer fees, as well as fees for attendance at meetings of the Board and committees of the Board (including any Committee Chairman stipend), in the form of Shares.

The number of Shares that may be issued pursuant to such election shall be based on the amount of cash compensation subject to the election divided by the fair market value of one Share on the date such cash compensation is payable. The fair market value shall be the mean between the high and low prices at which Shares are traded on the New York Stock Exchange on payable date.

Shares provided pursuant to the election shall be held in book-entry form by the Company on behalf of the non-employee director. Upon request, the Company shall deliver Shares so held to the non-employee director. While held in book-entry form, the Shares shall have all associated rights and privileges, including voting rights and the right to receive dividends.

Section 10. Change of Control

10.1 *Effect on Grants and Awards*

Unless the Committee shall otherwise expressly provide in the agreement relating to a grant or award under the Plan, upon the occurrence of a Change of Control as defined below: (i) all options and SARs then outstanding under the Plan shall become fully exercisable as of the date of the Change of Control; (ii) all terms and conditions of restricted stock and restricted stock unit awards, and other stock-based awards for which no performance goals have been established then outstanding shall be deemed satisfied as of the date of the Change of Control; and (iii) all Performance Awards or other stock-based awards for which performance goal(s) have been established for a Performance Period not completed at the time of the Change of Control shall be payable in an amount equal to the product of the maximum award opportunity for the Performance Award or other stock-based award, and a fraction, the numerator of which is the number of months that have elapsed since the beginning of the Performance Period through the later of (A) the date of the Change of Control or (B) the date the participant terminates employment, and the denominator of which is the total number of months in the Performance Period; provided, however, that if this Plan shall remain in force after a Change of Control, a Performance Period is completed during that time, and the participant's employment has not terminated, this provision (iii) shall not apply.

10.2 *Change of Control Defined*

For purposes of the Plan, a "Change of Control" shall be deemed to have occurred if:

(a) Any person becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifteen percent or more of the combined voting power of the Company's then outstanding common stock, unless the Board by resolution negates the effect of this provision in a particular circumstance, deeming that resolution to be in the best interests of Company stockholders;

(b) During any period of two consecutive years, there shall cease to be a majority of the Board comprised of individuals who at the beginning of such period constituted the Board;

(c) The stockholders of the Company approve a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) less than fifty percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(d) Company stockholders approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.

Section 11. Amendment and Termination

11.1 *Amendment, Modification, Suspension, and Termination*

Subject to Section 11.3, the Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any Award Agreement in whole or in part; provided, however, that, no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by law, regulation, or stock exchange rule.

11.2 *Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events*

The Committee may make adjustments in the terms and conditions of, and the criteria included in, awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 2.3 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

11.3 *Awards Previously Granted*

Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan or an Award Agreement shall adversely affect in any material way any award previously granted under the Plan, without the written consent of the Participant holding such award.

Section 12. Regulatory Compliance

Notwithstanding any other provision of the Plan, the issuance or delivery of any Shares may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such Shares. The Company shall not be obligated to issue or deliver any Shares if such issuance or delivery shall constitute a violation of any provision of any law or regulation of any governmental authority or national securities exchange.

Section 13. Dividend Equivalents

Any participant selected by the Committee may be granted dividend equivalents based on the dividends declared of Shares that are subject to any award, to be credited as of dividend payment dates, during the period between the date the award is granted and the date the award is exercised, vests, or expires, as determined by the Committee in its sole discretion. Such dividend equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee in its sole discretion.

Section 14. Beneficiary Designation

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

Section 15. Rights of Participants

15.1 *Employment*

Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Affiliates, and/or its Subsidiaries, to terminate any Participant's employment or service on the Board at any time or for any reason not prohibited by law, nor confer upon any Participant any right to continue his or her employment or service as a Director for any specified period of time.

Neither an award nor any benefits arising under this Plan shall constitute an employment contract with the Company, its Affiliates, and/or its Subsidiaries and, accordingly, subject to Sections 3 and 11, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates, and/or its Subsidiaries.

15.2 *Participation*

No individual shall have the right to be selected to receive an award under this Plan, or, having been so selected, to be selected to receive a future award.

15.3 *Rights as a Stockholder*

Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to Shares covered by any award until the Participant becomes the record holder of such Shares.

Section 16. Successors

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

Section 17. Nonexclusivity of the Plan

The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

Section 18. No Constraint on Corporate Action

Nothing in this Plan shall be construed to: (i) limit, impair, or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or, (ii) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

Section 19. Governing Law

The Plan and each Award Agreement shall be governed by the laws of the State of Illinois, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Illinois, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

Section 20. Duration of the Plan

Unless sooner terminated as provided herein, the Plan shall terminate ten years from the date it was initially adopted. After the Plan is terminated, no awards may be granted but awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and the Plan's terms and conditions.

Section 21. Effective Date

This Plan Restatement shall be effective January 1, 2004.

EXHIBIT 10.3

SUPPLEMENTAL PENSION BENEFIT PLAN
as Amended and Restated as of January 1, 2003

SECTION 1. INTRODUCTION

1.1 Background. Caterpillar Inc. has amended the Retirement Income Plan to limit the monthly amount payable to employees, retired employees and former employees who are receiving pension benefits under that plan so that benefits payable under that plan cannot exceed the maximum pension benefit limitations imposed by Sections 401(a)(17) and 415 of the Internal Revenue Code of 1986, as amended (the "Code"). This Supplemental Pension Benefit Plan (the "Plan"), as set forth in the succeeding Sections of this document, provides additional pension benefits to persons hereinafter described who are eligible for benefits under this Plan and supplements monthly amounts of retirement income payable under such Retirement Income Plan. The Plan has also been amended to provide benefits that would have accrued under the Retirement Income Plan but for the employee's election to defer salary or incentive compensation under the Company's Supplemental Employees' Investment Plan or Deferred Employees' Investment Plan.

1.2 Use of Terms. Certain terms, as used in this Plan, are defined in Section 8 or elsewhere in this Plan, and are capitalized, and when so used shall have the defined meanings given to them in this Plan.

SECTION 2. ELIGIBILITY

2.1 Eligibility for and Accrual of Benefits. The Plan, as set forth below, applies only to persons who from time to time are receiving, are eligible to receive or are accruing retirement income on or after the Effective Date under the Retirement Income Plan. An employee shall accrue benefits under this Plan in accordance with the provisions of subsections 3.1, 3.2 and 3.4 hereof so long as he remains covered under the Retirement Income Plan and 1) his compensation exceeds the limitation imposed by Code Section 401(a)(17), as adjusted for cost-of-living pursuant to that Section, 2) his benefits under that plan are limited by Code Section 415, as adjusted for cost-of-living pursuant to that Section, or 3) he loses benefits that would have accrued under the Retirement Income Plan but for his election to defer salary or incentive compensation under the Company's Supplemental Employees' Investment Plan or Deferred Employees' Investment Plan.

SECTION 3. PAYMENT OF BENEFITS

3.1 Benefit Formula. A monthly supplemental pension benefit will be payable under this Plan to an Eligible Person in each month equal to the excess of (a) the amount of retirement income that would be payable to such person for that month under the Retirement Income Plan but for the limitations contained in subsections 4.6 and 4.8 of the Retirement Income Plan, as amended, over (b) the amount actually paid to such person for that month under the Retirement Income Plan.

For all purposes of the Plan, the amount of retirement income under the Retirement Income Plan shall be calculated as if any lump sum base salary adjustment (including any variable base pay) or discretionary award were included in determining an Eligible Person's Total Earnings.

3.2 Future Adjustments. Supplemental pension benefit amounts payable under this Plan may be adjusted to take into account future amendments to the Retirement Income Plan, increases in retirement income that are granted under the Retirement Income Plan due to cost-of-living increases or other factors and adjustments made by the Secretary of the Treasury (in regulations or otherwise) to the limitations under Code Sections 401(a)(17) and 415 such that the total amount payable to an Eligible Person under this Plan and the Retirement Income Plan shall equal the monthly amount of retirement income that would be payable under the Retirement Income Plan in the absence of subsections 4.6 and 4.8 of the Retirement Income Plan.

3.3 Commencement of Benefits. Benefits shall commence under this Plan on the first day of the month on or after the Effective Date that benefits become payable to an Eligible Person in accordance with subsection 3.1 hereof and shall continue thereafter so long as benefits are payable in accordance with subsections 3.1 and 3.2 hereof.

3.4 Elective Deferrals. A monthly supplemental pension benefit shall be payable under this Plan to an Eligible Person in an amount equal solely to the amount of benefits that he would have accrued under the Retirement Income Plan but for his election to defer salary or incentive compensation under the Company's Supplemental Employees' Investment Plan or Deferred Employees' Investment Plan; provided, however, that such benefit shall not duplicate any benefit provided pursuant to subsections 3.1 or 3.2 hereof.

SECTION 4. OPTIONAL RETIREMENT BENEFITS

If, in lieu of monthly normal retirement income payable under the Retirement Income Plan, an Eligible Person receives optional retirement benefits under that plan, then optional pension benefits (to the extent not otherwise payable under the Retirement Income Plan because of the limitations contained in subsections 4.6 and 4.8 thereof) will also be payable in the same form under this Plan; except that the joint and survivor annuity described in subsection 6.3 of the Retirement Income Plan, as amended, shall be applicable solely to benefits payable under that plan and shall not be available under this Plan.

SECTION 5. FINANCIAL PROVISIONS

No funding of benefits shall be required, and any benefits payable under this Plan shall be payable by the Company.

SECTION 6. AMENDMENT AND TERMINATION

While the Company expects and intends to continue the Plan, it must necessarily reserve the right to modify, amend or terminate the Plan in whole or in part, at any time. Accordingly, the Company reserves the right to amend, modify, suspend or terminate the Plan, in whole or in part, at any time by action of its Board of Directors; provided, however, that the Vice-President of Human Services Division, acting together with the Chairman of the Board of the Company, may amend this Plan if such amendment does not involve an annual cost to the employers under this Plan of more than $500,000 per year and if such amendment does not change the duties and responsibilities of the committees and persons designated to administer this Plan.

SECTION 7. MISCELLANEOUS PROVISIONS APPLICABLE TO THE PLAN

7.1 Vested Rights. Any Eligible Person who is fully vested in his retirement income benefits under the Retirement Income Plan shall be fully vested in his right to receive his accrued additional pension benefits under this Plan upon his retirement under the Retirement Income Plan; and any such pension benefits so vested and accrued shall be non-forfeitable.

7.2 Benefits Not Assignable. Except insofar as may be contrary to federal law or to the laws of any state and jurisdiction in the premises and except as further provided hereunder, benefits under the Plan are not in any way subject to the debts or other obligations of the persons entitled to such benefits, and may not be voluntarily or involuntarily sold, transferred or assigned; except that

(a) any person who is entitled to benefits under this Plan may assign his benefits hereunder to the Company for the sole purpose of repaying (in whole or in part) the amount of any overpayment made under this Plan;

(b) any person entitled to benefits under this Plan also may assign any portion of such benefits otherwise due hereunder to any lawful taxing authority for the purpose of payment of any taxes which are due or may become due on account of such benefits; and

(c) any person entitled to benefits under this Plan may assign such benefits to a bank for the purpose of depositing them in his account in such bank, provided such assignment is pursuant to and in accordance with a current applicable bank agreement between such person and the bank and is filed with the Company.

Any assignment made in accordance with the foregoing, except one made pursuant to paragraph (a) above, shall be revocable at any time by the person who shall have authorized it, and any payment pursuant to any such assignment will constitute a complete discharge of any liability under the Plan for payment of such amount.

7.3 Plan Administered by Company. The Plan will be administered by the Company, and the Company reserves the power to adopt such rules of procedure and regulations, which shall be applied in a uniform and nondiscriminatory manner, as it deems necessary to administer the Plan and to determine all questions arising under the Plan; provided, however, that the Company, by resolution of its Board of Directors, may designate any person, committee, board or similar body to act as named fiduciary or fiduciaries under the Plan and allocate any and all of its duties and responsibilities under the Plan to such named fiduciary or fiduciaries. If the Board of Directors allocates any of its duties and responsibilities under the Plan to a named fiduciary, such named fiduciary shall be substituted for the Company wherever such term appears under the Plan with respect to any duties and responsibilities so allocated. Such named fiduciary or fiduciaries may designate other persons to carry out its fiduciary responsibilities under the Plan.

7.4 Facility of Payment. If the Company shall receive evidence satisfactory to it (1) that a payee entitled to receive any payment provided for in the Plan is physically or mentally incompetent to receive such payment and to give a valid release therefor, (2) that another person or an institution is then maintaining or has custody of such payee, and (3) that no guardian, committee or other representative of the estate of such payee shall have been duly appointed, the Company, in its discretion, may make the payment to such other person or institution and the release of such other person or institution shall be a valid and complete discharge for the payment. In the absence of the appointment of a legal guardian, any minor's share may be paid to such adult or adults as have, in the opinion of the Company, assumed the custody and principal support of such minor.

7.5 Company Action. Any action (to the extent not allocated under subsection 7.3) required or permitted to be taken by the Company under the Plan (other than to amend or terminate the Plan) may be taken by the Vice-President of Human Services Division or the Chairman of the Board of the Company or any other person designated by either or both of them. The Plan shall be amended or terminated in accordance with the provisions of Section 6.

7.6 Small Payments. If the monthly amount of supplemental pension benefits to which any person is entitled under the provisions of this Plan at any time shall be less than twenty dollars ($20) per month but more than nine dollars and ninety-nine cents ($9.99), pension payments may be made quarterly, each such quarterly payment to be in an amount equal to the sum of the monthly amounts that would otherwise have been payable during the same quarter, and to be made on the first day of the third month of such quarter. If the monthly benefits to which any person would otherwise be entitled under the plan at any time shall be less than ten dollars ($10) per month, there may be paid to such person, in lieu of monthly pension payments, a cash payment in an amount which is the actuarial equivalent (as determined by the Actuary) of such monthly pension benefits.

SECTION 8. DEFINITIONS

As used herein:

8.1 "Actuary" means an actuary selected by the Company who is not an employee of the Company and who is a Fellow of the Society of Actuaries, or a firm of actuaries selected by the Company, at least one of the members or officers of which is a Fellow of the Society of Actuaries.

8.2 “Company" means Caterpillar Inc. or any successor to it by merger, consolidation, reorganization or otherwise.

8.3 "Effective Date" means January 1, 1976.

8.4 "Eligible Person" means a person described in subsection 2.1 of the Plan.

8.5 "Plan" when used without any modification or qualification thereof means this Supplemental Pension Benefit Plan.

8.6 "Retirement Income Plan" means the Retirement Income Plan which has been adopted by Caterpillar Inc. and certain of its subsidiaries.

EXHIBIT 12

CATERPILLAR INC.,
CONSOLIDATED SUBSIDIARY COMPANIES,
AND 50%-OWNED UNCONSOLIDATED AFFILIATED COMPANIES

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

	YEARS ENDED DECEMBER 31,				
	2004	2003	2002	2001	2000
Profit	$ 2,035	$ 1,099	$ 798	$ 805	$ 1,053
Add:					
Provision for income taxes	699	384	314	359	439
Profit before taxes	2,734	1,483	1,112	1,164	1,492
Fixed charges:					
Interest and other costs related to borrowed funds[1]	753	720	805	948	988
Rentals at computed interest factors[2]	92	82	81	86	90
Total fixed charges:	845	802	886	1,034	1,078
Profit before provision for income taxes and fixed charges	$ 3,579	$ 2,285	$ 1,998	$ 2,198	$ 2,570
Ratio of profit to fixed charges	4.2	2.9	2.3	2.1	2.4

(1) Interest expense as reported in Consolidated Results of Operations plus the Company's proportionate share of 50 percent-owned unconsolidated affiliated companies' interest expense.

(2) Amounts represent those portions of rent expense that are reasonable approximations of interest costs.

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APPENDIX

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2004

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework.* Based on our assessment we concluded that, as of December 31, 2004, the Company's internal control over financial reporting was effective based on those criteria.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page A-4.

James W. Owens
Chairman of the Board

David B. Burritt
Chief Financial Officer

February 24, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PRICEWATERHOUSECOOPERS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF CATERPILLAR INC.:

We have completed an integrated audit of Caterpillar Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying statements of consolidated financial position and the related statements of consolidated results of operations, changes in stockholders' equity and consolidated cash flow, including pages A-5 through A-34, present fairly, in all material respects, the financial position of Caterpillar Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-3, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Peoria, Illinois
February 24, 2005

STATEMENT 1

Consolidated Results of Operations for the Years Ended December 31

(Dollars in millions except per share data)

	2004	2003	2002
Sales and revenues:			
Sales of Machinery and Engines	**$ 28,336**	$ 21,048	$ 18,648
Revenues of Financial Products	**1,915**	1,715	1,504
Total sales and revenues	**30,251**	22,763	20,152
Operating costs:			
Cost of goods sold	**22,420**	16,945	15,146
Selling, general and administrative expenses	**3,072**	2,470	2,094
Research and development expenses	**928**	669	656
Interest expense of Financial Products	**520**	470	521
Other operating expenses	**578**	521	411
Total operating costs	**27,518**	21,075	18,828
Operating profit	**2,733**	1,688	1,324
Interest expense excluding Financial Products	**230**	246	279
Other income (expense)	**204**	35	69
Consolidated profit before taxes	**2,707**	1,477	1,114
Provision for income taxes	**731**	398	312
Profit of consolidated companies	**1,976**	1,079	802
Equity in profit (loss) of unconsolidated affiliated companies	**59**	20	(4)
Profit	**$ 2,035**	$ 1,099	$ 798
Profit per common share	**$ 5.95**	$ 3.18	$ 2.32
Profit per common share—diluted(1)	**$ 5.75**	$ 3.13	$ 2.30
Weighted-average common shares outstanding (millions)			
—Basic	**342.3**	345.2	344.0
—Diluted(1)	**353.7**	351.4	346.9
Cash dividends declared per common share	**$ 1.60**	$ 1.44	$ 1.40

(1)

Diluted by assumed exercise of stock options, using the treasury stock method.

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 2

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

(Dollars in millions)

	2004		2003		2002	
Common stock:						
Balance at beginning of year	**$ 1,059**		$ 1,034		$ 1,043	
Shares issued from treasury stock	**172**		25		(9)	
Balance at year-end	**1,231**		1,059		1,034	
Treasury stock:						
Balance at beginning of year	**(2,914)**		(2,669)		(2,696)	
Shares issued: 2004—6,108,309; 2003—4,956,973; 2002—878,623	**176**		160		27	
Shares repurchased: 2004—6,933,400; 2003—5,450,000	**(539)**		(405)		—	
Balance at year-end	**(3,277)**		(2,914)		(2,669)	
Profit employed in the business:						
Balance at beginning of year	**8,450**		7,849		7,533	
Profit	**2,035**	**$ 2,035**	1,099	$ 1,099	798	$ 798
Dividends declared	**(548)**		(498)		(482)	
Balance at year-end	**9,937**		$ 8,450		7,849	
Accumulated other comprehensive income:						
Foreign currency translation adjustment:						
Balance at beginning of year	**348**		86		(17)	
Aggregate adjustment for year	**141**	**141**	262	262	103	103
Balance at year-end	**489**		348		86	
Minimum pension liability adjustment—consolidated companies:						
Balance at beginning of year (net of tax of: 2004—$460; 2003—$383; 2002—$82)	**(934)**		(771)		(161)	
Aggregate adjustment for year (net of tax of: 2004—$25; 2003—$77; 2002—$301)	**(59)**	**(59)**	(163)	(163)	(610)	(610)
Balance at year-end (net of tax of: 2004—$485; 2003—$460; 2002—$383)	**(993)**		(934)		(771)	
Minimum pension liability adjustment—unconsolidated companies:						
Balance at beginning of year	**(48)**		(37)		(41)	
Aggregate adjustment for year	—	—	(11)	(11)	4	4
Balance at year-end	**(48)**		(48)		(37)	
Derivative financial instruments:						
Balance at beginning of year (net of tax of: 2004—$54; 2003—$5; 2002—$17)	**104**		11		(26)	
Gains deferred during year (net of tax of: 2004—$48; 2003—$29; 2002—$10)	**90**	**90**	53	53	15	15
(Gains)/losses reclassified to earnings during year (net of tax of: 2004—$44; 2003—$20; 2002—$11)	**(84)**	**(84)**	40	40	22	22

	2004		2003		2002	
Balance at year-end (net of tax of: 2004—$58; 2003—$54; 2002—$4)	**110**		104		11	
Available-for-sale securities:						
Balance at beginning of year (net of tax of: 2004—$7; 2003—$17; 2002—$13)	**13**		(31)		(24)	
Gains/(losses) deferred during year (net of tax of: 2004—$3; 2003—$12; 2002—$16)	**6**	**6**	23	23	(29)	(29)
(Gains)/losses reclassified to earnings during year (net of tax of: 2004—$1; 2003—$11; 2002—$12)	**(1)**	**(1)**	21	21	22	22
Balance at year-end (net of tax of: 2004—$10; 2003—$7; 2002—$17)	**18**		13		(31)	
Total accumulated other comprehensive income	**(424)**		(517)		(742)	
Comprehensive income		**$ 2,128**		$ 1,324		$ 325
Stockholders' equity at year-end	**$ 7,467**		$ 6,078		$ 5,472	

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 3
Consolidated Financial Position at December 31
(Dollars in millions)

	2004	2003	2002
Assets			
Current assets:			
Cash and short-term investments	**$ 445**	$ 342	$ 309
Receivables—trade and other	**7,616**	4,025	3,192
Receivables—finance	**6,510**	5,508	5,066
Retained interests in securitized trade receivables	**—**	1,550	1,145
Deferred and refundable income taxes	**398**	707	781
Prepaid expenses	**1,369**	1,424	1,224
Inventories	**4,675**	3,047	2,763
Total current assets	**20,856**	16,603	14,480
Property, plant and equipment—net	**7,682**	7,251	7,009
Long-term receivables—trade and other	**764**	510	433
Long-term receivables—finance	**8,575**	7,394	6,347
Investments in unconsolidated affiliated companies	**517**	800	747
Deferred income taxes	**674**	616	711
Intangible assets	**315**	239	281
Goodwill	**1,450**	1,398	1,402
Other assets	**2,258**	1,895	1,295
Total assets	**$ 43,091**	$ 36,706	$ 32,705
Liabilities			
Current liabilities:			
Short-term borrowings:			
—Machinery and Engines	**$ 93**	$ 72	$ 64
—Financial Products	**4,064**	2,685	2,111
Accounts payable	**3,990**	2,568	1,790
Accrued expenses	**1,847**	1,638	1,620
Accrued wages, salaries and employee benefits	**1,730**	1,802	1,779
Customer advances	**555**	305	259
Dividends payable	**141**	127	120
Deferred and current income taxes payable	**259**	216	70
Long-term debt due within one year:			
—Machinery and Engines	**6**	32	258
—Financial Products	**3,525**	2,949	3,654
Total current liabilities	**16,210**	12,394	11,725
Long-term debt due after one year:			
—Machinery and Engines	**3,663**	3,603	3,581
—Financial Products	**12,174**	10,943	8,193
Liability for postemployment benefits	**2,986**	3,172	3,333
Deferred income taxes and other liabilities	**591**	516	401
Total liabilities	**35,624**	30,628	27,233

Stockholders' equity			
Common stock of $1.00 par value:			
Authorized shares: 900,000,000 Issued shares (2004, 2003 and 2002—407,447,312) at paid-in amount	**1,231**	1,059	1,034
Treasury stock (2004—64,510,363 shares; 2003—63,685,272 shares; and 2002—63,192,245 shares) at cost	**(3,277)**	(2,914)	(2,669)
Profit employed in the business	**9,937**	8,450	7,849
Accumulated other comprehensive income	**(424)**	(517)	(742)
Total stockholders' equity	**7,467**	6,078	5,472
Total liabilities and stockholders' equity	**$ 43,091**	$ 36,706	$ 32,705

See accompanying Notes to Consolidated Financial Statements.

STATEMENT 4

Consolidated Statement of Cash Flow for the Years Ended December 31

(Millions of dollars)

	2004	2003	2002
Cash flow from operating activities:			
Profit	**$ 2,035**	$ 1,099	$ 798
Adjustments for non-cash items:			
Depreciation and amortization	**1,397**	1,347	1,220
Other	**(113)**	(69)	350
Changes in assets and liabilities:			
Receivables—trade and other (see non-cash item below)	**(7,616)**	(8,115)	(6,323)
Inventories	**(1,391)**	(286)	162
Accounts payable and accrued expenses	**1,457**	542	97
Other—net	**240**	(129)	(266)
Net cash used for operating activities	**(3,991)**	(5,611)	(3,962)
Cash flow from investing activities:			
Capital expenditures—excluding equipment leased to others	**(926)**	(682)	(728)
Expenditures for equipment leased to others	**(1,188)**	(1,083)	(1,045)
Proceeds from disposals of property, plant and equipment	**673**	761	561
Additions to finance receivables	**(8,930)**	(6,868)	(5,933)
Collections of finance receivables	**6,216**	5,251	4,569
Proceeds from sale of finance receivables	**700**	661	613
Collections of retained interests in securitized trade receivables	**5,722**	7,129	5,917
Investments and acquisitions (net of cash acquired)	**(290)**	(268)	(294)
Proceeds from sale of partnership investment	**290**	—	—
Other—net	**(190)**	(17)	(40)
Net cash provided by investing activities	**2,077**	4,884	3,620
Cash flow from financing activities:			
Dividends paid	**(534)**	(491)	(481)
Common stock issued, including treasury shares reissued	**317**	157	10
Treasury shares purchased	**(539)**	(405)	—
Proceeds from long-term debt issued:			
—Machinery and Engines	**9**	128	248
—Financial Products	**5,079**	5,506	3,889
Payments on long-term debt:			
—Machinery and Engines	**(35)**	(463)	(225)
—Financial Products	**(2,973)**	(3,774)	(3,114)
Short-term borrowings—net	**550**	87	(102)
Net cash provided by financing activities	**1,874**	745	225
Effect of exchange rate changes on cash	**143**	15	26
Increase (decrease) in cash and short-term investments	**103**	33	(91)
Cash and short-term investments at beginning of period	**342**	309	400

Cash and short-term investments at end of period	**$ 445**	$ 342	$ 309

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 operating and investing activities:

Trade receivables of $6,786 million, $7,534 million and $6,278 million were exchanged for retained interests in securitized trade receivables in 2004, 2003 and 2002, respectively. See Note 2 on page A-12 for further discussion.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and summary of significant accounting policies

A. Nature of operations

We operate in three principal lines of business:

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

(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. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,200 to 20,500 horsepower (900 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 subsidiaries. Cat Financial provides a wide range of financing alternatives 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 active investor in independent power projects using Caterpillar power generation equipment and services.

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

Our products are sold primarily under the brands "Caterpillar," "Cat," "Solar Turbines," "MaK," "Perkins," "FG Wilson" and "Olympian."

We conduct operations in our Machinery and Engines lines of business under highly competitive conditions, including intense price competition. We place great emphasis on the high quality and performance of our products and our dealers' service support. Although no one competitor is believed to produce all of the same types of machines and engines that we do, there are numerous companies, large and small, which compete with us in the sale of each of our products.

Machines are distributed principally through a worldwide organization of dealers (dealer network), 53 located in the United States and 145 located outside the United States. Worldwide, these dealers serve 178 countries and operate 3,324 places of business, including 1,437 dealer rental outlets. Reciprocating engines are sold principally through the dealer network and to other manufacturers for use in products manufactured by them. Some of the reciprocating engines manufactured by Perkins are also sold through a worldwide network of 170 distributors located in 150 countries. Most of the electric power generation systems manufactured by FG Wilson are sold through a worldwide network of 250 dealers located in 170 countries. Our dealers do not deal exclusively with our products; however, in most cases sales and servicing of our products are the dealers' principal business. Turbines and large marine reciprocating engines are sold through sales forces employed by Solar and MaK, respectively. Occasionally, these employees are assisted by independent sales representatives.

Manufacturing activities of the Machinery and Engines lines of business are conducted in 40 plants in the United States; nine in the United Kingdom; eight in Italy; five in Mexico; four in China; three each in France, India and Northern Ireland; two each in Australia, Germany, Brazil, and Japan; and one each in Belgium, Canada, Hungary, Indonesia, The Netherlands, Poland, Russia, South Africa and Switzerland. Thirteen parts distribution centers are located in the United States and twelve are located outside the United States.

The Financial Products line of business also conducts operations under highly competitive conditions. Financing for users of Caterpillar products is available through a variety of competitive sources, principally commercial banks and finance and leasing companies. We emphasize prompt and responsive service to meet customer requirements and offer various financing plans designed to increase the opportunity for sales of our products and generate financing income for our company. Financial Products activity is conducted primarily in the United States, with additional offices in Asia, Australia, Canada, Europe and Latin America.

See Note 2 on page A-12 for discussion of the reclassification of certain receivables and related cash flows.

B. Basis of consolidation

The financial statements include the accounts of Caterpillar Inc. and its subsidiaries. Investments in companies that are owned 20% to 50% or are less than 20% owned and for which we have significant influence are accounted for by the equity method (see Note 11 on page A-18). We consolidate all variable interest entities where Caterpillar Inc. is the primary beneficiary.

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation. These reclassifications had no impact on operating profit.

In the second quarter of 2003, we revised our policy regarding the classification of certain costs related to distributing replacement parts. Previously, these costs had been included in selling, general and administrative expenses and now are included in cost of goods sold. This classification is more consistent with industry practice. The parts distribution costs include shipping and handling (including warehousing) along with related support costs such as information technology, purchasing and inventory management. Prior period amounts have been revised to conform to the new classification. In 2003 and 2002, the amounts reclassified from selling, general and administrative expenses to cost of goods sold were $443 million and $437 million, respectively.

C. Sales and revenue recognition

Sales of Machinery and Engines are recognized when title transfers and the risks and rewards of ownership have passed to customers or independently owned and operated dealers.

Our standard invoice terms are established by marketing region. When a sale is made to a dealer, the dealer is responsible for payment even if the product is not sold to an end customer and must make payment within the standard terms to avoid interest costs. Interest at or above prevailing market rates is charged on any past due balance. Our policy is to not forgive this interest. In 2004, 2003 and 2002, terms were extended to not more than one year for $15 million, $54 million and $193 million of receivables, respectively. For 2004 and 2003, these amounts represent less than 1% of consolidated sales. For 2002, this amount represents approximately 1% of consolidated sales.

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

Payment Terms (months)	2004 Sales	2004 Percent of Sales	2003 Sales	2003 Percent of Sales	2002 Sales	2002 Percent of Sales
	(Dollars in millions)					
2	**$ 96**	**0.3 %**	$ 116	0.6 %	$ 62	0.3 %
3	**175**	**0.6 %**	27	0.1 %	118	0.6 %
4	**117**	**0.4 %**	28	0.1 %	11	0.1 %
5	**750**	**2.6 %**	594	2.8 %	447	2.4 %
6	**6,172**	**21.9 %**	4,104	19.5 %	3,503	18.8 %
7-12	**831**	**2.9 %**	671	3.2 %	465	2.5 %
	$ 8,141	**28.7 %**	$ 5,540	26.3 %	$ 4,606	24.7 %

We establish a bad debt allowance for Machinery and Engines receivables when it becomes probable that the receivable will not be collected. Our allowance for bad debts is not significant. No significant write-offs of Machinery and Engines receivables were made during 2004, 2003 or 2002.

Revenues of Financial Products represent primarily finance and lease revenues of Cat Financial. Finance revenues are recognized over the term of the contract at a constant rate of return on the scheduled uncollected principal balance. Lease revenues are recognized in the period earned. Recognition of income is suspended when collection of future income is not probable. Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cat Financial provides wholesale inventory financing to dealers. Please refer to Note 7 on page A-16 for more information.

D. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the last-in, first-out (LIFO) method. The value of inventories on the LIFO basis represented about 80% of total inventories at December 31, 2004, 2003 and 2002.

If the FIFO (first-in, first-out) method had been in use, inventories would have been $2,124 million, $1,863 million and $1,977 million higher than reported at December 31, 2004, 2003 and 2002, respectively.

E. Securitized receivables

When retail finance receivables are securitized, we retain interest in the receivables in the form of interest-only strips, servicing rights, cash reserve accounts and subordinated certificates. Gains or losses on the securitization are dependent on the purchase price being allocated between the carrying value of the securitized receivables and the retained interests based on their relative fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment speeds, forward yield curves and discount rates. Please refer to Note 8 on Page A-17 for more information.

When trade receivables are securitized, we retain interests in the receivables in the form of certificates. The fair value of these certificated retained interests approximates carrying value due to their short-term nature. Please refer to Note 6 on Page A-16 for more information.

F. Depreciation and amortization

Depreciation of plant and equipment is computed principally using accelerated methods. Depreciation on equipment leased to others, primarily for Financial Products, is computed using the straight-line method over the term of the lease. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term. In 2004, 2003 and 2002, Financial Products depreciation on equipment leased to others was $575 million, $527 million and $415 million, respectively, and was included in "Other operating expenses" in Statement 1. Amortization of purchased intangibles is computed using the straight-line method, generally not to exceed a period of 20 years. Accumulated amortization was $91 million, $44 million and $47 million at December 31, 2004, 2003 and 2002, respectively.

G. Foreign currency translation

The functional currency for most of our Machinery and Engines consolidated companies is the U.S. dollar. The functional currency for most of our Financial Products and equity basis companies is the respective local currency. Gains and losses resulting from the translation of foreign currency amounts to the functional currency are included in "Other income (expense)" in Statement 1. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in "Accumulated other comprehensive income" in Statement 3.

H. Derivative financial instruments

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

All derivatives are recognized on the Consolidated Financial Position at their fair value. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized liability ("fair value" hedge), (2) a hedge of a forecasted transaction or the variability of cash flow to be paid ("cash flow" hedge), or (3) an "undesignated" instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions.

This process includes linking all derivatives that are designated as fair value hedges to specific liabilities on the Consolidated Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Please refer to Note 3 on pages A-13 to A-14 for more information on derivatives.

I. Impairment of available-for-sale securities

Available-for-sale securities are reviewed monthly to identify market values below cost of 20% or more. If a decline for a debt security is in excess of 20% for six months, the investment is evaluated to determine if the decline is due to general declines in the marketplace or if the investment has been impaired and should be written down to market value pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). After the six-month period, debt securities with declines from cost in excess of 20% are evaluated monthly for impairment. For equity securities, if a decline from cost of 20% or more continues for a 12-month period, an other than temporary impairment is recognized without continued analysis.

J. Income taxes

The provision for income taxes is determined using the asset and liability approach for accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

K. Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts. The more significant estimates include: residual values for leased assets, fair market values for goodwill impairment tests, and reserves for warranty, product liability and insurance losses, postemployment benefits, post-sale discounts, credit losses and income taxes.

L. New accounting standards

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

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (SFAS 153), "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS 153 addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 "Accounting for Nonmonetary Transactions" and replaces it with an exception for exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. As required by SFAS 153, we will adopt this new accounting standard effective July 1, 2005. The adoption of SFAS 153 is not expected to have a material impact on our financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (SFAS 123R) "Share-Based Payment." SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123R also establishes fair value as the measurement method in accounting for share-based payments to employees. As required by SFAS 123R, we will adopt this new accounting standard effective July 1, 2005. We will transition to the new guidance using the modified prospective method. In anticipation of delaying vesting until three years after the grant date for future grants, the 2004 employee stock option grant (issued in June) fully 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. We expect the application of the expensing provisions of SFAS 123R will result in a pretax expense of approximately $20 million in the second half of 2005. As a result of the vesting decisions discussed above, a full complement of expense related to stock options will not be recognized in our results of operations until 2009. Based on the same assumptions used to calculate our 2004 stock option grant, we estimate our pretax expense associated with our stock option grants will range from $50 million in 2006 to $150 million in 2009.

M. Stock based compensation

We currently use the intrinsic value method of accounting for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense is recognized in association with our options.

The fair value of the options granted in 2004 was estimated using the binomial option-pricing model. We believe this model more accurately reflects the value of the options than using the

Black-Scholes option-pricing model. Previous years grants continue to be valued using the Black-Scholes model. Please refer to Note 18 on page A-25 for additional information on our stock based compensation plans.

Pro forma net profit and profit per share using the binomial option-pricing model for the 2004 grant and the Black-Scholes option-pricing model for 2003 and previous grants were:

	Years ended December 31,		
	2004	**2003**	**2002**
	(Dollars in millions except per share data)		
Profit, as reported	**$ 2,035**	$ 1,099	$ 798
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(161)**	(69)	(65)
Pro forma net income	**$ 1,874**	$ 1,030	733
Profit per share of common stock:			
As reported:			
Basic	**$ 5.95**	$ 3.18	$ 2.32
Diluted	**$ 5.75**	$ 3.13	$ 2.30
Pro forma:			
Basic	**$ 5.48**	$ 2.98	$ 2.13
Diluted	**$ 5.30**	$ 2.93	$ 2.13

Pro forma net profit and profit per share in 2004 using the Black-Scholes option-pricing model would have been:

	Years ended December 31, 2004
	(Dollars in millions except per share data)
Profit, as reported	**$ 2,035**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(202)**
Pro forma net income	**$ 1,833**
Profit per share of common stock:	
As reported:	
Basic	**$ 5.95**
Diluted	**$ 5.75**
Pro forma:	
Basic	**$ 5.35**
Diluted	**$ 5.18**

2. Reclassification of certain receivables and related cash flows

A. Consolidated financial position

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. Cat Financial holds the receivables and periodically securitizes a portion of the dealer receivables using a revolving securitization structure. Cat Financial's portion of the securitized trade receivables is represented by certificated retained interests. Cat Financial also generates wholesale inventory receivables from its direct financing of inventory purchases by dealers. Previously, the certificated retained interests as well as the wholesale inventory receivables were classified as Finance Receivables in our Consolidated Financial Position. In the fourth quarter of 2004, we reclassified the certificated retained interests from Finance Receivables to Retained Interests in Securitized Trade Receivables and the wholesale inventory receivables from Finance Receivables to Trade and Other Receivables in our Consolidated Financial Position. These changes were made to align the financial position with the cash flow changes discussed below.

B. Consolidated statement of cash flow

During the fourth quarter of 2004, the staff of the Securities and Exchange Commission expressed concern regarding the classifications of certain cash flows by companies with captive finance subsidiaries. As a result of this concern, management decided to make reclassifications to the 2003 and 2002 Consolidated Statements of Cash Flow as described below.

Securitized trade receivables

Previously, we reported an increase in cash flow from operating activities in the Consolidated Statement of Cash Flow when Machinery and Engines sold receivables to Cat Financial that were subsequently securitized. Concurrently, Cat Financial's entire purchase of these receivables was included in Additions to Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. The receivables were immediately securitized and the portion sold to a third party was included in Proceeds from Sale of Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. Subsequently, collection of the certificated retained interests was included in Collection of Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. This cash flow treatment followed our principal lines of business reporting, however, when we reported an increase in cash flow from operating activities and a corresponding outflow from investing activities there was no increase in cash on a consolidated basis from the sale of inventory to our dealers and customers.

In the fourth quarter of 2004, we made a reclassification to eliminate the offsetting non-cash intercompany transactions in the Consolidated Statement of Cash Flow. In addition, we reclassified the proceeds from sale of trade receivables to operating activities. The reclassification properly classifies cash receipts from the sale of inventory as operating activities and reflects that these cash flows, although held and managed by Cat Financial, arise from our sale of Machinery and Engines inventory.

The securitization structure mentioned above involves a securitization trust. During 2002 and 2003, the trust was a qualifying special purpose entity (QSPE) and thus, in accordance with Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", was not consolidated. (See Note 6 on page A-16 for discussion of the 2004 QSPE status of the trust.) When receivables were placed into the trust, we received cash for the portion sold to third party purchasers and the portion retained by Cat Financial was represented by certificated retained interests. Placing receivables into a securitization trust changes their nature and the receipt of certificated retained interests is considered a non-cash transaction. We have noted this non-cash transaction on the Consolidated Statement of Cash Flow and quantified the receivables decrease resulting from this transaction and thus excluded from operating activities. This reflects that certificated retained interests, not cash, were received for these sales. The certificated retained interests are considered held-to-maturity securities as defined by SFAS 115. SFAS 115 requires that collection of held-to-maturity securities be classified as an investing activity. We have therefore reclassified the collection of the certificated retained interests from Collection of Finance Receivables to Collections of Retained Interests in Securitized Trade Receivables within the investing activities section of the Consolidated Statement of Cash Flow. The impact of these changes is a significant reduction to cash flow from operating activities and a significant increase in cash flow from investing activities. This reflects that although inventory was sold, the nature of the receivable was changed to a security. The subsequent collection of that security is shown as an investing activity.

Wholesale inventory receivables

Previously, we reported an increase in cash flow from operating activities when a dealer remitted payment for a trade receivable that was subsequently financed with the issuance of a wholesale inventory receivable by Cat Financial. The issuance of a wholesale inventory receivable by Cat Financial was reported as an Addition to Finance Receivables in the Consolidated Statement of Cash Flow and the subsequent collection was reported as a Collection of Finance Receivables. Similar to securitized receivables, this cash flow treatment followed our principal lines of business reporting, however, when we reported an increase in cash flow from operating activities and a corresponding outflow from investing activities there was no increase in cash on a consolidated basis from the sale of inventory to our dealers and customers. We therefore eliminated the offsetting non-cash transaction in the Consolidated Statement of Cash Flow. In addition, we reclassified the collection of wholesale inventory receivables to operating activities. The reclassification properly classifies cash receipts from the sale of inventory as operating activities and reflects that these cash flows, although held and managed by Cat Financial, arise from our sale of Machinery and Engines inventory.

These reclassifications had no impact on the Increase in Cash and Short-term Investments on the Statement of Consolidated Cash Flow.

Prior amounts reported have been reclassified to conform to this presentation as follows:

	2003			2002		
	Previous classification(1)	Change	As Reclassified	Previous classification(1)	Change	As Reclassified
	(Millions of dollars)					
Consolidated Financial Position—Statement 3						
Receivables—trade and other	$ 3,666	$ 359	$ 4,025	$ 2,838	$ 354	$ 3,192
Receivables—finance	7,417	(1,909)	5,508	6,565	(1,499)	5,066
Retained interests in securitized trade receivables	—	1,550	1,550	—	1,145	1,145
Long-term receivables—trade and other	82	428	510	66	367	433
Long-term receivables—finance	7,822	(428)	7,394	6,714	(367)	6,347
Consolidated Statement of Cash Flow—Statement 4						
Receivables—trade and other	$ (438)	$ (7,677)	$ (8,115)	$ 5	$ (6,328)	$ (6,323)
Net cash provided by (used for) operating activities	**2,066**	**(7,677)**	**(5,611)**	**2,366**	**(6,328)**	**(3,962)**
Additions to finance receivables	(17,146)	10,278	(6,868)	(15,338)	9,405	(5,933)
Collections of finance receivables	13,882	(8,631)	5,251	11,866	(7,297)	4,569
Proceeds from sale of finance receivables	1,760	(1,099)	661	2,310	(1,697)	613
Collections of retained interests in securitized trade receivables	—	7,129	7,129	—	5,917	5,917
Net cash provided by (used for) investing activities	**(2,793)**	**7,677**	**4,884**	**(2,708)**	**6,328**	**3,620**

(1)

Certain amounts do not agree to prior period reported amounts due to unrelated reclassifications.

3. Derivative financial instruments and risk management

A. Foreign currency exchange rate risk

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

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

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, euro, Japanese yen, Mexican peso or Singapore dollar forward or option contracts that exceed 90 days in duration. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery and Engines foreign currency contracts are undesignated.

As of December 31, 2004, $102 million of deferred net gains included in equity ("Accumulated other comprehensive income" in Statement 3), related to Machinery and Engines foreign currency contracts designated as cash flow hedges, is expected to be reclassified to current earnings ["Other income (expense)"] over the next twelve months. There were no circumstances where hedge treatment was discontinued during 2004, 2003 or 2002.

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

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

	2004	**2003**	**2002**
		(Millions of dollars)	
Machinery and Engines:			
On undesignated contracts	**$ (9)**	$ (1)	$ —
Due to changes in time and volatility value on options	**—**	—	$ (1)
Financial Products:			
On undesignated contracts	**$ (46)**	$ (121)	$ (96)
	$ (55)	$ (122)	$ (97)

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

B. Interest rate risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed rate debt. Our policy is to use interest rate swap agreements and forward rate agreements to manage our exposure to interest rate changes and 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 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 fixed-to-floating interest rate swaps. Deferred gains on liquidated fixed-to-floating interest rate swaps, which were previously designated as fair value hedges, are being amortized to earnings ratably over the remaining life of the hedged debt. We designate as cash flow hedges at inception of the contract all forward rate agreements. Designation as a hedge of the anticipated issuance of debt is performed to support hedge accounting. Machinery and Engines forward rate agreements are 100% effective.

Financial Products operations have a "match funding" objective whereby, within specified boundaries, the interest rate profile (fixed rate or floating rate) of their debt portfolio matches the interest rate profile of their receivables. In connection with that objective, we use interest rate derivative instruments to modify the debt structure to match the receivable portfolio. This "match funding" reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. We also use these instruments to gain an economic and/or competitive advantage through a lower cost of borrowed funds. This is accomplished by changing the characteristics of existing debt instruments or entering into new agreements in combination with the issuance of new debt.

Our policy allows us to issue 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 inception of the swap contract. Financial Products policy 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. During 2004, Financial Products operations liquidated three fixed-to-floating interest rate swaps and during 2002, Financial Products liquidated four such swaps. As a result, the fair value adjustment of the original debt is being amortized to earnings ratably over the remaining life of the hedged debt.

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

	2004	**2003**	**2002**
		(Millions of dollars)	

Fixed-to-floating interest rate swaps			
Machinery and Engines:			
Gain on liquidated swaps	**$ 5**	$ 6	$ 8
Financial Products:			
Gain/(loss) on designated interest rate derivatives	**(28)**	(20)	17
Gain/(loss) on hedged debt	**28**	20	(17)
Gain on liquidated swaps—included in interest expense	**2**	2	1
	$ 7	$ 8	$ 9

As of December 31, 2004, $3 million of deferred net losses included in equity ("Accumulated other comprehensive income" in Statement 3), related to Financial Products floating-to-fixed interest rate swaps, is expected to be reclassified to current earnings ("Interest expense of Financial Products") over the next twelve months. There were no circumstances where hedge treatment was discontinued during 2004, 2003 or 2002 in either Machinery and Engines or Financial Products.

C. Commodity price risk

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

Our Machinery and Engines operations purchase aluminum, copper and nickel embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter commodity forward and option contracts to lock in the purchase price of the commodities within a four-year horizon. All such commodity forward and option contracts are undesignated. Gains on the undesignated contracts of $15 million, $27 million and $1 million were recorded in current earnings ["Other income (expense)"] for 2004, 2003 and 2002, respectively.

4. Other income (expense)

	Years ended December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Investment and interest income	**$ 96**	$ 49	$ 31
Foreign exchange gains	**116**	35	13
Charge for early retirement of debt	**—**	(55)	—
Miscellaneous income (loss)	**(8)**	6	25
	$ 204	$ 35	$ 69

5. Income taxes

The components of profit before taxes were:

	Years ended December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
U.S	**$ 1,106**	$ 489	$ 343
Non-U.S	**1,601**	988	771
	$ 2,707	$ 1,477	$ 1,114

Profit before taxes, as shown above, is based on the location of the entity to which such earnings are attributable. However, since such earnings are subject to taxation in more than one country, the income tax provision shown below as U.S. or non-U.S. may not correspond to the earnings shown above.

The components of the provision for income taxes were:

	Years ended December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Current tax provision (credit):			
U.S. Federal	**$ 136**	$ 24	$ (62)
Non-U.S	**308**	196	210
State (U.S.)	**13**	10	1
	457	230	149
Deferred tax provision (credit):			
U.S. Federal	**301**	182	172
Non-U.S	**(24)**	(21)	(20)
State (U.S.)	**(3)**	7	11
	274	168	163
Total provision for income taxes	**$ 731**	$ 398	$ 312

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

	Years ended December 31,		
	2004	**2003**	**2002**
U.S. statutory rate	**35.0 %**	35.0 %	35.0 %
(Decreases) increases in taxes resulting from:			
Benefit of foreign sales corporation/extraterritorial income exclusion	**(4.9)%**	(4.9)%	(4.4)%
Non-U.S. subsidiaries taxed at other than 35%	**(3.7)%**	(4.0)%	(3.4)%
Other—net	**0.6 %**	0.9 %	0.8 %

Provision for income taxes	**27.0 %**	27.0 %	28.0 %

We paid income taxes of $326 million, $55 million and $124 million in 2004, 2003 and 2002, respectively.

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. companies which are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not feasible.

Certain subsidiaries operating in China qualify for holidays from income tax, which consist of a two-year full exemption from tax followed by a three-year 50% reduction in the applicable tax rate. The tax holiday begins the first year the subsidiary generates taxable income after utilization of any carryforward losses. The dollar effect in 2004 was $2 million or less than $.01 per share and $10 million or $.03 per share in 2003.

Deferred income tax assets and liabilities:

	December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Deferred income tax assets:			
Postemployment benefits other than pensions	**$ 1,092**	$ 1,147	$ 1,130
Warranty reserves	**212**	163	204
Unrealized profit excluded from inventories	**153**	136	109
Tax carryforwards	**480**	370	230
Inventory valuation method	**35**	37	60
Pension	**—**	—	39
Deferred compensation	**57**	48	38
Allowance for credit losses	**73**	66	55
Unremitted earnings of non-U.S subs	**—**	25	60
Other	**200**	158	144
	2,302	2,150	2,069
Deferred income tax liabilities:			
Capital assets	**(903)**	(731)	(597)
Pension	**(216)**	(102)	—
Unremitted earnings of non-U.S subs	**(131)**	—	—
	(1,250)	(833)	(597)
Valuation allowance for deferred tax assets	**(24)**	(37)	(34)
Deferred income taxes—net	**$ 1,028**	$ 1,280	$ 1,438

SFAS 109 requires that individual tax-paying entities of the company offset all current deferred tax liabilities and assets within each particular tax jurisdiction and present them as a single amount in the Consolidated Financial Position. A similar procedure is followed for all noncurrent deferred tax liabilities and assets. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes at December 31, included on the following lines in Statement 3, are as follows:

	2004	2003	2002
	(Millions of dollars)		

Assets:			
Deferred and refundable income taxes	**$ 397**	$ 702	$ 777
Deferred income taxes	**674**	616	711
	$ 1,071	$ 1,318	$ 1,488
Liabilities:			
Deferred and current income taxes payable	**$ 20**	$ 18	$ 8
Deferred income taxes and other liabilities	**23**	20	42
Deferred income taxes—net	**$ 1,028**	$ 1,280	$ 1,438

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, 2004, amounts and expiration dates of net operating loss carryforwards in various non-U.S. taxing jurisdictions were:

2005	**2006**	**2007**	**2008**	**2009-2014**	**Unlimited**	**Total**
			(Millions of dollars)			
$ 9	$ 10	$ 6	$ 6	$ 95	$ 557	$ 683

As of December 31, 2004, approximately $592 million of state tax net operating loss carryforwards were available. Of these, 86% expire after 2014.

As of December 31, 2004, approximately $222 million of regular foreign tax credits and $19 million of credit for research activities were available to carry forward in the United States. Of the foreign tax credits, $115 million will expire in 2013, $75 million will expire in 2014, and $32 million will expire in 2015. The research credits will begin to expire in 2023.

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 will apply the guidance in FSP 109-1 upon recognition of this tax deduction beginning January 1, 2005. The application of FSP 109-1 will 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 certain 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 allows companies time beyond the financial reporting period of enactment to evaluate the effect of the Act.

We have started an evaluation of the effects of the repatriation provision. However, we do not expect to be able to complete this evaluation until after Congress and the Treasury Department provide additional clarification on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of all relevant guidance. The range of possible amounts, including the base, which we are considering for repatriation under this provision, is between zero and $1 billion. The related potential range of incremental provision for income taxes is between zero and $75 million.

6. Retained interests in securitized 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. Cat Financial holds the receivables and periodically securitizes a portion of the dealer receivables using a revolving securitization structure. The trust issues a collateralized trust obligation (CTO) certificate to third party purchasers for their portion of these receivables. The trust also issues a transferor certificate (certificated retained interests) to Cat Financial for the portion not represented by the CTO.

For 2002 and 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. The certificated retained interests were included in "Retained Interests in Securitized Trade Receivables" in Statement 3.

From September through December of 2004, 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 3 and the CTO of $240 million was included in "Short-term Borrowings". Please refer to Note 15 on page A-24.

Cat Financial services the dealer receivables and receives an annual servicing fee of approximately 1% of the average outstanding principal balance of the CTO. Consolidated expenses of $7 million, $6 million and $10 million related to the CTO were recognized during 2004, 2003 and 2002, respectively, and are included in "Other income (expense)" on Statement 1. Expected credit losses are assumed to be 0% because dealer receivables have historically had no losses and none are expected in the future. The fair value of the certificated retained interests in dealer receivables approximates carrying 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 have no recourse to Cat Financial's assets for failure of debtors to pay when due.

	2004	2003	2002
Cash flow from securitizations:			
Proceeds from sales of receivables(1)	**$ 663**	$ 1,099	$ 1,696
Servicing fees received	**2**	2	3
Characteristics of securitized receivables:			
Principal balance at December 31:			
Certificated retained interests	**$ —**	$ 1,550	$ 1,145
Collateralized trust obligation	**—**	240	240
Average balance for the year ended December 31(1):			
Certificated retained interests	**1,936**	1,350	1,012
Collateralized trust obligation	**240**	240	324

(1)

For 2004, proceeds and average balances include only the periods the trust was a QSPE.

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 3 and were $991 million, $764 million and $691 million at December 31, 2004, 2003 and 2002, respectively. Please refer to Note 20 on pages A-25 and A-26 and Table III on page A-27 for fair value information.

Contractual maturities of outstanding wholesale inventory receivables:

	December 31, 2004			
Amounts Due In	**Wholesale Installment Contracts**	**Wholesale Finance Leases**	**Wholesale Notes**	**Total**
2005	$ 40	$ 23	$ 424	$ 487
2006	12	17	177	206
2007	7	16	125	148
2008	1	11	111	123
2009	—	5	8	13
Thereafter	—	—	2	2
	60	72	847	979
Guaranteed residual value	—	53	—	53
Less: Unearned income	1	14	26	41
Total	$ 59	$ 111	$ 821	$ 991

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 3 are net of an allowance for credit losses.

During 2004, 2003 and 2002, 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 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. For 2002, 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 $11 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 $13 million, $22 million and $18 million were recognized on these transactions in 2004, 2003 and 2002, respectively.

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

	2004	2003	2002
Discount rate	**10.7 %**	11.0 %	10.9 %
Weighted-average prepayment rate	**14.0 %**	14.0 %	14.0 %
Expected credit losses	**1.0 %**	1.0 %	1.0 %

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

As of December 31, 2004, 2003 and 2002, the subordinated retained interests in the public securitizations totaled $73 million, $73 million and $47 million, respectively. Key assumptions used to determine the fair value of the retained interests were:

	2004	2003	2002
Cash flow discount rates on retained interests and subordinated tranches	**10.7 %**	9.1-10.8 %	9.0-10.7 %
Weighted-average maturity	**28 months**	27 months	29 months
Average prepayment rate	**14.0 %**	14.0 %	14.0 %
Expected credit losses	**1.0 %**	1.0 %	1.0 %

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

We estimated the impact of individual 10% and 20% changes to the key economic assumptions used to determine the fair value of residual cash flow in retained interests on our income. An independent, adverse change to each key assumption had an immaterial impact on the fair value of residual cash flow.

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Investment in loans/finance leases on nonaccrual status were $176 million, $233 million and $370 million and past due over 90 days and still accruing were $11 million, $25 million and $72 million as of December 31, 2004, 2003, and 2002, respectively.

Cat Financial provides financing only when acceptable criteria are met. Credit decisions are based on, among other things, the customer's credit history, financial strength and intended use of equipment. Cat Financial typically maintains a security interest in retail financed equipment and requires physical damage insurance coverage on financed equipment.

Please refer to Table I on page A-18 for additional finance receivables information and Note 20 on pages A-25 to A-26 and Table III on page A-27 for fair value information.

9. Inventories

	December 3l,		
	2004	2003	2002
	(Millions of dollars)		
Raw materials	**$ 1,592**	$ 1,105	$ 900
Work-in-process	**664**	377	311
Finished goods	**2,209**	1,381	1,365
Supplies	**210**	184	187
Total inventories	**$ 4,675**	$ 3,047	$ 2,763

We had long-term material purchase obligations of approximately $815 million at December 31, 2004.

10. Property, plant and equipment

	Useful Lives (Years)	December 3l,		
		2004	2003	2002
		(Dollars in millions)		
Land	—	**$ 152**	$ 149	$ 149
Buildings and land improvements	20-45	**3,089**	3,006	3,039
Machinery, equipment and other	3-10	**7,361**	7,039	7,015
Equipment leased to others	—	**3,975**	3,609	2,996
Construction-in-process	—	**587**	487	305
Total property, plant and equipment, at cost		**15,164**	14,290	13,504
Less: Accumulated depreciation		**7,482**	7,039	6,495
Property, plant and equipment—net		**$ 7,682**	$ 7,251	$ 7,009

We had commitments for the purchase or construction of capital assets of approximately $169 million at December 31, 2004.

Assets recorded under capital leases(1):

	December 31,		
	2004	2003	2002
	(Millions of dollars)		
Gross capital leases(2)	**$ 326**	$ 321	$ 259
Less: Accumulated depreciation	**220**	213	170
Net capital leases	**$ 106**	$ 108	$ 89

(1)

Included in Property, plant and equipment table above.

(2)

Consists primarily of machinery and equipment.

TABLE I—Finance Receivables Information (Millions of dollars)

Contractual maturities of outstanding finance receivables:

Amounts Due In	December 31, 2004 Retail Installment Contracts	Retail Finance Leases	Retail Notes	Wholesale Notes	Total
2005	$ 2,361	$ 1,804	$ 1,698	$ 168	$ 6,031
2006	1,712	1,355	767	12	3,846
2007	1,089	820	536	8	2,453
2008	576	445	395	5	1,421
2009	189	210	366	4	769
Thereafter	47	242	775	3	1,067
	5,974	4,876	4,537	200	15,587
Residual value	—	919	—	—	919
Less: Unearned income	534	550	56	3	1,143
Total	$ 5,440	$ 5,245	$ 4,481	$ 197	$ 15,363

Impaired loans and leases:

	2004	2003	2002
Average recorded investment	**$ 265**	$ 321	$ 292
At December 31:			
Recorded investment	**$ 181**	$ 275	$ 366
Less: Impaired loans/finance leases for which there is no related allowance for credit losses (due to the fair value of underlying collateral)	**130**	177	233
Impaired loans/finance leases for which there is a related allowance for credit losses	**$ 51**	$ 98	$ 133

Allowance for credit loss activity:

	2004	2003	2002
Balance at beginning of year	**$ 241**	$ 207	$ 177
Provision for credit losses	**105**	101	109
Receivables written off	**(88)**	(104)	(103)
Recoveries on receivables previously written off	**16**	22	18
Other—net	**4**	15	6
Balance at end of year	**$ 278**	$ 241	$ 207

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,		
	2004	2003	2002
Total minimum lease payments receivable	**$ 4,876**	$ 4,096	$ 3,752
Estimated residual value of leased assets:			
Guaranteed	**379**	323	268
Unguaranteed	**540**	558	597
	5,795	4,977	4,617
Less: Unearned income	**550**	498	473
Net retail finance leases	**$ 5,245**	$ 4,479	$ 4,144

	2004	2003	2002
Cash flow from securitizations:			
Proceeds from initial sales of receivables	**$ 639**	$ 661	$ 614
Servicing fees received	**9**	8	7
Cash flows received on retained interests	**34**	15	33
Characteristics of securitized receivables:			
At December 31:			
Total securitized principal balance	**$ 815**	$ 813	$ 726
Loans more than 30 days past due	**26**	34	32
Weighted average maturity (in months)	**28**	27	29
For the year ended December 31:			
Average securitized principal balance	**873**	884	619
Net credit losses	**4**	6	5

Equipment leased to others (primarily by Financial Products):

	December 31,		
	2004	2003	2002
	(Millions of dollars)		
Equipment leased to others—at original cost	**$ 3,975**	$ 3,609	$ 2,996
Less: Accumulated depreciation	**1,196**	1,074	809
Equipment leased to others—net	**$ 2,779**	$ 2,535	$ 2,187

At December 31, 2004, scheduled minimum rental payments to be received for equipment leased to others were:

2005	2006	2007	2008	2009	After 2009
(Millions of dollars)					
$ 603	$ 438	$ 278	$ 150	$ 70	$ 31

11. Investment in unconsolidated affiliated companies

Our investment in affiliated companies accounted for by the equity method consists primarily of a 50% interest in Shin Caterpillar Mitsubishi Ltd. (SCM) located in Japan. Combined financial information of the unconsolidated affiliated companies accounted for by the equity method (generally on a three-month lag, e.g., SCM results reflect the periods ending September 30) was as follows:

	Years ended December 31,		
	2004	2003	2002
	(Millions of dollars)		
Results of Operations:			
Sales	**$ 3,628**	$ 2,946	2,734
Cost of goods sold	**2,788**	2,283	2,168
Gross profit	**840**	663	566
Profit (loss)	**$ 129**	$ 48	$ (1)
Caterpillar's profit (loss)	**$ 59**	$ 20	$ (4)

	December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Financial Position:			
Assets:			
Current assets	**$ 1,540**	$ 1,494	$ 1,389
Property, plant and equipment—net	**1,097**	961	1,209
Other assets	**145**	202	493
	2,782	2,657	3,091
Liabilities:			
Current liabilities	**$ 1,345**	$ 1,247	$ 1,117
Long-term debt due after one year	**276**	343	808
Other liabilities	**214**	257	249
	1,835	1,847	2,174
Ownership	**$ 947**	$ 810	$ 917

Caterpillar's investment in unconsolidated affiliated companies:

	(Millions of dollars)		
Investment in equity method companies	**$ 487**	$ 432	$ 437
Plus: Investment in cost method companies	**30**	368	310
Investment in unconsolidated affiliated companies	**$ 517**	$ 800	$ 747

At December 31, 2004, consolidated "Profit employed in the business" in Statement 2 included $153 million representing undistributed profit of the unconsolidated affiliated companies. In 2004, 2003 and 2002, we received $20 million, $25 million and $4 million, respectively, in dividends from unconsolidated affiliated companies.

Certain investments in unconsolidated affiliated companies are accounted for using the cost method. During first quarter 2001, Cat Financial invested for a limited partnership interest in a venture financing structure associated with Caterpillar's rental strategy in the United Kingdom. In the fourth quarter 2004, we sold our investment in this limited partnership. This sale had no impact on earnings.

12. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

	2004	**2003**	**2002**
	(Millions of dollars)		
Intellectual property	**$ 213**	$ 126	$ 137
Pension-related	**120**	157	191

Other	**73**	—	—
Total intangible assets-gross	**406**	283	328
Less: Accumulated amortization of finite lived intangible assets	**(91)**	(44)	(47)
Intangible assets—net	**$ 315**	$ 239	$ 281

During 2004 we acquired finite lived intangible assets of $130 million. (See Note 26 on page A-34 for details on the acquisition of these assets.) Amortization expense was $18 million, $15 million and $13 million for 2004, 2003 and 2002, respectively.

Amortization expense related to intangible assets is expected to be:

2005	2006	2007	2008	2009	Thereafter
		(Millions of dollars)			
$ 22	$ 21	$ 18	$ 16	$ 15	$ 104

B. Goodwill

During 2004 we acquired assets with related goodwill of $55 million. (See Note 26 on page A-34 for details on the acquisition of these assets.) No goodwill was acquired during the years ended December 31, 2003 and 2002. During 2003 we disposed of assets with related goodwill of $3 million. No goodwill was disposed of during the years ended December 31, 2004 and 2002. On an annual basis, we test goodwill for impairment in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." No goodwill was impaired during the years ended December 31, 2004, 2003 and 2002.

13. Available-for-sale securities

Cat Insurance and Caterpillar Investment Management Ltd. had investments in certain debt and equity securities at December 31, 2004, 2003 and 2002, that have been classified as available-for-sale in accordance with SFAS 115 and recorded at fair value based upon quoted market prices. These fair values are included in "Other assets" in Statement 3. Gains and losses arising from the revaluation of available-for-sale securities are included, net of applicable deferred income taxes, in equity ("Accumulated other comprehensive income" in Statement 3). Realized gains and losses on sales of investments are generally determined using the specific identification method for debt instruments and the FIFO method for equity securities. Realized gains and losses are included in "Other income (expense)" in Statement 1.

	December 31, 2004		
	Cost Basis	**Unrealized Pre-Tax Net Gains (Losses)**	**Fair Value**
		(Millions of dollars)	
Government debt	$ 239	$ (1)	$ 238
Corporate bonds	342	—	342
Equity securities	203	21	224
	$ 784	$ 20	$ 804

	December 31, 2003		
	Cost Basis	**Unrealized Pre-Tax Net Gains**	**Fair Value**

		(Millions of dollars)	
Government debt	$ 102	$ —	$ 102
Corporate bonds	288	3	291
Equity securities	191	21	212
	$ 581	$ 24	$ 605

	December 31, 2002		
	Cost Basis	Unrealized Pre-Tax Net Gains (Losses)	Fair Value
		(Millions of dollars)	
Government debt	$ 89	$ —	$ 89
Corporate bonds	208	1	209
Equity securities	220	(51)	169
	$ 517	$ (50)	$ 467

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

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

(1)

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

The fair value of available-for-sale debt securities at December 31, 2004, 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.

	Fair Value
	(Millions of dollars)
Due in one year or less	$ 30
Due after one year through five years	$ 273
Due after five years through ten years	$ 50
Due after ten years	$ 227

Proceeds from sales of investments in debt and equity securities during 2004, 2003 and 2002 were $408 million, $329 million and $288 million, respectively. Gross gains of $8 million, $3 million and $9 million and gross losses of $6 million, $2 million and $2 million have been included in current earnings as a result of these sales for 2004, 2003 and 2002, respectively.

During 2003 and 2002, we recognized pretax charges in accordance with the application of SFAS 115 for "other than temporary" declines in the market value of securities in the Cat Insurance and Caterpillar Investment Management Ltd. investment portfolios of $33 million and $41 million, respectively. During 2004, there were no pretax charges for "other than temporary" declines in the market value of securities.

14. Postemployment benefit plans

We have both U.S. and non-U.S. pension plans covering substantially all of our U.S. employees and a portion of our non-U.S. employees, primarily in our European facilities. Our defined benefit plans provide a benefit based on years of service and/or the employee's average earnings near retirement. Our defined contribution plans allow employees to contribute a portion of their salary to help save for retirement and, in certain cases, we provide a matching contribution.

We also have defined benefit retirement health care and life insurance plans covering substantially all of our U.S. employees. Plan amendments made in 2002 included an increase in retiree cost sharing of health care benefits, elimination of company payments for Medicare Part B premiums and significant reductions in retiree life insurance.

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

A. Benefit obligations

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
	(Millions of dollars)								
Change in benefit obligation:									
Benefit obligation, beginning of year	**$ 8,993**	$ 7,844	$ 7,382	**$ 1,836**	$ 1,517	$ 1,229	**$ 5,004**	$ 4,465	$ 4,514
Service cost	**143**	122	115	**53**	43	38	**66**	70	80
Interest cost	**548**	554	529	**97**	83	70	**265**	298	292
Plan amendments	**—**	(27)	—	**—**	—	—	**—**	(6)	(474)
Actuarial losses (gains)	**584**	1,148	395	**54**	118	135	**(64)**	474	340
Foreign currency exchange rates	**—**	—	—	**135**	137	100	**2**	4	2
Participant contributions	**—**	—	—	**11**	10	10	**58**	25	5
Benefits paid	**(675)**	(648)	(611)	**(89)**	(72)	(65)	**(405)**	(326)	(294)
Special termination benefits(1)	**—**	—	34	**—**	—	—	**—**	—	—
Benefit obligation, end of year	**$ 9,593**	$ 8,993	$ 7,844	**$ 2,097**	$ 1,836	$ 1,517	**$ 4,926**	$ 5,004	$ 4,465

Accumulated benefit obligation, end of year	**$ 9,040**	$ 8,379	$ 7,482	**$ 1,844**	$ 1,660	$ 1,355			
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate(2)	**5.9 %**	6.2 %	7.0 %	**5.2 %**	5.1 %	5.4 %	**5.9 %**	6.1 %	7.0 %
Rate of compensation increase(2)	**4.0 %**	4.0 %	4.0 %	**3.5 %**	3.2 %	3.3 %	**4.0 %**	4.0 %	4.0 %

(1)

Amount recognized as expense in 2001 in conjunction with a planned U.S. salaried and management employee reduction that took place in 2002.

(2)

End of year rates are used to determine net periodic cost for the subsequent year. See Note 14E on page A-23.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-percentage-point increase	**One-percentage point decrease**
	(Millions of dollars)	
Effect on 2004 service and interest cost components of other postretirement benefit cost	$ 23	$ (21)
Effect on accumulated postretirement benefit obligation	$ 306	$ (271)

B. Plan assets

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
	(Millions of dollars)								
Change in plan assets:									
Fair value of plan assets, beginning of year	**$ 7,728**	$ 6,443	$ 7,431	**$ 1,262**	$ 1,024	$ 1,050	**$ 867**	$ 849	$ 1,109
Actual return on plan assets	**1,106**	1,290	(512)	**124**	120	(87)	**118**	140	(113)
Foreign currency exchange rates	**—**	—	—	**91**	96	72	**—**	—	—
Company contributions	**566**	643	135	**104**	84	44	**356**	179	142
Participant contributions	**—**	—	—	**11**	10	10	**58**	25	5
Benefits paid	**(675)**	(648)	(611)	**(89)**	(72)	(65)	**(405)**	(326)	(294)
Fair value of plan assets, end of year	**$ 8,725**	$ 7,728	$ 6,443	**$ 1,503**	$ 1,262	$ 1,024	**$ 994**	$ 867	$ 849

The asset allocation for our pension and other postretirement benefit plans at the end of 2004, 2003 and 2002, and the target allocation for 2005, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at Year End		
	2005	2004	2003	2002
U.S. pension:				
Equity securities	70 %	**74 %**	75 %	70 %
Debt securities	30 %	**26 %**	25 %	29 %
Real estate	—	**—**	—	1 %
Total	100 %	**100 %**	100 %	100 %
Non-U.S. pension:				
Equity securities	55 %	**54 %**	56 %	54 %
Debt securities	38 %	**38 %**	39 %	41 %
Real estate	7 %	**6 %**	4 %	3 %
Other	—	**2 %**	1 %	2 %
Total	100 %	**100 %**	100 %	100 %
Other postretirement benefits:				
Equity securities	80 %	**84 %**	84 %	79 %
Debt securities	20 %	**16 %**	16 %	21 %
Total	100 %	**100 %**	100 %	100 %

Our target asset allocations reflect our investment strategy of maximizing the long-term rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan.

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

	U.S. Pension Benefits(1)			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
	(Millions of dollars)					
Caterpillar Inc. common stock	**$ 299**	$ 245	$ 154	**$ 1**	$ 2	$ 1

(1)

Amounts represent 3% of total plan assets for 2004 and 2003, and 2% for 2002.

C. Funded status

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

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
	(Millions of dollars)								
End of Year									
Fair value of plan assets	**$ 8,725**	$ 7,728	$ 6,443	**$ 1,503**	$ 1,262	$ 1,024	**$ 994**	$ 867	$ 849
Benefit obligations	**9,593**	8,993	7,844	**2,097**	1,836	1,517	**4,926**	5,004	4,465
Over (under) funded status	**(868)**	(1,265)	(1,401)	**(594)**	(574)	(493)	**(3,932)**	(4,137)	(3,616)
Amounts not yet recognized:									
Unrecognized prior service cost (benefit)	**158**	202	278	**27**	31	33	**(232)**	(280)	(283)
Unrecognized net actuarial loss	**2,552**	2,518	2,009	**726**	677	547	**1,232**	1,364	976
Unrecognized net obligation existing at adoption of SFAS 87/106	**—**	—	—	**3**	6	9	**16**	17	—
Contributions made after measurement date	**—**	1	—	**22**	14	22	**27**	57	20
Net amount recognized in financial position	**$ 1,842**	$ 1,456	$ 886	**$ 184**	$ 154	$ 118	**$ (2,889)**	$ (2,979)	$ (2,903)

Components of net amount recognized in financial position:									
Prepaid benefit costs	**$ 1,099**	$ 1,136	$ 1,071	**$ 28**	$ 61	$ 52	**$ —**	$ —	$ —
Accrued benefit liabilities	**(97)**	(548)	(735)	**(173)**	(127)	(89)	**(402)**	(341)	(289)
Intangible assets	**95**	127	156	**25**	30	35	**—**	—	—
Liability for postemployment benefits	**(248)**	(136)	(361)	**(181)**	(327)	(279)	**(2,487)**	(2,638)	(2,614)
Accumulated other comprehensive income (pretax)	**993**	877	755	**485**	517	399	**—**	—	—
Net asset (liability) recognized	**$ 1,842**	$ 1,456	$ 886	**$ 184**	$ 154	$ 118	**$ (2,889)**	$ (2,979)	$ (2,903)

The following amounts relate to our pension plans with projected benefit obligations in excess of plan assets:

	U.S. Pension Benefits at Year-end			**Non-U.S. Pension Benefits at Year-end**		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	(Millions of dollars)					
Projected benefit obligation	**$ (9,593)**	$ (8,993)	$ (7,844)	**$ (2,059)**	$ (1,800)	$ (1,497)
Accumulated benefit obligation	**$ (9,040)**	$ (8,379)	$ (7,482)	**$ (1,813)**	$ (1,633)	$ (1,338)
Fair value of plan assets	**$ 8,725**	$ 7,728	$ 6,443	**$ 1,455**	$ 1,216	$ 995

The following amounts relate to our pension plans with accumulated benefit obligations in excess of plan assets:

	U.S. Pension Benefits at Year-end			**Non-U.S. Pension Benefits at Year-end**		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
	(Millions of dollars)					
Projected benefit obligation	**$ (3,975)**	$ (3,785)	$ (3,439)	**$ (2,003)**	$ (1,761)	$ (1,490)
Accumulated benefit obligation	**$ (3,959)**	$ (3,751)	$ (3,416)	**$ (1,767)**	$ (1,601)	$ (1,334)
Fair value of plan assets	**$ 3,614**	$ 3,083	$ 2,345	**$ 1,406**	$ 1,181	$ 990

The accumulated postretirement benefit obligation exceeds plan assets for all of our other postretirement benefit plans.

D. Expected cash flow

Information about the expected cash flow for the pension and other postretirement benefit plans follows:

	U.S. Pension Benefits	**Non-U.S. Pension Benefits**	**Other Postretirement Benefits**
	(Millions of dollars)		
Employer contributions:			
2005 (expected)	$ 30	$ 140	$ 360
Expected benefit payments:			
2005	670	60	360
2006	680	60	380
2007	680	70	390

2008	690	80	400
2009	690	80	420
2010-2014	3,470	460	2,160
Total	$ 6,880	$ 810	$ 4,110

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

	2005	2006	2007	2008	2009	2010-2014	Total
	(Millions of dollars)						
Other postretirement benefits	$ —	$ 20	$ 20	$ 20	$ 30	$ 160	$ 250

E. Net periodic cost

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
				(Millions of dollars)					
Components of net periodic benefit cost:									
Service cost	**$ 143**	$ 122	$ 115	**$ 53**	$ 43	$ 38	**$ 66**	$ 70	$ 80
Interest cost	**548**	554	529	**97**	83	70	**265**	298	292
Expected return on plan assets	**(697)**	(680)	(783)	**(103)**	(94)	(94)	**(74)**	(88)	(115)
Amortization of:									
Net asset existing at adoption of SFAS 87/106	**—**	—	—	**3**	3	(2)	**2**	—	—
Prior service cost(1)	**44**	49	50	**6**	5	5	**(48)**	(47)	(22)
Net actuarial loss (gain)	**142**	27	(1)	**38**	14	—	**45**	36	5
Total cost (benefit) included in operating profit	**$ 180**	$ 72	$ (90)	**$ 94**	$ 54	$ 17	**$ 256**	$ 269	$ 240
Weighted-average assumptions used to determine net cost:									
Discount rate	**6.2 %**	7.0 %	7.3 %	**5.1 %**	5.4 %	5.7 %	**6.1 %**	7.0 %	7.2 %
Expected return on plan assets(2)	**9.0 %**	9.0 %	9.8 %	**7.4 %**	7.1 %	7.6 %	**9.0 %**	9.0 %	9.8 %
Rate of compensation increase	**4.0 %**	4.0 %	4.0 %	**3.2 %**	3.3 %	3.3 %	**4.0 %**	4.0 %	4.0 %

(1)

Prior service costs are 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.

(2)

The weighted-average rates for 2005 are 9.0% and 7.4% for U.S. and non-U.S. plans, respectively.

Our U.S. expected long-term rate of return on plan assets is based on our estimate of long-term passive returns for equities and fixed income securities weighted by the allocation of our pension assets. Based on historical performance, we increase the passive returns due to our active management of the plan assets. To arrive at our expected long-term return, the amount added for active management was 1% for 2004, 2003 and 2002. A similar process is used to determine this rate for our non-U.S. plans.

The assumed health care trend rate represents the rate at which health care costs are assumed to increase. To calculate the 2004 benefit expense, we assumed an increase of 8.5% for 2004. This rate was assumed to decrease gradually to the ultimate health care trend rate of 4.5% in 2009. This rate represents 2.5% general inflation plus 2.0% additional health care inflation. Based on our recent expenses and our forecast of changes, we expect an increase of 8.4% during 2005 with a gradual decrease to the ultimate health care trend rate of 5.0% in 2012. The revised ultimate rate represents 3.0% general inflation plus 2.0% additional health care inflation.

Our U.S. postretirement health care plans provide for prescription drug benefits. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In January 2004, the FASB issued FASB Staff Position No. 106-1 (FSP 106-1), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." As permitted by FSP 106-1, we made a one-time election to defer accounting for the effects of the Act pending further guidance from the FASB.

In May 2004, the FASB issued FASB Staff Position No. 106-2 (FSP 106-2), which superseded FSP 106-1. FSP 106-2 provides accounting guidance to employers that have determined that prescription drug benefits available under their retiree health care benefit plans are at least actuarially equivalent to Medicare Part D. The FSP requires that the benefit attributable to past service be accounted for as an actuarial gain and the benefit related to current service be reported as a reduction in service cost.

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

	2004
	(Millions of dollars)
Service cost	**$ 4**
Interest cost	**18**
Amortization of actuarial gain	**29**
Total reduction in net periodic postretirement benefit cost	**$ 51**

F. Other postemployment benefit plans

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

G. Summary of long-term liability:

	December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Pensions:			
U.S. pensions	**$ 248**	$ 136	$ 361
Non-U.S. pensions	**181**	327	279
Total pensions	**429**	463	640
Postretirement benefits other than pensions	**2,487**	2,638	2,614
Other postemployment benefits	**70**	71	79
	$ 2,986	$ 3,172	$ 3,333

H. Defined contribution plans

We have both U.S. and non-U.S. employee defined contribution plans to help employees save for retirement. In January 2003, we introduced a company match to our U.S. 401(k) plan. This plan allows eligible employees to contribute a portion of their salary to the plan on a tax-deferred basis, and we provide a matching contribution equal to 100% of employee contributions to the plan up to 6% of their compensation.

Various other U.S. and non-U.S. defined contribution plans allow eligible employees to contribute a portion of their salary to the plans and, in some cases, we provide a matching contribution to the funds.

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

	2004	2003	2002
	(Millions of dollars)		
U.S. plans	**$ 110**	$ 106	$ 28
Non-U.S. plans	**11**	11	7
	$ 121	$ 117	$ 35

15. Short-term borrowings

	December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Machinery and Engines:			
Notes payable to banks	**$ 93**	$ 72	$ 64
Financial Products:			
Notes payable to banks	**370**	183	174
Commercial paper	**2,972**	2,087	1,682
Collateralized trust obligation	**240**	—	—
Demand notes	**482**	415	255
	4,064	2,685	2,111
Total short-term borrowings	**$ 4,157**	$ 2,757	$ 2,175

See Note 6 on page A-16 for further discussion of the collateralized trust obligation.

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

	December 31,		
	2004	**2003**	**2002**
Notes payable to banks	**5.9 %**	6.5 %	5.7 %
Commercial paper	**2.5 %**	2.1 %	2.5 %
Collateralized trust obligation	**2.3 %**	—	—
Demand notes	**2.3 %**	2.3 %	2.8 %

Please refer to Note 20 on pages A-25 to A-26 and Table III on page A-27 for fair value information on short-term borrowings.

16. Long-term debt

	December 31,		
	2004	**2003**	**2002**
	(Millions of dollars)		
Machinery and Engines:			
Notes—6.550% due 2011	**$ 250**	$ 250	$ 249
Debentures—9.000% due 2006	**206**	208	209
Debentures—6.000% due 2007	**—**	—	189
Debentures—7.250% due 2009	**313**	315	318
Debentures—9.375% due 2011	**123**	123	123
Debentures—9.375% due 2021	**236**	236	236
Debentures—8.000% due 2023	**199**	199	199
Debentures—6.625% due 2028	**299**	299	299
Debentures—7.300% due 2031	**348**	348	348
Debentures—6.950% due 2042	**249**	249	249
Debentures—7.375% due 2097	**297**	297	297
Medium-term notes	**—**	—	25
Capital lease obligations	**665**	611	538
Commercial paper	**40**	45	—
Deposit obligations	**245**	236	178
Other	**193**	187	124
Total Machinery and Engines	**3,663**	3,603	3,581
Financial Products:			
Commercial paper	**$ 1,400**	$ 1,825	$ 1,825
Medium-term notes	**10,468**	8,775	6,298
Deposit obligations	**232**	232	—
Other	**74**	111	70
Total Financial Products	**12,174**	10,943	8,193
Total long-term debt due after one year	**$ 15,837**	$ 14,546	$ 11,774

All outstanding notes and debentures are unsecured. The capital lease obligations are collateralized by leased manufacturing equipment and/or security deposits. The deposit obligations have corresponding security deposits, which are included in "Other assets" in Statement 3. 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.

The 6% debentures due in 2007 were sold at significant original issue discounts ($144 million). This issue was carried net of the unamortized portion of its discount, which was amortized as interest expense over the life of the issue. These debentures had a principal at maturity of $250 million and an effective annual rate of 13.3%. The debentures were redeemed in August 2003.

We may redeem the 6.55% notes and the 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, $1,440 million, $1,870 million and $1,825 million of commercial paper outstanding at December 31, 2004, 2003 and 2002, 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 3.3% with remaining maturities up to 20 years at December 31, 2004.

The aggregate amounts of maturities of long-term debt during each of the years 2005 through 2009, including amounts due within one year and classified as current, are:

	December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(Millions of dollars)				
Machinery and Engines	$ 6	$ 290	$ 297	$ 26	$ 363
Financial Products	3,525	4,137	2,567	1,134	3,103
	$ 3,531	$ 4,427	$ 2,864	$ 1,160	$ 3,466

Interest paid on short-term and long-term borrowings for 2004, 2003 and 2002 was $766 million, $718 million and $815 million, respectively.

Financial Products was in compliance with all debt covenants at December 31, 2004 except Cat Financial's debt-to-equity ratio, as defined under the global credit facilities, which was 8.23 to 1 at December 31, 2004. By covenant, this is not to exceed 8.00 to 1 at year-end (8.5 to 1 moving six-month average at other than year-end). At December 31, 2004, there were no borrowings under these facilities. The higher year-end ratio was primarily the result of unexpected record levels of financing activity in the fourth quarter. Cat Financial received a waiver from its banks for said failure.

Please refer to Note 20 on pages A-25 to A-26 and Table III on page A-27 for fair value information on long-term debt.

17. Credit commitments

	December 31, 2004		
	Consolidated	Machinery and Engines	Financial Products
	(Millions of dollars)		
Credit lines available:			
Global credit facilities	$ 5,000 (1)	$ 600 (1)	$ 4,400 (1)
Other external	1,849	758	1,091
Total credit lines available	6,849	1,358	5,491
Less: Global credit facilities supporting commercial paper	4,412	40	4,372
Less: Utilized credit	463	93	370
Available credit	$ 1,974	$ 1,225	$ 749

(1)

We have two global credit facilities with a syndicate of banks totaling $5,000 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, 2004 was $4,400 million. The five-year facility of $2,500 million expires in September 2009. The 364-day facility of $2,500 million expires in September 2005. The facility expiring in September 2005 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2005 that would mature in September 2006.

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 72 million shares of common stock for issuance (64 million under the Plan and 8 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. All grants continue to have a maximum term of 10 years. Common shares issued under stock options, including treasury shares reissued, totaled 6,103,710 for 2004, 4,925,496 for 2003 and 882,580 for 2002. We recognized income tax benefits related to employees' exercise of stock options of $80 million, $45 million, and $13 million in 2004, 2003 and 2002, respectively.

The Plan grants options which have exercise prices equal to the average market price on the date of grant. A summary of the pro forma net income and profit per share amounts is shown in Item M of Note 1 on pages A-11 to A-12. The fair value of options granted in 2004 was estimated at the date of grant using the binomial option-pricing model. We believe this model more accurately reflects the value of the options than using the Black-Scholes option-pricing model. Previous years' grants continue to be valued using the Black-Scholes model.

Please refer to Table II on page A-26 for additional financial information on our stock options.

B. Restricted stock

The Plan permits the award of restricted stock to officers and other key employees. During 2004, 2003 and 2002, officers and other key employees were awarded 44,350 shares, 42,210 shares and 52,475 shares, respectively, of restricted stock. Restricted shares (in phantom form) awarded to officers and other key employees totaled 7,400, 4,425 and 8,450 in 2004, 2003 and 2002, respectively.

C. Stockholders' rights plan

We are authorized to issue 5,000,000 shares of preferred stock, of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock of $1 par value. None of the preferred shares have been issued.

Stockholders would receive certain preferred stock purchase rights if someone acquired or announced a tender offer to acquire 15% or more of outstanding Caterpillar stock. In essence, those rights would permit each holder (other than the acquiring person) to purchase one share of Caterpillar stock at a 50% discount for every share owned. The rights, designed to protect the interests of Caterpillar stockholders during a takeover attempt, expire December 11, 2006.

19. Profit per share

Computations of profit per share:

	2004	2003	2002
	(Dollars in millions except per share data)		
Profit for the period(A)	**$ 2,035**	$ 1,099	$ 798
Determination of shares (millions):			
Weighted average number of common shares outstanding(B)	**342.3**	345.2	344.0
Shares issuable on exercise of stock options, net of shares assumed to be purchased out of proceeds at average market price	**11.4**	6.2	2.9
Average common shares outstanding for fully diluted computation(C)	**353.7**	351.4	346.9
Profit per share of common stock:			
Assuming no dilution(A/B)	**$ 5.95**	$ 3.18	$ 2.32
Assuming full dilution(A/C)	**$ 5.75**	$ 3.13	$ 2.30
Shares outstanding as of December 31 (in millions)	**342.9**	343.8	344.3

Stock options to purchase 52,000, 4,267,544 and 27,881,279 shares of common stock at a weighted-average price of $81.27, $62.34 and $54.34 were outstanding during 2004, 2003 and 2002, respectively, but were not included in the computation of diluted profit per share because the options' exercise price was greater than the average market price of the common shares.

20. Fair values of financial instruments

We used the following methods and assumptions to estimate the fair value of our financial instruments:

Cash and short-term investments—carrying amount approximated fair value.

Long-term investments (other than investments in unconsolidated affiliated companies)—fair value for available for sale securities was estimated based on quoted market prices. Fair value for security deposits approximated carrying value.

Foreign currency forward and option contracts—fair value of forward contracts was determined by discounting the future cash flow resulting from the differential between the contract price and the forward rate. Fair value of option contracts was determined by using the Black-Scholes model.

Finance receivables—fair value was estimated by discounting the future cash flow using current rates, representative of receivables with similar remaining maturities. Historical bad debt experience also was considered.

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

TABLE II—Financial Information Related to Capital Stock

Changes in the status of common shares subject to issuance under options:

	2004		2003		2002	
	Shares	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Fixed Options:						
Outstanding at beginning of year	**39,499,672**	**$ 51.38**	38,721,364	$ 48.91	32,295,230	$ 47.34
Granted to officers and key employees	**8,890,733**	**$ 77.26**	8,418,100	$ 54.29	8,050,864	$ 50.72
Granted to outside directors	**52,000**	**$ 81.27**	56,000	$ 52.06	52,000	$ 58.87
Exercised	**(6,825,920)**	**$ 47.72**	(7,629,020)	$ 42.04	(1,580,754)	$ 26.41
Lapsed	**(392,311)**	**$ 51.19**	(66,772)	$ 50.18	(95,976)	$ 50.28
Outstanding at end of year	**41,224,174**	**$ 57.61**	39,499,672	$ 51.38	38,721,364	$ 48.91
Options exercisable at year-end	**33,620,616**	**$ 58.57**	23,650,987	$ 50.28	23,909,130	$ 48.23
Weighted-average fair value of options granted during the year	**$ 18.06**		$ 12.82		$ 14.85	

Stock options outstanding and exercisable:

	Options Outstanding			Options Exercisable	
Exercise Prices	**# Outstanding at 12/31/04**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**	**# Outstanding at 12/31/04**	**Weighted-Average Exercise Price**
$ 27.91-$39.19	3,948,490	4.4	$ 36.88	3,948,490	$ 36.88
$ 43.75-$62.34	28,332,951	6.5	$ 54.29	20,781,393	$ 54.69
$ 77.26-$81.27	8,942,733	9.4	$ 77.28	8,890,733	$ 77.26
	41,224,174		$ 57.61	33,620,616	$ 58.57

Weighted-average assumptions used in determining fair value of option grants:

	Grant Year		
	2004(1)	**2003(2)**	**2002(2)**
Dividend yield	**1.88-1.91 %**	2.75 %	2.55 %
Expected volatility	**25.8-28.1 %**	29.6 %	35.0 %
Risk-free interest rates	**1.90-5.76 %**	2.52 %	4.13 %
Expected lives	**6 years**	6 years	5 years

(1)

Assumptions used in the binomial option-pricing model valuation.

(2)

Assumptions used in Black-Scholes valuation.

Short-term borrowings—carrying amount approximated fair value.

Long-term debt—for Machinery and Engines notes and debentures, fair value was estimated based on quoted market prices. For Financial Products, fair value was estimated by discounting the future cash flow using our current borrowing rates for similar types and maturities of debt, except for floating rate notes and commercial paper supported by long-term credit agreements for which the carrying amounts were considered a reasonable estimate of fair value. For deposit obligations carrying value approximated fair value.

Interest rate swaps—fair value was estimated based on the amount that we would receive or pay to terminate our agreements as of year-end.

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

Please refer to Table III on page A-27 for the fair values of our financial instruments.

21. Concentration of credit risk

Financial instruments with potential credit risk consist primarily of trade and finance receivables and short-term and long-term investments. Additionally, to a lesser extent, we have a potential credit risk associated with counterparties to derivative contracts.

Trade receivables are primarily short-term receivables from independently owned and operated dealers which arise in the normal course of business. We perform regular credit evaluations of our dealers. Collateral generally is not required, and the majority of our trade receivables are unsecured. We do, however, when deemed necessary, make use of various devices such as security agreements and letters of credit to protect our interests. No single dealer or customer represents a significant concentration of credit risk.

Finance receivables and wholesale inventory receivables primarily represent receivables under installment sales contracts, receivables arising from leasing transactions and notes receivable. We generally maintain a secured interest in the equipment financed. No single customer or region represents a significant concentration of credit risk.

Short-term and long-term investments are held with high quality institutions and, by policy, the amount of credit exposure to any one institution is limited. Long-term investments, included in "Other assets" in Statement 3, are comprised primarily of investments which collateralize capital lease obligations and deposit obligations (see Note 16 on page A-24) and investments of Cat Insurance supporting insurance reserve requirements.

For derivatives contracts, collateral is not required of the counterparties or of our company. We do not anticipate nonperformance by any of the counterparties. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but have not yet received cash payment. At December 31, 2004, 2003 and 2002, the exposure to credit loss was $312 million, $336 million and $176 million, respectively.

Please refer to Note 20 on pages A-25 to A-26 and Table III below for fair value information.

22. Operating leases

We lease certain computer and communications equipment, transportation equipment and other property through operating leases. Total rental expense for operating leases was $271 million, $242 million and $240 million for 2004, 2003 and 2002, respectively.

Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

Years ended December 31,						
2005	**2006**	**2007**	**2008**	**2009**	**After 2009**	**Total**
(Millions of dollars)						
$ 163	$ 132	$ 90	$ 69	$ 59	$ 384	$ 897

TABLE III—Fair Values of Financial Instruments

	2004		2003		2002		
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Reference**
	(Millions of dollars)						
Asset (Liability) at December 31							
Cash and short-term investments	**$ 445**	**$ 445**	$ 342	$ 342	$ 309	$ 309	Statement 3
Long-term investments	**1,852**	**1,852**	1,574	1,574	1,089	1,089	Notes 13 and 21
Foreign currency contracts	**176**	**176**	167	167	47	47	Note 3
Finance receivables—net (excluding finance type leases(1))	**13,457**	**13,445**	11,439	11,489	10,098	10,168	Note 8
Wholesale inventory receivables—net (excluding finance type leases(1))	**882**	**857**	681	666	637	641	Note 7
Short-term borrowings	**(4,157)**	**(4,157)**	(2,757)	(2,757)	(2,175)	(2,175)	Note 15
Long-term debt (including amounts due within one year)							
Machinery and Engines	**(3,669)**	**(4,186)**	(3,635)	(4,109)	(3,839)	(4,363)	Note 16
Financial Products	**(15,699)**	**(15,843)**	(13,892)	(14,078)	(11,847)	(12,118)	Note 16
Interest rate swaps							
Financial Products—							
in a net receivable position	**75**	**75**	87	87	84	84	Note 3
in a net payable position	**(69)**	**(69)**	(59)	(59)	(85)	(85)	Note 3
Guarantees(2)	**(10)**	**(10)**	(5)	(9)	—	(6)	Note 23

(1)

Total excluded items have a net carrying value at December 31, 2004, 2003 and 2002 of $1,737 million, $1,546 million and $1,369 million, respectively.

(2)

The carrying amount provisions of FASB Interpretation No. 45 related to guarantees are effective for guarantees issued or modified subsequent to December3l, 2002 only, whereas the fair value amount is for all guarantees.

23. 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 have terms ranging from one to four years and are secured primarily by dealer assets.

In 2004, Cat Financial provided a limited indemnity to a third party bank for $45 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/guarantee is for eight years and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees. At December 31, 2004, 2003 and 2002, the related book value was $10 million, $5 million and $0, 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:

	2004	**2003**	**2002**
		(Millions of dollars)	
Guarantees with Caterpillar dealers	**$ 364**	$ 380	$ 290
Guarantees—other	**62**	37	34
Total guarantees	**$ 426**	$ 417	$ 324

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.

	2004	2003	2002
	(Millions of dollars)		
Warranty liability, January 1	**$ 622**	$ 693	$ 652
Payments	**(535)**	(484)	(494)
Provision for warranty	**695**	413	535
Warranty liability, December 31	**$ 782**	$ 622	$ 693

24. Environmental and legal matters

The company is regulated by federal, state and international environmental laws governing our use of substances and control of emissions in all our operations. Compliance with these existing laws has not had a material impact on our capital expenditures or earnings.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In formulating that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount recorded for environmental clean-up is not material and is included in "Accrued expenses" in Statement 3. If a range of liability estimates is available on a particular site, we accrue at the lower end of that range.

We cannot estimate costs on sites in the very early stages of clean-up. Currently, we have several sites in the very early stages of clean-up, and there is no more than a remote chance that a material amount for clean-up will be required.

Pursuant to a consent decree Caterpillar entered with the EPA, the company was required to meet certain emission standards by October 2002. The decree provides that if engine manufacturers were unable to meet the standards at that time, they would be required to pay a Non-Conformance Penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came—the more out of compliance the higher the penalty. The company began introduction of fully compliant ACERT engines in 2003 and by the end of 2003 Caterpillar was only producing fully compliant engine models. As a result, NCPs were not payable for any engines built in 2004. NCPs of $153 million were paid in 2003.

In addition, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998, and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects are $34.9 million, of which $5.9 million was made during 2004. Caterpillar expects to reach the $35 million requirement during the first quarter of 2005. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

We are a party to litigation matters and claims that are normal in the course of our operations, and, while the results of such litigation and claims cannot be predicted with certainty, management believes, based on the advice of counsel, the final outcome of such matters will not have a materially adverse effect on our financial statements.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar, (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. As of December 31, 2004, the net past due receivable from Navistar regarding the foregoing and included in "Long-term receivables—trade and other" in Statement 3 totaled $139 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. As of December 31, 2004, the net past due receivables for the foregoing, included in "Long-term receivables—trade and other" in Statement 3 totaled $13 million. The pending complaint further alleges that Sturman Industries, Inc., and Sturman Engine

Systems, Inc., colluded with Navistar to utilize technology that Sturman Industries, Inc., misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc. and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fifth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet. International has also asserted a claim for "unjust enrichment" related to certain revenues received by Caterpillar from another customer. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar denies International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar also asserts that International has released Caterpillar from certain of its claims. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by

Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled to begin in June 2005 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

In 2004, the European Union (EU) imposed retaliatory tariffs on certain U.S. origin goods as a result of a WTO decision that found the extraterritorial income exclusion (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constituted a prohibited export subsidy. These tariffs, which began in March of 2004 at 5 percent, increased 1 percentage point per month. Given the makeup of the final retaliation list, some Caterpillar parts and components were subject to these tariffs. However, these tariffs have not materially impacted our financial results. In addition to the United States, the company has production facilities in the EU, Russia, Asia, and South America. Products sold into the EU from these plants were not affected by this retaliatory tariff. The American Jobs Creation Act of 2004 (Act), enacted on October 22, 2004, phases-out the ETI provisions. As a result, the EU has lifted the sanctions effective January 1, 2005 pending the outcome of a WTO review to determine whether certain provisions of the Act are compliant with the ruling against the FSC/ETI regime.

In a letter dated November 15, 2004, the United States Environmental Protection Agency (EPA), proposed a civil penalty of $641,392 to Caterpillar for the alleged failure to comply with certain requirements of the federal Clean Air Act. The EPA alleges that Caterpillar constructed a facility in Emporia, Kansas and failed to comply with Section 112(g)(2)(B) of the Clean Air Act. Caterpillar sold the Emporia facility in December 2002. We are seeking a settlement of this matter with all concerned parties and the company believes that the outcome will not have a material impact on our financial statements.

25. Segment information

A. Basis for segment information

The company 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 and service center divisions.

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

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

Due to Caterpillar's high level of integration and our concern that segment disclosures based on SFAS 131 requirements have limited value to external readers, we are continuing to disclose financial results for our three principal lines of business (Machinery, Engines and Financial Products) in our Management's Discussion and Analysis beginning on page A-36.

B. Description of segments

The profit center divisions meet the SFAS 131 definition of "operating segments;" however, the service center divisions do not. Several of the profit centers have similar characteristics and have been aggregated. The following is a brief description of our seven reportable segments and the business activities included in the *All Other* category.

Asia/Pacific Marketing: Primarily responsible for marketing products through dealers in Australia, Asia (excluding Japan) and the Pacific Rim. Also includes the regional manufacturing of some products which are also produced by *Construction & Mining Products.*

Construction & Mining Products: Primarily responsible for the design, manufacture and ongoing support of small, medium and large machinery used in a variety of construction and mining applications. Also includes the design, manufacture, procurement and marketing of components and control systems that are consumed primarily in the manufacturing of our machinery.

EAME Marketing: Primarily responsible for marketing products (excluding *Power Products)* through dealers in Europe, Africa, the Middle East and the Commonwealth of Independent States. Also includes the regional manufacturing of some products which are also produced by *Construction & Mining Products* and *Power Products.*

Financing & Insurance Services: Provides financing to customers and dealers for the purchase and lease of Caterpillar and other equipment, as well as some financing for Caterpillar sales to dealers. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The division also provides various forms of insurance to customers and dealers to help support the purchase and lease of our equipment.

Latin America Marketing: Primarily responsible for marketing products through dealers in Latin America. Also includes the regional manufacturing of some products that are also produced by *Construction & Mining Products.*

Power Products: Primarily responsible for the design, manufacture, marketing and ongoing support of reciprocating and turbine engines along with related systems. These engines and related systems are used in products manufactured in other segments, on-highway trucks and locomotives; and in a variety of construction, electric power generation, marine, petroleum and industrial applications.

North America Marketing: Primarily responsible for marketing products (excluding *Power Products)* through dealers in the United States and Canada.

All Other: Primarily includes activities such as: service support and parts distribution to Caterpillar dealers worldwide; logistics services for other companies; service tools for Caterpillar dealers; and the remanufacture of Caterpillar engines and components and remanufacturing services for other companies.

C. Segment measurement and reconciliations

Please refer to Table IV on pages A-31 to A-33 for financial information regarding our segments. There are several accounting differences between our segment reporting and our external reporting. Our segments are measured on an accountable basis; therefore, only those items for which divisional management is directly responsible are included in the determination of segment profit/(loss) and assets. We made several changes to our segment reporting methodologies in the first quarter of 2004. Most notable are a change in the current cost methodology used to value inventory and cost of sales for segment reporting purposes, as well as a change in the manner that interest expense is charged to segments. Amounts for 2003 and 2002 presented in Table IV of this Note 25 have been restated to conform to the new methodology.

The following is a list of the more significant accounting differences:

- Generally, liabilities are managed at the corporate level and are not included in segment operations. Segment accountable assets generally include inventories, receivables, property, plant and equipment.

- We account for intersegment transfers using a system of market-based prices. With minor exceptions, each of the profit centers either sells or purchases virtually all of its products to or from other profit centers within the company. Our high level of integration results in our internally reported sales being approximately double that of our consolidated, externally reported sales.

- Segment inventories and cost of sales are valued using a current cost methodology.

- Postretirement benefit expenses are split; segments are generally responsible for service and prior services costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

- Interest expense is imputed (i.e., charged) to profit centers based on their level of accountable assets.

- Accountable profit is determined on a pretax basis.

Reconciling items are created based on accounting differences between segment reporting and our consolidated, external reporting. Please refer to Table IV on pages A-31 to A-33 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations of accounting differences. However, for the reconciliation of profit, we have grouped the reconciling items as follows:

- **Corporate costs:** Certain corporate costs are not charged to our segments. These costs are related to corporate requirements and strategies that are considered to be for the benefit of the entire organization.

- **Timing:** Timing differences in the recognition of costs between segment reporting and consolidated external reporting.

- **Methodology differences:** See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

TABLE IV—Segment Information

(Millions of dollars)

Business Segments:

	Machinery and Engines									
	Asia/ Pacific Marketing	Construction & Mining Products	EAME Marketing	Latin America Marketing	Power Products	North America Marketing	All Other	Total	Financing & Insurance Services	Total
2004										
External sales and revenues	$ 2,137	575	3,938	1,785	8,909	9,229	1,554	28,127	2,373	$ 30,500
Intersegment sales and revenues	$ 617	12,311	3,567	881	8,669	363	2,617	29,025	1	$ 29,026
Total sales and revenues	$ 2,754	12,886	7,505	2,666	17,578	9,592	4,171	57,152	2,374	$ 59,526
Depreciation and amortization	$ 15	179	62	45	288	1	91	681	604	$ 1,285
Imputed interest expense	$ 18	75	34	21	114	2	88	352	539	$ 891
Accountable profit (loss)	$ 133	1,150	380	180	408	434	655	3,340	460	$ 3,800
Accountable assets at Dec. 31	$ 574	2,789	1,267	802	3,881	28	3,514	12,855	24,446	$ 37,301
Capital expenditures	$ 14	221	99	41	234	6	117	732	1,327	$ 2,059
2003										
External sales and revenues	$ 1,573	248	3,183	1,187	6,793	6,763	1,121	20,868	2,018	$ 22,886
Intersegment sales and revenues	$ 384	9,129	2,391	533	6,541	242	2,553	21,773	2	$ 21,775
Total sales and revenues	$ 1,957	9,377	5,574	1,720	13,334	7,005	3,674	42,641	2,020	$ 44,661
Depreciation and amortization	$ 13	188	72	42	292	1	81	689	551	$ 1,240
Imputed interest expense	$ 14	65	33	23	109	9	76	329	473	$ 802
Accountable profit (loss)	$ 110	560	214	99	25	316	347	1,671	337	$ 2,008
Accountable assets at Dec. 31	$ 627	2,190	1,018	692	3,710	293	2,537	11,067	20,467	$ 31,534
Capital expenditures	$ 22	137	80	35	212	8	103	597	1,220	$ 1,817
2002										
External sales and revenues	$ 1,310	214	2,825	1,231	6,142	5,908	920	18,550	1,779	$ 20,329
Intersegment sales and revenues	$ 41	8,499	2,242	423	6,357	204	1,620	19,386	—	$ 19,386
Total sales and revenues	$ 1,351	8,713	5,067	1,654	12,499	6,112	2,540	37,936	1,779	$ 39,715
Depreciation and amortization	$ 12	191	53	43	293	—	68	660	436	$ 1,096
Imputed interest expense	$ 13	60	30	25	111	52	60	351	539	$ 890
Accountable profit (loss)	$ 86	311	125	64	(81)	88	201	794	270	$ 1,064
Accountable assets at Dec. 31	$ 414	2,178	778	965	3,568	(213)	2,862	10,552	17,417	$ 27,969
Capital expenditures	$ 13	159	65	33	236	2	80	588	1,177	$ 1,765

Reconciliations:

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Sales & Revenues				
2004				
Total external sales and revenues from business segments	$ 28,127	$ 2,373	$ —	$ 30,500
Other	209	(264)	(194)(1)	(249)
Total sales and revenues	$ 28,336	$ 2,109	$ (194)	$ 30,251

2003				
Total external sales and revenues from business segments	$ 20,868	$ 2,018	$ —	$ 22,886
Other	180	(123)	(180)(1)	(123)
Total sales and revenues	$ 21,048	$ 1,895	$ (180)	$ 22,763
2002				
Total external sales and revenues from business segments	$ 18,550	$ 1,779	$ —	$ 20,329
Other	98	(101)	(174)(1)	(177)
Total sales and revenues	$ 18,648	$ 1,678	$ (174)	$ 20,152

(1)

Elimination of Financial Product revenues from Machinery and Engines.

	Machinery and Engines	Financing & Insurance Services	Consolidated Total
Profit before taxes			
2004			
Total accountable profit from business segments	**$ 3,340**	**$ 460**	**$ 3,800**
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	**(37)**	**—**	**(37)**
Other methodology differences	**(87)**	**48**	**(39)**
Other	**17**	**—**	**17**
Total profit before taxes	**$ 2,202**	**$ 505**	**$ 2,707**
2003			
Total accountable profit from business segments	$ 1,671	$ 337	$ 2,008
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	3	—	3
Other methodology differences	(32)	38	6
Other	46	—	46
Total profit before taxes	$ 1,106	$ 371	$ 1,477
2002			
Total accountable profit from business segments	$ 794	$ 270	$ 1,064
Corporate costs	(236)	—	(236)
Timing	(21)	—	(21)
Methodology differences:			
Inventory/cost of sales	33	—	33
Postretirement benefit expense	147	—	147
Financing costs	(24)	—	(24)
Equity in profit of unconsolidated affiliated companies	12	(8)	4
Currency	14	—	14
Other methodology differences	61	25	86
Other	47	—	47
Total profit before taxes	$ 827	$ 287	$ 1,114

	Machinery and Engines	Financing & Insurance Services	Consolidating Adjustments	Consolidated Total
Assets				
2004				
Total accountable assets from business segments	$ 12,855	$ 24,446	$ —	$ 37,301
Items not included in segment assets:				
Cash and short-term investments	270	175	—	445
Intercompany trade receivables	443	18	(461)	—
Investments in unconsolidated affiliated companies	348	—	(1)	347
Investment in Financial Products	3,012	—	(3,012)	—
Deferred income taxes and prepaids	2,477	92	(317)	2,252
Intangible assets and other assets	2,177	—	—	2,177
Service center assets	945	—	—	945
Liabilities included in segment assets	1,346	—	—	1,346
Inventory methodology differences	(2,235)	—	—	(2,235)
Other	627	(119)	5	513
Total assets	$ 22,265	$ 24,612	$ (3,786)	$ 43,091

Assets				
2003				
Total accountable assets from business segments	$ 11,067	$ 20,467	$ —	$ 31,534
Items not included in segment assets:				
Cash and short-term investments	220	122	—	342
Intercompany trade receivables	572	397	(969)	—
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	895	—	—	895
Liabilities included in segment assets	925	—	—	925
Inventory methodology differences	(2,035)	—	—	(2,035)
Other	84	(91)	32	25
Total assets	$ 19,446	$ 20,972	$ (3,712)	$ 36,706
2002				
Total accountable assets from business segments	$ 10,552	$ 17,417	$ —	$ 27,969
Items not included in segment assets:				
Cash and short-term investments	146	163	—	309
Intercompany trade receivables	917	343	(1,260)	—
Investments in unconsolidated affiliated companies	283	—	—	283
Investment in Financial Products	1,961	—	(1,961)	—
Deferred income taxes and prepaids	2,698	75	(133)	2,640
Intangible assets and other assets	1,719	—	—	1,719
Service center assets	810	—	—	810
Liabilities included in segment assets	848	—	—	848
Inventory methodology differences	(1,845)	—	—	(1,845)
Other	78	(110)	4	(28)
Total assets	$ 18,167	$ 17,888	$ (3,350)	$ 32,705

Enterprise-wide Disclosures:

External sales and revenues from products and services:

	2004	2003	2002
Machinery	**$ 18,844**	$ 13,678	$ 11,975
Engines	**9,492**	7,370	6,673
Financial Products	**1,915**	1,715	1,504
Total consolidated	**$ 30,251**	$ 22,763	$ 20,152

Information about Geographic Areas:

	External Sales & Revenues(1)	**Net property, plant and equipment**
		December 31,

	2004	2003	2002	2004	2003	2002
Inside United States	**$ 14,161**	$ 10,058	$ 9,291	**$ 4,424**	$ 4,276	$ 4,487
Outside United States	**16,090**	12,705	10,861	**3,258 (2)**	2,975 (2)	2,522 (2)
Total	**$ 30,251**	$ 22,763	$ 20,152	**$ 7,682**	$ 7,251	$ 7,009

(1)

Sales of machinery and engines are based on dealer location. Revenues from services provided are based on where service is rendered.

(2)

Amount includes $681 million, $675 million and $680 million of net property, plant and equipment located in the United Kingdom as of December 31, 2004, 2003 and 2002, respectively.

26. Acquisitions

Turbomach S.A.

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

The transaction, which was financed with available cash and commercial paper borrowings, was accounted for by the purchase method of accounting and, accordingly, 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 "Power Products" segment. Net tangible assets acquired and liabilities assumed of $41 million were recorded at their fair values. No significant intangible assets were acquired. Assuming this transaction had been made at January 1, 2004, the consolidated pro forma results for the year would not be materially different from reported results.

Parts and Accessories Distribution Business of MG Rover Ltd.

In August 2004, we acquired the global parts and accessories business of U.K. auto manufacturer MG Rover, a wholly owned subsidiary of Phoenix Venture Holdings Limited, for $178 million, including $169 million at closing (subject to certain postclosing adjustments) and a $9 million promissory note to be paid in 2006. The business acquired includes the sourcing, marketing, distribution and sale of automotive service parts and accessories to MG Rover dealers, distributors, importers and other related customers worldwide.

The transaction, which was financed with available cash and commercial paper borrowings, was accounted for by the purchase method of accounting and, accordingly, 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" segment. Net tangible assets acquired and liabilities assumed of $73 million were recorded at their fair values. Finite-lived intangible assets acquired of $87 million relate primarily to technology and trademark rights, which are being amortized on a straight-line basis over 15 and 20 years, respectively. Goodwill of $18 million represents the excess of cost over the fair value of net tangible and finite-lived intangible assets acquired. Assuming this transaction had been made at January 1, 2004, the consolidated pro forma results for the year would not be materially different from reported results.

Williams Technologies, Inc.

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

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

27. Selected quarterly financial results (unaudited)

	2004 Quarter			
	1st	2nd	3rd	4th
	(Dollars in millions except per share data)			
Sales and revenues	$ 6,467	$ 7,564	$ 7,649	$ 8,571
Less: Revenues	465	464	474	512
Sales	6,002	7,100	7,175	8,059

Cost of goods sold	**4,683**	**5,541**	**5,728**	**6,468**
Gross margin	**1,319**	**1,559**	**1,447**	**1,591**
Profit	**420**	**566**	**498**	**551**
Profit per common share	**$ 1.23**	**$ 1.65**	**$ 1.45**	**$ 1.61**
Profit per common share —diluted	**$ 1.19**	**$ 1.59**	**$ 1.41**	**$ 1.55**

	2003 Quarter			
	1st	**2nd**	**3rd**	**4th**
	(Dollars in millions except per share data)			
Sales and revenues	$ 4,821	$ 5,932	$ 5,545	$ 6,465
Less: Revenues	397	431	433	454
Sales	4,424	5,501	5,112	6,011
Cost of goods sold	3,630	4,329	4,143	4,843
Gross margin	794	1,172	969	1,168
Profit	129	399	222	349
Profit per common share	$ .37	$ 1.16	$ .64	$ 1.01
Profit per common share —diluted	$ .37	$ 1.15	$ .62	$ .97

As discussed in Note 14E on page A-23, we recognized the impact of Medicare Part D in the third quarter of 2004, retroactive to December 31, 2003. Previously issued amounts for the first and second quarters of 2004 were as follows:

	2004 Quarter	
	1st	**2nd**
	(Dollars in millions except per share data)	
Profit	$ 412	$ 552
Profit per common share	$ 1.20	$ 1.61
Profit per common share—diluted	$ 1.16	$ 1.55

Five-year Financial Summary

(Dollars in millions except per share data)

	2004	2003	2002	2001	2000
Years ended December 31,					
Sales and revenues	$ **30,251**	22,763	20,152	20,450	20,175
Sales	$ **28,336**	21,048	18,648	19,027	18,913
Percent inside the United States	**46 %**	44 %	45 %	49 %	50 %
Percent outside the United States	**54 %**	56 %	55 %	51 %	50 %
Revenues	$ **1,915**	1,715	1,504	1,423	1,262
Profit(1)	$ **2,035**	1,099	798	805	1,053
Profit per common share(1)(2)	$ **5.95**	3.18	2.32	2.35	3.04
Profit per common share—diluted(1)(3)	$ **5.75**	3.13	2.30	2.32	3.02
Dividends declared per share of common stock	$ **1.600**	1.440	1.400	1.390	1.345
Return on average common stockholders' equity(4)	**30.0 %**	19.0 %	14.4 %	14.4 %	19.0 %
Capital expenditures:					
Property, plant and equipment	$ **926**	682	728	1,100	928
Equipment leased to others	$ **1,188**	1,083	1,045	868	665
Depreciation and amortization	$ **1,397**	1,347	1,220	1,169	1,063
Research and development expenses	$ **928**	669	656	696	649
As a percent of sales and revenues	**3.1 %**	2.9 %	3.3 %	3.4 %	3.2 %
Wages, salaries and employee benefits	$ **6,001**	4,980	4,360	4,272	4,029
Average number of employees	**73,033**	67,828	70,973	70,678	67,200
December 31,					
Total assets	$ **43,091**	36,706	32,705	30,489	28,246
Long-term debt due after one year:					
Consolidated	$ **15,837**	14,546	11,774	11,452	11,334
Machinery and Engines	$ **3,663**	3,603	3,581	3,653	2,854
Financial Products	$ **12,174**	10,943	8,193	7,799	8,480
Total debt:					
Consolidated	$ **23,525**	20,284	17,861	16,763	15,067
Machinery and Engines	$ **3,762**	3,707	3,903	3,945	3,427
Financial Products	$ **19,763**	16,577	13,958	12,818	11,640

(1)

In 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" and therefore no longer amortize goodwill.

(2)

Computed on weighted-average number of shares outstanding.

(3)

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

(4)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Without question, 2004 was one of the most remarkable years in our proud history. In 1997, with sales and revenues less than $19 billion, we set the goal of becoming a $30 billion company by the middle of this decade. While many thought it was overly ambitious, at the close of 2004 we're able to celebrate that tremendous accomplishment ahead of schedule. Throughout the year, Team Caterpillar—our employees, dealers and suppliers—effectively responded to an unprecedented recovery in nearly every market we serve and enhanced our long-term strategic position by meeting record customer demand and building substantial field population. We're clearly pleased to have reached this important $30 billion milestone, but we have not yet delivered bottom line performance in line with our own expectations. While we remain committed to satisfying our customers, we're disappointed with our cost structure, particularly steel related costs and supply chain inefficiencies due to lack of material availability. That, coupled with a record order backlog which delayed ***price realization***,* caused incremental margins to lag in 2004.

Also in 2004, we delivered solid improvement in cash flow and the company ended the year with an even stronger financial position. After providing continued funding for growth opportunities and new product development, the company was able to make significant contributions to pension plans, increase dividends to shareholders and repurchase Caterpillar shares. Pension plans remain well funded due to solid investment returns and over $600 million in contributions for the second year in a row. The company has increased its dividend in ten of the last eleven years and repurchased almost seven million shares during 2004. This financial strength positions Caterpillar very well for the future.

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. Through thoughtful and professional negotiations, we've reached an agreement that positions the company and all our employees for long-term competitiveness.

This year's opportunities certainly presented us with significant challenges. However, we are pleased we were still able to deliver record profits and increased return on sales. We will continue to meet customer requirements and strengthen our long-term market position. While significant cost pressures are common during periods of explosive growth, we're focusing the expertise of hundreds of ***6 Sigma*** teams to aggressively address these issues and improve our cost structure in 2005. We'll continue to build on the value of 6 Sigma and the opportunities unleashed by an engaged global team to set new records this year, create long-term value for our customers and deliver exceptional returns to our shareholders.

It is our objective to provide the most meaningful disclosures in our Management's Discussion and Analysis in order to explain significant changes in our company's results of operations and liquidity and capital resources. As discussed in Note 25 on pages A-29 to A-30, our segment financial information is not based on generally accepted accounting principles and it is not intended to measure contributions to enterprise results. Therefore, it is impractical for us to try to discuss our company's results of operations and liquidity and capital resources solely based on segment information. Where practical, we have linked our discussions to segment information provided in Note 25 and Table IV on pages A-29 to A-33 (see "Reconciliation of Machinery and Engines Sales by Geographic Region to External Sales by Marketing Segment" on page A-37). Our discussions will focus on consolidated results and our three principal lines of business as described below:

Consolidated—represents the consolidated data of Caterpillar Inc. and all its consolidated subsidiaries.

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, telescopic handlers, skid steer loaders and related parts. Also includes logistics services for other companies.

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. Reciprocating engines meet power needs ranging from 5 to over 22,000 horsepower (4 to over 16 200 kilowatts). Turbines range from 1,200 to 20,500 horsepower (900 to 15 000 kilowatts).

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 subsidiaries. Cat Financial provides a wide range of financing alternatives 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 active investor in independent power projects using Caterpillar power generation equipment and services.

*

Glossary of terms included on pages A-47 to A-48; first occurrence of terms shown in bold italics.

2004 COMPARED WITH 2O03

Sales and Revenues by Geographic Region

	Total	North America	EAME	Latin America	Asia/Pacific
	(Millions of dollars)				
2004					
Machinery	**$ 18,844**	**$ 10,337**	**$ 4,511**	**$ 1,510**	**$ 2,486**
Engines(1)	**9,492**	**4,184**	**2,994**	**862**	**1,452**
Financial Products(2)	**1,915**	**1,347**	**327**	**116**	**125**
	$ 30,251	**$ 15,868**	**$ 7,832**	**$ 2,488**	**$ 4,063**
2003					
Machinery	$ 13,678	$ 7,310	$ 3,596	$ 928	$ 1,844
Engines(1)	7,370	3,222	2,356	793	999
Financial Products(2)	1,715	1,231	303	94	87
	$ 22,763	$ 11,763	$ 6,255	$ 1,815	$ 2,930

(1)

Does not include internal engine transfers of $1.745 billion and $1.358 billion in 2004 and 2003, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

(2)

Does not include revenues earned from Machinery and Engines of $194 million and $180 million in 2004 and 2003, respectively.

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

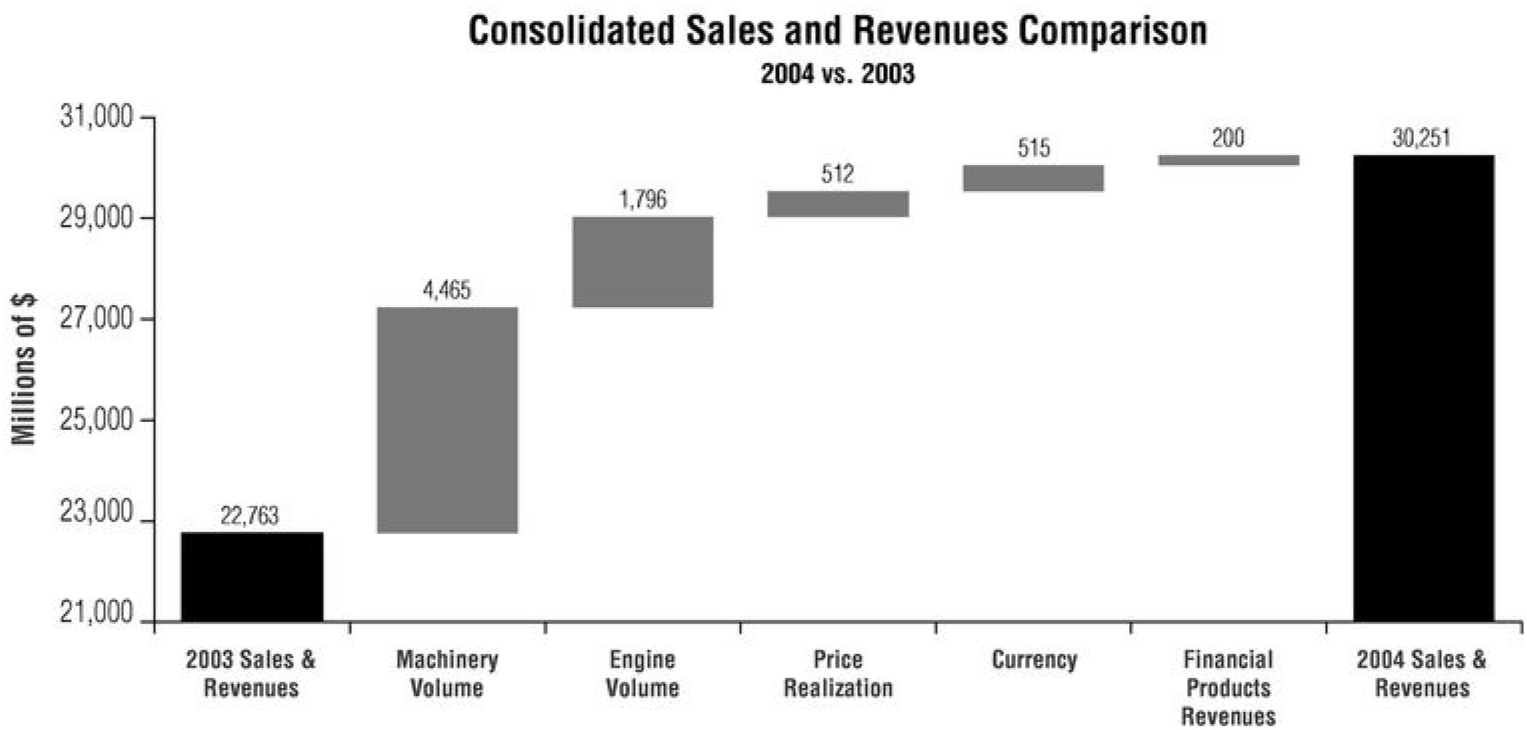
	2004	2003	2002
	(Millions of dollars)		
North America Geographic Region	**$ 14,521**	$ 10,532	$ 9,480
Engine sales included in the Power Products segment	**(4,184)**	(3,221)	(2,968)
Company owned dealer sales included in the All Other segment	**(558)**	(388)	(350)
Other*	**(550)**	(160)	(254)
North America Marketing external sales	**$ 9,229**	$ 6,763	$ 5,908
EAME Geographic Region	**$ 7,505**	$ 5,952	$ 5,178
Power Products sales not included in the EAME Marketing segment	**(2,873)**	(1,897)	(1,613)
Other*	**(694)**	(872)	(740)
EAME Marketing external sales	**$ 3,938**	$ 3,183	$ 2,825
Latin America Geographic Region	**$ 2,372**	$ 1,721	$ 1,598

Power Products sales not included in the Latin America Marketing segment	**(833)**	(667)	(689)
Other*	**246**	133	322
Latin America Marketing external sales	**$ 1,785**	$ 1,187	$ 1,231
Asia/Pacific Geographic Region	**$ 3,938**	$ 2,843	$ 2,392
Power Products sales not included in the Asia/Pacific Marketing segment	**(1,019)**	(1,008)	(872)
Other*	**(782)**	(262)	(210)
Asia/Pacific Marketing external sales	**$ 2,137**	$ 1,573	$ 1,310

*

Mostly represents external sales of Construction & Mining Products and All Other segments.

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2003 (at left) and 2004 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Sales and revenues for 2004 were $30.25 billion, $7.49 billion or 33 percent higher than 2003. The increase was due to higher ***Machinery and Engines*** volume of $6.26 billion, the favorable impact of ***currency*** on sales of $515 million due primarily to the strengthening euro and British pound, improved price realization of $512 million and higher Financial Products revenues of $200 million.

Machinery sales were $18.84 billion in 2004, a $5.17 billion or 38 percent increase over 2003. Record ***sales volume,*** up 33 percent from 2003, accounted for most of the gain. Improved price realization added about 3 percent and the favorable impact of currency accounted for the remaining 2 percent. The volume increase was the result of a 28 percent increase in dealer deliveries to end users and an increase in dealer inventories to meet future demand. Dealers carried about the same months of sales in inventory at the end of 2004 as they did at the end of 2003.

In North America, 2004 sales were 41 percent higher than in 2003. Volume increased 37 percent, reaching a record high. The rest of the gain resulted from improved price realization. Volume benefited from a 33 percent increase in dealer deliveries, with sizable gains occurring in most applications. Low interest rates, higher commodity prices and accelerated depreciation provisions all encouraged users to replace existing machines and increase fleet sizes. ***EAME*** sales rose 25 percent, with about 16 percent coming from more volume, about 7 percent due to the favorable impact of a stronger euro and the remainder due to improved price realization. Half the volume growth occurred in Europe, where low interest rates contributed to some recovery in construction. Volume increased in both Africa/Middle East (AME) and the CIS, largely due to higher metals and energy prices. Sales in ***Latin America*** increased 63 percent, the fastest growth of any region. Volume surged about 55 percent, improved price realization contributed about 7 percent with the remainder due to currency. Dealers delivered 56 percent more machines to end users and built inventories even faster to accommodate the steep recovery in activity. The Asia/Pacific region had a 35 percent increase in sales in 2004, primarily due to volume. Volume declined in China, but this was more than offset by large gains in Australia, Indonesia and India. Dealer deliveries into coal mining, benefiting from higher coal prices, increased sharply in all three countries.

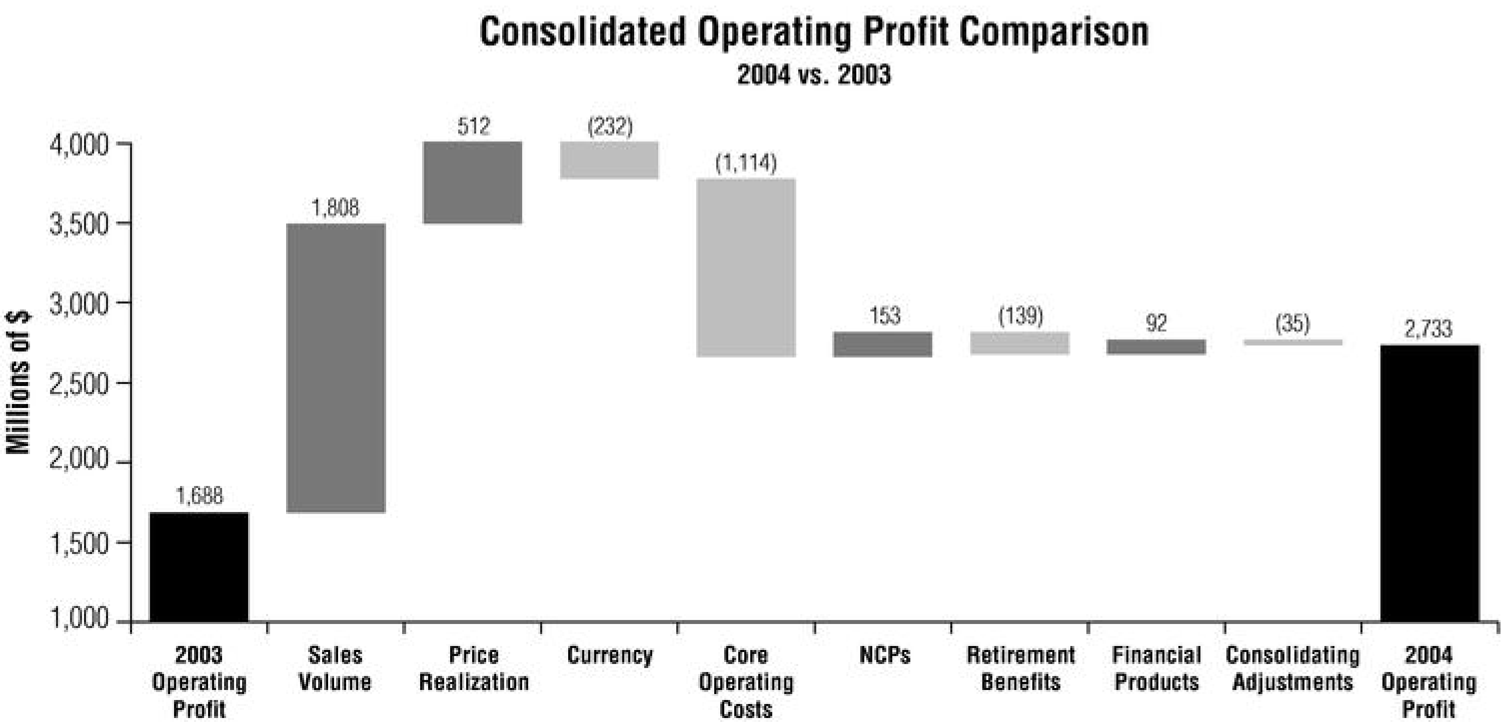
Engines sales were $9.49 billion, an increase of $2.12 billion or 29 percent from 2003. Sales volume was up about 24 percent, the favorable impact of currency accounted for about 3 percent and the remainder was due to improved price realization.

Engine sales increased substantially in all regions. The North America engine sales gain of 30 percent was driven primarily by a 37 percent increase in sales of on-highway truck engines, as strong freight demand and improved industry financial health drove expansion and replacement. Sales of engines to the electric power sector increased 25 percent compared to last year, benefiting from increased demand for quality power, and growth in nonresidential construction and business investment. Sales of engines to the industrial sector rose 62 percent, with strong widespread demand from industrial Original Equipment Manufacturer (OEM) products and growing preference for Caterpillar engines. Sales of marine engines increased 20 percent primarily from healthy demand for pleasure craft engines. Sales of petroleum engines remained about flat compared to 2003, as strong demand for reciprocating engines to maximize existing production was slightly more than offset by reduced investment in turbines and turbine related services for pipeline and major infrastructure expansion. Engine sales rose 27 percent in EAME with strong increases in all sectors.

Sales of engines into the electric power sector increased 54 percent due to stronger demand for prime and cogeneration systems, Middle Eastern demand for large engines and power modules, and favorable currency versus euro-based competition. Sales of engines to the petroleum sector increased 29 percent, with the vast majority of the increase coming from sales of turbines and turbine-related services to support increases in petroleum investment. Sales of engines to the marine sector increased 27 percent due to increased investment in oceangoing and workboat vessels, driven by higher demand for inland waterway transportation and strengthening oceangoing vessel lease rates. Sales of engines into the industrial sector increased 10 percent. Engine sales in Latin America increased 9 percent with gains in most sectors from an improved business investment climate. Sales of petroleum engines in Latin America increased 16 percent with increased demand for turbines and turbine related services for pipeline applications. Sales of electric power engines in Latin America decreased 27 percent, primarily due to the absence of a large turbine electric power project that occurred during 2003. Widespread economic growth in Asia/Pacific contributed to the 45 percent increase in engine sales. Sales of engines into the electric power sector nearly doubled as strong growth drove increased demand for commercial standby and self-generation, as well as for generator sets to support ongoing demand from transmission shortages in China. Sales of petroleum engines increased 30 percent as growth in exploration and production drove strong demand for turbines and turbine related services. Sales of engines to the marine sector increased 48 percent due to increased demand for dredge equipment in support of construction growth, as well as broad increases in demand for offshore supply boats, pleasure craft and oceangoing vessels.

Financial Products revenues were $1.92 billion, an increase of $200 million or 12 percent from 2003. The increase was due primarily to a $228 million favorable impact at Cat Financial from continued growth of ***earning assets,*** partially offset by a $60 million impact of lower interest rates on new and existing finance receivables. Also, there was a $19 million increase in earned premiums at Cat Insurance and a $14 million increase in electric plant revenue at Cat Power Ventures.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2003 (at left) and 2004 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Higher sales volume in all regions resulted in a favorable operating profit impact of $1.81 billion. Operating profit was also favorably impacted by improved price realization of $512 million, the absence of $153 million of ***Non-Conformance Penalties (NCPs)*** that were recorded in 2003 and improved profitability of Financial Products of $92 million.

Partially offsetting the favorable items were $1.11 billion in higher ***core operating costs,*** a $232 million unfavorable impact of currency on operating profit due primarily to the weakening of the dollar compared with the British pound and the Japanese yen and $139 million of higher ***retirement benefits.***

Our main focus throughout 2004 has been to satisfy unprecedented customer demand despite incurring additional core operating costs to respond to the steep market upturn. The additional core operating costs reflect increases in manufacturing costs and higher general support costs to meet demand. These additional manufacturing costs included higher material costs resulting primarily from steel related and commodity price increases and higher freight and expediting costs to ensure timely delivery of material. The remainder of the core operating cost increase is largely attributable to higher SG&A expense to support growth and development programs, planned spending on product development, higher incentive compensation costs as well as increased warranty expense. These unfavorable items were partially offset by ongoing cost reductions resulting from hundreds of 6 Sigma projects.

Operating Profit Table

	2004	2003
	(Millions of dollars)	
Machinery(1)	**$ 1,825**	$ 1,246
Engines(1)	**597**	188
Financial Products	**437**	345
Consolidating Adjustments(2)	**(126)**	(91)
	$ 2,733	$ 1,688

(1)

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

(2)

Consolidating adjustments consist of eliminations of transactions between Machinery and Engines and Financial Products.

Machinery operating profit of $1.83 billion was up $579 million, or 46 percent, from 2003. The favorable impact of higher sales volume and improved price realization was partially offset by higher core operating costs (as outlined above), the unfavorable impact of currency and higher retirement benefits.

Engines operating profit of $597 million was up $409 million, or 218 percent, from 2003. The favorable impact of higher sales volume, the absence of NCPs and improved price realization were partially offset by higher core operating costs (as outlined above), higher retirement benefits and the unfavorable impact of currency.

Financial Products operating profit of $437 million was up $92 million, or 27 percent, from 2003. The increase was primarily due to a $105 million impact from the growth of earning assets and a $16 million improvement in gain/loss on sale of used equipment at Cat Financial, and a $45 million increase in underwriting income ($26 million due to favorable reserve adjustments resulting from better than anticipated claim experience; remainder due to growth) at Cat Insurance. These favorable items were partially offset by a $39 million increase in operating expenses at Cat Financial primarily related to increased labor costs to support growth in earning assets and a $34 million impact of lower interest spreads.

OTHER PROFIT/LOSS ITEMS

Interest expense excluding Financial Products was $16 million lower compared to 2003 primarily due to lower average borrowing rates.

Other income/expense was income of $204 million compared with income of $35 million in 2003 for a favorable impact of $169 million. The change was primarily due to the favorable impact of Machinery and Engines currency gains of $75 million, the absence of a $55 million non-recurring bond retirement charge recorded in the third quarter 2003 and the absence of investment impairments at Cat Insurance of $27 million.

Caterpillar's profit and cash flows are subject to fluctuation due to changes in foreign exchange rates. The company uses currency forward and option contracts to reduce the impact of exchange rate changes. As mentioned above, the result of this activity in 2004 on Machinery and Engines other income/expense was favorable $75 million. This reduces the net unfavorable impact of currency on profit before tax to $157 million.

The provision for income taxes for both 2003 and 2004 reflects an effective annual tax rate of 27 percent. A change in our geographic mix of profits was offset by the change in retirement benefits discussed on pages A-54 to A-55.

On October 22, 2004, the American Jobs Creation Act (the Act) was signed into law. Among other things, the Act provides for the phase-out of Extraterritorial Income Exclusion (ETI) benefits over the next two years and creates a new deduction in 2005 of 85 percent of certain non-U.S. earnings that are repatriated in excess of a base amount, as defined in the Act. We have started an evaluation of the effects of the repatriation provision. However, we do not expect to be able to complete this evaluation until after Congress and the Treasury Department provide additional clarification on key elements of the provision. We expect to complete our evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of all relevant guidance. The range of possible amounts, including the base, which we are considering for repatriation under this provision, is between zero and $1 billion. The related potential range of incremental provision for income taxes is between zero and $75 million.

The equity in profit/loss of unconsolidated affiliated companies favorably impacted profit by $39 million over 2003, primarily driven by increased profitability at Shin Caterpillar Mitsubishi Ltd. (SCM). The increase in profitability at SCM was driven largely by increased exports.

Supplemental Information

	2004	2003	2002
		(Millions of dollars)	
Identifiable Assets:			
Machinery	**$ 13,713**	$ 11,801	$ 10,867
Engines	**8,552**	7,645	7,300
Financial Products	**24,612**	20,972	17,888
Consolidating Adjustments	**(3,786)**	(3,712)	(3,350)
Total	**$ 43,091**	$ 36,706	$ 32,705
Capital Expenditures:			
Machinery	**$ 546**	$ 386	$ 393
Engines	**297**	278	305
Financial Products	**1,271**	1,101	1,075
Total	**$ 2,114**	$ 1,765	$ 1,773
Depreciation and Amortization:			
Machinery	**$ 442**	$ 453	$ 437
Engines	**353**	345	348
Financial Products	**602**	549	435
Total	**$ 1,397**	$ 1,347	$ 1,220

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 will be 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.

Sales and Revenues

	Total	North America	EAME	Latin America	Asia/Pacific
			(Millions of dollars)		
Fourth Quarter 2004					
Machinery	**$ 5,157**	**$ 2,783**	**$ 1,279**	**$ 447**	**$ 648**
Engines(1)	**2,902**	**1,213**	**955**	**276**	**458**
Financial Products(2)	**512**	**361**	**84**	**31**	**36**
	$ 8,571	**$ 4,357**	**$ 2,318**	**$ 754**	**$ 1,142**
Fourth Quarter 2003					
Machinery	$ 3,827	$ 2,088	$ 939	$ 291	$ 509
Engines(1)	2,184	876	703	300	305
Financial Products(2)	454	325	79	23	27
	$ 6,465	$ 3,289	$ 1,721	$ 614	$ 841

(1)

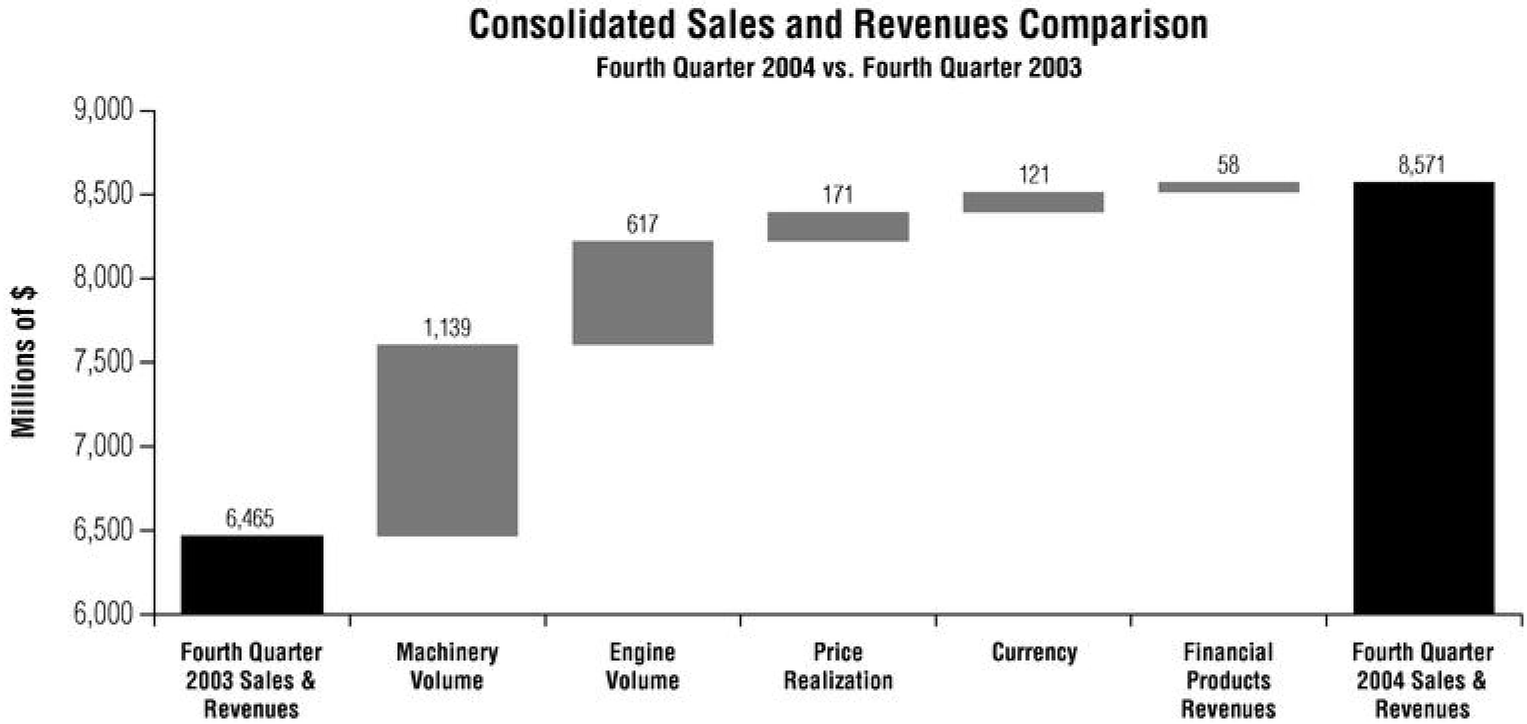
Does not include internal engine transfers of $484 million and $362 million in fourth quarter 2004 and fourth quarter 2003, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

(2)

Does not include revenues earned from Machinery and Engines of $56 million and $47 million in fourth quarter 2004 and fourth quarter 2003, respectively.

FOURTH QUARTER 2004 COMPARED WITH FOURTH QUARTER 2003

SALES AND REVENUES



The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between fourth quarter 2003 (at left) and fourth quarter 2004 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Machinery sales were a record $5.16 billion in fourth quarter 2004, a $1.33 billion or 35 percent increase from fourth quarter 2003. Sales volume, which accounted for most of the gain, was up 30 percent from fourth quarter 2003. Improved price realization added 3 percent and the remainder was due to the favorable impact of currency.

In North America, machinery sales increased 33 percent from fourth quarter 2003. Volume increased about 31 percent and the rest was improved price realization. Nearly all the volume growth was the result of increased dealer deliveries to end users, primarily into mining and construction. Machinery sales in EAME were up 36 percent, with about 26 percent due to volume, about 6 percent due to the favorable currency impact of a stronger euro and the remainder due to improved price realization. Volume was a record for a fourth quarter, with good gains in Europe, AME and the CIS. Latin American machinery sales increased 54 percent, with volume contributing about 43 percent of the change and the remainder due to improved price realization.

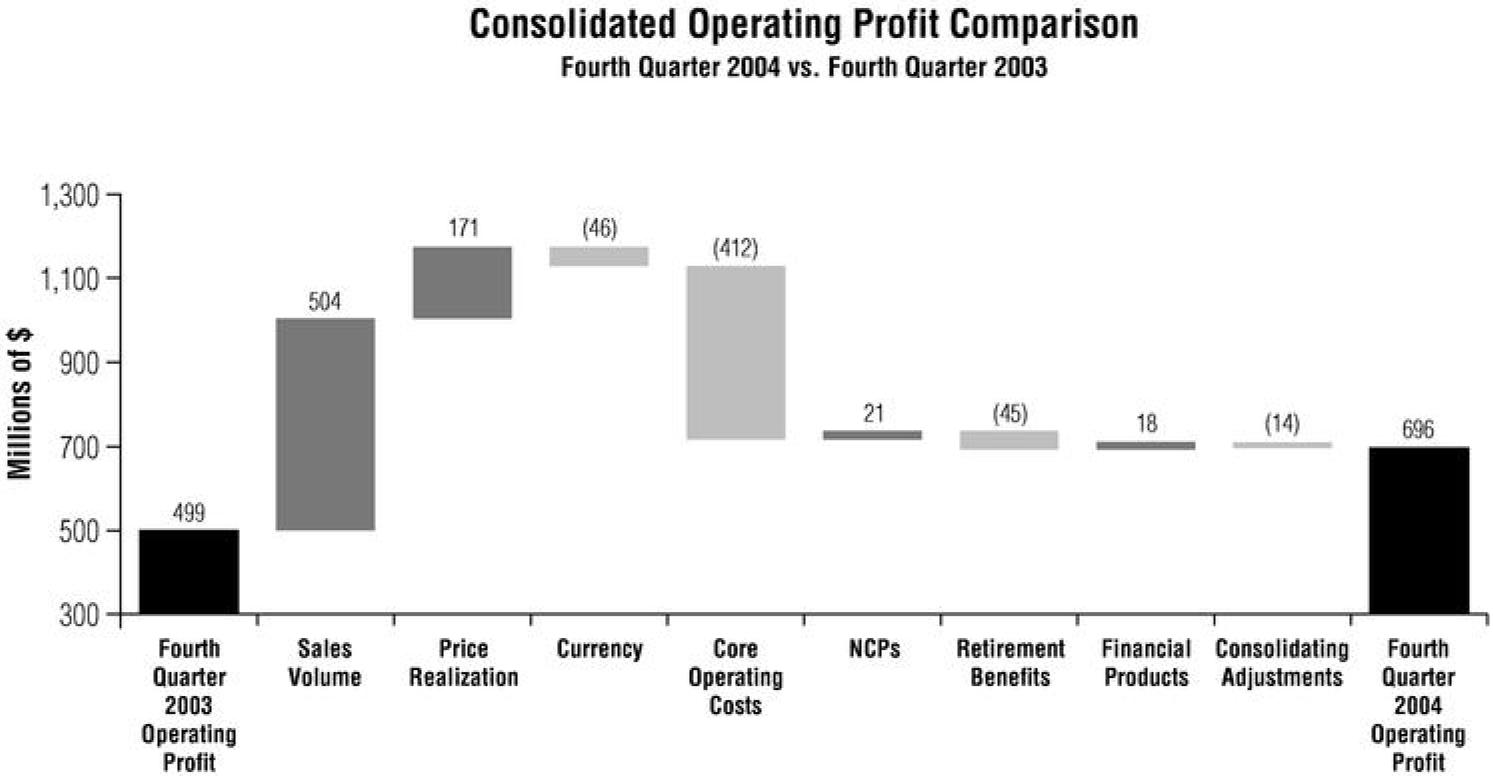
December machine shipments to dealers set a record, which caused a big increase in reported inventories since dealers did not have enough time to convert all shipments into deliveries. In the Asia/Pacific region, machinery sales in fourth quarter 2004 were 27 percent higher than a year earlier, with volume contributing about 23 percent, improved price realization accounting for about 3 percent and the remainder due to currency. A sharp drop in volume in China was more than offset by gains in Indonesia, Australia and India. Deliveries into mining were up sharply in all three countries.

Engines sales were $2.90 billion, an increase of $718 million, or 33 percent, compared to fourth quarter 2003. Sales volume was up about 29 percent, the favorable impact of currency accounted for about 2 percent and improved price realization added about 2 percent.

Most regions experienced strong increases in engine sales compared to fourth quarter 2003. The North American engine sales gain of 38 percent was driven primarily by a 43 percent increase in sales of on-highway truck engines. Sales of engines to the petroleum sector increased 24 percent benefiting from strong demand for reciprocating engines to expand and maximize production of existing gas and oil fields. Sales of engines to the industrial sector increased 81 percent with widespread increases in demand for nearly all types of industrial OEM equipment, as well as demand for hurricane cleanup efforts in Florida and surrounding regions. Sales of engines to the electric power sector increased 13 percent with continued demand from commercial construction and business investment. Engine sales rose 36 percent in EAME with increases in most sectors. Sales of engines into the electric power sector increased 81 percent due to strong economics for combined heat and power applications for turbines and reciprocating generator sets, as well as increased sales opportunity via the acquisition of Turbomach. Middle Eastern demand for large engines and power modules and favorable currency versus euro-based competition also contributed to the gain. Sales of engines to the marine sector increased 36 percent with increased workboat demand, while sales to the industrial sector increased 10 percent. Engine sales in Latin America decreased 8 percent compared to fourth quarter 2003. Increases in sales of engines occurred in all sectors, with the exception of a 54 percent reduction in sales of engines to electric power. Electric power was impacted by a major turbine project that occurred in fourth quarter 2003, as well as decreased demand for large prime and standby generator sets. Widespread economic growth in Asia/Pacific contributed to the 50 percent increase in engine sales, with strong increases in nearly all sectors. Sales of engines to the petroleum sector increased 67 percent driven primarily by increased demand for turbines and turbine related services to support expansion in exploration and production. Sales of engines into the electric power sector increased 53 percent with increased demand for prime and standby generator sets. Sales of engines into the marine sector nearly doubled with increased demand for workboat and oceangoing vessel engines.

Financial Products revenues were $512 million, an increase of $58 million or 13 percent from fourth quarter 2003. The increase was due primarily to the favorable impact from continued growth of earning assets at Cat Financial.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between fourth quarter 2003 (at left) and fourth quarter 2004 (at right). Items favorably impacting operating profit appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting operating profit appear as downward stair steps with dollar amounts reflected in parentheses above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Higher sales volume in all regions and most industries favorably impacted operating profit by $504 million. Operating profit was also favorably impacted by improved price realization of $171 million, the absence of $21 million of NCPs that were recorded in the fourth quarter 2003 and improved profitability of Financial Products of $18 million.

Partially offsetting the favorable items were $412 million in higher core operating costs, a $46 million unfavorable impact of currency on operating profit due primarily to the weakening of the dollar compared with the British pound and $45 million of higher retirement benefits.

We continued to meet unprecedented customer demand and satisfy our customers in the fourth quarter, despite incurring additional core operating costs to respond to record volumes. The additional core operating costs reflect increases in manufacturing costs to satisfy customer requirements, higher SG&A expense to support growth and development programs and planned spending on product development programs. The additional manufacturing costs were due to higher material costs resulting primarily from steel related price increases.

Operating Profit Table

	Fourth Quarter	
	2004	**2003**
	(Millions of dollars)	
Machinery(1)	**$ 384**	$ 367
Engines(1)	**246**	70
Financial Products	**105**	87
Consolidating Adjustments(2)	**(39)**	(25)
	$ 696	$ 499

(1)

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

(2)

Consolidating adjustments consist of eliminations of transactions between Machinery and Engines and Financial Products.

Machinery operating profit of $384 million was up $17 million, or 5 percent, from fourth quarter 2003. The favorable impact of higher sales volume and improved price realization was mostly offset by higher core operating costs (as outlined above), the unfavorable impact of currency and higher retirement benefits.

Engines operating profit of $246 million was up $176 million, or 251 percent, from fourth quarter 2003. The favorable impact of higher sales volume, improved price realization and the absence of NCPs were partially offset by higher core operating costs (as outlined above).

Financial Products operating profit of $105 million was up $18 million, or 21 percent, from fourth quarter 2003. The increase was primarily due to a favorable impact from the growth of earning assets, partially offset by the impact of lower interest spreads at Cat Financial.

OTHER PROFIT/LOSS ITEMS

Other income/expense was income of $69 million compared with income of $20 million in fourth quarter 2003, a favorable impact of $49 million. The change was due mainly to the favorable impact of Machinery and Engines currency gains of $27 million and a $9 million favorable change in currency exchange gain/loss at Cat Power Ventures.

Also, Caterpillar's profit and cash flows are subject to fluctuation due to changes in foreign exchange rates. The company uses currency forward and option contracts to reduce the impact of exchange rate changes. As mentioned above, the result of this activity in the fourth quarter on Machinery and Engines other income/expense was favorable $27 million. This reduced the net unfavorable impact of currency on profit before tax to $19 million.

The provision for income taxes for both 2003 and 2004 reflects an effective annual tax rate of 27 percent. In addition, the fourth quarter 2004 provision includes a favorable adjustment of $10 million to recognize the impact of an effective tax rate change from 27.5 percent used for the first nine months primarily due to a change in our geographic mix of profits.

The equity in profit/loss of unconsolidated affiliated companies favorably impacted profit by $13 million over fourth quarter a year ago, primarily driven by increased profitability at Shin Caterpillar Mitsubishi Ltd. (SCM). The increase in profitability at SCM was driven largely by increased exports.

SUPPLEMENTAL INFORMATION

We are providing supplemental information including deliveries to users and dealer inventory levels. We sell the majority of our machines and engines to independently owned and operated dealers and OEMs to meet the demands of their customers, the end users. Due to time lags between our sales and the deliveries to end users we believe this information will help readers better understand our business and the industries we serve. All information provided in the supplemental section is calculated in ***constant dollars.***

Dealer New Machine Deliveries

Worldwide dealer deliveries of new machines to end users increased 28 percent in 2004, reaching record levels. Strength was widespread, with growth occurring in all regions and in all major applications. The worldwide recovery in manufacturing boosted demand for most commodities. The resulting higher prices and increased production caused increased deliveries into mining, energy development and forestry. Low interest rates and better economic growth raised construction spending, benefiting deliveries into residential and commercial construction.

North American dealers had a record year, delivering 33 percent more new machines than in 2003. Deliveries increased into all major applications as the result of increased activity, better output prices and accelerated depreciation provisions. Dealers increased deliveries to rental fleets by 40 percent to accommodate an increased demand for rental machines and a higher rate of deliveries from existing rental fleets.

Deliveries into both North American coal mining and metals mining more than doubled. Better coal prices and a weaker U.S. dollar caused a 4 percent increase in mine production, the best year for production growth since 1994. Metals price increases ranged from 10 to 70 percent and mine production increased slightly, the first increase in output since 1997. Deliveries into general construction were up 38 percent from 2003. Housing starts increased to a 1.95 million-unit rate, the highest since 1978. Positives for housing construction were continued low mortgage interest rates, higher home prices and a significant shift away from mobile homes. Nonresidential construction recovered from a three year downturn, the result of better profits, increased business sales and better financing conditions. Dealers delivered 31 percent more new machines into heavy construction in 2004. Deliveries into highway construction increased due to past increases in Federal highway funding, and energy development and exploration benefited from higher oil and natural gas prices. Deliveries into both sewer and water and site development increased due to more residential and commercial construction. Increased construction raised the demand for quarry products and aggregates and deliveries into that application increased 26 percent. The increase in housing starts drove lumber prices higher and deliveries into forestry increased 23 percent.

EAME dealers, benefiting from a strong fourth quarter, increased deliveries of new machines 11 percent in 2004. In Europe, where the economic recovery was sluggish, deliveries increased 4 percent. Positive factors included some recovery in housing in the Euro-zone economies, the result of low interest rates, and increased deliveries to rental fleets. Deliveries in AME rose 35 percent. Higher commodity prices led to increased investment in mining and significantly boosted regional income, allowing governments to increase infrastructure investment. In the CIS, deliveries increased 2 percent. Better energy and metals prices, along with much higher production, caused increased investment.

Latin American dealers, enjoying their best year since 1998, delivered 56 percent more new machines than in 2003. Mining deliveries rose 84 percent, due to higher coal and metals prices plus significant increases in production. In addition, general economic recoveries led to increased construction. Most of the increase in deliveries occurred in Chile, Colombia, Argentina and Mexico.

Dealer new machine deliveries in Asia/Pacific increased 26 percent. China, where deliveries more than doubled between 2001 and 2003, had a 25 percent decline because the government implemented measures to moderate development. Demand in the rest of the region, however, was extremely strong, particularly in mining. Deliveries into Australia increased 41 percent and those into Indonesia more than doubled.

Dealer Inventories of New Machines

Worldwide dealer inventories at the end of 2004 were 38 percent higher than at the end of 2003. A good part of that increase was the normal outcome of rapidly increasing dealer deliveries to end users—more machines were in transit to dealers or in preparation for customer delivery. In addition, plants shipped a record volume of machines in the fourth quarter and dealers did not always have time to convert late-quarter shipments into customer deliveries. Worldwide dealer inventories relative to deliveries were the same as a year earlier. Dealer inventories in both North America and EAME were slightly lower relative to deliveries than at the end of 2003.

Engine Deliveries to End Users and OEMs

In North America, engine deliveries to end users and OEMs were up 22 percent compared to 2003. Engine deliveries increased in nearly all sectors, led by a 35 percent increase in engines delivered to North American truck and bus manufacturers as higher freight tonnage and improved carrier financial health drove expansion and replacement purchases. Engine deliveries to end users and OEMs in the industrial sector increased 50 percent due to stronger industry demand driven by near record levels of business investment and increased preference for Caterpillar engines. Deliveries of engines into the marine sector rose 10 percent from higher demand for pleasure craft engines. Deliveries of engines into the electric power and petroleum sectors remained about flat.

In EAME, overall engine deliveries to end users and OEMs rose 22 percent with increases in deliveries to all sectors. Electric Power deliveries rose 47 percent benefiting from increased demand for combined heat and power self generation, as well as demand for Middle East infrastructure support. Petroleum deliveries rose 26 percent, as higher energy prices drove increased investment to expand production. Deliveries into the marine sector increased 2 percent, while industrial deliveries declined 5 percent.

Deliveries to end users and OEMs in Latin America increased 2 percent compared to 2003. An improved investment climate drove increases in most sectors, led by a 14 percent increase in petroleum deliveries resulting from investment in pipeline activity. Electric power deliveries declined 33 percent driven by the absence of a large turbine project that occurred during 2003.

Deliveries to end users and OEMs in Asia/Pacific were up 47 percent compared to 2003. Engine deliveries into the electric power sector increased 80 percent due to widespread increases in demand for prime power and standby products, primarily driven by transmission constraints and increased business investment from strong economic growth. Asia/Pacific deliveries of engines into the petroleum sector rose

28 percent driven primarily by increased demand for turbines and turbine related services to support growth in exploration and production. Deliveries into the marine sector increased 39 percent as competitive shipyard rates drove demand for oceangoing vessels, and deliveries increased for pleasure craft and offshore supply boats.

Dealer Inventories of Engines

Worldwide dealer engine inventories at the end of 2004 were approximately 32 percent above year-end 2003 levels, and were above selling rate increases primarily due to higher in-transit inventories awaiting delivery. Inventory increased in most regions relative to selling rates, while North America held flat with strong deliveries in most sectors. Asia/Pacific dealer inventories continued to increase slightly faster than selling rates, due to in-process deliveries to support higher electric power and marine demand, as well as some continued delay in deliveries to electric power opportunity in China. EAME dealer inventories increased above selling rates, driven by higher in-transit inventory and higher delivery lead times associated with complex projects, as well as some addition of inventory by dealers to serve growing demand for small standby and large prime generator sets.

2003 COMPARED WITH 2002

Caterpillar had an excellent year in 2003. We took full advantage of the recovering capital goods market to make real progress on our growth objectives while continuing to lower core operating costs. With a 13 percent sales and revenue increase this year, we are well on our way to achieving our growth target of $30 billion of sales and revenues in this decade. Our performance this year demonstrated to investors our commitment to deliver long-term profitable growth. In addition, we made significant progress on other key strategic initiatives. After an aggressive development program, we introduced ACERT'® technology, earning Caterpillar the distinction of being the only engine manufacturer with a full line of 2004 EPA certified and compliant clean diesel engines.

Also in 2003, we supported our dealers' continued expansion of Cat Rental stores as they enhanced their position as the world's leading providers of rental equipment. We strengthened our long-term relationships in the Asia-Pacific region, expanding operations in China and India to serve the increasing demand in these important emerging markets. Amid this growth and change, we continued to embrace the discipline of 6 Sigma, which allowed Caterpillar people to develop process improvements and discover new ways to better serve our customers. As the company grows, we will continue to rely on the proven processes of 6 Sigma to create value and develop growth opportunities. As we move into 2004, we will continue our focus on 6 Sigma and profitable growth, reinforcing the positive changes in our culture that are making Caterpillar a better company.

Sales and Revenues by Geographic Region

	Total	North America	EAME	Latin America	Asia/Pacific
			(Millions of dollars)		
2003					
Machinery	**$ 13,678**	**$ 7,310**	**$ 3,596**	**$ 928**	**$ 1,844**
Engines(1)	**7,370**	**3,222**	**2,356**	**793**	**999**
Financial Products(2)	**1,715**	**1,231**	**303**	**94**	**87**
	$ 22,763	**$ 11,763**	**$ 6,255**	**$ 1,815**	**$ 2,930**
2002					
Machinery	$ 11,975	$ 6,517	$ 3,156	$ 818	$ 1,484
Engines(1)	6,673	2,963	2,022	780	908
Financial Products(2)	1,504	1,116	257	55	76
	$ 20,152	$ 10,596	$ 5,435	$ 1,653	$ 2,468

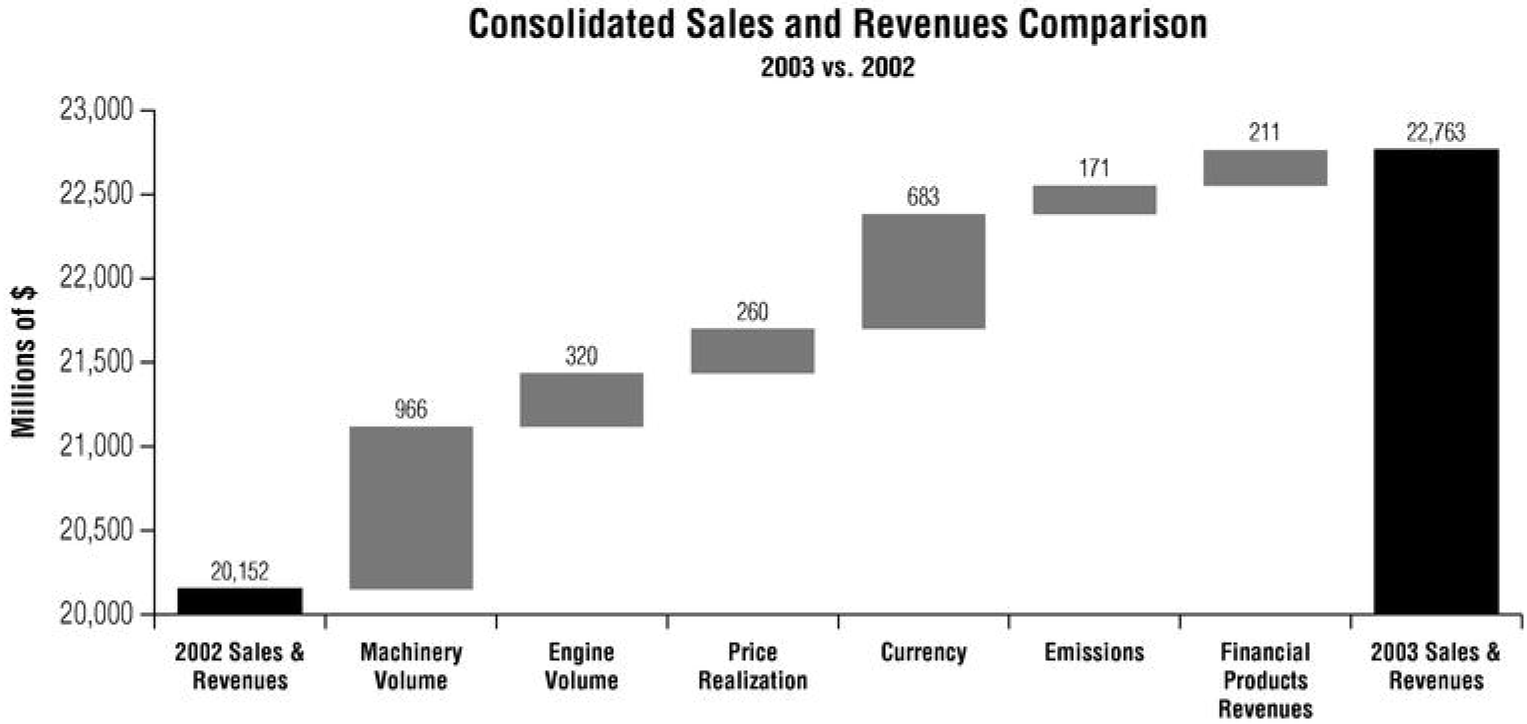
(1)

Does not include internal engine transfers of $1.358 billion and $1.286 billion in 2003 and 2002, respectively. Internal engine transfers are valued at prices comparable to those for unrelated parties.

(2)

Does not include revenues earned from Machinery and Engines of $180 million and $174 million in 2003 and 2002, respectively.

SALES AND REVENUES



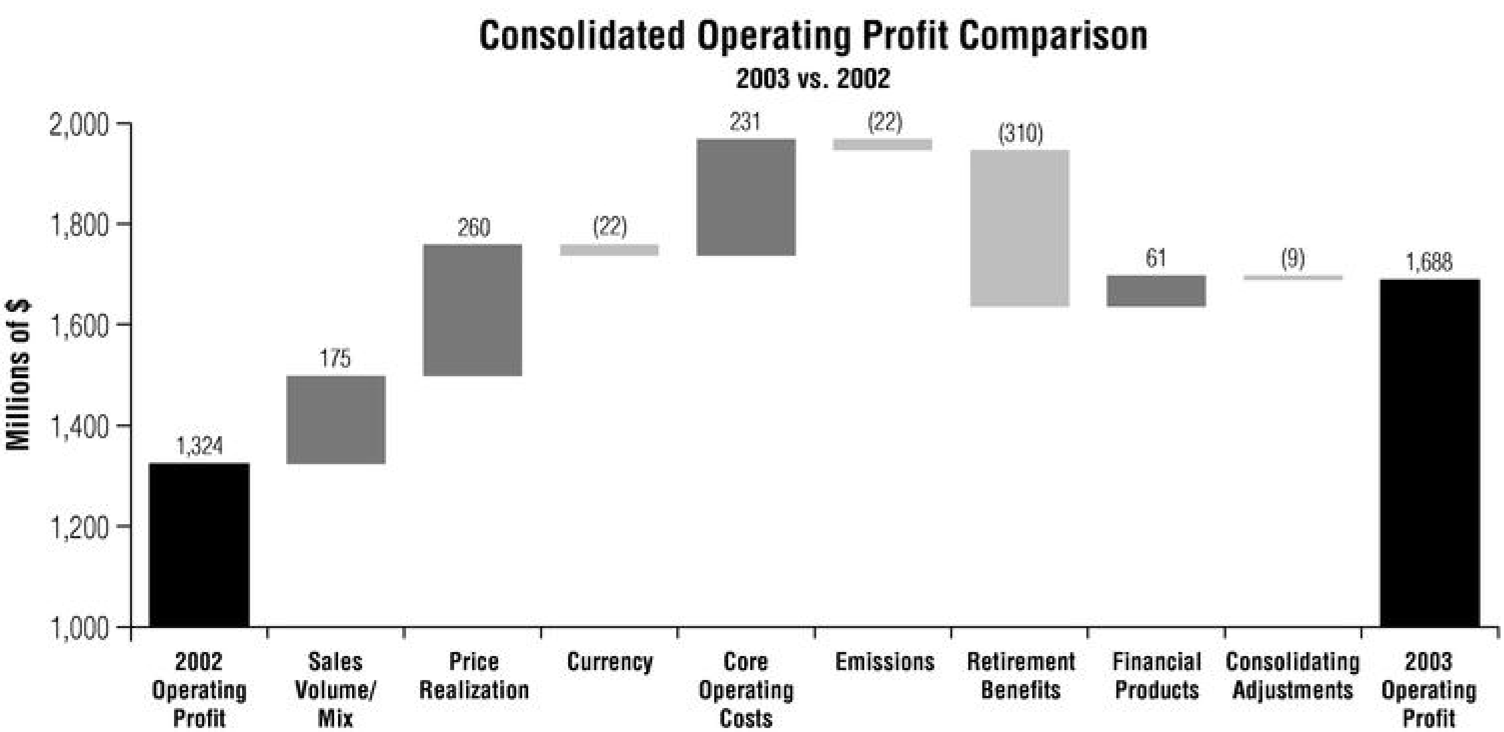
The chart above graphically illustrates reasons for the change in Consolidated Sales and Revenues between 2002 (at left) and 2003 (at right). Items favorably impacting sales and revenues appear as upward stair steps with the corresponding dollar amounts above each bar, while items negatively impacting sales and revenues, if any, appear as downward stair steps with dollar amounts reflected in parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

Machinery sales were $13.68 billion, an increase of $1.70 billion or 14 percent from 2002. Sales volume was up about 8 percent, the favorable impact of currency accounted for about 4 percent and improved price realization added about 2 percent. In North America, machinery sales increased 12 percent due mostly to higher volume and favorable price realization. Sales volume rose because of an 11 percent increase in dealer deliveries, the result of users (especially rental fleets) upgrading their fleets and a last half improvement in construction activity. Dealers also increased inventories to support higher delivery rates. EAME sales were up 14 percent due to the favorable impact of a stronger euro and improved price realization partially offset by lower sales volume due to weak economic conditions in Europe. In Latin America, sales were up 13 percent, benefiting from increased dealer deliveries into mining and some building of dealer inventories in anticipation of higher end-user demand. Company sales in Asia/Pacific surged 24 percent as dealer deliveries increased significantly due to strong economies in the region.

Engines sales were $7.37 billion, an increase of $697 million or 10 percent from 2002. Sales volume was up about 5 percent, the favorable impact of currency accounted for about 3 percent and emissions-related price increases added about 2 percent. North American sales rose 9 percent due to improved emissions related price increases for truck engines and higher volume in most key engine sectors. Engine sales in EAME rose 17 percent due to the favorable effects of currency and higher sales into the Middle East. Sales in Latin America rose 2 percent with all of the gain coming from higher sales of truck and bus engines. Sales in Asia/Pacific rose 10 percent due to higher volume in almost all sectors as economic growth strengthened. Worldwide Caterpillar truck engine sales rose 19 percent with a significant improvement in emissions-related price realization and higher volume of 4 percent. Worldwide sales of electric power and industrial engines rose 10 and 8 percent, respectively, benefiting from the favorable effects of currency and slight industry growth. Worldwide sales into petroleum rose 4 percent due to higher demand for engines used in gas compression and higher North American land drilling activity. Sales to the marine sector rose 2 percent, helped by slightly higher industry demand and favorable effects of currency.

Financial Products revenues were $1.72 billion, an increase of $211 million or 14 percent from 2002. The increase was due primarily to the favorable impact of $223 million from continued growth of earning assets at Cat Financial and a $63 million increase in earned premiums on extended service contracts at Cat Insurance. These favorable items were partially offset by the $120 million impact of lower interest rates on new and existing finance receivables (including retained interests in securitized trade receivables) at Cat Financial.

OPERATING PROFIT



The chart above graphically illustrates reasons for the change in Consolidated Operating Profit between 2002 (at left) and 2003 (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 parenthesis above each bar. Caterpillar management utilizes these charts internally to visually communicate with its Board and employees.

The favorable profit impact of additional machinery and engine sales volume was partially offset by unfavorable sales mix resulting in a net positive impact of $175 million. The unfavorable sales mix was primarily due to lower sales of higher margin fuel system components to Navistar International Transportation Corporation ("Navistar") attributable to the imminent expiration of a long-term purchase contract in 2003 between Caterpillar and Navistar as well as higher sales of lower margin small diesel engines and compact construction equipment. Improved price realization reflected the favorable impact of modest price increases taken in January 2003 on most machines and parts. Material cost reductions and quality improvements reflected in lower warranty costs were partially offset by higher incentive compensation of about $140 million for a net improvement in core operating costs of $231 million. The higher incentive compensation benefits employees at all levels as corporate financial performance improves. This reflects the structure of our compensation plans where employees have a component of their pay tied to the performance of the company.

Partially offsetting the favorable items was $310 million of higher retirement benefits. This increase was primarily due to the impact of previous poor performance of equity markets on pension plan assets and increased expense resulting from the introduction of a company match to our 401(k) plan in 2003.

Operating Profit Table

	2003	2002
	(Millions of dollars)	
Machinery(1)	**$ 1,246**	$ 947
Engines(1)	**188**	175
Financial Products	**345**	284
Consolidating Adjustments(2)	**(91)**	(82)
	$ 1,688	$ 1,324

(1)

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

(2)

Consolidating adjustments consist of eliminations of transactions between Machinery and Engines and Financial Products.

Machinery operating profit increased 32 percent, or $299 million, from 2002. The favorable impact of improved price realization, higher sales volume (net of unfavorable sales mix) and lower core operating costs more than offset higher retirement benefits.

Engines operating profit increased 7 percent, or $13 million, from 2002 as lower core operating costs were almost entirely offset by higher retirement benefits and the unfavorable impact of ***Changes in Emissions Standards.*** The favorable impact of volume was offset by negative sales mix resulting from lower sales of higher margin fuel system components as well as higher sales of lower margin small diesel engines.

Financial Products operating profit increased 21 percent, or $61 million, from 2002. The increase was primarily due to the impact of growth of earning assets of $59 million, higher fee income of $12 million and higher securitization income of $8 million at Cat Financial. These favorable items were partially offset by increased operating costs to support growth at Cat Financial.

OTHER PROFIT/LOSS ITEMS

Interest expense excluding Financial Products was $33 million lower compared to 2002 primarily due to lower average short-term and long-term borrowings.

Other income/expense was income of $35 million down from $69 million in 2002. The change was primarily due to a $55 million charge for early retirement of the $250 million 6 percent debentures due in 2007.

The provision for income taxes reflects an estimated annual tax rate of 27 percent for 2003 compared to 28 percent a year ago due to the geographic mix of profits and changes in the estimated tax benefits from export sales.

The equity in profit/loss of unconsolidated affiliated companies favorably impacted profit $24 million from 2002, due mostly to improved profitability of Shin Caterpillar Mitsubishi Ltd. resulting from improved export business into China and North America.

OPERATING COST RECLASSIFICATION

In the second quarter of 2003, we revised our policy regarding the classification of certain costs related to distributing replacement parts. Previously, these costs were included in SG&A and now are included in cost of goods sold. This classification is more consistent with industry practice. The parts distribution costs include shipping and handling (including warehousing) along with related support costs such as information technology, purchasing and inventory management.

The amounts reclassified from SG&A expense to cost of goods sold were $437 million and $443 million for 2002 and 2003, respectively. The reclassification had no impact on operating profit.

GLOSSARY OF TERMS

1. **Changes in Emissions Standards (Emissions)**—Generally, emissions describes the financial impacts of industry emission standard changes for on-highway truck and bus engines in North America. With respect to sales and revenues, emissions represents the impact of price increases. With respect to operating profit, emissions represents the net impact of price increases, production cost increases which include incremental ramp-up production costs and non-conformance penalties (NCPs).

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

3. **Constant Dollars**—The dollar value of machine and engine deliveries adjusted for changes in price and currency.

4. **Core Operating Costs**—Machinery and Engines operating cost change adjusted for volume. It excludes the impact of currency, retirement benefits and Non-Conformance Penalties.

5. **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. With respect to profit before tax, currency represents the net translation impact on sales, operating costs and other income/expense resulting from changes in foreign currency exchange rates versus the U.S. dollar. Also included in the currency impact on profit before tax is the effect of currency forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates. Currency includes the impacts on sales and operating profit for the Machinery and Engines lines of business only; currency impacts on the Financial Products line of business are included in the Financial Products portions of the respective analyses.

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 net finance receivables plus retained interests in securitized trade receivables, plus equipment on operating leases, less accumulated depreciation at Cat Financial. Net finance receivables represent the gross receivables amount less unearned income and the allowance for credit losses.

8.

Latin America—Geographic region including the Central and South American countries and Mexico.

9.

Machinery and Engines—Due to the highly integrated nature of operations, represents the aggregate total of the Machinery and Engines lines of business and includes primarily our manufacturing, marketing and parts distribution operations.

10.

Non-Conformance Penalties (NCPs)—Pursuant to a consent decree Caterpillar and other engine manufacturers entered into with the United States Environmental Protection Agency (EPA), the company was required to meet certain emission standards by October 2002 for engines manufactured for on-highway use. Under the consent decree, an engine manufacturer was required to pay a non-conformance penalty (NCP) to the EPA for each engine manufactured after October 1, 2002 that did not meet the standards. The amount of the NCP was based on how close to meeting the standards the engine came—the more the engine was out of compliance, the higher the penalty per engine.

11.

Price Realization—The impact of net price changes excluding currency.

12.

Retirement Benefits—Cost of defined benefit pension plans, defined contribution plans and retirement health care and life insurance.

13.

Sales Volume—With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for machines, engines and parts. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for machines, engines and parts combined with the net operating profit impact of changes in the relative weighting of machines, engines and parts sales with respect to total sales.

14.

Sales Volume/Mix—The net operating profit impact of changes in the quantities sold for machines, engines and parts combined with the net operating profit impact of changes in the relative weighting of machines, engines and parts sales with respect to total sales.

15.

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

Reclassification of certain receivables and related cash flows

A. Consolidated financial position

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. Cat Financial holds the receivables and periodically securitizes a portion of the dealer receivables using a revolving securitization structure. Cat Financial's portion of the securitized trade receivables is represented by certificated retained interests. Cat Financial also generates wholesale inventory receivables from its direct financing of inventory purchases by dealers. Previously, the certificated retained interests as well as the wholesale inventory receivables were classified as Finance Receivables in our Consolidated Financial Position. In the fourth quarter of 2004, we reclassified the certificated retained interests from Finance Receivables to Retained Interests in Securitized Trade Receivables and the wholesale inventory receivables from Finance Receivables to Trade and Other Receivables in our Consolidated Financial Position. These changes were made to align the financial position with the cash flow changes discussed below.

B. Consolidated statement of cash flow

During the fourth quarter of 2004, the staff of the Securities and Exchange Commission expressed concern regarding the classifications of certain cash flows by companies with captive finance subsidiaries. As a result of this concern, management decided to make reclassifications to the 2002 and 2003 Consolidated Statements of Cash Flow as described below.

Securitized trade receivables

Previously, we reported an increase in cash flow from operating activities in the Consolidated Statement of Cash Flow when Machinery and Engines sold receivables to Cat Financial that were subsequently securitized. Concurrently, Cat Financial's entire purchase of these receivables was included in Additions to Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. The receivables were immediately securitized and the portion sold to a third party was included in Proceeds from Sale of Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. Subsequently, collection of the certificated retained interests was included in Collection of Finance Receivables (investing activity) in the Consolidated Statement of Cash Flow. This cash flow treatment followed our principal lines of business reporting, however, when we reported an increase in cash flow from operating activities and a corresponding outflow from investing activities there was no increase in cash on a consolidated basis from the sale of inventory to our dealers and customers.

In the fourth quarter of 2004, we made a reclassification to eliminate the offsetting non-cash intercompany transactions in the Consolidated Statement of Cash Flow. In addition, we reclassified the proceeds from sale of trade receivables to operating activities. The reclassification properly classifies cash receipts from the sale of inventory as operating activities and reflects that these cash flows, although held and managed by Cat Financial, arise from our sale of Machinery and Engines inventory.

The securitization structure mentioned above involves a securitization trust. During 2003 and 2002, the trust was a qualifying special purpose entity (QSPE) and thus, in accordance with Statement of Financial Accounting Standards No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", was not consolidated. When receivables were placed into the trust, we received cash for the portion sold to third party purchasers and the portion retained by Cat Financial was represented by certificated retained interests. Placing receivables into a securitization trust changes their nature and the receipt of certificated retained interests is considered a non-cash transaction. We have noted this non-cash transaction on the Consolidated Statement of Cash Flow and quantified the receivables decrease resulting from this transaction and thus excluded from operating activities. This reflects that certificated retained interests, not cash, were received for these sales. The certificated retained interests are considered held-to-maturity securities as defined by Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires that collection of held-to-maturity securities be classified as an investing activity. We have therefore reclassified the collection of the certificated retained interests from Collection of Finance Receivables to Collections of Retained Interests in Securitized Trade Receivables within the investing activities section of the Consolidated Statement of Cash Flow. The impact of these changes is a significant reduction to cash flow from operating activities and a significant increase in cash flow from investing activities. This reflects that although inventory was sold, the nature of the receivable was changed to a security. The subsequent collection of that security is shown as an investing activity.

Wholesale inventory receivables

Previously, we reported an increase in cash flow from operating activities when a dealer remitted payment for a trade receivable that was subsequently financed with the issuance of a wholesale inventory receivable by Cat Financial. The issuance of a wholesale inventory receivable by Cat Financial was reported as an Addition to Finance Receivables in the Consolidated Statement of Cash Flow and the subsequent collection was reported as a Collection of Finance Receivables. Similar to securitized receivables, this cash flow treatment followed our principal lines of business reporting, however, when we reported an increase in cash flow from operating activities and a corresponding outflow from investing activities there was no increase in cash on a consolidated basis from the sale of inventory to our dealers and customers. We therefore eliminated the offsetting non-cash transaction in the Consolidated Statement of Cash Flow. In addition, we reclassified the collection of wholesale inventory receivables to operating activities. The reclassification properly classifies cash receipts from the sale of inventory as operating activities and reflects that these cash flows, although held and managed by Cat Financial, arise from our sale of Machinery and Engines inventory.

These reclassifications had no impact on the Increase in Cash and Short-term Investments on the Statement of Consolidated Cash Flow.

Prior amounts reported have been reclassified to conform to this presentation as follows:

	2003			2002		
	Previous classification(1)	**Change**	**As Reclassified**	**Previous classification(1)**	**Change**	**As Reclassified**
	(Millions of dollars)					
Consolidated Financial Position—Statement 3						
Receivables—trade and other	$ 3,666	$ 359	$ 4,025	$ 2,838	$ 354	$ 3,192
Receivables—finance	7,417	(1,909)	5,508	6,565	(1,499)	5,066
Retained interests in securitized trade receivables	—	1,550	1,550	—	1,145	1,145
Long-term receivables—trade and other	82	428	510	66	367	433
Long-term receivables—finance	7,822	(428)	7,394	6,714	(367)	6,347
Consolidated Statement of Cash Flow—Statement 4						
Receivables—trade and other	$ (438)	$ (7,677)	$ (8,115)	$ 5	$ (6,328)	$ (6,323)
Net cash provided by (used for) operating activities	**2,066**	**(7,677)**	**(5,611)**	**2,366**	**(6,328)**	**(3,962)**
Additions to finance receivables	(17,146)	10,278	(6,868)	(15,338)	9,405	(5,933)
Collections of finance receivables	13,882	(8,631)	5,251	11,866	(7,297)	4,569
Proceeds from sale of finance receivables	1,760	(1,099)	661	2,310	(1,697)	613
Collections of retained interests in securitized trade receivables	—	7,129	7,129	—	5,917	5,917
Net cash provided by (used for) investing activities	**(2,793)**	**7,677**	**4,884**	**(2,708)**	**6,328**	**3,620**

(1)

Certain amounts do not agree to prior period reported amounts due to unrelated reclassifications.

Sources of funds

We generate our capital resources primarily through operations and collections of certificated retained interests in trade receivables (discussed above). Collections of certificated retained interests take place when the securitization trust collects cash and distributes it to Cat Financial. In 2004, operating cash flow was negative $3.99 billion and collections of certificated retained interests in trade receivables were $5.72 billion totaling positive $1.73 billion. In 2003, operating cash flow was negative $5.61 billion and collections of certificated retained interests in trade receivables were $7.13 billion totaling positive $1.52 billion. The increase in the total of these sources of funds from $1.52 billion in 2003 to $1.73 billion in 2004 is primarily the result of higher profitability in 2004 as compared to 2003, largely offset by an increase in working capital requirements. The decrease in collections of certificated retained interests from 2003 to 2004 of $1.41 billion reflects that the securitization trust was a QSPE (and thus not consolidated) for all of 2003 compared with eight months of

2004, partially offset by a higher volume of collections in 2004. From September to December of 2004, 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. We anticipate that the majority of future capital resource requirements will be funded by operating cash flow, which is largely sourced from our profits. See our Outlook on page A-60.

Total debt as of December 31, 2004 was $23.5 billion, an increase of $3.24 billion from year-end 2003. Debt related to Machinery and Engines increased only $55 million, as cash for capital expenditures, the stock repurchase program, payment of dividends, and acquisitions were largely provided by operations. Debt related to Financial Products increased $3.19 billion due to financing a higher amount of assets at Cat Financial.

We have two global credit facilities with a syndicate of banks totaling $5.0 billion available in the aggregate to both Machinery and Engines and Financial Products to support commercial paper programs. Based on Management's allocation decision, which can be revised at any time during the year, the portion of the facility available to Cat Financial at December 31, 2004 was $4.4 billion. The five-year facility of $2.5 billion expires in September 2009. The 364-day facility of $2.5 billion expires in September 2005. The facility expiring in September 2005 has a provision that allows Caterpillar or Cat Financial to obtain a one-year loan in September 2005 that would mature in September 2006. Our total credit commitments as of December 31, 2004 were:

	Consolidated	Machinery and Engines	Financial Products
		(Millions of dollars)	
Credit lines available:			
Global credit facilities	$ 5,000	$ 600	$ 4,400
Other external	1,849	758	1,091
Total credit lines available	6,849	1,358	5,491
Less: Global credit facilities supporting commercial paper	4,412	40	4,372
Less: Utilized credit	463	93	370
Available credit	$ 1,974	$ 1,225	$ 749

We also generate funding through the securitization and syndication of receivables where the investors and/or the securitization trusts have limited or no recourse to Caterpillar or Cat Financial. In 2004, we generated $663 million of capital resources from the securitization of trade receivables. These receivables arose from our sale of inventory to dealers. During 2004, Cat Financial sold retail (customer) leases and installment sale contracts through syndications; proceeds of $61 million were received from the sale of such contracts.

To maintain an alternative funding source, Cat Financial periodically (generally once a year) securitizes retail (customer) installment sale contracts and finance leases. In this process, these finance receivables are sold into a public asset-backed securitization trust. The trusts, bankruptcy remote qualified special purpose entities (QSPEs) that are not consolidated in our financial statements, held total assets of $815 million related to these securitizations at year-end 2004. We use QSPEs in a manner consistent with conventional practices in the securitization industry to isolate these finance receivables, which are secured by new and used equipment, for the benefit of securitization investors. Our sensitivity analysis indicated that the impact of a 20 percent adverse change to all individual assumptions used to calculate the fair value of all our retained interests at December 31, 2004 would be less than $2 million.

The use of the QSPEs enables us to access the U.S. securitization market for the sale of these types of financial assets. The amounts of funding from securitizations reflect such factors as capital market accessibility, relative costs of funding sources, and assets available for securitization. We had total proceeds from initial sales of these receivables of $659 million and $693 million, and recognized a pre-tax gain of $13 million and $22 million, for 2004 and 2003, respectively. Subordinated retained interests in the public securitizations from 2004 and earlier years totaled $73 million.

We do not generate material funding through structured finance transactions.

Machinery and Engines

Machinery and Engines operating cash flow was $1.92 billion for 2004, compared with $1.43 billion for 2003. This increase is primarily the result of higher profit. The increase in sales volume has resulted in higher inventory. The surge in volume has also resulted in key component shortages, which have resulted in delayed production driving additional inventory increases. This increase in inventory was about offset by an increase in accounts payable resulting from the additional volume as well as a change in invoice payment terms that impacted most of our U.S. locations. The terms change was effective November 1, 2004 and offered suppliers a choice of a cash discount with an accelerated payment or extension of existing payment terms by an average of one month. Most suppliers chose the terms extension.

Pursuant to the share repurchase program authorized by the Board of Directors in October 2003, $539 million was spent to repurchase 6.9 million shares during 2004. There were 342.9 million shares outstanding at the end of 2004. The goal of the share repurchase program, which expires in October 2008, is to reduce the company's outstanding shares to 320 million.

Capital expenditures, excluding equipment leased to others, during 2004 were $841 million, an increase of $187 million from 2003 to support growth and new product initiatives. Acquisitions resulted in a decrease to cash of $295 million primarily from the acquisitions of the MG Rover Ltd. parts distribution business and Williams Technologies, Inc.

Financial Products

Operating cash flow was $962 million for 2004, compared with $463 million for 2003. The increase is primarily the result of an increase in profit and lower working capital requirements. Cash used to purchase equipment leased to others was $1.19 billion for 2004 compared to $1.07 billion for 2003. In addition, net cash used for finance receivables and retained interests in securitized trade receivables was $3.15 billion for 2004, compared with $1.33 billion for 2003 due to growth at Cat Financial.

Contractual obligations

The company has committed cash outflow related to long-term debt, operating lease agreements, purchase obligations and other contractual obligations. Minimum payments for these long-term obligations are:

	2005	2006	2007	2008	2009	After 2009	Total
	(Millions of dollars)						
Long-term debt:							
Machinery and Engines	$ 6	$ 290	$ 297	$ 26	$ 363	$ 2,022	$ 3,004
Financial Products	3,525	4,137	2,567	1,134	3,103	1,233	15,699
Total long-term debt	3,531	4,427	2,864	1,160	3,466	3,255	18,703
Capital leases	32	31	30	30	31	918	1,072
Operating leases	163	132	90	69	59	384	897
Postretirement obligations(1)	530	510	770	530	540	2,550	5,430
Purchase obligations:							
Accounts payable(2)	3,990	—	—	—	—	—	3,990
Purchase orders(3)	3,954	—	—	—	—	—	3,954
Other contractual obligations(4)	121	121	101	3	1	468	815
Total purchase obligations	8,065	121	101	3	1	468	8,759
Other long-term liabilities(5)	156	134	87	62	37	73	549
Interest on long-term debt(6)	599	471	366	303	245	4,140	6,124
Total contractual obligations	$ 13,076	$ 5,826	$ 4,308	$ 2,157	$ 4,379	$ 11,788	$ 41,534

(1)

Amounts represent expected contributions to our pension and other postretirement benefit plans through 2014, offset by expected Medicare Part D subsidy receipts.

(2)

Amount represents invoices received and recorded as liabilities in 2004, but scheduled for payment in 2005. These represent short-term obligations made in the ordinary course of business.

(3)

Amount represents contractual obligations for material and services on order at December 31, 2004 but not yet delivered. These represent short-term obligations made in the ordinary course of business.

(4)

Amounts represent long-term commitments entered into with key suppliers for minimum purchases quantities.

(5)

Amounts represent contractual obligations related to software license contracts, IT consulting contracts and outsourcing contracts for benefit plan administration and software system support.

(6)

Amounts represent estimated contractual interest payments on long-term debt.

Financial Products total borrowings were $19.76 billion at December 31, 2004, an increase of $3.19 billion from December 31, 2003 due to financing a higher amount of assets. Debt repayment in Financial Products depends primarily on timely repayment and collectibility of the receivables portfolio. At December 31, 2004, finance receivables past due over 30 days were 1.6%, compared with 2.5% at December 31, 2003. The allowance for credit losses was 1.38% of finance receivables, net of unearned income, at December 31, 2004, compared to 1.49% at December 31, 2003. Receivables written off due to uncollectibility, net of recoveries on receivables previously written off, were $72 million and $82 million for 2004 and 2003, respectively.

Financial Products was in compliance with all debt covenants at December 31, 2004 except Cat Financial's debt-to-equity ratio, as defined under the global credit facilities, which was 8.23 to 1 at December 31, 2004. By covenant, this is not to exceed 8.00 to 1 at year-end (8.5 to 1 moving six-month average at other than year-end). At December 31, 2004, there were no borrowings under these facilities. The higher year-end ratio was primarily the result of unexpected record levels of financing activity in the fourth quarter. Cat Financial received a waiver from its banks for said failure and expects to be in compliance with all credit facility agreement covenants throughout 2005.

Dividends paid per common share

Quarter	2004	2003	2002
First	**$ .370**	$ .350	$ .350
Second	**.370**	.350	.350
Third	**.410**	.350	.350
Fourth	**.410**	.370	.350
	$ 1.560	$ 1.420	$ 1.400

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, and reserves for warranty, 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 reserve—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. Warranty payments may differ from those estimated if actual claim rates are higher or lower than our historical rates.

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: (See Tables on pages A-55 to A-56 for Sensitivity information for these assumptions.)

- 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. A similar process is 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—The company extends numerous merchandising programs that provide discounts to dealers as products are sold to end users. The reserve is determined based on historical data adjusted for known changes in merchandising programs. Discounts paid may differ from those estimated if actual program usage is higher or lower than our historical or expected rates.

Credit loss reserve—The allowance for credit losses is evaluated on a regular basis and adjusted based upon management's best estimate of probable losses inherent in our finance receivables. In estimating probable losses, we review accounts that are past due, non-performing, or in bankruptcy. We also review accounts that may be at risk using information available about the customer, such as financial statements, news reports, and published credit ratings. We also use general information regarding industry trends and the general economic environment. Using an estimate of current fair market value of collateral and factoring in credit enhancements, such as additional collateral and third party guarantees, we arrive at an estimated loss for specific accounts and estimate an additional amount for the remainder of the finance receivables based upon historical trends. Adverse economic conditions or other factors that might cause deterioration of the financial health of our customers could change the timing and level of payments received and thus necessitate a change in 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. Significant judgment is required in evaluating our tax reserves. Our reserves are adjusted in light of changing facts and circumstances, such as the progress of our tax audits. Our income tax expense includes the impact of reserve provisions and changes to reserves that we consider appropriate, as well as related interest and penalties. Unfavorable settlement of any particular issue would require use of our cash. Favorable resolution would be recognized as a reduction to income tax expense at the time of resolution.

EMPLOYMENT

At December 31, 2004, Caterpillar's worldwide employment was 76,920 compared with 69,169 one year ago. The increase is primarily due to hourly labor additions to support increased volume and the addition of approximately 2,500 employees from acquisitions and growing Caterpillar Logistics operations.

Full-Time Employees at Year End

	2004	**2003**	**2002**
Inside U.S	**38,128**	35,260	36,463
Outside U.S	**38,792**	33,909	32,527
Total	**76,920**	69,169	68,990
By Region:			
North America	**38,396**	35,486	36,667
EAME	**22,169**	20,547	21,302
Latin America	**10,733**	8,533	7,143
Asia/Pacific	**5,622**	4,603	3,878
Total	**76,920**	69,169	68,990

OTHER MATTERS

ENVIRONMENTAL AND LEGAL MATTERS

The company is regulated by federal, state, and international environmental laws governing our use of substances and control of emissions in all our operations. Compliance with these existing laws has not had a material impact on our capital expenditures or earnings. We believe that our Advanced Combustion Emission Reduction Technology (ACERT) developed to comply with EPA emissions regulations provides Caterpillar a competitive advantage now and in the future to meet emission requirements.

We are cleaning up hazardous waste at a number of locations, often with other companies, pursuant to federal and state laws. When it is likely we will pay clean-up costs at a site and those costs can be estimated, the costs are charged against our earnings. In doing that estimate, we do not consider amounts expected to be recovered from insurance companies and others.

The amount recorded for environmental clean-up is not material and is included in "Accrued expenses" in Statement 3. If a range of liability estimates is available on a particular site, we accrue at the lower end of that range.

We cannot estimate costs on sites in the very early stages of clean-up. Currently, we have several sites in the very early stages of clean-up, and there is no more than a remote chance that a material amount for clean-up will be required.

Pursuant to a consent decree Caterpillar entered with the EPA, the company was required to meet certain emission standards by October 2002. The decree provides that if engine manufacturers were unable to meet the standards at that time, they would be required to pay a Non-Conformance Penalty (NCP) on each engine sold that did not meet the standard. The amount of the NCP would be based on how close to meeting the standard the engine came—the more out of compliance the higher the penalty. The company began introduction of fully compliant ACERT engines in 2003 and by the end of 2003 Caterpillar was only producing fully compliant engine models. As a result, NCPs were not payable for any engines built in 2004. NCPs of $153 million were paid in 2003.

In addition, the consent decree required Caterpillar to pay a fine of $25 million, which was expensed in 1998, and to make investments totaling $35 million in environmental-related products by July 7, 2007. Total qualifying investments to date for these projects are $34.9 million, of which $5.9 million was made during 2004. Caterpillar expects to reach the $35 million requirement during the first quarter of 2005. A future benefit is expected to be realized from these environmental projects related to Caterpillar's ability to capitalize on the technologies it developed in complying with its environmental project obligations. In short, Caterpillar expects to receive a positive net return on the environmental projects by being able to market the technology it developed.

We are a party to litigation matters and claims that are normal in the course of our operations, and, while the results of such litigation and claims cannot be predicted with certainty, management believes, based on the advice of counsel, the final outcome of such matters will not have a materially adverse effect on our financial statements.

On January 16, 2002, Caterpillar commenced an action in the Circuit Court of the Tenth Judicial Circuit of Illinois in Peoria, Illinois, against Navistar International Transportation Corporation and International Truck and Engine Corporation (collectively Navistar). The lawsuit arises out of a long-term purchase contract between Caterpillar and Navistar effective May 31, 1988, as amended from time to time (the Purchase Agreement). The pending complaint alleges that Navistar breached its contractual obligations by: (i) paying Caterpillar $8.08 less per fuel injector than the agreed upon price for new unit injectors delivered by Caterpillar; (ii) refusing to pay contractually agreed upon surcharges owed as a result of Navistar ordering less than planned volumes of replacement unit injectors; and (iii) refusing to pay contractually agreed upon interest stemming from Navistar's late payments. As of December 31, 2004, the net past due receivable from Navistar regarding the foregoing and included in "Long-term receivables—trade and other" in Statement 3 totaled $139 million. The pending complaint also has claims alleging that Franklin Power Products, Inc., Newstream Enterprises, and Navistar, collectively and individually, failed to pay the applicable price for shipments of unit injectors to Franklin and Newstream. As of December 31, 2004, the net past due receivables for the foregoing, included in "Long-term receivables—trade and other" in Statement 3 totaled $13 million. The pending complaint further alleges that Sturman Industries, Inc., and Sturman Engine Systems, Inc., colluded with Navistar to utilize technology that Sturman Industries, Inc., misappropriated from Caterpillar to help Navistar develop its G2 fuel system, and tortiously interfered with the Purchase Agreement and Caterpillar's prospective economic relationship with Navistar. The pending complaint further alleges that the two parties' collusion led Navistar to select Sturman Engine Systems, Inc. and another company, instead of Caterpillar, to develop and manufacture the G2 fuel system.

On May 7, 2002, International Truck and Engine Corporation (International) commenced an action against Caterpillar in the Circuit Court of DuPage County, Illinois that alleges Caterpillar breached various aspects of a long-term agreement term sheet. In its fifth amended complaint, International seeks a declaration from the court that the term sheet constitutes a legally binding contract for the sale of heavy-duty engines at specified prices through the end of 2006, alleges that Caterpillar breached the term sheet by raising certain prices effective October 1, 2002, and also alleges that Caterpillar breached an obligation to negotiate a comprehensive long-term agreement referenced in the term sheet.

International has also asserted a claim for "unjust enrichment" related to certain revenues received by Caterpillar from another customer. International seeks damages "in an amount to be determined at trial" and injunctive relief. Caterpillar denies International's claims and has filed a counterclaim seeking a declaration that the term sheet has been effectively terminated. Caterpillar also asserts that International has released Caterpillar from certain of its claims. On September 24, 2003, the Appellate Court of Illinois, ruling on an interlocutory appeal, issued an order consistent with Caterpillar's position that, even if the court subsequently determines that the term sheet is a binding contract, it is indefinite in duration and was therefore terminable at will by Caterpillar after a reasonable period. Caterpillar anticipates that a trial currently scheduled to begin in June 2005 will address all remaining issues in this matter. This matter is not related to the breach of contract action brought by Caterpillar against Navistar currently pending in the Circuit Court of Peoria County, Illinois.

In 2004, the European Union (EU) imposed retaliatory tariffs on certain U.S. origin goods as a result of a WTO decision that found the extraterritorial income exclusion (ETI) provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 constituted a prohibited export subsidy. These tariffs, which began in March of 2004 at 5 percent, increased 1 percentage point per month. Given the makeup of the final retaliation list, some Caterpillar parts and components were subject to these tariffs. However, these tariffs have not materially impacted our financial results. In addition to the United States, the company has production facilities in the EU, Russia, Asia, and South America. Products sold into the EU from these plants were not affected by this retaliatory tariff. The American Jobs Creation Act of 2004 (Act), enacted on October 22, 2004, phases-out the ETI provisions. As a result, the EU has lifted the sanctions effective January 1, 2005 pending the outcome of a WTO review to determine whether certain provisions of the Act are compliant with the ruling against the FSC/ETI regime.

In a letter dated November 15, 2004, the United States Environmental Protection Agency (EPA), proposed a civil penalty of $641,392 to Caterpillar Inc. (Caterpillar) for the alleged failure to comply with certain requirements of the federal Clean Air Act. The EPA alleges that Caterpillar constructed a facility in Emporia, Kansas and failed to comply with Section 112(g)(2)(B) of the Clean Air Act. Caterpillar sold the Emporia facility in December 2002. We are seeking a settlement of this matter with all concerned parties and the company believes the outcome will not have a material impact on our financial statements.

RETIREMENT BENEFITS

We recognized pension expense of $274 million in 2004 as compared to $126 million in 2003. The increase in expense was primarily a result of the amortization of actuarial losses resulting from a declining discount rate and poor performance of the equity markets in 2002 and 2001. Statement of Financial Accounting Standards No. 87 (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 return on plan assets for computing current year pension expense. Differences between the actual and expected asset returns are also amortized into earnings as actuarial gains and losses. At the end of 2004, total unrecognized actuarial losses were $3.28 billion, as compared to $3.20 billion for 2003. The majority of the unrecognized losses are due to declining discount rates in recent years. The $80 million increase in unrecognized losses during 2004 was the result of a lower discount rate, largely offset by better than expected asset returns.

In 2004, we recognized other postretirement benefit expense of $256 million compared to $269 million in 2003. The decrease is the result of the recognition of anticipated benefits from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (see further discussion below), largely offset by an increase in expense due to the amortization of actuarial losses resulting from a declining discount rate, higher than expected benefit costs and an increase in expected health care inflation. Unrecognized actuarial losses for other postretirement benefit plans were $1.23 billion at the end of 2004. These losses reflect a declining discount rate, an increase in expected health care inflation and higher than expected benefit costs. The unrecognized losses were $132 million lower than at the end of 2003 as the benefit from anticipated Medicare Part D subsidies, lower than expected health care costs and higher than planned asset returns more than offset the unfavorable impact of an increase in expected health care inflation and a lower discount rate.

The unrecognized 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 and other factors that impact these expenses. These losses will be amortized 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 2004, the average remaining service period of active employees was 13 years for our U.S. pension plans, 12 years for our non-U.S. pension plans and eight years for other postretirement benefit plans. We expect our amortization of net actuarial losses to increase approximately $100 million in 2005 as compared to 2004, primarily because of a decrease in the discount rate.

For our U.S. pension plans, our current asset allocation is 74 percent equity securities and 26 percent debt securities, and our target allocation for 2005 is 70 percent equity securities and 30 percent debt securities. The current asset allocation for our non-U.S. pension plans is 54 percent equity securities, 38 percent debt securities, 6 percent real estate and 2 percent other. The target allocation for 2005 for our non-U.S. pension plans is 55 percent equity securities, 38 percent debt securities and 7 percent real estate. Our target asset allocations reflect our investment strategy of maximizing the rate of return on plan assets and the resulting funded status, within an appropriate level of risk. The U.S. plans are rebalanced to plus or minus five percentage points of the target asset allocation ranges on a monthly basis. The frequency of rebalancing for the non-U.S. plans varies depending on the plan.

Our U.S. postretirement health care plans provide for prescription drug benefits. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In January 2004, the FASB issued FASB Staff Position No. 106-1 (FSP 106-1), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." As permitted by FSP 106-1, we made a one-time election to defer accounting for the effects of the Act pending further guidance from the FASB.

In May 2004, the FASB issued FASB Staff Position No. 106-2 (FSP 106-2), which superseded FSP 106-1. FSP 106-2 provides accounting guidance to employers that have determined that prescription drug benefits available under their retiree health care benefit plans are at least actuarially equivalent to Medicare Part D. The FSP requires that the benefit attributable to past service be accounted for as an actuarial gain and the benefit related to current service be reported as a reduction in service cost.

We have determined that most of our U.S. retiree health care plans are at least actuarially equivalent to Medicare Part D and will qualify for the federal subsidy. In the third quarter of 2004, we adopted FSP 106-2 retroactive to December 31, 2003 (the period end that includes the date of the Act's enactment), as permitted by the FSP. The impacts were a reduction in our accumulated postretirement benefit obligation of $284 million related to benefits attributed to past service and a benefit of $51 million to net periodic postretirement benefit expense. The benefits for the first, second, third and fourth quarters were $8 million, $14 million, $15 million and $14 million, respectively. Because the federal subsidy is tax exempt, no tax was provided for the benefit in the provision for income taxes. This lowered our estimated annual tax rate approximately one-half of one percentage point.

SFAS 87 requires the recognition of an Additional Minimum Liability if the market value of plan assets is less than the accumulated benefit obligation at the end of the measurement date. Based on these values, the company increased the Additional Minimum Liability by $47 million in the fourth quarter of 2004, bringing the total additional minimum pension liability to $1.60 billion. This resulted in a decrease in Accumulated Other Comprehensive Income (a component of Shareholder's Equity on the Consolidated Financial Position) of $59 million after tax. This adjustment was significantly less than our estimate based on third-quarter 2004 asset values primarily because of higher than expected asset returns in the fourth quarter for a primary U.S. pension plan. This resulted in plan assets being greater than the accumulated benefit obligation and thus no additional minimum pension liability was required. Future changes to the Additional Minimum Liability will be dependent on several factors including our assumed discount rate, actual returns on our pension plan assets, company contributions and benefit plan changes. During 2004, we made cash contributions of $565 million to our U.S. defined benefit pension plans and $112 million to our non-U.S. pension plans.

Although we have no ERISA funding requirements in 2005, we expect to make approximately $30 million of voluntary cash contributions to fund our U.S. pension plans. We also expect to make approximately $140 million of contributions to our non-U.S. pension plans during the year. We have adequate liquidity resources to fund both U.S. and non-U.S. plans.

Actuarial assumptions have a significant impact on both pension and other postretirement benefit expenses. The effects of a one-percentage point change in our primary actuarial assumptions on 2004 benefit costs and year-end obligations are included in the table below.

SENSITIVITY

Foreign Exchange Rate Sensitivity

Based on the anticipated and firmly committed cash inflow and outflow for our Machinery and Engines operations for the next 12 months and the foreign currency derivative instruments in place at year end, a hypothetical 10 percent weakening of the U.S. dollar relative to all other currencies would adversely affect our expected 2005 cash flow for our Machinery and Engines operations by approximately $200 million. Last year, similar assumptions and calculations yielded a potential $9 million adverse impact on 2004 cash flow. The change from 2004 to 2005 sensitivity analysis is due mainly to a decrease in our outstanding foreign currency derivative instruments, an increase in alternative sourcing from foreign subsidiaries, and foreign acquisitions. We determine our net exposures by calculating the difference in cash inflow and outflow by currency and adding or subtracting outstanding foreign currency derivative instruments. We multiply these net amounts by 10 percent to determine the sensitivity.

Since our policy for Financial Products operations is to hedge the foreign exchange risk when the currency of our debt portfolio does not match the currency of our receivable portfolio, a 10 percent change in the value of the U.S. dollar relative to all other currencies would not have a material effect on our Consolidated Financial Position, results of operations or cash flow. Neither

Postretirement Benefit Plan Actuarial Assumptions Sensitivity

Following are the effects of a one percentage-point change in our primary pension and other postretirement benefit actuarial assumptions (included in the following table) on 2004 pension and other postretirement benefits costs and obligations:

	2004 Benefit Cost		Year-end Benefit Obligation	
	One percentage-point increase	One percentage-point decrease	One percentage-point increase	One percentage-point decrease
	(Millions of dollars)			
Pension benefits:				

Assumed discount rate	$ (92)	$ 100	$ (1,281)	$ 1,445
Expected rate of compensation increase	39	(37)	201	(192)
Expected long-term rate of return on plan assets	(90)	91	—	—
Other postretirement benefits:				
Assumed discount rate	(22)	41	(430)	472
Expected rate of compensation increase	1	(1)	4	(3)
Expected long-term rate of return on plan assets	(8)	8	—	—
Assumed health care cost trend rate	53	(46)	294	(262)

Primary Actuarial Assumptions

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Weighted-average assumptions used to determine benefit obligations, end of year:									
Discount rate	**5.9%**	6.2%	7.0%	**5.2%**	5.1%	5.4%	**5.9%**	6.1%	7.0%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.5%**	3.2%	3.3%	**4.0%**	4.0%	4.0%
Weighted-average assumptions used to determine net cost:									
Discount rate	**6.2%**	7.0%	7.3%	**5.1%**	5.4%	5.7%	**6.1%**	7.0%	7.2%
Expected return on plan assets	**9.0%**	9.0%	9.8%	**7.4%**	7.1%	7.6%	**9.0%**	9.0%	9.8%
Rate of compensation increase	**4.0%**	4.0%	4.0%	**3.2%**	3.3%	3.3%	**4.0%**	4.0%	4.0%
Health care cost trend rates at year end:									
Health care trend rate assumed for next year							**8.4%**	8.5%	9.0%
Rate that the cost trend rate gradually declines to							**5.0%**	4.5%	4.5%
Year that the cost trend rate reaches ultimate rate							**2012**	2009	2009

our policy nor the effect of a 10 percent change in the value of the U.S. dollar has changed from that reported at the end of last year.

The effect of the hypothetical change in exchange rates ignores the effect this movement may have on other variables, including competitive risk. If it were possible to quantify this competitive impact, the results would probably be different from the sensitivity effects shown above. In addition, it is unlikely that all currencies would uniformly strengthen or weaken relative to the U.S. dollar. In reality, some currencies may weaken while others may strengthen. Our primary exposure (excluding competitive risk) is to exchange rate movements in the British pound and Japanese Yen.

Interest Rate Sensitivity

For our Machinery and Engines operations, we have the option to use interest rate swaps to lower the cost of borrowed funds by attaching fixed-to-floating interest rate swaps to fixed-rate debt. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect 2005 pretax earnings of Machinery and Engines by $5 million. Last year, similar assumptions and calculations yielded a potential $4 million adverse impact on 2004 pretax earnings. This effect is caused by the interest rate fluctuations on our short-term debt.

For our Financial Products operations, we use interest rate derivative instruments primarily to meet our match funding objectives and strategies. A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would adversely affect the 2005 pretax earnings of Financial Products by $13 million. Last year, similar assumptions and calculations yielded a potential $18 million adverse impact on 2004 pretax earnings. To estimate the impact of interest rate sensitivity on our income, we compute the difference in baseline and sensitized interest expense over the next 12 months. We determine the baseline interest expense by applying a market interest rate to the unmatched portion of our debt portfolio. The unmatched portion of our debt is an estimate of fixed-rate assets funded by floating-rate liabilities. We incorporate the effects of interest rate swap agreements in the estimate of our unmatched debt. We determine the sensitized interest expense by adding 100 basis points to the market interest rate applied to baseline interest expense and apply this rate to the unmatched debt. Our analysis assumes no new fixed-rate assets were extended and no further action was taken to alter our current interest rate sensitivity.

The effect of the hypothetical change in interest rates ignores the effect this movement may have on other variables including changes in actual sales volumes that could be indirectly attributed to changes in interest rates. The actions that management would take in response to such a change are also ignored. If it were possible to quantify this impact, the results could be different than the sensitivity effects shown above.

SUPPLEMENTAL CONSOLIDATING DATA

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

Consolidated—Caterpillar Inc. and its subsidiaries.

Machinery and Engines—The Machinery and Engines data contained in the schedules on pages A-57 to A-59 are "non-GAAP financial measures" as defined by the Securities and Exchange Commission in Regulation G. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP, and therefore, are unlikely to be comparable with the calculation of similar measures for other companies. Management does not intend these items to be considered in isolation or as a substitute for the related GAAP measures. Caterpillar defines Machinery and Engines as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis. Machinery and Engines information relates to our design, manufacturing, marketing and parts distribution operations. Financial Products information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment. The nature of these businesses is different especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We also believe this presentation will assist readers in understanding our business.

Financial Products—our finance and insurance subsidiaries, primarily Cat Financial and Cat Insurance.

Consolidating Adjustments—eliminations of transactions between Machinery and Engines and Financial Products.

Pages A-57 to A-59 reconcile Machinery and Engines with Financial Products on the Equity Basis to Caterpillar Inc. Consolidated financial information.

Supplemental Data for Results of Operations
For The Years Ended December 31
(Millions of dollars)

	Consolidated			Supplemental consolidating data								
				Machinery and Engines(1)			Financial Products			Consolidating Adjustments		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Sales and revenues:												
Sales of Machinery and Engines	**$ 28,336**	$ 21,048	$ 18,648	**$ 28,336**	$ 21,048	$ 18,648	**$ —**	$ —	$ —	**$ —**	$ —	$ —
Revenues of Financial Products	**1,915**	1,715	1,504	**—**	—	—	**2,109**	1,895	1,678	**(194)(2)**	(180)(2)	(174)(2)
Total sales and revenues	**30,251**	22,763	20,152	**28,336**	21,048	18,648	**2,109**	1,895	1,678	**(194)**	(180)	(174)
Operating costs:												
Cost of goods sold	**22,420**	16,945	15,146	**22,420**	16,945	15,146	**—**	—	—	**—**	—	—
Selling, general and administrative expenses	**3,072**	2,470	2,094	**2,548**	2,009	1,739	**580**	538	430	**(56)(3)**	(77)(3)	(75)(3)
Research and development expenses	**928**	669	656	**928**	669	656	**—**	—	—	**—**	—	—
Interest expense of Financial Products	**520**	470	521	**—**	—	—	**532**	482	538	**(12)(4)**	(12)(4)	(17)(4)
Other operating expenses	**578**	521	411	**18**	(9)	(15)	**560**	530	426	**—**	—	—
Total operating costs	**27,518**	21,075	18,828	**25,914**	19,614	17,526	**1,672**	1,550	1,394	**(68)**	(89)	(92)
Operating profit	**2,733**	1,688	1,324	**2,422**	1,434	1,122	**437**	345	284	**(126)**	(91)	(82)
Interest expense excluding Financial Products	**230**	246	279	**235**	259	279	**—**	—	—	**(5)(4)**	(13)(4)	—
Other income (expense)	**204**	35	69	**15**	(69)	(16)	**68**	26	3	**121 (5)**	78 (5)	82 (5)

Consolidated profit before taxes	**2,707**	1,477	1,114	**2,202**	1,106	827	**505**	371	287	—	—	—
Provision for income taxes	**731**	398	312	**566**	286	204	**165**	112	108	—	—	—
Profit of consolidated companies	**1,976**	1,079	802	**1,636**	820	623	**340**	259	179	—	—	—
Equity in profit (loss) of unconsolidated affiliated companies	**59**	20	(4)	**56**	16	(12)	**3**	4	8	—	—	—
Equity in profit of Financial Products' subsidiaries	—	—	—	**343**	263	187	—	—	—	**(343)(6)**	(263)(6)	(187)(6)
Profit	**$ 2,035**	$ 1,099	$ 798	**$ 2,035**	$ 1,099	$ 798	**$ 343**	$ 263	$ 187	**$ (343)**	$ (263)	$ (187)

(1)

Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

(2)

Elimination of Financial Products revenues earned from Machinery and Engines.

(3)

Elimination of expenses recorded by Machinery and Engines paid to Financial Products.

(4)

Elimination of interest expense recorded between Financial Products and Machinery and Engines.

(5)

Elimination of discount recorded by Machinery and Engines on receivables sold to Financial Products and of interest earned between Machinery and Engines and Financial Products.

(6)

Elimination of Financial Products profit due to equity method of accounting.

Supplemental Data for Financial Position

At December 31

(Millions of dollars)

	Consolidated		Supplemental consolidating data: Machinery and Engines(1)		Financial Products		Consolidating Adjustments	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Assets								
Current assets:								
Cash and short-term investments	**$ 445**	$ 342	**$ 270**	$ 220	**$ 175**	$ 122	**$ —**	$ —
Receivables—trade and other	**7,459**	4,025	**3,272**	2,993	**465**	875	**3,722 (2)(3)**	157 (2)(3)
Receivables—finance	**6,510**	5,508	**—**	—	**10,653**	6,602	**(4,143)(3)**	(1,094)(3)
Retained interests in securitized trade receivables	**—**	1,550	**—**	—	**—**	1,550	**—**	—
Deferred and refundable income taxes	**398**	707	**333**	645	**65**	62	**—**	—
Prepaid expenses	**1,369**	1,424	**1,367**	1,403	**16**	27	**(14)(4)**	(6)(4)
Inventories	**4,675**	3,047	**4,675**	3,047	**—**	—	**—**	—
Total current assets	**20,856**	16,603	**9,917**	8,308	**11,374**	9,238	**(435)**	(943)
Property, plant and equipment—net	**7,682**	7,251	**4,820**	4,682	**2,862**	2,569	**—**	—
Long-term receivables—trade and other	**764**	510	**255**	81	**37**	1	**472 (3)**	428 (3)
Long-term receivables—finance	**8,575**	7,394	**—**	—	**9,082**	7,822	**(507)(3)**	(428)(3)
Investments in unconsolidated affiliated companies	**517**	800	**479**	426	**39**	374	**(1)(5)**	—
Investments in Financial Products subsidiaries	**—**	—	**3,012**	2,547	**—**	—	**(3,012)(6)**	(2,547)(6)
Deferred income taxes	**674**	616	**950**	819	**27**	19	**(303)(7)**	(222)(7)
Intangible assets	**315**	239	**307**	230	**8**	9	**—**	—
Goodwill	**1,450**	1,398	**1,450**	1,398	**—**	—	**—**	—
Other assets	**2,258**	1,895	**1,075**	955	**1,183**	940	**—**	—
Total assets	**$ 43,091**	$ 36,706	**$ 22,265**	$ 19,446	**$ 24,612**	$ 20,972	**$ (3,786)**	$ (3,712)
Liabilities								
Current liabilities:								
Short-term borrowings	**$ 4,157**	$ 2,757	**$ 93**	$ 72	**$ 4,396**	$ 3,160	**$ (332)(8)**	$ (475)(8)
Accounts payable	**3,990**	2,568	**3,869**	2,773	**205**	243	**(84)(9)**	(448)(9)
Accrued expenses	**1,847**	1,638	**1,012**	857	**855**	802	**(20)(10)**	(21)(10)
Accrued wages, salaries and employee benefits	**1,730**	1,802	**1,716**	1,788	**14**	14	**—**	—
Customer advances	**555**	305	**555**	305	**—**	—	**—**	—
Dividends payable	**141**	127	**141**	127	**—**	—	**—**	—
Deferred and current income taxes payable	**259**	216	**212**	166	**47**	50	**—**	—
Long-term debt due within one year	**3,531**	2,981	**6**	32	**3,525**	2,949	**—**	—
Total current liabilities	**16,210**	12,394	**7,604**	6,120	**9,042**	7,218	**(436)**	(944)
Long-term debt due after one year	**15,837**	14,546	**3,697**	3,603	**12,175**	10,943	**(35)(8)**	—
Liability for postemployment benefits	**2,986**	3,172	**2,986**	3,172	**—**	—	**—**	—
Deferred income taxes and other liabilities	**591**	516	**511**	473	**383**	264	**(303)(7)**	(221)(7)
Total liabilities	**35,624**	30,628	**14,798**	13,368	**21,600**	18,425	**(774)**	(1,165)

Stockholders' equity								
Common stock	**1,231**	1,059	**1,231**	1,059	**888**	890	**(888)(6)**	(890)(6)
Treasury stock	**(3,277)**	(2,914)	**(3,277)**	(2,914)	**—**	—	**—**	—
Profit employed in the business	**9,937**	8,450	**9,937**	8,450	**1,824**	1,495	**(1,824)(6)**	(1,495)(6)
Accumulated other comprehensive income	**(424)**	(517)	**(424)**	(517)	**300**	162	**(300)(6)**	(162)(6)
Total stockholders' equity	**7,467**	6,078	**7,467**	6,078	**3,012**	2,547	**(3,012)**	(2,547)
Total liabilities and stockholders' equity	**$ 43,091**	$ 36,706	**$ 22,265**	$ 19,446	**$ 24,612**	$ 20,972	**$ (3,786)**	$ (3,712)

(1)

Represents Caterpillar Inc. and its subsidiaries with *Financial Products* accounted for on the equity basis.

(2)

Elimination of receivables between *Machinery and Engines* and *Financial Products*.

(3)

Reclassification of *Machinery and Engines* trade receivables purchased by Cat Financial and Cat Financial's wholesale inventory receivables.

(4)

Elimination of *Machinery and Engines* insurance premiums which are prepaid to *Financial Products*.

(5)

Elimination of *Machinery and Engines* investment in *Financial Products* subsidiary.

(6)

Elimination of *Financial Products* equity which is accounted for on *Machinery and Engines* on the equity basis.

(7)

Reclassification of *Financial Products* deferred tax liability to a deferred tax asset on a consolidated basis.

(8)

Elimination of debt between *Machinery and Engines* and *Financial Products*.

(9)

Elimination of payables between *Machinery and Engines* and *Financial Products*.

(10)

Elimination of prepaid insurance in *Financial Products'* accrued expenses.

Supplemental Data for Statement of Cash Flow

For The Years Ended December 31

(Millions of dollars)

	Consolidated		Supplemental consolidating data					
			Machinery and Engines(1)		Financial Products		Consolidating Adjustments	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Cash flow from operating activities:								
Profit	**$ 2,035**	$ 1,099	**$ 2,035**	$ 1,099	**$ 343**	$ 263	**$ (343)(2)**	$ (263)(2)
Adjustments for non-cash items:								
Depreciation and amortization	**1,397**	1,347	**795**	798	**602**	549	**—**	—
Undistributed profit of Financial Products	**—**	—	**(328)**	(263)	**—**	—	**328 (3)**	263 (3)
Other	**(113)**	(69)	**(111)**	(12)	**(145)**	(146)	**143 (4)**	89 (4)
Changes in assets and liabilities:								
Receivables—trade and other	**(7,616)**	(8,115)	**(531)**	(376)	**43**	(238)	**(7,128)(4)(5)**	(7,501)(4)(5)
Inventories	**(1,391)**	(286)	**(1,391)**	(286)	**—**	—	**—**	—
Accounts payable and accrued expenses	**1,457**	542	**1,325**	628	**11**	(26)	**121 (4)**	(60)(4)
Other—net	**240**	(129)	**124**	(161)	**108**	61	**8 (4)**	(29)(4)
Net cash provided by (used for) operating activities	**(3,991)**	(5,611)	**1,918**	1,427	**962**	463	**(6,871)**	(7,501)
Cash flow from investing activities:								
Capital expenditures—excluding equipment leased to others	**(926)**	(682)	**(841)**	(654)	**(85)**	(28)	**—**	—
Expenditures for equipment leased to others	**(1,188)**	(1,083)	**(2)**	(10)	**(1,186)**	(1,073)	**—**	—
Proceeds from disposals of property, plant and equipment	**673**	761	**27**	133	**646**	628	**—**	—
Additions to finance receivables	**(8,930)**	(6,868)	**—**	—	**(20,515)**	(12,572)	**11,585 (5)**	5,704 (5)
Collections of finance receivables	**6,216**	5,251	**—**	—	**16,963**	9,802	**(10,747)(5)**	(4,551)(5)
Proceeds from sale of finance receivables	**700**	661	**—**	—	**1,363**	1,760	**(663)(5)**	(1,099)(5)
Additions to retained interests in securitized trade receivables	**—**	—	**—**	—	**(6,686)**	(7,447)	**6,686 (6)**	7,447 (6)
Collections of retained interests in securitized trade receivables	**5,722**	7,129	**—**	—	**5,722**	7,129	**—**	—
Net intercompany borrowings	**—**	—	**159**	376	**209**	53	**(368)(7)**	(429)(7)
Investments and acquisitions (net of cash acquired)	**(290)**	(268)	**(295)**	(18)	**—**	(250)	**5**	—
Proceeds from sale of partnership investment	**290**	—	**—**	—	**290**	—	**—**	—
Other—net	**(190)**	(17)	**(82)**	(23)	**(102)**	(47)	**(6)(8)**	53 (8)
Net cash provided by (used for) investing activities	**2,077**	4,884	**(1,034)**	(196)	**(3,381)**	(2,045)	**6,492**	7,125

Cash flow from financing activities:								
Dividends paid	**(534)**	(491)	**(534)**	(491)	**(15)**	—	**15** **(9)**	—
Common stock issued, including treasury shares reissued	**317**	157	**317**	157	**(2)**	53	**2** **(8)**	(53)(8)
Treasury shares purchased	**(539)**	(405)	**(539)**	(405)	**—**	—	**—**	—
Net intercompany borrowings	**—**	—	**(209)**	(53)	**(159)**	(376)	**368** **(7)**	429 (7)
Proceeds from long-term debt issued	**5,088**	5,634	**9**	128	**5,079**	5,506	**—**	—
Payments on long-term debt	**(3,008)**	(4,237)	**(35)**	(463)	**(2,973)**	(3,774)	**—**	—
Short-term borrowings—net	**550**	87	**21**	(37)	**529**	124	**—**	—
Net cash provided by (used for) financing activities	**1,874**	745	**(970)**	(1,164)	**2,459**	1,533	**385**	376
Effect of exchange rate changes on cash	**143**	15	**136**	7	**13**	8	**(6)(10)**	—
Increase (decrease) in cash and short-term investments	**103**	33	**50**	74	**53**	(41)	**—**	—
Cash and short-term investments at beginning of period	**342**	309	**220**	146	**122**	163	**—**	—
Cash and short-term investments at end of period	**$ 445**	$ 342	**$ 270**	$ 220	**$ 175**	$ 122	**$ —**	$ —

(1)

Represents Caterpillar Inc. and its subsidiaries with Financial Products accounted for on the equity basis.

(2)

Elimination of Financial Products profit after tax due to equity method of accounting.

(3)

Non-cash adjustment for the undistributed earnings from Financial Products.

(4)

Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting. Receivables amounts include adjustment for consolidated non-cash receipt of retained interests in securitized trade receivables. Please refer to Liquidity and Capital Resources on page A-48 for further discussion.

(5)

Reclassification of Cat Financial's cash flow activity from investing to operating for receivables that arise from the sale of inventory.

(6)

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

(7)

Net proceeds and payments to/from Machinery and Engines and Financial Products.

(8)

Change in investment and common stock related to Financial Products.

(9)

Elimination of dividend from Financial Products to Machinery and Engines.

(10)

Elimination of the effect of exchange on intercompany balances.

OUTLOOK

SALES AND REVENUES OUTLOOK

We project another record year in 2005. Company sales and revenues should increase 12 to 15 percent, with machinery and engines volume increasing about 8 percent. Improved price realization should add about 3 percent and the rest will come from the favorable impact of currency on sales and Financial Products revenues.

Many central banks raised short-term interest rates in 2004 and are expected to raise rates further in 2005. However, we expect short-term rates at the end of the year will still be favorable to continued economic growth and investment. In most countries, inflation rates are near targets, economic growth is close to trend and labor markets have excess capacity. Continued low interest rates should prolong construction recoveries, particularly in the developed economies.

Sizable increases in energy and metals prices boosted some inflation measures in 2004 but increases in 2005 likely will be much lower. In most commodities, prices are already well above the minimums needed to make new investments attractive. Increased production, along with somewhat slower growth in demand, should moderate commodity price pressures.

Past commodity price increases reduced consumer incomes in the developed countries but did not halt recoveries or investment. As an offset, higher prices boosted incomes in the developing countries, which led to much-needed increases in investment. Overall, the world economy gained since commodity production increased.

We expect similar trends to continue in 2005 and both mining and energy development should further benefit sales. Developing countries should allocate more of the income gains from higher commodity prices and production to construction.

North America (United States and Canada)

The U. S. economy is growing at more than a 3 percent rate, employment is increasing only slightly faster than the labor force and core inflation measures are rising at near 2 percent rates. These conditions do not yet reflect much of the impact of the Fed's rate increases in last half of 2004. Consequently, we believe the Fed will be able to prevent any long-term inflation problems with fairly modest rate hikes, raising the Fed funds target to around 3.5 percent by the end of 2005.

Long-term rates, which barely moved in response to short-term rate hikes last year, likely will increase this year, although somewhat less than short-term rates. Overall, interest rates should continue to support growth, particularly in business investment, and the economy should grow more than 3.5 percent in 2005.

Both mining and nonresidential construction started recoveries from multi-year declines last year and output is below previous peaks. We expect activity in these sectors to increase rapidly this year, which along with favorable output prices, will support further sales growth. Housing construction, which has increased for the past four years, likely will decline slightly this year. We expect the large backlog of unused housing permits and higher home prices will offset much of the negative impact of higher mortgage interest rates.

The Canadian economy, benefiting from low interest rates and high commodity prices, should grow about 3 percent in 2005. We estimate that favorable investment climates in the North American economies will result in about a 17 percent increase in Machinery and Engines sales.

EAME

The Euro-zone economy appeared to improve at the end of 2004 and the European Central Bank is expected to hold interest rates steady through the middle of the year. We believe any subsequent rate increases will be cautious in order to allow a recovery in domestic spending to offset the impact of a stronger euro. The U. K. economy likely will slow but robust recoveries should continue in Central Europe. Overall European growth is expected to exceed 2 percent in 2005, somewhat better than in 2004. Construction spending should continue to recover.

We anticipate that both AME and the CIS will benefit further from favorable commodity prices and increased production of metals and energy. Higher revenues will be used to fund capacity expansions as well as infrastructure development. The AME economy should grow about 4.5 percent and the CIS economy more than 6 percent, both marginally slower than in 2004. We forecast that Machinery and Engines sales in EAME will increase about 10 percent this year.

Latin America

Latin American economies should grow more than 3.5 percent in 2005, the result of favorable metals and energy prices, increased capital inflows and a more favorable foreign debt profile. Both mining output and construction spending should increase again. We project that sales of Machinery and Engines will increase about 13 percent in 2005.

Asia/Pacific

We expect regional growth will average about 6 percent this year, with most countries slowing some from last year's pace. Low interest rates should prolong recoveries in consumer spending and business investment while competitive exchange rates likely will continue to boost exports.

Early indications are that contract prices for coal, particularly coking coal, will increase substantially this year. Coal mining should again be a major contributor to sales. Fast growth in the region, which has taxed infrastructure capacity, should prompt governments to increase infrastructure spending. Also, reconstruction in areas hit by the tsunami likely will require additional machines and engines. In China, government administrative measures are expected to continue, causing sales into that country to decline. Overall, we expect sales of Machinery and Engines to increase about 10 percent in 2005.

Financial Products

We expect continued growth in Financial Products for 2005, with revenues expected to increase approximately 16 percent versus 2004 primarily due to higher average earning assets in 2005.

PROFIT OUTLOOK

We expect profit per share to be up about 25 percent from 2004. The year will benefit from improved price realization, increased volume, manufacturing efficiencies and an intensified focus on our cost structure. We expect material cost pressures to continue for the first half of 2005, with some relief in the last six months.

As a result, we expect the last half of 2005 to be stronger than the first half. Our plan is to more than offset material cost increases with price realization in 2005, as evidenced by the price increase already announced on January 1, 2005. We are continually monitoring material costs and their impact on our results, and we are also reviewing possible further price actions, which we will take if necessary to meet our goals.

We expect our effective tax rate for 2005 to increase approximately two percentage points due to the phase-out of the Extraterritorial Income Exclusion (ETI) as provided in the American Jobs Creation Act of 2004 along with our expected geographic mix of profits.

* * *

The information included in the Outlook section is forward looking and involves risks and uncertainties that could significantly affect expected results. A discussion of these risks and uncertainties is contained in Form 8-K filed with the Securities & Exchange Commission (SEC) on January 27, 2005.

SUPPLEMENTAL STOCKHOLDER INFORMATION

Shareholder Services:

Stock Transfer Agent

Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-3315
phone: (866) 203-6622 (U.S. and Canada)
(201) 329-8660 (Outside U.S. and Canada)
hearing impaired:
(800) 231-5469 (U.S. and Canada)
(201) 329-8354 (Outside U.S. and Canada)
Internet home page: www.melloninvestor.com

Caterpillar Assistant Secretary

Laurie J. Huxtable
Assistant Secretary
Caterpillar Inc.
100 N.E. Adams Street
Peoria, IL 61629-7310
phone: (309) 675-4619
fax: (309) 675-6620
e-mail: **CATshareservices@cat.com**

Stock Purchase Plan:

Current shareholders and other interested investors may purchase Caterpillar Inc. common stock directly through the Investor Services Program sponsored and administered by our Stock Transfer Agent. Current shareholders can get more information on the program from our Transfer Agent using the contact information provided above. Non-shareholders can request program materials by calling: (800) 842-7629 (U.S. and Canada) or (201) 329-8660 (outside the U.S. and Canada). The Investor Services Program materials are available on-line from Mellon's website or linked from www.cat.com/dspp.

Investor Relations:

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

Director of Investor Relations

Nancy L. Snowden
Caterpillar Inc.
100 N.E. Adams Street, Peoria, IL 61629-5310
phone: (309) 675-4549
fax: (309) 675-4457
e-mail: **CATir@cat.com**
Internet website: www.cat.com/investor

Common Stock (NYSE: CAT)

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

Compliance: In compliance with New York Stock Exchange rules, Caterpillar filed an Annual CEO Certification with the Exchange in May 2004. The certification will be included as on exhibit to our 2004 Form 10-K.

Price Ranges: Quarterly price ranges of Caterpillar common stock on the New York Stock Exchange, the principal market in which the stock is traded, were:

	2004		2003	
Quarter	**High**	**Low**	**High**	**Low**
First	**$ 85.70**	**$ 72.51**	$ 53.30	$ 41.24
Second	**$ 84.76**	**$ 72.01**	$ 58.25	$ 48.98
Third	**$ 81.30**	**$ 68.50**	$ 73.97	$ 53.10
Fourth	**$ 98.72**	**$ 76.75**	$ 84.95	$ 68.90

Number of Stockholders: Stockholders of record at year end totaled 37,639, compared with 38,440 at the end of 2003. Approximately 69.71% of our issued shares are held by institutions and banks, 23.65% by individuals, and 6.64% by employees through company investment plans.

Caterpillar qualified investment plans held 20,387,316 shares at year-end, including 2,169,522 shares acquired during 2004. Non-U.S. employee stock purchase plans held an additional 2,395,759 shares at year-end, including 1,001,689 shares acquired during 2004.

Company Information:

Current information:

- phone our Information Hotline—(800) 228-7717 (U.S. and Canada) or (858) 244-2080 (outside U.S. and Canada) to request company publications by mail, listen to a summary of Caterpillar's latest financial results and current outlook, or to request a copy of results by fax or mail

- request, view, or download materials on-line or register for email alerts by visiting www.cat.com/materialsrequest

Historical information:

- view/download on-line at www.cat.com/historical

Annual Meeting:

On Wednesday, April 13, 2005, at 1:30 p.m., Central Time, the annual meeting of stockholders will be held at the Northern Trust Corporation Building in Chicago, Illinois. Proxy materials are being sent to stockholders with this report on or about March 3, 2005.

Internet:

Visit us on the Internet at www.cat.com.

Information contained on our website is not incorporated by reference into this document.

DIRECTORS AND OFFICERS

Directors/Committee Membership

(as of December 31, 2004)

	Audit	Compensation	Governance	Public Policy
W. Frank Blount	X		X	
John R. Brazil		X		X*
John T. Dillon	X		X*	
Eugene V. Fife	X*			
Gail D. Fosler		X		X
Juan Gallardo			X	X
David R. Goode	X		X	
Peter A. Magowan		X	X	
William A. Osborn		X*		
Gordon R. Parker	X			X
Charles D. Powell		X		X
Edward B. Rust, Jr.	X		X	
Joshua I. Smith		X		X

* Chairman of Committee

OFFICERS	
James W. Owens	Chairman and CEO
Stuart L. Levenick	Group President
Douglas R. Oberhelman	Group President
Gerald L. Shaheen	Group President
Gérard R. Vittecoq	Group President
Steven H. Wunning	Group President
Kent M. Adams(3)	Vice President
Ali M. Bahaj	Vice President
Sidney C. Banwart	Vice President
Michael J. Baunton	Vice President
James S. Beard(1)	Vice President
Rodney C. Beeler	Vice President
Mary H. Bell	Vice President
Richard A. Benson(2)	Vice President
James B. Buda	Vice President, General Counsel and Secretary
David B. Burritt	Vice President, Chief Financial Officer
Rodney L. Bussell	Vice President
Christopher C. Curfman	Vice President
Paolo Fellin	Vice President
Thomas A. Gales	Vice President
Stephen A. Gosselin	Vice President
Hans A. Haefeli	Vice President
John S. Heller	Vice President
Richard P. Lavin	Vice President
Robert R. Macier	Vice President
F. Lynn McPheeters(2)	Vice President, Chief Financial Officer

Daniel M. Murphy	Vice President
Gerald Palmer	Vice President
James J. Parker	Vice President
Mark R. Pflederer	Vice President
Edward J. Rapp	Vice President
William J. Rohner	Vice President
Christiano V. Schena	Vice President
William F. Springer	Vice President
Gary A. Stroup	Vice President
Donald G. Western	Vice President
Robert T. Williams	Vice President
Bradley M. Halverson	Controller
Kevin E. Colgan	Treasurer
Robin D. Beran	Assistant Treasurer
Tinkie E. Demmin	Assistant Secretary
Laurie J. Huxtable	Assistant Secretary

Note: All director/officer information is as of December 31, 2004, except as noted.

(1)

Will retire effective March 1, 2005.

(2)

Retired effective February 1, 2005.

(3)

Effective February 1, 2005.

EXHIBIT 21

CATERPILLAR INC.
SUBSIDIARIES AND AFFILIATES
(as of December 31, 2004)

Name of Company	Where Organized
10G LLC	Delaware
A.S.V., Inc.	Minnesota
Ace Power Embilipitiya Private Limited	Sri Lanka
Acefun S.A. de C.V.	Mexico
Aceros Fundidos Internacionales LLC	Delaware
Aceros Fundidos Internacionales S. de R.L. de C.V.	Mexico
Advanced Filtration Systems Inc.	Delaware
AE-Steam SA	Switzerland
Aiwa Co., Ltd.	Japan
All Parts International Inc.	Delaware
Amberly Investments	New Zealand
Anchor Coupling Inc.	Delaware
Arch Development Fund I L.P.	Delaware
Asia Power Systems (Tianjin) Ltd.	China
AsiaTrak (Tianjin) Ltd.	China
ASIMCO International Casting (Shanxi) Co. Ltd.	China
Bio-Energy Partners	Illinois
Bitelli S.p.A.	Italy
CAE Co., Ltd.	Japan
Carter Machinery Company, Incorporated	Delaware
Carter Rental, Inc.	Virginia
Cat Redistribution Services Corporation	Japan
Caterpillar (Africa) (Proprietary) Limited	South Africa
Caterpillar (Bermuda) Funding Company	Bermuda
Caterpillar (Bermuda) Funding Parent Company	Bermuda
Caterpillar (Bermuda) Holding Company	Bermuda
Caterpillar (Bermuda) Investments Funding Company	Bermuda
Caterpillar (Bermuda) Investments Parent Company	Bermuda
Caterpillar (Bermuda) Ltd.	Bermuda
Caterpillar (China) Financial Leasing Co., Ltd.	China
Caterpillar (China) Investment Co., Ltd.	China
Caterpillar (HK) Limited	Hong Kong
Caterpillar (Thailand) Limited	Thailand
Caterpillar (U.K.) Limited	England
Caterpillar (Xuzhou) Design Center Ltd.	China
Caterpillar AccessAccount Corporation	Nevada
Caterpillar Americas Co.	Delaware
Caterpillar Americas Funding Inc.	Delaware
Caterpillar Americas Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Americas SARL	Switzerland

Caterpillar Americas Services Co.	Delaware
Caterpillar Arrendadora Financiera, S.A. de C.V.	Mexico
Caterpillar Asia Limited	Hong Kong
Caterpillar Asia Pacific L.P.	Bermuda
Caterpillar Asia Pte. Ltd.	Singapore
Caterpillar Belgium S. A.	Belgium
Caterpillar Brasil Ltda.	Brazil
Caterpillar Brasil Servicos Ltda.	Brazil
Caterpillar CDD, S.L.	Spain
Caterpillar China Limited	Hong Kong
Caterpillar CMC Finance Corporation	Delaware
Caterpillar CMC, LLC	Delaware
Caterpillar Commercial Australia Pty. Ltd.	Australia
Caterpillar Commercial Holding S.A.	Switzerland
Caterpillar Commercial LLC	Delaware
Caterpillar Commercial Northern Europe Limited	England and Wales
Caterpillar Commercial Private Limited	India
Caterpillar Commercial S.A.	Belgium
Caterpillar Commercial S.A.R.L.	France
Caterpillar Commercial Services S.A.R.L.	France
Caterpillar Commerciale S.r.L.	Italy
Caterpillar Corporativo Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Credito, S.A. de C.V.	Mexico
Caterpillar Distribution Mexico S.R.L. de C.V.	Mexico
Caterpillar Distribution Services Europe BVBA	Belgium
Caterpillar Elphinstone Pty. Ltd.	Australia
Caterpillar Engine Systems Inc.	Delaware
Caterpillar Engine Systems Mexico, S. de R.L. de C.V.	Mexico
Caterpillar European Finance s.r.o.	Czechoslovakia
Caterpillar Factoraje Financiero, S.A. de C.V.	Mexico
Caterpillar Finance France S.A.	France
Caterpillar Finance Kabushiki Kaisya	Japan
Caterpillar Finance, s.r.o.	Czech Republic
Caterpillar Financial Acquisition Funding LLC	Delaware
Caterpillar Financial Acquisition Funding Partners	United Kingdom
Caterpillar Financial Asset Sales Corporation	Nevada
Caterpillar Financial Australia Limited	Australia
Caterpillar Financial Corporacion Financiera, S.A., E.F.C.	Spain
Caterpillar Financial Dealer Funding LLC	Delaware
Caterpillar Financial Funding Corporation	Nevada
Caterpillar Financial Member Company	Delaware
Caterpillar Financial New Zealand Limited	New Zealand
Caterpillar Financial Nordic Services A.B.	Sweden
Caterpillar Financial Nova Scotia Corporation	Canada
Caterpillar Financial OOO	Russia
Caterpillar Financial Receivables Corporation	Nevada
Caterpillar Financial Renting, S.A.	Spain
Caterpillar Financial S.A. Arrendamento Mercantil	Brazil
Caterpillar Financial S.A. Credito, Financiamento e Investimento	Brazil

Caterpillar Financial SARL	Switzerland
Caterpillar Financial Services (Ireland) plc	Ireland
Caterpillar Financial Services (UK) Limited	England
Caterpillar Financial Services Argentina S.A.	Argentina
Caterpillar Financial Services Asia Pte. Ltd.	Singapore
Caterpillar Financial Services Belgium S.P.R.L.	Belgium
Caterpillar Financial Services Corporation	Delaware
Caterpillar Financial Services CR, s.r.o.	Czech Republic
Caterpillar Financial Services GmbH & Co. KG	Germany
Caterpillar Financial Services Korea, Ltd.	Korea
Caterpillar Financial Services Limited	Canada
Caterpillar Financial Services Malaysia Sdn Bhd	Malaysia
Caterpillar Financial Services Netherlands B.V.	Netherlands
Caterpillar Financial Services Philippines Inc.	Philippines
Caterpillar Financial Services Poland Sp. z o.o.	Poland
Caterpillar Financial Services S.A.	Switzerland
Caterpillar Financial Services Verwaltungs GmbH	Germany
Caterpillar Financial Services Yugen Kaisya	Japan
Caterpillar Fomento Comercial Ltda.	Brazil
Caterpillar Forest Products Inc.	Delaware
Caterpillar Formacion Tecnica, S. L.	Spain
Caterpillar France S.A.S.	France
Caterpillar GB, L.L.C.	Delaware
Caterpillar Global Mining Pty. Ltd.	Australia
Caterpillar Group Limited	England and Wales
Caterpillar Group Services S.A.	Belgium
Caterpillar Holding (France) S.A.R.L.	France
Caterpillar Holding Germany GmbH	Germany
Caterpillar Holding Spain, S.L.	Spain
Caterpillar Holdings Australia Pty. Ltd.	Australia
Caterpillar Hungary Component Manufacturing Company Ltd.	Hungary
Caterpillar Impact Products Limited	United Kingdom
Caterpillar India Private Limited	India
Caterpillar Industrial Inc.	Ohio
Caterpillar Institute (Vic-Tas) Pty Ltd	Australia
Caterpillar Institute (WA) Pty Ltd	Australia
Caterpillar Insurance Co. Ltd.	Bermuda
Caterpillar Insurance Company	Missouri
Caterpillar Insurance Holdings Inc.	Delaware
Caterpillar Insurance Services Corporation	Tennessee
Caterpillar International Finance plc	Ireland
Caterpillar International Holding S.A.R.L.	Switzerland
Caterpillar International Investments S.A.R.L.	Switzerland
Caterpillar International Leasing L.L.C.	Delaware
Caterpillar International Services Corporation	Nevada
Caterpillar International Services del Peru S.A.	Peru
Caterpillar Investment Management Ltd.	Delaware
Caterpillar Investments	England and Wales
Caterpillar Latin America Services de Mexico, S. de R.L. de C.V.	Mexico

Caterpillar Latin America Services de Puerto Rico, S. en C.	Puerto Rico
Caterpillar Latin America Servicios de Chile Limitada	Chili
Caterpillar Latin America Services, S.R.L.	Costa Rica
Caterpillar Leasing (Thailand) Limited	Thailand
Caterpillar Leasing Chile, S.A.	Chile
Caterpillar Leasing GmbH	Germany
Caterpillar Life Insurance Company	Missouri
Caterpillar Logistics Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Client Administrative Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Client Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics France SAS	France
Caterpillar Logistics FT Services (UK) Limited	England and Wales
Caterpillar Logistics FT Services Canada Ltd.	Canada
Caterpillar Logistics FT Services Inc.	Delaware
Caterpillar Logistics FT Services LLC	Delaware
Caterpillar Logistics ML Services France SAS	France
Caterpillar Logistics NV	Belgium
Caterpillar Logistics Services (France) SARL	France
Caterpillar Logistics Services (Tianjin) Ltd.	China
Caterpillar Logistics Services (UK) Limited	England and Wales
Caterpillar Logistics Services China Limited	China
Caterpillar Logistics Services de Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Logistics Services Germany GmbH	Germany
Caterpillar Logistics Services Germany Verwaltungs GmbH	Germany
Caterpillar Logistics Services India Private Limited	India
Caterpillar Logistics Services International	Russia
Caterpillar Logistics Services International NV	Belgium
Caterpillar Logistics Services Polska Sp. z o.o.	Poland
Caterpillar Logistics Services Spain, S.A.	Spain
Caterpillar Logistics Services, Inc.	Delaware
Caterpillar Logistics Services-Egypt Ltd.	Egypt
Caterpillar Logistics Technology Services (UK) Limited	England and Wales
Caterpillar Logistics Technology Services LLC	Delaware
Caterpillar Marine Asia Pacific Pte. Ltd.	Singapore
Caterpillar Marine Trading Shanghai Co., Ltd.	China
Caterpillar Materiels Routiers S.A.	France
Caterpillar Mexico, S.A. de C.V.	Mexico
Caterpillar Motoren GmbH & Co. KG	Germany
Caterpillar Motoren Rostock GmbH	Germany
Caterpillar Motoren Verwaltungs-GmbH	Germany
Caterpillar New Zealand Depositary Company	Netherlands
Caterpillar New Zealand Funding Company	Netherlands
Caterpillar New Zealand Investments Company	New Zealand
Caterpillar New Zealand Securities Company	Bermuda
Caterpillar North America S.A.R.L.	New Zealand
Caterpillar NZ Funding LLC	Delaware
Caterpillar NZ Funding Parent Limited	Netherlands
Caterpillar of Australia Pty. Ltd.	Australia
Caterpillar of Canada Corporation	Canada

Caterpillar of Delaware, Inc.	Delaware
Caterpillar Overseas Credit Corporation S.A.	Switzerland
Caterpillar Overseas Investment Holding, S.A.R.L.	Switzerland
Caterpillar Overseas Limited	United Kingdom
Caterpillar Overseas S.A.	Switzerland
Caterpillar Paving Products Inc.	Oklahoma
Caterpillar Paving Products Xuzhou Ltd.	China
Caterpillar Pension Trust Limited	England and Wales
Caterpillar Poland Sp. z o.o.	Poland
Caterpillar Power Generations Systems L.L.C.	Delaware
Caterpillar Power Systems Inc.	Delaware
Caterpillar Power Systems y Compañia Limitada	Nicaragua
Caterpillar Power Ventures Corporation	Delaware
Caterpillar Power Ventures Europe B.V.	Netherlands
Caterpillar Power Ventures International Mauritius Ltd.	Mauritius
Caterpillar Power Ventures International, Ltd.	Bermuda
Caterpillar Product Development S.A.R.L.	Switzerland
Caterpillar Product Services Corporation	Missouri
Caterpillar Redistribution Services Inc.	Delaware
Caterpillar Redistribution Services International S.A.R.L.	Switzerland
Caterpillar Remanufacturing Limited	England and Wales
Caterpillar Renting France S.A.S.	France
Caterpillar S.A.R.L.	Switzerland
Caterpillar Securities Inc.	Delaware
Caterpillar Services Limited	Delaware
Caterpillar Servicios Mexico, S. de R.L. de C.V.	Mexico
Caterpillar Skinningrove Limited	England and Wales
Caterpillar Special Services Belgium SPRL	Belgium
Caterpillar Switchgear Holding Inc.	Georgia
Caterpillar Torreon S. de R.L. de C.V.	Mexico
Caterpillar Tosno, L.L.C.	Russia
Caterpillar Transmissions France SARL	France
Caterpillar Trimble Control Technologies LLC	Delaware
Caterpillar UK Employee Trust Limited	England and Wales
Caterpillar UK Holdings Limited	England and Wales
Caterpillar Work Tools B.V.	Netherlands
Caterpillar Work Tools Canada Ltd.	Canada
Caterpillar Work Tools Verwaltungs-GmbH	Germany
Caterpillar Work Tools, Inc.	Kansas
Caterpillar World Trading Corporation	Delaware
Caterpillar World Trading of Europe S.A.R.L.	Switzerland
Caterpillar Xuzhou Ltd.	China
Caterpillar/SCB Investments LP	Delaware
Caterpillar/SCB Receivables Finance LP	Nevada
Catsub I, Inc.	Oregon
Celerity Energy of Colorado LLC	Colorado
Celerity Energy of New Mexico LLC	New Mexico
Central Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Centre de Distribution de Wallonie SA	Belgium

CFRC/CFMC Investments, LLC	Delaware
Charlton Leasing Limited	Belgium
Clean World Co.	Japan
CM Rental Hokkaido Co., Ltd.	Japan
CM Rental Kinki Co., Ltd.	Japan
CM Rental Tokai Co., Ltd.	Japan
Cramo Holding AB	Sweden
Cramo Holding B.V.	The Netherlands
Depositary (Bermuda) Limited	Bermuda
Dia Rental Hokuriku Co., Ltd.	Japan
Diamond Office Management Co., Ltd.	Japan
Dynamic Automation Systems Pty. Ltd.	Australia
East Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Easytop Limited	England and Wales
EDC European Excavator Design Center GmbH & Co. KG	Germany
EDC European Excavator Design Center Verwaltungs GmbH	Germany
Elektrocieplawnia Starahowice Sp. z o.o.	Poland
EMC Testing Inc.	Delaware
Endeavour Caterpillar New Zealand Finance Company	New Zealand
Energy Services International Limited	Bermuda
Energyst B.V.	Netherlands
Ensambladora Tecnologica de Mexico, S.A. de C.V.	Mexico
Enteco Servicos S. de R.L. de C.V.	Mexico
F.G. Wilson (Engineering) Limited	Northern Ireland
F.G. Wilson (Proprietary) Limited	South Africa
F.G. Wilson (USA) L.L.C.	Delaware
F.G. Wilson Generators India Private Limited	India
F.G. Wilson Incorporated	Delaware
FCC Equipment Financing, Inc.	Singapore
Federal Financial Services LLC	Delaware
Financieringsmaatschappij Bolier B.V.	Netherlands
Firefly Energy Inc.	Delaware
FMS Equipment Rentals Inc.	Delaware
Forchester del Peru S.R.L.	Peru
Forchester do Brasil Ltda.	Brazil
Forchester International S.A.	Uruguay
Germanischer Lloyd AG	Germany
GFCM Servicios, S.A. de C.V.	Mexico
Grupo Financiero Caterpillar Mexico, S.A. de C.V.	Mexico
Guangzhou MaK Diesel Engine Limited Company	China
Hama-rental Co.	Japan
Hindustan Powerplus Limited	India
Hokkaido Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
Hokken Service Co.	Japan
Hydropro S.r.l.	Italy
Inmobiliaria Conek, S.A.	Mexico
Intelligent Switchgear Organization LLC	Delaware
Ironmart LLC	Delaware
IronPlanet.com, Inc.	Delaware

JAX Reman, L.L.C.	Delaware
JHT Holdings, Inc.	Delaware
Jigsaw Investors Corp.	Ontario
Jupiter Power (Cambodia) Co., Ltd.	Cambodia
Jupiter Power Asia Co., Ltd.	Cambodia
Jupiter Power Holdings Ltd.	Bermuda
Kasargod Power Corporation Private Limited	India
Kiden Lease Co., Ltd.	Japan
K-Lea Co., Ltd.	Japan
Laminex V.o.F.	Netherlands
Let's Co., Ltd.	Japan
M.O.P.E.S.A. Motores Power, S.A.	Mexico
Machida Kiko Co., Ltd.	Japan
Machinefabriek Bolier B.V.	Netherlands
MaK (London) Limited	United Kingdom
MaK Americas Inc.	Canada
MaK Americas Inc.	Illinois
MaK Beteiligungs GmbH	Germany
MaK Mediterranee S.A.S.	France
MaK Netherland B.V.	Netherlands
MaK Power Systems Lanka (Private) Ltd.	Sri Lanka
MaK Trainings GmbH	Germany
MCFA Canada Ltd.	Ontario
MCFA FSC Inc.	Barbados
Mec-Track S.r.l.	Italy
Merwedehaven Beheer B.V.	Netherlands
Metalmark Financial Services Limited	Netherlands
MICA Energy Systems	Michigan
Mincom Limited	Australia
Mistubishi Caterpillar Forklift Europe B.V.	Netherlands
Mitsubishi Caterpillar Forklift America de Argentina S.A.	Argentina
Mitsubishi Caterpillar Forklift America Inc.	Delaware
Mitsubishi Caterpillar Forklift Asia Pte. Ltd.	Singapore
Monte Rio Power Corporation Ltd.	Bermuda
Motores Diesel Andinos S.A.	Peru
Motori Perkins S.P.A.	Italy
Nagano Kouki Co., Ltd.	Japan
Necoles Investments B.V.	Netherlands
Nexus International S.r.l.	Italy
Nihon Kenki Lease Co., Ltd.	Japan
Okinawa Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
OTSG, Inc.	Delaware
P. T. Caterpillar Finance Indonesia	Indonesia
P. T. Natra Raya	Indonesia
P. T. Solar Services Indonesia	Indonesia
Perkins Engines (Asia Pacific) Pte Ltd	Singapore
Perkins Engines (Latin America) Inc.	Delaware
Perkins Engines (Tianjin) Company Limited	China
Perkins Engines Company Limited	England and Wales

Perkins Engines, Inc.	Maryland
Perkins Executive Pension Trust Limited	England and Wales
Perkins France (SAS)	France
Perkins Holdings Limited	Delaware and England and Wales
Perkins International Inc.	Delaware
Perkins Limited	England and Wales
Perkins Motoren GmbH	Germany
Perkins Motoren Management GmbH	Germany
Perkins Motores do Brasil Ltda.	Brazil
Perkins Pension Trust Limited	England and Wales
Perkins Shibaura Engines Limited	England and Wales
Perkins Shibaura Engines LLC	Delaware
Perkins Technology Inc.	Delaware
Pioneer Distribution, Inc.	South Carolina
Pioneer Machinery LLC	Delaware
PMHC LLC	Delaware
PointGuard LLC	Delaware
Przedsiebiorstwem Energetyki Cieplncj (Bugaj)	Poland
R.V.K. Energy Private Limited	India
Rapidparts Inc.	Delaware
Rapisarda Industries Srl	Italy
Rega Kyushu Co., Ltd.	Japan
Rex World Co., Ltd.	Japan
Sabre Engines Limited	England
Sanko Rental Co.	Japan
SCM Akashi General Services Co., Ltd.	Japan
SCM Operator Training Co., Ltd.	Japan
SCM Sagami Engineering Co., Ltd.	Japan
SCM Sagami General Services Co., Ltd.	Japan
SCM Singapore Holdings Pte. Ltd.	Singapore
SCM System Service Co., Ltd.	Japan
Servtech Limited	Ireland
Shin Caterpillar Mitsubishi Ltd.	Japan
Societe de Electricite d Bibane	Tunisia
Solar Turbines Cameroon Limited	Cameroon
Solar Turbines Canada Ltd./Ltee.	Canada
Solar Turbines Europe S.A.	Belgium
Solar Turbines Incorporated	Delaware
Solar Turbines International Company	Delaware
Solar Turbines Overseas Pension Scheme Limited	Guernsey
Solar Turbines Services Company	California
Solar Turbines Services Nigeria Limited	Nigeria
Solar Turbines Trinidad & Tobago	Trinidad and Tobago
SPL Software Alliance LLC	Delaware
STI Capital Company	Delaware
Suryachakra Power Corporation Private Limited	India
Tech Itoh Co., Ltd.	Japan
Tecnologia Modificada, S.A. de C.V.	Mexico

The Heartland Community Development Corporation	Illinois
Tohoku Rental Service Co., Ltd.	Japan
Tokyo Rental Co., Ltd.	Japan
Tone Lease Co.	Japan
Tunnel Rental Co., Ltd.	Japan
Turbinas Solar de Venezuela, C.A.	Venezuela
Turbo Tecnologia de Reparaciones S.A. de C.V.	Mexico
Turbomach Asia Ltd.	Thailand
Turbomach Deutschland GmbH	Germany
Turbomach Endustriyel Gaz Turbinleri Sanayi V	Turkey
Turbomach Engergie S.A.R.L.	France
Turbomach India Private Limited	India
Turbomach Limited	United Kingdom
Turbomach S.r.L.	Italy
Turbomach SA - Spain	Spain
Turbomach SA - Switzerland	Switzerland
Turbomach Sp. Z o.o.	Poland
Turboservices SDN BHD	Malaysia
Turner Powertrain Systems Limited	England and Wales
UK Hose Assembly Limited	England
UK Partners Limited Partnership	Ontario
VALA (UK) LP	United Kingdom
VALA C.V.	Netherlands
VALA Inc.	Delaware
VALA LLC	Delaware
Veratech Holding B.V.	Netherlands
West Japan Caterpillar Mitsubishi Construction Equipment Sales, Ltd.	Japan
West Kanto Rental Co., Ltd.	Japan
Williams Technologies, Inc.	South Carolina
Wright Equipment Company (Proprietary) Limited	South Africa
Yeep Co.	Japan

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 2-43929, as amended, 2-90123, as amended, 2-97450, as amended, 33-3718, as amended, 33-8003, 33-14116, 333-37353, 33-39280, 33-40598, 333-03609, 333-32853, 333-32851, 333-41464, 333-98197, 333-111355, as amended, and 333-115837) and Form S-3 (Nos. 33-46194, 333-22041, 333-43133, 333-43983, 333-57512, and 333-71468) of Caterpillar Inc. of our report dated February 24, 2005 relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears on page A-4 of the Appendix to the Company's 2004 Annual Meeting Proxy Statement, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Peoria, Illinois
February 24, 2005

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, James W. Owens, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 24, 2005	*/s/ James W. Owens*	Chairman of the Board and Chief Executive Officer
	(James W. Owens)	

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, David B. Burritt, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report; based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrants most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

February 24, 2005	*/s/ David B. Burritt*	Chief Financial Officer
	(David B. Burritt)	

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Caterpillar Inc. (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 24, 2005	*/s/ James W. Owens*	Chairman of the Board and Chief Executive Officer
	(James W. Owens)	
February 24, 2005	*/s/ David B. Burritt*	Chief Financial Officer
	(David B. Burritt)	

A signed original of this written statement required by Section 906 has been provided to Caterpillar Inc. and will be retained by Caterpillar Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.1

Annual CEO Certification
(Section 303A.12(a))

As the Chief Executive Officer of **Caterpillar Inc.**
(Name of the Company)

and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation of the Company of NYSE's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed as an attachment hereto.

By:	*/s/James W. Owens*
Printed Name:	James W. Owens
Title:	Chairman and Chief Executive Officer
Date:	May 12, 2004

EXHIBIT 99.2

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

[X]	**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the fiscal year ended December 31, 2004
	OR
[ ]	**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the transition period from __________ to __________.

Commission File No. 1-768

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN
(Full title of the Plan)

CATERPILLAR INC.
(Name of issuer of the securities held pursuant to the Plan)

100 NE Adams Street, Peoria, Illinois 61629
(Address of principal executive offices)

REQUIRED INFORMATION

Item 1.

The audited statement of assets available for plan benefits as of the end of the latest fiscal year of the Plan is attached hereto as Exhibit A.

Item 2.

The audited statement of changes in assets available for plan benefits for the latest fiscal year of the Plan is attached hereto as Exhibit B.

Item 3.

The statements required by Items 1 and 2 have been prepared in accordance with the applicable provisions of Article 6A of Regulation S-X (17 CFR 210.6A-01-.6A-05).

Item 4.

The Consent of Independent Accountants is attached hereto as Exhibit C.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

CATERPILLAR FOREIGN SERVICE EMPLOYEES' STOCK PURCHASE PLAN

CATERPILLAR INC. (Issuer)

By: /s/David B. Burritt

Name: David B. Burritt

Title: Vice President and Chief Financial Officer

Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan
Financial Statements
December 31, 2004 and 2003

PRICEWATERHOUSECOOPERS

Report of Independent Registered Public Accounting Firm

To the Participants, Investment Plan Committee
and Benefits Funds Committee of the Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan

In our opinion, the accompanying statement of assets available for benefits and the related statement of changes in assets available for benefits present fairly, in all material respects, the assets available for benefits of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan (the "Plan") at December 31, 2004 and 2003, and the changes in assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further discussed in Note 4 to the financial statements, during 2003, the management of Caterpillar Inc., the Plan's sponsor, decided to terminate the Plan effective December 31, 2003. The majority of Plan's assets were transferred to individual participant accounts on January 15, 2004; however, some assets still remain in the Plan. These assets are expected to be liquidated in 2005.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Peoria, Illinois
February 24, 2005

EXHIBIT A

Caterpillar Inc.
Foreign Service Employees'
Stock Purchase Plan
Statement of Assets Available for Benefits
Years Ended December 31, 2004 and 2003

	2004	2003
Cash and cash equivalents	$ 513	$ -
Investment in Caterpillar Inc. common stock	2,536	2,154,218
Participants contributions receivable	-	12,374
Employer contributions receivable	-	12,456
Assets available for benefits	$ 3,049	$ 2,179,048

The accompanying notes are an integral part of the financial statements.

EXHIBIT B

Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan
Statement of Changes in Assets Available for Benefits
For the Years Ended December 31, 2004 and 2003

	2004	2003
Contributions		
Participants	$ -	$ 147,102
Employer	-	147,102
Total contributions	-	294,204
Investment income (loss)		
Dividends	46	33,484
Net appreciation (depreciation) in fair value of common stock	18,342	911,645
Net investment gain (loss)	18,388	945,129
Deductions		
Withdrawals	-	(102,600)
Total deductions	-	(102,600)
Transfers		
Transfer of Plan assets	(2,194,387)	-
Total transfers	(2,194,387)	-
Increase (decrease) in net assets available for benefits	(2,175,999)	1,136,733
Net assets available for benefits		
Beginning of year	2,179,048	1,042,315
End of year	$ 3,049	$ 2,179,048

The accompanying notes are an integral part of the financial statements.

Caterpillar Inc.
Foreign Service Employees' Stock Purchase Plan
Notes to Financial Statements
December 31, 2004 and 2003

1. **Plan description**

The following description of the Caterpillar Inc. Foreign Service Employees' Stock Purchase Plan ("the Plan") provides only general information. Employees should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a contributory defined contribution plan established by Caterpillar Inc. (the "Company") to enable eligible U.S. Foreign Service Employees of the Company and its subsidiaries (the "participating employers") to acquire ownership interests in the Company through purchases of its common stock. As further discussed in Note 4, the Plan was terminated effective December 31, 2003.

Participation

Generally, U.S. Foreign Service Employees of the participating employers who met certain age, service and citizenship or residency requirements, and were ineligible to make contributions under the Employees' Investment Plan adopted by the Company, were eligible to participate in the Plan. Participation commenced upon an eligible employee filing an application with the Investment Plan Committee. Participating eligible employees (the "participants") could acquire ownership interests in the Company through purchases of its common stock.

Participant accounts

The Plan maintained two accounts for each participant. The participant's account was credited with the participant's contribution. The employer account of each participant was credited with the employer's contribution. The benefit to which a participant was entitled was the benefit that could be provided from the participant's vested accounts.

Contributions

Participant contributions were made through after-tax payroll deductions based on a percentage (2 percent - 6 percent) of total earnings as elected by the participant. Participants with 25 or more years of service with the employers could contribute an additional 1 percent - 4 percent of earnings.

Effective January 1, 2003, employer contributions were equal to 100 percent of the employee contributions up to a maximum of 6 percent of base pay contributed by the employee.

Investment Programs

Contributions were invested entirely in Caterpillar Inc. common stock. Cash dividends and other cash proceeds with respect to the company shares held in the accounts of a participant were credited to such accounts and were reinvested in company shares as soon as practicable after the close of the calendar month in which received in the same manner as an employer contribution for such stock.

Vesting and distribution provisions

Participants were immediately fully vested at all times in participant and employer contributions and earnings thereon.

A participant could elect at any time to withdraw all company shares in his participant account and employer account. All fractional interests in company shares are distributed in cash.

Administration

The Plan was administered by the Investment Plan Committee, which was responsible for non-financial matters, and the Benefits Funds Committee, which was responsible for financial aspects of the Plan. Caterpillar Inc. and the Benefit Funds Committee had entered into trust agreements with The Northern Trust Company to receive contributions, administer the assets of the Plan and distribute participant withdrawals pursuant to the Plan.

Risks and uncertainties

The Plan provided solely for investments in the Company's common stock. Investment securities were exposed to various risks, including market risk. Due to the level of risk associated with investment securities, it was at least reasonably possible that changes in the values of investment securities could occur and that such changes could materially affect participants' account balances and the amounts reported in the statement of assets available for benefits.

2. Summary of significant accounting policies

Basis of accounting

The Plan's accounts were maintained on the accrual basis of accounting.

Contributions

Contributions to the Plan were made directly to the trust and shares were immediately purchased by the trust on the open market.

Administrative expenses

Administrative costs, including trustee fees and certain investment costs, were paid by the Company.

Withdrawals

Withdrawals were recorded when paid.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and benefit payments. Actual results could differ from those estimates.

3. Investments

The Plan's investments are stated at fair value. Caterpillar Inc. common stock is valued at quoted market prices. Dividends are recorded on the ex-dividend date. The Plan presents in the statement of changes in assets available for benefits the change in fair value of the Plan's investments that consist of the realized gains and losses and the unrealized appreciation/(depreciation) on those investments. Purchases and sales of securities are reported on a trade date basis.

	2004			2003		
	Shares		Dollars	Shares		Dollars
Beginning balance	25,943	$	2,154,218	22,487	$	1,028,098
Purchases	301		24,830	4,931		283,591
Dividends reinvested	-		46	567		33,484
Withdrawals	-		-	(2,042)		(102,600)
Transfer of Plan assets	(26,218)		(2,194,387)	-		-
Net appreciation	-		17,829	-		911,645
Ending balance	26	$	2,536	25,943	$	2,154,218

The Plan invests mainly in Caterpillar Inc. common stock. In addition, the Plan invests excess cash in the Northern Institutional Funds Diversified Assets Portfolio, which is sponsored and managed by The Northern Trust Company, the Trustee for the Plan. The portfolio is classified as a cash and cash equivalent on the statement of assets available for benefits.

4. Plan termination

During 2003, the management of Caterpillar Inc., the Plan sponsor, approved the termination of the Plan effective December 31, 2003. Assets were transferred from the Trust into individual brokerage accounts for the participants on January 15, 2004.

On January 15, 2004, 26,218 shares, totaling $2,194,387, were transferred out of the Plan into individual participant brokerage accounts. As of December 31, 2004, 26 shares of Caterpillar Inc. common stock remain in the Plan, and it is expected that these remaining assets will be liquidated from the Plan in 2005.

No participant or employer contributions were made to the Plan during 2004.

EXHIBIT C

PRICEWATERHOUSECOOPERS

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 2-43929, as amended) of Caterpillar Inc. of our report dated February 24, 2005 relating to the financial statements of the Caterpillar Foreign Services Employees' Stock Purchase Plan, which appear in this Form 11-K.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Peoria, Illinois
February 24, 2004