

CATERPILLAR INC
Form DEF 14A
February 24, 2005

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Caterpillar Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

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**100 NE Adams Street
Peoria, Illinois 61629**

**Notice of Annual Meeting of Stockholders
Wednesday, April 13, 2005
1:30 p.m. Central Daylight Time**

**Northern Trust Building
50 South LaSalle Street
Chicago, Illinois 60675**

March 3, 2005

Fellow stockholder:

On behalf of the board of directors, you are cordially invited to attend the 2005 Caterpillar Inc. annual meeting of stockholders to:

elect directors;

ratify Independent Registered Public Accounting Firm;

act on stockholder proposals, if properly presented; and

conduct any other business properly brought before the meeting.

You must have an admission ticket to attend, and procedures for requesting that ticket are detailed on page 35 of this proxy statement. Attendance and voting is limited to stockholders of record at the close of business on February 14, 2005.

Sincerely yours,

James W. Owens
Chairman

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Attendance and Voting Matters

Admission Ticket Required

Anyone wishing to attend the annual meeting must have an admission ticket issued in his or her name. Admission is limited to stockholders of record on February 14, 2005, and one guest, or a stockholder's authorized proxy holder. The requirements for obtaining an admission ticket are specified in the "Admission Ticket Request Procedure" on page 35.

Record Date Information

Each share of Caterpillar stock you owned as of February 14, 2005, entitles you to one vote. On February 14, 2005, there were 341,636,001 shares of Caterpillar common stock outstanding.

Voting by Telephone or Internet

Caterpillar is again offering stockholders the opportunity to vote by phone or electronically via the Internet. Instructions for stockholders interested in using either of these methods to vote are set forth on the enclosed proxy and/or voting instruction card.

If you vote by phone or via the Internet, please have your proxy and/or voting instruction card available. The control number appearing on your card is necessary to process your vote. A phone or Internet vote authorizes the named proxies in the same manner as if you marked, signed and returned the card by mail. In the opinion of counsel, voting by phone or via the Internet are valid proxy voting methods under Delaware law and Caterpillar's bylaws.

Giving your Proxy to Someone Other than Individuals Designated on the Card

If you want to authorize someone other than the individual(s) named on the proxy card to vote this written proxy:

cross out the individual(s) named and insert the name of the individual you are authorizing to vote; or

provide a written authorization to the individual you are authorizing to vote along with your proxy card.

To obtain an admission ticket for your authorized proxy representative, see the requirements specified in the "Admission Ticket Request Procedure" on page 35.

Quorum

A quorum of stockholders is necessary to hold a valid meeting. If at least one-third of Caterpillar stockholders are present in person or by proxy, a quorum will exist. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

Vote Necessary for Action

Directors are elected by a plurality vote of the shares present at the meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot.

Other actions require an affirmative vote of the majority of shares present at the meeting. Abstentions and broker non-votes have the effect of a vote against matters other than director elections.

Votes submitted by mail, telephone or Internet will be voted by the individuals named on the card (or the individual properly authorized) in the manner you indicate. If you do not specify how you want your shares voted, they will be voted in accordance with management's recommendations. If you hold shares in more than one account, you must vote each proxy and/or voting instruction card you receive to ensure that all shares you own are voted. You may change your vote by voting in person at the annual meeting or by submitting another proxy that is dated later. For all methods of voting, the last vote cast will supercede all previous votes.

The Caterpillar Board of Directors

Structure

Our board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. With the exception of the Chairman, all directors are independent as defined in the New York Stock Exchange listing standards.

Directors elected at the 2005 annual meeting of stockholders will hold office for a three-year term expiring in 2008. Other directors are not up for election this year and will continue in office for the remainder of their terms.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the board or, as an alternative, the board may reduce the number of directors to be elected at the meeting.

PROPOSAL 1 Election of Directors

Directors Up For Election This Year for Terms Expiring in 2008

W. FRANK BLOUNT, 66, Chairman and CEO of JI Ventures, Inc. (venture capital firm) and TTS Management Corporation (private equity management company). Prior to his current positions, Mr. Blount served as Chairman and CEO of Cypress Communications Inc. (telecommunications) and Director and CEO of Telstra Corporation Limited (telecommunications). Other directorships: ADTRAN, Inc.; Alcatel S.A.; Entergy Corporation; and Hanson PLC. Mr. Blount has been a director of the company since 1995.

JOHN R. BRAZIL, 58, President of Trinity University (San Antonio, Texas). Prior to his current position, Dr. Brazil was President of Bradley University (Peoria, Illinois). Dr. Brazil has been a director of the company since 1998.

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EUGENE V. FIFE, 64, Managing Principal of Vawter Capital LLC (private investment firm). Prior to his current position, Mr. Fife was President and CEO of Illuminis Inc. (medical technology company). He is the non-executive Chairman of Eclipsys Corporation. Mr. Fife has been a director of the company since 2002.

GAIL D. FOSLER, 57, Executive Vice President and Chief Economist of The Conference Board (research and business membership organization). Prior to her current position, Ms. Fosler was Senior Vice President of The Conference Board. Other directorships: Unisys Corporation; Baxter International Inc.; and DBS Group Holdings Ltd. Ms. Fosler has been a director of the company since 2003.

PETER A. MAGOWAN, 62, President and Managing General Partner of the San Francisco Giants (Major League Baseball team). Other directorships: DaimlerChrysler AG; Safeway Inc.; and Spring Group plc. Mr. Magowan has been a director of the company since 1993.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINEES PRESENTED IN PROPOSAL 1.

Directors Remaining in Office Until 2006

DAVID R. GOODE, 64, Chairman and CEO of Norfolk Southern Corporation (holding company engaged principally in surface transportation). In addition to his current positions, Mr. Goode formerly served as President of Norfolk Southern Corporation. Other directorships: Delta Air Lines, Inc.; Georgia-Pacific Corporation; Norfolk Southern Railway Company; and Texas Instruments Incorporated. Mr. Goode has been a director of the company since 1993.

JAMES W. OWENS, 59, Chairman and CEO of Caterpillar Inc. (machinery, engines, and financial products). Prior to his current position, Mr. Owens served as Vice Chairman and as Group President of Caterpillar. Mr. Owens has been a director of the company since 2004.

CHARLES D. POWELL, 63, Chairman of Sagitta Asset Management Limited (asset management) and LVMH Services Limited (luxury goods). Prior to his current positions, Lord Powell was Chairman of Phillips Fine Art Auctioneers (art, jewelry, and furniture auction) and Senior Director of Jardine Matheson Holdings Ltd. and associated companies (multinational business group). Other directorships: LVMH Moet-Hennessy Louis Vuitton; Mandarin Oriental International Ltd.; Textron Corporation; Schindler Holding Ltd.; and Yell Group plc. Lord Powell has been a director of the company since 2001.

JOSHUA I. SMITH, 63, Chairman and Managing Partner of the Coaching Group, LLC (management consulting). As part of the Coaching Group, Mr. Smith served as former Vice Chairman and Chief Development Officer of iGate, Inc. (broadband networking company). Other directorships: CardioComm Solutions Inc.; Federal Express Corporation; and The Allstate Corporation. Mr. Smith has been a director of the company since 1993.

Directors Remaining in Office Until 2007

JOHN T. DILLON, 66, former Chairman and CEO of International Paper (paper and forest products). Other directorships: E. I. du Pont de Nemours and Company and Kellogg Co. Mr. Dillon has been a director of the company since 1997.

JUAN GALLARDO, 57, Chairman of Grupo Embotelladoras Unidas S.A. de C.V. (bottling) and Mexico Fund Inc. (mutual fund). Former Vice Chairman of Home Mart de Mexico, S.A. de C.V. (retail trade) and former Chairman and CEO of Grupo Azucarero Mexico, S.A. de C.V. (sugar mills). Other directorships: Lafarge SA and Grupo Mexico, S.A. de C.V. Mr. Gallardo has been a director of the company since 1998.

WILLIAM A. OSBORN, 57, Chairman and CEO of Northern Trust Corporation (multibank holding company) and The Northern Trust Company (bank). Other directorships: Nicor Inc. and Tribune Company. Mr. Osborn has been a director of the company since 2000.

GORDON R. PARKER, 69, former Chairman of Newmont Mining Corporation (gold properties production, exploration and acquisition company). Other directorships: Gold Fields Limited and Phelps Dodge Corporation. Mr. Parker has been a director of the company since 1995.

EDWARD B. RUST, JR., 54, Chairman and CEO of State Farm Mutual Automobile Insurance Company (insurance). He is also President and CEO of State Farm Fire and Casualty Company, State Farm Life Insurance Company and other principal State Farm affiliates as well as Trustee and President of State Farm Mutual Fund Trust and State Farm Variable Product Trust. Other directorships: Helmerich & Payne, Inc. and The McGraw-Hill Companies, Inc. Mr. Rust has been a director of the company since 2003.

Board Meetings, Communications, and Committees

In 2004, our board met seven times, including regularly scheduled executive sessions without management and presided over by the chair of the Governance Committee. In addition to those meetings, directors attended meetings of individual board committees. For our incumbent board as a whole, attendance in 2004 at board and committee meetings was 94.88 percent. Company policy, posted on our website, states that in the absence of unavoidable conflict, all directors are expected to attend the annual meeting of stockholders. Thirteen of our fourteen directors attended the annual meeting in April 2004.

Our board has four standing committees, an **Audit Committee**, **Compensation Committee**, **Governance Committee**, and **Public Policy Committee**. Copies of written charters for each of these committees, as well as 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.

You may communicate with any of our directors, our board as a group or any board committee as a group by sending an email to a particular director, the board, or a committee at Directors@CAT.com or by mail c/o the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629. The board has delegated to the Corporate Secretary, or his designee, responsibility for determining in his discretion whether the communication is appropriate for individual director, committee or board consideration. According to the policy adopted by the board, the Corporate Secretary is required to direct all communications regarding personal grievances, administrative matters, the conduct of the company's ordinary business operations, billing issues, product or service related inquires, order requests, and similar issues to the appropriate individual within the company. All other communications are to be submitted to the board as a group, to the particular director to whom it is directed or, if appropriate, to the director or committee the Corporate Secretary believes to be the most appropriate recipient, as the case may be. If you send an email or letter to a director, the board, or a board committee, you will receive a written acknowledgement from the Corporate Secretary's office confirming receipt of your communication.

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Below is a description of each committee of the board. Committee memberships as of December 31, 2004, are listed in the Committee Membership table on page 6.

The **Audit Committee** assists the board in fulfilling its oversight responsibilities for financial matters. The committee performs this function by monitoring Caterpillar's financial reporting process and internal controls and by assessing the audit efforts of Caterpillar's Independent Registered Public Accounting Firm (auditors) and internal auditing department. The committee has ultimate authority and responsibility to appoint, retain, compensate, evaluate, and, where appropriate, replace the auditors. The committee also reviews updates on emerging accounting and auditing issues provided by the auditors and by management to assess their potential impact on Caterpillar. During 2004, the committee met 10 times. All members of the committee meet the standards for independence set forth in the New York Stock Exchange listing standards and meet financial literacy guidelines adopted by the board. Additionally, the board has determined that each member of the committee qualifies as an "audit committee financial expert" as defined under the Sarbanes-Oxley Act of 2002 and Item 401(h) of Regulation S-K.

The **Compensation Committee** assists the board of directors in fulfilling its responsibilities in connection with the compensation of company directors, officers and employees. It performs this function by approving and recommending standards for the company's compensation programs and plans, including various incentive compensation, retirement and other benefit plans. The committee reviews the board's annual review of the performance of the company's Chief Executive Officer and fixes his compensation. The committee also reviews the company's salaried and management compensation practices, including the methodologies for setting employee and officer salaries, and fixes the salary and other compensation of all officers of the company. All members of the committee meet the standards for independence set forth in the New York Stock Exchange listing standards. During 2004, the committee met four times.

The **Governance Committee** makes recommendations to the board regarding the appropriate size and composition of the board, and monitors and makes recommendations regarding the board's performance. The committee also reviews the company's Shareholder Rights Plan at least every three years to consider whether the continuance of the Rights Plan continues to be in the best interests of the company, its stockholders, and other constituencies of the company. The committee, formerly known as the Nominating and Governance Committee, continues to perform the functions of a nominating committee. As such, the committee makes recommendations regarding the criteria for the selection of candidates to serve on the board and evaluates and makes recommendations on proposed candidates for service on the board, including recommending the slate of nominees for election at annual meetings of stockholders. The committee also recommends candidates for election as officers of the company (including Chairman and Chief Executive Officer), monitors compliance with the board's Guidelines on Corporate Governance Issues, and administers the board's self-evaluation and the self-evaluation of each board committee and shares the results thereof with the board for discussion and deliberation. The committee considers director nominees from stockholders for election at the annual stockholders' meeting. Stockholders who are interested in nominating a director candidate can do so in accordance with the policy discussed in the Governance Committee Report on page 10. During 2004, the committee met three times.

The **Public Policy Committee** assists the board with general oversight with respect to matters of public and social policy affecting the company domestically and internationally, including investor, consumer and community relations issues and employee safety programs, policies and procedures, and labor relations issues. The committee oversees the company's Code of Worldwide Business Conduct, Policy Letters, and compliance programs and reviews major legislative proposals and proposed regulations involving matters not falling within the substantive coverage of any other committee of the board. During 2004, the committee met three times.

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*		
James W. Owens				
Gordon R. Parker	X			X
Charles D. Powell		X		X
Edward B. Rust, Jr.	X		X	
Joshua I. Smith		X		X

*

Chairman of Committee

Director Compensation

Of our current board members, only Mr. Owens is a salaried employee of Caterpillar. All other members receive separate compensation for board service comprised of:

Annual Retainer:	\$65,000		
Attendance Fees:	\$1,000 for each board meeting		
	\$1,000 for each board committee meeting		
	Expenses related to attendance		
Annual Committee Chairman Stipend:	Audit	\$	10,000
	Compensation	\$	5,000
	Governance	\$	5,000
	Public Policy	\$	5,000
Stock Options:	4,000 shares annually		

Under Caterpillar's Directors' Deferred Compensation Plan, directors may defer 50 percent or more of their annual compensation in an interest-bearing account or an account representing shares of Caterpillar stock. Under the 1996 Stock Option and Long-Term Incentive Plan, directors may also elect to receive all or a portion of their annual retainer fees, attendance fees and/or stipends in shares of Caterpillar stock.

Our directors also participate in a Charitable Award Program. In the year of a director's death, the first of 10 equal annual installments is paid to charities selected by the director and to the Caterpillar Foundation. The maximum amount payable under the program is \$1 million on behalf of each eligible director and is based on the director's length of service. The program is financed through the purchase of life insurance policies, and directors derive no financial benefit from the program.

Legal Proceedings

On May 11, 2000, the First Circuit Court in Mexico City granted Grupo Azucarero Mexico, S.A. de C.V., a public company of which Juan Gallardo is the controlling stockholder, suspension of payments protection, which is legal protection similar to Chapter 11 of the U.S. Bankruptcy Code. This protection enables the company to continue its operations while meeting its financial obligations in an orderly fashion.

Certain Related Transactions

In 1998, Caterpillar entered into a lease agreement with Riverfront Development L.L.C. (Riverfront) for space at One Technology Plaza, 211 Fulton Street, Peoria, Illinois. Pursuant to this lease and subsequent amendments, Caterpillar paid \$395,805.29 to Riverfront through September 21, 2004. Diane A. Oberhelman, who has been married to Caterpillar Group President Douglas R. Oberhelman since 2000, owns a majority of Cullinan Properties L.L.C. (Cullinan), which owned 100 percent of Riverfront until September 21, 2004, when Cullinan divested itself of its entire interest in Riverfront. Thus, Diane A. Oberhelman no longer has any interest in either Riverfront or One Technology Plaza.

In each of 1998 and 2003, respectively, Caterpillar Financial Services Corporation entered into loan arrangements with Dynamic Retailers, L.L.C. The balance of these two loans as of December 31, 2004, was \$559,000. Cullinan was a 50 percent member of Dynamic Retailers, L.L.C. until December 21, 2004, when Cullinan sold all of its interest in Dynamic Retailers, L.L.C. Thus, Diane A. Oberhelman no longer has an interest in Dynamic Retailers, L.L.C. and is no longer a personal guarantor of the full repayment of the loans.

Audit Committee Report

The Audit Committee (committee) is comprised entirely of independent directors (as defined for members of an audit committee in the New York Stock Exchange listing standards) and operates under a written charter adopted by the board (attached hereto as Exhibit A). The members of the committee, as of December 31, 2004, are listed at the end of this report. Management is responsible for the company's internal controls and the financial reporting process. The Independent Registered Public Accounting Firm (auditors) are responsible for performing an independent audit of the company's consolidated financial statements and internal controls over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board (United States) and issuing a report thereon. The committee's responsibility is to monitor these processes. In this regard, the committee meets separately at each committee meeting with management, the Vice President for Corporate Auditing and Compliance, and the auditors. The committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts, and other advisors as it determines appropriate to assist it in conducting any such investigations. The committee is responsible for selecting and, if appropriate, replacing the auditors (PricewaterhouseCoopers LLP).

Pre-Approval Process

The committee pre-approves all audit and non-audit services to be performed by the auditors. It has policies and procedures in place to ensure that the company and its subsidiaries are in full compliance with the requirements for pre-approval set forth in the Sarbanes-Oxley Act of 2002 and the SEC rules regarding auditor independence. These policies and procedures provide a mechanism by which management can request and secure pre-approval of audit and non-audit services in an orderly manner with minimal disruption to normal business operations. The policies and procedures are detailed as to the particular service and **do not** delegate the committee's responsibility to management. They address any service provided by the auditors, and any audit or audit-related services to be provided by any other audit service provider. The pre-approval process includes an annual and interim component.

Annual Pre-Approval Process

At each February committee meeting, management and the auditors jointly submit a Service Matrix of the types of audit and non-audit services that management may wish to have the auditors perform for the year. The Service Matrix categorizes the types of services by Audit, Audit-Related, Tax and All Other. Approval of a service is merely an authorization that this type of service is permitted by the committee, subject to pre-approval of specific services. Management and the auditors jointly submit an Annual PreApproval Limits Request. The request lists individual project and aggregate pre-approval limits by service category. The request also lists known or anticipated services and associated fees. The committee approves or rejects the pre-approval limits and each of the listed services. For 2004, the pre-approval limits were as follows:

Type of Service	Pre-approval Limits	
	Per Project	Aggregate Limit
	(in thousands)	
Audit Services	\$ 200	\$ 15,000
Audit Related Services	\$ 200	\$ 3,000
Tax Services	\$ 200	\$ 15,000
All Other Services	\$ 200	\$ 1,000

Interim Pre-Approval Process

During the course of the year, the committee chairman has the authority to pre-approve requests for services that were not approved in the Annual Pre-Approval Process. Committee approval is not required for individual projects below the pre-approval project limits. However, all services, regardless of fee amounts, are subject to the services allowable under the Sarbanes-Oxley Act of 2002 and SEC rules regarding auditor independence. In addition, all fees are subject to on-going monitoring by the committee.

On-Going Monitoring

At each committee meeting subsequent to the February meeting, the chairman reports any interim pre-approvals since the last meeting. Also, at each of these meetings, management and the auditors provide the committee with an update of fees expected to be incurred for the year compared to amounts pre-approved in February.

The committee has discussed with the company's auditors the overall scope and plans for the independent audit. Management represented to the committee that the company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Discussions about the company's audited financial statements included the auditors' judgments about the quality, not just the acceptability of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The committee also discussed with the auditors other matters required by Statement on Auditing Standards No. 61 *Communication with Audit Committees*, as amended by SAS No. 90 *Audit Committee Communications*. Management and the auditors also made presentations to the committee throughout the year on specific topics of interest, including: i) management's philosophy, asset allocation levels, risk management and oversight of the company's pension funds; ii) accounting for the company's pension funding obligations; iii) the company's derivatives policy; iv) the internal audit plan for 2004; v) the company's information technology systems and the controls in place within those systems for compliance with the Sarbanes-Oxley Act of 2002; vi) the applicability of new accounting releases; vii) the company's critical accounting policies; viii) risk management initiatives and controls for various business units within the company, including the Global Purchasing Division and Financial Products Division; and ix) the company's progress in meeting the internal controls requirements under Section 404 of the Sarbanes-Oxley Act of 2002.

The auditors provided to the committee the written disclosures required by Independence Standards Board Standard No. 1 *Independence Discussions with Audit Committees*, and the committee discussed the auditors' independence with management and the auditors. In addition, the committee noted that no information technology or other non-audit consulting services had been provided by the auditors' firm. The committee concluded that the auditors' independence had not been impaired.

Based on: (i) the committee's discussion with management and the auditors; (ii) the committee's review of the representations of management; and (iii) the report of the auditors to the committee, the committee recommended to the board that the audited consolidated financial statements be included in the company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

By the Audit Committee consisting of:

***W. Frank Blount
John T. Dillon***

***Eugene V. Fife (Chairman)
David R. Goode***

***Gordon R. Parker
Edward B. Rust, Jr.***

Audit Fees

Fees paid to our auditors' firm were comprised of the following (in millions):

	2003 Actual	2004 Actual
Audit Services	\$ 10.2	\$ 18.7
Audit Related Services	3.5	2.6
Tax Compliance Services(1,3)	2.5	3.4
Tax Planning and Consulting Services(2,3)	10.5	7.8
All Other	0.4	0.1
TOTAL	\$ 27.1	\$ 32.6

- (1) "Tax Compliance Services" includes, among other things, tax return preparation and review, executive tax compliance, and advising on the impact of changes in local tax laws.
- (2) "Tax Planning and Consulting Services" includes, among other things, tax planning and advice and assistance with respect to transfer pricing issues.
- (3) For 2003, \$0.4 million has been reclassified from "Tax Planning and Consulting Services" to "Tax Compliance Services" to be consistent with 2004 actual presentation.

Governance Committee Report

The Governance Committee (committee) is composed of six directors, identified at the end of this report, all of whom meet the independence requirements for nominating committee members as defined in the New York Stock Exchange listing standards and determined by the board in its business judgment. The committee operates under a written charter adopted by the board. As part of its mandate, the committee evaluates and makes recommendations regarding proposed candidates to serve on the board, including recommending the slate of nominees for election at annual meetings of stockholders.

Process for Nominating Directors

The committee identifies director nominees from various sources such as officers, directors, and stockholders and in 2004 did not retain the services of any third party consultants to assist in identifying and evaluating potential nominees. The committee will consider and evaluate a director candidate recommended by a stockholder in the same manner as a committee-recommended nominee. Specifically, the committee assesses all director nominees taking into account several factors, including, but not limited to, issues such as the current needs of the board and the nominee's: (i) integrity, honesty, and accountability; (ii) successful leadership experience and strong business acumen; (iii) forward-looking, strategic focus; (iv) collegiality; (v) independence and absence of conflicts of interests; (vi) ability to devote necessary time to meet director responsibilities; and (vii) ability to commit to company stock ownership. The committee will ultimately recommend nominees that it believes will enhance the board's ability to manage and direct, in an effective manner, the affairs and business of the company.

Shareholder Nominations

Stockholders wishing to recommend a director candidate to serve on the board may do so by providing advance written notice to the company. Such written notice of an intent to nominate a director candidate at an annual meeting of stockholders must be given either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary no later than ninety (90) days in advance of such meeting. The notice must set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the nominating stockholder is a stockholder of record of the company's stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the board; and (e) the consent of each nominee to serve as a director of the company if so elected. The presiding officer of the annual meeting of stockholders may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. If you are interested in recommending a director candidate, you may request a copy of the company's bylaws by writing the Corporate Secretary at the address set forth on the front page of this Proxy Statement.

By the Governance Committee consisting of:

W. Frank Blount
Juan Gallardo

John T. Dillon (Chairman)
David R. Goode

Peter A. Magowan
Edward B. Rust, Jr.

Caterpillar Stock Owned by Officers and Directors
(as of December 31, 2004)

Barton	877,558(1)
Blount	26,075(2)
Brazil	17,651(3)
Dillon	30,099(4)
Fife	12,334(5)
Fosler	2,334(6)
Gallardo	66,503(7)
Goode	42,319(8)
Levenick	169,312(9)
Magowan	57,428(10)
Oberhelman	279,652(11)
Osborn	11,793(12)
Owens	688,710(13)
Parker	39,997(14)
Powell	10,043(15)
Rust	3,334(16)
Shaheen	351,628(17)
Smith	22,506(18)
Vittecoq	191,649(19)
Wunning	203,961(20)
All directors and executive officers as a group	6,841,530(21)

- (1) Barton Includes 796,601 shares subject to stock options exercisable within 60 days.
- (2) Blount Includes 20,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 448 shares of common stock.
- (3) Brazil Includes 16,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 148 shares of common stock.
- (4) Dillon Includes 24,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 217 shares of common stock.
- (5) Fife Includes 1,334 shares subject to stock options exercisable within 60 days.
- (6) Fosler Includes 1,334 shares subject to stock options exercisable within 60 days.
- (7) Gallardo Includes 20,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 148 shares of common stock.
- (8) Goode Includes 32,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such

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compensation had been invested on December 31, 2004, in 14,884 shares of common stock.

- (9) Levenick Includes 153,186 shares subject to stock options exercisable within 60 days.
- (10) Magowan Includes 32,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 4,535 shares of common stock.
- (11) Oberhelman Includes 250,988 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2004, in 9,046 shares of common stock.
- (12) Osborn Includes 8,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 37 shares of common stock.
- (13) Owens Includes 602,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2004, in 3,107 shares of common stock.
- (14) Parker Includes 32,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 514 shares of common stock.
- (15) Powell Includes 8,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 37 shares of common stock.
- (16) Rust Includes 1,334 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 1,137 shares of common stock.
- (17) Shaheen Includes 282,602 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2004, in 6,914 shares of common stock.
- (18) Smith Includes 14,001 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to the Directors' Deferred Compensation Plan representing an equivalent value as if such compensation had been invested on December 31, 2004, in 492 shares of common stock.
- (19) Vittecoq Includes 168,564 shares subject to stock options exercisable within 60 days.
- (20) Wunning Includes 182,060 shares subject to stock options exercisable within 60 days. In addition to the shares listed above, a portion of compensation has been deferred pursuant to supplemental employees' investment plans representing an equivalent value as if such compensation had been invested on December 31, 2004, in 9,389 shares of common stock.
- (21) Group Includes 5,801,190 shares subject to stock options exercisable within 60 days. Also includes 85,376 shares for which voting and investment power is shared. Each individual director and executive officer beneficially owns less than one percent of the company's outstanding common stock. All directors and executive officers as a group beneficially own 1.99 percent of the company's outstanding

common stock.

**Persons Owning More than Five Percent of Caterpillar Stock
(as of December 31, 2004)**

Name and Address	Voting Authority		Dispositive Authority		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071			20,454,500		20,454,500	6%

Performance Graph

**Compensation Committee Report on
Executive Officer and Chief Executive Officer Compensation**

As Caterpillar's Compensation Committee (committee), our primary goal is to establish a compensation program that serves the long-term interests of Caterpillar and its stockholders. Our most valuable asset is our people and we believe a focused, competitive compensation program, tailored to meet our long-term goals, helps us engage the entire Caterpillar team.

We believe that Caterpillar has developed a compensation program that effectively:

links the interests of management and stockholders;

links employee compensation with both individual performance and long-term Caterpillar performance; and

attracts and retains people of high caliber and ability.

Although this report is directed at CEO and executive officer compensation, the committee emphasizes that only through the efforts of highly motivated, dedicated Caterpillar employees at all levels and around the globe, has the company been able to experience the success it had in 2004 and will it be able to continue to drive profitable growth and build on its success in the future.

Guidelines and Philosophy

Our executive officer compensation package is a combination of total annual cash and long-term incentive compensation. Compensation at Caterpillar is driven by two main philosophies: pay for performance and higher pay at risk for increased job responsibility. As such, no executive officer has a "golden parachute" agreement that would reward him or her upon departure from the company.

Total annual cash compensation consists of market-competitive, performance-driven base pay and our annual short-term incentive pay. Long-term incentives currently consist of two main elements; stock option grants and a three-year long-term cash performance plan. Also included in the long-term incentive plan are targeted restricted stock grants.

The committee established the following principles to guide the use of the compensation components listed above to drive Caterpillar's pay for performance and pay at risk philosophy:

Base salary, as a percentage of total direct pay, should decrease as salary grade levels increase. As employees move to higher levels of responsibility, with greater ability to influence enterprise results, the percentage of their pay at risk should increase correspondingly.

The ratio of long-term variable pay to short-term variable pay should increase as salary grade levels increase. The long-term success of our company should be the top priority of our executives. Our compensation program must emphasize this and motivate our executives to take actions that are best for the long-term vitality of the company.

Equity compensation increases as salary grade levels increase. Equity ownership provides a clear link between interests of the stockholder and the interests of the recipient. As employees have more impact on corporate performance, their main incentive should be profitably growing the company, which aligns their interests with those of our stockholders.

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These principles guided the committee's compensation decisions during 2004, and are reflected in the graph below. The graph depicts the progression of pay components as salary grades increase for a representative management plan in the United States. Structures differ globally depending on local practices, but preserve the compensation philosophy and guidelines described in this report.

Total Annual Cash Compensation

Total annual cash compensation for executive officers is comprised of base salary plus annual short-term incentive pay. At Caterpillar, total annual cash compensation is targeted to be highly competitive compared to other companies within our comparator group for talent.

Base Salary

Base salary increases are performance-driven, consistent with Caterpillar's compensation philosophy. At Caterpillar, we believe in paying for performance, as evidenced by our base salary administration practice the Performance Award Process. The Performance Award Process provides for salary increases based on individual performance, and is designed to drive the largest percentage increase to our highest-performing employees. Virtually all management employees from entry-level positions through the executive levels of the company are evaluated and receive pay adjustments through this process. Consistently high-performing employees will have the opportunity to significantly exceed target base salary levels.

To strengthen the performance component of base salary, the administration of officer base pay changed in 2004. As part of this change, base pay for officers will ordinarily move to a market-competitive level within five years if performance objectives are met, with faster progression based on performance. Base salary above midpoint must be re-earned annually given certain performance parameters, thereby stressing the performance component of the program to an even greater degree for our executive group.

When reviewing total annual cash compensation, we use Hewitt Associates LLC as our principal source of survey data. Our review of market data for 2004 showed that the market position for the cash element

for all officer groups other than Group President had deteriorated, and in all cases was below the market competitive level. Based on this data, and following our market competitiveness philosophy, we implemented a five percent increase in the midpoint of the salary range for Group Presidents, and a ten percent increase for the ranges for Vice Presidents and the Chairman/CEO. These changes brought all officer groups to within five percent of the market.

Short Term Incentive Plans

Officers, along with most other employee populations, participate in Caterpillar's Short Term Incentive Plans (STIP). These plans constitute team-based pay at risk that deliver a target percentage of base salary to each participant based on performance against team goals at both the enterprise and business unit levels. The following guiding principles apply to these plans:

percentage of pay at risk is to remain at market-leading levels, meaning in general that commensurately less pay at market target levels is included in base pay than is the case for our comparator companies;

employees are rewarded for the delivery of results against measurable goals;

highly competitive incentive compensation is paid out for target levels of performance;

they are designed to drive behavior aligned with both enterprise and business unit results; and

the company's payout objective under the plans is to be at target on average over a period of years.

The market data reviewed by the committee showed that our STIP target percentages remain competitive for all officer groups, and preserve the desired proportion of pay at risk. We are, therefore, maintaining the STIP target percentages for all officer groups.

Payouts Under The Corporate Incentive Compensation Plans

For 2004, approximately 56,600 Caterpillar employees earned approximately \$461 million in short-term incentive compensation. This team award is based on prorated annual salary, a specific percentage based on position, and performance factors for corporate and business units' achievements.

Before any amount could be awarded under these plans for 2004, Caterpillar had to achieve a threshold profit per share (PPS) level, with increasing amounts awarded for achievement of higher levels from threshold to maximum PPS levels. For 2004, the threshold PPS level was exceeded and all executive officers received a team award.

As part of the STIP, 28 business units (or divisions within those units) at Caterpillar have their own short-term incentive compensation plans tied to the goals of their particular unit. For 2004, 20 officers received part of their short-term incentive payouts based on the performance of their individual business units. Several factors specific to the unit may have impacted that payout, including PPS, 6 Sigma benefits, return on assets, accountable profit, cash flow, revenue growth, price realization, percentage of industry sales, and quality.

Officers participating in their respective divisional incentive plans were eligible to receive 50 percent of the team award amount that would have been awarded if he or she had participated solely in the divisional plans and 50 percent of the amount that would have been awarded had the officer participated solely in the corporate STIP metrics (PPS and corporate 6 Sigma benefits).

In line with Caterpillar's pay for performance philosophy, the company's top performing officers and executives (as well as our top performers from most participating employee populations) are eligible for incremental STIP discretionary awards. At the end of each plan year, a two percent discretionary pool is formed from STIP to award these top performers. In consultation with the committee, the Chairman decides whether any individual awards to officers are warranted. Each business unit Vice President decides whether any individual awards to employees at all other salary grade levels are warranted. Top performing employees can receive an additional award of up to their original STIP award. Unused portions of the funds allocated to the Chairman and unit Vice Presidents each year for individual awards are not carried forward into the next year.

Long-Term Incentive Compensation

The Long-Term Incentive Plan (LTIP) is composed of two main elements, an equity plan and a Long-Term Cash Performance Plan (LTCPP). At Caterpillar, we target long-term compensation to be highly competitive against a comparator group. Caterpillar's LTIP is designed to reward the company's key employees for achieving and exceeding long-term goals, to drive stockholder return, and to foster stock ownership. Ultimately, LTIP aligns the interests of officers and executives with those of the stockholders.

Equity

The main equity vehicle used in 2004 to motivate and reward officers and certain other key employees was stock options. These stock options permit the holder to buy Caterpillar stock for the stock's price when the option was granted. The option holders only benefit if the price of Caterpillar stock increases from the date of the grant. Option holders have 10 years to exercise stock options from the date they were granted, absent events such as death or termination of employment. Caterpillar views stock options as critical to linking the interests of our stockholders and employees to realize a benefit from appreciation in the price of our stock.

The number of options an officer receives depends upon his or her position in the company and his or her performance. A baseline number of options is granted for the positions of Vice President, Group President and Chairman. Positive or negative adjustments may be made based on a subjective assessment of individual performance, as long as these adjustments do not increase the total number of options issued.

In 2004, despite past adjustments, equity compensation for officers remained considerably below market competitive levels. However, instead of increasing the standard grants, we approved the creation of a share pool to supplement the standard grants to provide more flexibility in executing our pay for performance philosophy. This pool is to be distributed exclusively to the officer group at the discretion of the committee and in consultation with the Chairman/CEO.

Consistent with our commitment to cultivate an ownership mentality among our executive group, Caterpillar is one of the few companies to establish and adhere to strict ownership guidelines in connection with stock option grants. Pursuant to these guidelines, reductions to the number of options granted may be made if the officer (or other eligible employee) does not meet his or her stock ownership requirements. Employees are encouraged to own a number of shares at least equal to the average number of shares for which they received options in their last five option grants. Generally, this target corresponds to a requirement that executive officers hold more than two to three times their base salary in Caterpillar stock. Twenty-five percent of vested unexercised options apply toward the ownership target. With few exceptions, if 100 percent of the ownership requirement is not met, the officer's grant would be reduced. For 2004, all officers complied with the target ownership guidelines and no officer was penalized for low share ownership.

Restricted Stock Grants

In addition to stock options, the committee approved the implementation of a restricted stock award program in December 2000 in recognition of the need to attract and retain outstanding performers. Key elements of the program are:

establishment of a pool of 250,000 restricted shares of company stock, from which selected performance-based and retention-based grants would be made to officers and other key employees, as well as prospective employees;

refreshment of the pool annually to a level approved by the committee;

restrictions on awarded shares with vesting schedules varying from 3-5 years; and

forfeiture of restricted shares upon the grantee's election to leave Caterpillar.

Pursuant to the plan, the committee reviews nominations for awards to assure they meet the following criteria:

For prospective employees:

demonstrated potential as a significant contributor;

capabilities presenting a potential competitive advantage; or

special talents or characteristics to meet a specific corporate need.

For current Caterpillar employees:

exceptional performance;

high potential for promotion; or

high marketability for positions outside Caterpillar.

Seventy-nine participants received a total of 44,350 restricted shares with a total value of \$3,542,807 under this restricted stock award program in 2004. In addition, 18 participants received a total of 7,400 restricted share equivalents with a total value of \$590,569 under this program in 2004.

Cash Performance Plan

Our long-term incentive compensation plan also includes a LTCPP offered to officers and other high-level management employees. Under this feature, a three-year performance cycle is established each year. If the company meets certain threshold, target, or maximum performance goals at the end of the cycle, participants receive a cash payout. We have the ability to apply different performance criteria for different cycles, as well as the discretion to adjust performance measures for unusual items such as changes in accounting practices or corporate restructurings. As with past cycles, we decided to combine company PPS growth and return on equity (ROE) for the 2004-2006 cycle. In February 2004, we set the threshold, target and maximum levels for the 2004-2006 cycle for PPS growth at the 25th, 50th and 75th percentiles of our industry peer group, respectively, and for ROE at 20, 25 and 30 percent, respectively. Each measure will trigger independently for the 2004-2006 cycle.

For the three-year cycle established for the years 2002 through 2004, which uses the same metrics as the 2004-2006 cycle, we achieved an ROE factor of .66 and a PPS growth factor of 1.5, for a combined payout factor of 1.08. This is the first time in three years the company will make any payment under the LTCPP.

Additionally, our market data review showed that the current target percentages for the LTCPP were competitive in the market. The market data further showed that in conjunction with the equity awards, our LTCPP provides for adequate, market-competitive incentives, that adequately balance growth and profitability over an intermediate and long-term horizon.

Summary

We believe the design of Caterpillar's compensation plans and their relative mix successfully motivates the company's officers and executives. All aspects of compensation are performance driven and align both the short-term and long-term interests of employees and stockholders. The ownership requirements for executives and officers are instrumental in the company's drive to increase stockholder return. The committee believes that Caterpillar's plans are effective, create significant value and reflect an appropriate mix that drives company success.

Mr. Owens's Individual Goals for 2004

The committee reviewed the board's assessment of Mr. Owens's individual goals established at the beginning of 2004 and his subsequent performance against those goals. Mr. Owens's 2004 performance was also considered in determining adjustments to his 2004 salary. We believe that the company's extraordinary 2004 performance is a testament to Mr. Owens's effective strategic direction and leadership.

Mr. Owens's individual goals stem from the "3-Ps" that he established as the focal points for the company going forward: Profitable growth, Performance through 6 Sigma, and People. We believe that 2004 was a year of remarkable achievement in each of these areas.

Profitable Growth

The company had an excellent year, exceeding the \$30 billion dollars in sales and revenue goal set in 1997 well ahead of schedule. Under Mr. Owens's leadership and direction, Team Caterpillar—employees, dealers and suppliers—effectively responded to an unprecedented recovery in nearly every market the company serves and enhanced its long-term strategic position by meeting record customer demand and building substantial field population. The company delivered record profits and increased return on sales, and ended the year with solid improvement in the company's cash flow despite significant contributions to pension plans, a dividend increase to shareholders and repurchases of almost seven million of Caterpillar shares under the repurchase plan.

The company also leveraged its groundbreaking ACERT® Technology in 2004 to maximize the company's short-term results and position the company for additional benefits long term. In July, Caterpillar became the first company with a full line of off-road engines certified by the United States Environmental Protection Agency (EPA) as compliant with Tier 3 standards slated to go into effect in January 2005 and January 2006. This EPA certification enabled Caterpillar to provide customers with a full line of engines featuring ACERT Technology in the 175-750 horsepower range. In November, the company delivered the first off-road machine meeting the Tier 3 emissions standard with the offering of the new D8T track-type tractor powered by a Caterpillar engine using ACERT Technology. ACERT Technology provides Caterpillar a competitive advantage now and in the future to meet emission and performance requirements. While Caterpillar is leveraging its ACERT Technology directly into its off-highway businesses, the competition must pursue alternative technologies—furthering development of their on-highway technologies to meet future on-highway regulations—and another technology to meet off-highway market needs and emission requirements.

Under Mr. Owens's direction, the company launched strategic initiatives and finalized acquisitions to contribute to the company's short and long-term growth. In March, the company announced the expansion of its remanufacturing business to provide services for manufacturers and customers in industries beyond those Caterpillar traditionally served. In August, the company acquired Wealdstone Engineering, Ltd. one of Europe's leading remanufacturers of gasoline and diesel engines located in the United Kingdom and 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. These two acquisitions provide Caterpillar the opportunity to leverage its core remanufacturing strengths to provide remanufacturing services to original equipment manufacturers in the diesel engine and automotive industries.

The company continued to make progress on its strategy to establish a market leadership position in the emerging markets, particularly in China and India, in 2004. 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 the country'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. The company also completed the merger of its engine and machine manufacturing operations in India and introduced a new backhoe loader specifically for the local market in 2004.

Performance Through 6 Sigma

Under Mr. Owens's direction, 6 Sigma continued to become the way the company works, engages its people, develops its leaders, and creates value for customers and stockholders. The company exceeded its aggressive 6 Sigma value proposition goal for 2004, enhancing the company's ability to serve its dealers and customers very well during a time of unprecedented demand for its products. The company strengthened its supply chain by deploying 6 Sigma to 148 dealers worldwide and to over 365 suppliers. 6 Sigma also fostered the engagement of company employees. At year-end, there were over 3,300 active Black Belts at the company and over 21,000 employees had participated in a 6 Sigma project during the year. 6 Sigma also helped the company develop new leaders in 2004, as more than 400 Black Belts moved back into the line organization, many in managerial roles.

People

In response to a challenge issued by Mr. Owens, participation in the 2004 Employee Opinion Survey and survey results showed marked improvements. Participation in the survey improved by 21 percent, as over 60,000 employees 84 percent of the work force responded. All 11 measured dimensions showed improvement and the employee engagement index reached the highest level ever. The company also continued to support the continued learning and achievement of its people. Cat University developed and delivered courses to over 39,000 corporate and dealer employees. In recognition of this remarkable achievement, Cat University was awarded first prize by the International Quality and Productivity Council in the categories of Best Overall Corporate University, Corporate University Leader of the Year and Best Evaluation Technique. More than 900 company leaders from supervisors to Vice Presidents participated in Cat University's "Making Great Leaders" program in 2004.

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Mr. Owens also set the "tone at the top" with respect to workplace safety and employee diversity in 2004. The company had notable improvement in its lost time case frequency rate, recordable injury frequency, and lost workdays in 2004. The company put in place the first Global Diversity Manager to serve the needs of the Corporate Diversity Council.

Mr. Owens also provided leadership and oversight to the company's negotiations with The United Automobile, Aerospace and Agricultural Implement Workers of America. These efforts resulted in a tentative agreement reached in 2004 and ratified in early 2005. This agreement includes terms and conditions that will allow the company to effectively utilize its manufacturing facilities. Comprehensive discussions with the union helped the company to develop solutions to complex problems that respond to the current and future needs of the company's employees and retirees while also enabling the company's long-term competitiveness from its traditional manufacturing and logistics facilities.

In addition to delivering on his "3-Ps," Mr. Owens set and achieved impressive personal goals for 2004 as well. In particular, he:

Developed and/or maintained close relationships with key customers, dealers and strategic suppliers by attending several meetings with dealer groups worldwide, actively participating in MINExpo, and establishing personal relationships with the CEOs of several key customers and suppliers;

Provided corporate leadership for the company's investor relations efforts, through a combination of meetings with analysts and stockholders, public interviews, and speeches. He met with analysts in a conference call in March and during a luncheon at MINExpo;

Established a solid working rapport with the board of directors by meeting individually with each member prior to the August board meeting and maintaining appropriate between-meeting communications with directors; and

Effectively managed succession with a number of planned officer changes in 2004.

By the Compensation Committee consisting of:

William A. Osborn (Chairman)

Peter A. Magowan

Charles D. Powell

Joshua I. Smith

John R. Brazil

Gail D. Fosler

Executive Compensation Tables
2004 Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary	Bonus(1)	Other Annual Compensation	Awards		Payouts	
					Restricted Stock Awards(4)	Securities Underlying Options	LTIP Payouts(5)	All Other Compensation(6)
J. W. Owens Chairman and CEO	2004	\$ 1,029,960	\$ 1,611,811	\$ 8,098(2)		230,000	\$ 1,371,886	\$ 101,303
	2003	695,000	681,419	378		70,000		64,536
	2002	670,002	380,600	482		61,000		22,781
G. A. Barton Retired Chairman and CEO	2004	105,000	539,012				1,511,903	104,004
	2003	1,250,000	1,688,393	2,707		250,000		130,076
	2002	1,175,001	917,943	628		190,000		56,400
S. L. Levenick Group President	2004	497,250	547,197	993,070(3)		63,000	533,814	29,835
	2003	389,004	345,495	725,048(3)		27,000		41,126
	2002	353,754	347,868	313,260(3)		27,000		13,497
D. R. Oberhelman Group President	2004	604,749	726,340	342(2)	237,810	70,000	708,745	66,834
	2003	537,340	509,159			70,000		49,215
	2002	498,000	282,910	176		61,000		19,540
G. L. Shaheen Group President	2004	686,004	843,739	1,162(2)		70,000	788,135	80,462
	2003	649,004	655,022	6,070		70,000		61,469
	2002	590,505	375,472	718		61,000		24,020
G. R. Vittecoq(7) Group President	2004	779,609	887,295			63,000	771,808	31,094
	2003	571,660	449,847		44,750	27,000		27,168
	2002	467,138	371,857			27,000		14,692
S. H. Wunning Group President	2004	549,507	625,387			63,000	550,432	54,506
	2003	399,004	358,928			27,000		36,582
	2002	365,505	210,686			30,000		14,677

- (1) Consists of cash payments made pursuant to the corporate incentive compensation plan in 2005 with respect to 2004 performance, in 2004 with respect to 2003 performance, and in 2003 with respect to 2002 performance. Also includes discretionary bonus payments authorized by the compensation committee of the board of directors. G. L. Shaheen received discretionary bonus payments of \$38,000 in 2005 for 2004 performance, \$40,000 in 2004 for 2003 performance and \$40,000 in 2003 for 2002 performance. D. R. Oberhelman received a discretionary bonus payment of \$38,000 in 2005 for 2004 performance. Also includes variable base pay lump sum amounts that must be re-earned annually. Receiving variable base pay lump sum awards in 2003 were G. A. Barton (\$60,000) and J. W. Owens (\$23,000). In 2004, Mr. Shaheen received a \$25,000 variable base pay adjustment. Also in 2004, the compensation committee authorized a lump sum payment of \$372,000 to Mr. Barton upon his retirement as CEO in recognition of his contributions and dedication to Caterpillar throughout his tenure with the company.
- (2) Taxes paid on behalf of employee related to aircraft usage (\$2,712) and financial counseling (\$6,890).
- (3) Mr. Levenick was an International Service Employee (ISE) based in Japan until his return to the U.S. in July 2004. Amounts in 2002 and 2003 include various foreign service allowances typically paid by the company on behalf of ISEs, including allowances for cost of living, housing, foreign service premiums, and for that portion of his foreign and U.S. taxes attributable to employment as an ISE for the company. Amount for 2004 includes the expenses noted for 2002 and 2003 plus relocation expenses associated with his move back to the United States, including a housing appreciation allowance, an international service premium, moving expenses, and costs associated with a search for a new house. These allowances are intended to ensure that our ISEs are in the same approximate financial position as they would have been if they lived in their home country during the time of their service as ISEs.
- (4) Consists of restricted shares issued pursuant to the restricted stock award program established in December 2000. In 2004, 3,000 shares were awarded to D.R. Oberhelman. The fair market value of Caterpillar stock at the time of the award was \$79.27. As of December 31, 2004, the number and value of all restricted stock held by named executives was: D. R. Oberhelman 5,333 shares (\$520,421); G. R. Vittecoq 950 equivalent shares (\$92,706); and S. H. Wunning 2,333 shares (\$227,666). Caterpillar's average stock price on December 31, 2004 (\$97.585 per share) was used to determine the value of restricted stock. Dividends are paid on this restricted stock.
- (5)

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Consists of cash payments pursuant to the long-term cash performance plan in 2005, with respect to performance over a three year plan cycle from 2002-2004 ending on December 31, 2004. The last payout under the long-term incentive plan occurred in 2001 for performance over the three year plan cycle of 1998-2000.

- (6) Consists of matching company contributions for the Caterpillar 401(k) Plan and supplemental employees' investment plans, respectively, of J. W. Owens (\$12,300/\$89,003); G. A. Barton (\$6,300/\$97,704); S. L. Levenick (\$12,300/\$17,535); D. R. Oberhelman (\$12,300/\$54,534); G. L. Shaheen (\$12,300/\$68,162); S. H. Wunning (\$12,300/\$42,206); and of matching contributions for G. R. Vittecoq (\$27,168) in a foreign employees' investment plan.
- (7) Dollar amounts for Mr. Vittecoq are based on compensation in Swiss Francs converted to U.S. dollars using the exchange rate in effect on December 31st of each year. The 2004 numbers reflect a ten percent appreciation in the Swiss Franc against the U.S. Dollar from the rate in effect on December 31, 2003.

Option Grants in 2004

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees In Fiscal Year 2004(2)	Exercise Price Per Share	Expiration Date	5%	10%
J. W. Owens	230,000	2.59	\$ 77.255	06/08/14	\$ 11,174,550	\$ 28,318,750
G. A. Barton		N/A	N/A	N/A	N/A	N/A
S. L. Levenick	63,000	.71	77.255	06/08/14	3,060,855	7,756,875
D. R. Oberhelman	70,000	.79	77.255	06/08/14	3,400,950	8,618,750
G. L. Shaheen	70,000	.79	77.255	06/08/14	3,400,950	8,618,750
G. R. Vittecoq	63,000	.71	77.255	06/08/14	3,060,855	7,756,875
S. H. Wunning	63,000	.71	77.255	06/08/14	3,060,855	7,756,875
Executive Group(2)	1,339,100	15.06	77.255	06/08/14	65,060,174	164,876,688
All Stockholders(4)	N/A	N/A	N/A	N/A	16,646,212,426	42,185,137,489
Executive Group Gain as % of all Stockholder Gain	N/A	N/A	N/A	N/A	.39%	.39%

- (1) The 2004 grant cliff vested on December 31, 2004. Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy tax-withholding requirements. Options granted to certain employees that are vested and not incentive stock options may be transferred to certain permitted transferees.
- (2) In 2004, options for 8,942,733 shares were granted to employees and directors as follows: Executive Group 1,339,100; non-employee directors 52,000; and all others 7,551,633. The Executive Group represents 34 officers.
- (3) The dollar amounts under these columns reflect the 5% and 10% rates of appreciation prescribed by the Securities and Exchange Commission. The 5% and 10% rates of appreciation would result in per share prices of \$125.84 and \$200.38, respectively.
- (4) For "All Stockholders" the potential realizable value is calculated from \$77.255, the average price of common stock on June 8, 2004, multiplied by the outstanding shares of common stock on that date.

**Aggregated Option/SAR Exercises in 2004,
and 2004 Year-End Option/SAR Values**

Name	Shares Acquired on Exercise(1)	Value Realized(2)	Number of Securities Underlying Unexercised Options/SARs at 2004 Year-End(3)		Value of Unexercised In-the-Money Options/SARs at 2004 Year-End(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
J. W. Owens	N/A	N/A	602,001	66,999	\$ 22,554,259	\$ 2,973,646
G. A. Barton	205,465	\$ 8,559,553	796,601		34,028,422	
S. L. Levenick	7,934	321,881	153,186	27,000	5,554,628	1,201,230
D. R. Oberhelman	N/A	N/A	250,988	66,999	9,788,783	2,973,646
G. L. Shaheen	6,354	277,282	282,602	66,999	10,478,831	2,973,646
G. R. Vittecoq	N/A	N/A	168,564	27,000	6,434,352	1,201,230
S. H. Wunning	N/A	N/A	182,060	28,000	6,876,845	1,248,100

- (1)

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Upon exercise, option holders may surrender shares to pay the option exercise price and satisfy tax-withholding requirements. The amounts provided are gross amounts absent netting for shares surrendered.

- (2) Calculated on the basis of the fair market value of the underlying securities at the exercise date or year-end, as the case may be, minus the exercise price.
- (3) Numbers presented have not been reduced to reflect any transfers of options by the named executives.

Long-Term Incentive Plans/Awards in 2004

Name	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans(1)		
		Threshold	Target	Maximum
J. W. Owens Chairman and CEO	2004-2006	\$ 823,968	\$ 1,647,936	\$ 2,471,904
G. A. Barton Retired Chairman and CEO	2003-2005	729,555	1,459,110	2,188,665
S. L. Levenick Group President	2004-2006	28,000	56,000	84,000
D. R. Oberhelman Group President	2003-2005	364,000	728,000	1,092,000
G. L. Shaheen Group President	2004-2006	284,176	568,351	852,527
G. R. Vittecoq Group President	2003-2005	265,643	531,285	796,928
S. H. Wunning Group President	2004-2006	328,123	656,246	984,369
	2003-2005	328,123	571,208	856,813
	2004-2006	364,877	729,754	1,094,631
	2003-2005	364,877	729,754	1,094,631
	2004-2006	409,295	818,590	1,227,885
	2003-2005	383,308	766,881	1,149,924
	2004-2006	291,898	583,796	875,694
	2003-2005	273,365	546,729	820,094

(1)

Payout is based upon an executive's base salary at the end of the three-year cycle, a predetermined percentage of that salary, and Caterpillar's achievement of specified performance levels (profit per share and return on equity for the 2003 - 2005 and 2004 - 2006 cycles) over the three-year period. The threshold amount will be earned if 50% of the targeted performance level is achieved. The target amount will be earned if 100% of the targeted performance level is achieved. The maximum award amount will be earned at 150% of targeted performance level. Base salary levels for 2004 were used to calculate the estimated dollar value of future payments under both cycles.

Pension Plan Table

Remuneration	Years of Service				
	15	20	25	30	35
\$ 500,000	112,500	150,000	187,500	225,000	262,500
550,000	123,750	165,000	206,250	247,500	288,750
650,000	146,250	195,000	243,750	292,500	341,250
750,000	168,750	225,000	281,250	337,500	393,750
850,000	191,250	255,000	318,750	382,500	446,250
950,000	213,750	285,000	356,250	427,500	498,750
1,100,000	247,500	330,000	412,500	495,000	577,500
1,400,000	315,000	420,000	525,000	630,000	735,000
1,600,000	360,000	480,000	600,000	720,000	840,000
1,950,000	438,750	585,000	731,250	877,500	1,023,750
2,500,000	562,500	750,000	937,000	1,125,000	1,312,500
2,750,000	618,750	825,000	1,031,250	1,237,500	1,443,750
3,000,000	675,000	900,000	1,125,000	1,350,000	1,575,000

The compensation covered by the pension program is based on an employee's annual salary and bonus. Amounts payable pursuant to a defined benefit supplementary pension plan are included. As of December 31, 2004, the persons named in the Summary Compensation Table had the following estimated credited years of benefit service for purposes of the pension program: J. W. Owens 32 years; G. A. Barton 35 years*; S. L. Levenick 27 years; D. R. Oberhelman 29 years; G. L. Shaheen 35 years*; G. R. Vittecoq 29 years**; and S. H. Wunning 31 years. The amounts payable under the pension program are computed on the basis of an ordinary life annuity and are not subject to deductions for Social Security benefits or other amounts. In addition, Group President Richard L. Thompson retired on July 1, 2004 with the maximum 35 years of service under the pension plan pursuant to an agreement between the company and Mr. Thompson to credit him with 14 additional years of service in exchange for his commitment to remain with the company through the year of his 65th birthday.

*

Although Mr. Barton and Mr. Shaheen have accumulated more than 35 years of service with the company, amounts payable under the plan are based on a maximum of 35 years of service.

**

Mr. Vittecoq is covered by the pension plan of a subsidiary of the company which is intended to provide benefits comparable to those under the company's pension program. There are no material differences between Mr. Vittecoq's pension plan benefits and those disclosed in the table.

PROPOSAL 2 Ratification of Independent Registered Public Accounting Firm

The board seeks an indication from stockholders of their approval or disapproval of the Audit Committee's appointment of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) as Independent Registered Public Accounting Firm (auditors) for 2005.

PricewaterhouseCoopers has been our auditors since 1925, and no relationship exists other than the usual relationship between auditors and client.

If the appointment of PricewaterhouseCoopers as auditors for 2005 is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment for the year 2005 will stand, unless the Audit Committee finds other good reason for making a change.

Representatives of PricewaterhouseCoopers will be available to respond to questions at the annual meeting of stockholders.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" PROPOSAL 2.

Proposal 3 Stockholder Proposal re: Rights Plan and Caterpillar Response

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the company will provide the name, address and number of company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED, The shareholders of our company request our Board of Directors to redeem any active poison pill, unless such active poison pill is approved by the affirmative vote of holders of a majority of shares present and voting as a separate ballot item, to be held as soon as may be practicable.

Supporting Statement of Proponent

55% yes-vote

This topic won an impressive level of support at our company 55% yes-vote in 2004 based on yes and no votes. Our shareholder level of support ranged from 48% to 50.8% in 2000, 2001, 2002 and 2003. The Corporate Secretary can provide the email address of the proponent upon request.

The Council of Institutional Investors www.cii.org formally recommends adoption of this proposal topic. This topic also won a 61% yes-vote at 50 major companies in 2004.

Pills Entrench Current Management

"They [poison pills] entrench the current management, even when it's doing a poor job. They [poison pills] water down shareholders' votes and deprive them of a meaningful voice in corporate affairs." From "Take on the Street" by Arthur Levitt, SEC Chairman, 1993-2001, page 215

Poison Pill Negative

"That's the key negative of poison pills instead of protecting investors, they can also preserve the interests of management deadwood as well." Source: *Morningstar.com*, Aug. 15, 2003

The Potential of a Tender Offer Can Motivate Our Directors

Hectoring directors to act more independently is a poor substitute for the bracing possibility that shareholders could sell the company out from under its present management. Source: *Wall Street Journal*, Feb. 24, 2003

Like a Dictator

"[Poison pill] That's akin to the argument of a benevolent dictator, who says, 'Give up more of your freedom and I'll take care of you.'" T.J. Dermot Dunphy, CEO of Sealed Air (NYSE) for 25 years

Progress Begins with a First Step

I believe that it is important to take at least the above RESOLVED statement to improve our corporate governance standards since our 2004 governance standards were not impeccable. For instance in 2004 it was reported:

Directors were accountable for shareholder election only once in 3-years.

Directors were allowed to hold up to 10 director seats over-extension concern.

To make certain key changes shareholders must cast a 75% vote entrenchment concern.

Our company did not have a Lead Director or independent Chairman.

2003 CEO pay was independently reported as \$11 million including stock option grants. Source: Executive PayWatch Database, <http://www.aflcio.org/corporateamerica/paywatch/ceou/database.cfm>

Directors had a \$1 million Charitable Award Program conflict of interest concern.

The above slate of sub-par practices reinforce the reason to adopt the one RESOLVED statement at the beginning of this proposal.

Stock Value

I believe that if a poison pill makes our company difficult to sell that our stock has less value.

Redeem or Vote Poison Pill
Yes on 3

Statement in Opposition to Proposal

Our Shareholder Rights Plan does not, and is not intended to, prevent bidders from making offers to acquire the company at a price and on terms that would be in the best interests of all stockholders. Instead, the Shareholder Rights Plan is designed to protect stockholders against potential abuses during a takeover attempt. In this regard, it is important to remember that hostile acquirers are interested in buying a company as cheaply as they can, and, in attempting to do so, may use coercive tactics such as partial and twotiered tender offers and creeping stock accumulation programs which do not treat all stockholders fairly and equally. We believe our Rights Plan provides our board with an additional degree of control in a takeover situation by allowing it to evaluate a takeover proposal in a rational manner to determine whether, in the exercise of its fiduciary duties, the board believes the proposed offer adequately reflects the value of the company and is in the interests of all stockholders.

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Boards have a fiduciary duty to act in the best interests of the stockholders. Our board is comprised (with one exception) entirely of independent outside directors. In the event of a takeover attempt triggering the Rights Plan, our board is in the best possible position to be free from self-interest in discharging its fiduciary duty to determine whether the proposed offer is in the best interests of the stockholders.

The economic benefits of a rights plan to stockholders have been validated in several studies. A February 2004 Corporate Governance Study commissioned by Institutional Shareholder Services (ISS) revealed that companies with strong takeover defenses including shareholder rights plans achieved:

Higher shareholder returns over three-, five- and ten-year periods;

Higher return on equity;

Higher return on sales;

Higher net profit margins;

Higher dividend payouts;

Higher dividend yields; and

Higher interest coverage and operating cash flow to liability ratios.

These recent findings are consistent with what studies about shareholder rights plans have historically revealed. Georgeson & Company Inc. a nationally recognized proxy solicitor and investor relations firm analyzed takeover data between 1992 and 1996 to determine whether rights plans had any measurable impact on stockholder value. Their findings were as follows:

Premiums paid to acquire target companies with rights plans were on average eight percentage points higher than premiums paid to target companies without rights plans;

Rights plans contributed an additional \$13 billion in shareholder value during the last five years and shareholders of acquired companies without rights plans gave up \$14.5 billion in potential premiums;

The presence of a rights plan did not increase the likelihood of withdrawal of a friendly takeover bid nor the defeat of a hostile one; and

Rights plans did not reduce the likelihood of a company becoming a takeover target.

Georgeson's two pioneering "Poison Pill" Impact Studies in 1998 and a 1995 report from JP Morgan reached the same conclusions. For these reasons, plans similar to our Rights Plan have been adopted by a majority of the companies in the S&P 500 index.

Supporting this empirical evidence, the Director of Corporate Programs at ISS has conceded that "companies with poison pills tend to get higher premiums on average than companies that don't have pills." *Wall Street Journal*, January 29, 1999.

Stockholders have a justified interest in assuring that independent board members systematically review the Rights Plan to confirm whether its existence continues to provide value to the company and its stockholders. For this reason, in October 2002, the board approved an amendment to the company's Rights Plan to include a provision (commonly referred to as a TIDE provision) that requires a committee comprised solely of independent directors to review the Rights Plan at least every three years to consider whether the continuance of the Rights Plan is in the best interests of the company, its stockholders and

any other relevant constituencies of the company. The committee conducted this review in 2003 and again in December 2004 and concluded that based on our directors' business experience and knowledge of Caterpillar and the industry in which it operates, the Caterpillar Shareholder Rights Plan continues to be in the company's and shareholders' best interest.

Proponent's allegations regarding the company's governance practices are either demonstrably untrue or unsupported by the facts. Proponent alleges that "directors were allowed to hold up to 10 director seats." In fact, the board's Guidelines on Corporate Governance Issues posted on the governance section of our website specify that our Chairman may only serve on two other boards and other directors may serve on no more than five others. In addition, proponent references to our allegedly "subpar" governance practices ignores the fact that the company has a demonstrated history of strong governance practices. According to ISS, our corporate governance practices are in the top 17 percent of all the companies in our industry. Governance Metrics International (GMI) a company specializing in rating companies' governance practices examined hundreds of governance metrics (including the existence of a rights plan) and awarded the company a 9 (out of 10) rating. According to GMI, "a rating of 9 or higher is considered to be well above average," and puts Caterpillar in the top 7 percent of the 2,600 companies in its governance database.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 3.

Proposal 4 Stockholder Proposal re: Code of Conduct and Caterpillar Response

Pursuant to Rule 14a-8(1)(1) of the Securities Exchange Act of 1934, the company will provide the name, address and number of company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Supporting Statement of Proponent

WHEREAS;

Caterpillar's Code of Worldwide Business Conduct states that "Caterpillar accepts the responsibilities of global citizenship" and recognizes that Caterpillar's "commitment to financial success must also take into account social, economic, political, and environmental priorities";

The Code of Worldwide Business Conduct recognizes that "Caterpillar prospers not only by our customers' acceptance of our products and services, but also by the public's acceptance of our conduct";

Through the Code of Worldwide Business Conduct Caterpillar has made a commitment to "respond to public inquiries... with prompt, courteous, honest answers";

It is a matter of public record that since 1967, the Israeli government has used Caterpillar equipment, including specially modified D9 and D10 bulldozers to destroy over 7,000 buildings in the West Bank and Gaza Strip, leaving 50,000 men, women and children homeless;

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It is a matter of public record that since September 2000, the Israeli government has used Caterpillar equipment to destroy more than 3,000 homes, hundreds of public buildings and private commercial properties and vast areas of agricultural land;

It is a matter of public record that the Israel Defense Forces (IDF) have used Caterpillar equipment to uproot hundreds of thousands of olive trees as well as orchards of dates, prunes, lemons and oranges causing widespread economic hardship and environmental degradation in rural areas of Palestine;

Caterpillar's involvement in the above-described abuses has attracted the attention of the international community: Amnesty International has issued a call to Caterpillar to "take measures within the company sphere of influence to guarantee that its bulldozers are not used to commit human rights violations, including the destruction of homes, land and other properties" and the Office of the UN High Commissioner on Human Rights has written to the Caterpillar president that "allowing the delivery of your...bulldozers to the Israeli army...in the certain knowledge that they are being used for such action, might involve complicity or acceptance on the part of your company to actual and potential violations of human rights...";

Public campaigns in the United States and Europe are advocating boycotts of Caterpillar industrial and consumer products;

Spokesmen for Caterpillar, Inc. have acknowledged that Caterpillar is aware of the IDF's use of Caterpillar equipment to destroy civilian homes, infrastructure and agricultural resources but has, nevertheless, refused either to condemn these practices or to take actions necessary to halt the sale or transfer of Caterpillar equipment to the IDF;

Resolution Proposed by Stockholder

THEREFORE BE IT RESOLVED: The shareholders request that the Board of Directors appoint a committee of outside directors to issue a report, omitting proprietary information and prepared at reasonable cost, by October 1, 2005, addressing the following:

The process for review and evaluation used to determine whether the sale (either directly or through intermediaries, including agencies of the United States government) of Caterpillar equipment to the IDF comports with Caterpillar's Code of Worldwide Business Conduct.

Statement in Opposition to Proposal

Caterpillar shares the world's concern over unrest in the Middle East and we certainly have compassion for all those affected by the political strife. However, more than two million Caterpillar machines and engines are at work in virtually every country of the world each day. We have neither the legal right nor the means to police individual use of that equipment. We believe any comments on political conflict in the region are best left to our governmental leaders who have the ability to impact action and advance the peace process.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 4.

PROPOSAL 5 Stockholder Proposal re: Report related to Global Pandemics and Caterpillar Response

Pursuant to Rule 14a-8(l)(1) of the Securities Exchange Act of 1934, the company will provide the name, address and number of company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

Shareholders request that our Board review the economic effects of the HIV/AIDS, tuberculosis and malaria pandemics on the company's business strategy and its initiatives to date, and report to shareholders within six (6) months following the 2005 annual meeting. This report, developed at reasonable costs and omitting proprietary information, will identify the impacts of these pandemics on the company.

Supporting Statement of Proponent

We believe that HIV/AIDS, Tuberculosis (TB) and Malaria pose major risks to the long-term financial health of firms, like Caterpillar, that operate in emerging markets.

The crisis of HIV/AIDS in Africa, with half of all global HIV/AIDS cases, is well known. UNAIDS the joint United Nations AIDS program reports life expectancy in much of southern Africa has declined by over half, to barely thirty years.

New research also shows disturbing trends in Asian markets. 7.4 million people in Asia are living with HIV, says UNAIDS. India has the greatest number of people living with HIV in the world, says Richard Feachem, who runs the Global Fund to Fight AIDS-TB-Malaria. New infection rates in Asia are at alltime highs.

Foreign Affairs reported in December 2002 that even moderate HIV pandemics in India and China may reduce per capita GNP by 2025 to virtually 2000 levels wiping out a generation's worth of economic growth.

In China, UNAIDS projects 10 million infections by 2010. Stephen Roach, Morgan Stanley's Chief Economist, wrote in June 2004 that "all the economic growth in the world cannot possibly compensate for the devastation China would face if [UNAIDS] projections were to come to pass."

Standard Chartered Bank Group Chief Executive Mervyn Davies, in a 2004 World Economic Forum report, cautioned that "AIDS imposes a day-to-day economic 'tax' that compromises business productivity." Firms pay in increased health and benefit costs, decreased productivity, higher turnover, and other ways.

Despite these warnings, the same report concluded "firms are not particularly active in combating HIV/AIDS" and "businesses appear to be making decisions based on a patchy assessment of the risks they face."

Unfortunately, "most companies do not yet report appropriate data for investors to make informed decisions about the impact of HIV/AIDS," says a 2003 survey of corporations by UNAIDS. We believe, to date, our company's reporting has also been inadequate.

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In contrast to our company's performance, several large-cap firms make reporting on infectious diseases best practice. The Bill & Melinda Gates Foundation has funded an HIV/AIDS Resource Document at the Global Reporting Initiative.

In 2004, Coca-Cola shareholders approved a resolution seeking such a report with 98% support. Coca-Cola's subsequent report notes "the moral and business imperatives are of equal importance" in responding to HIV/AIDS.

Our experience with Coca-Cola and other leading companies demonstrates that these reports need not be onerous. In our opinion, shareholders must fully understand the threats posed by these diseases in order to make informed assessments of our company's value.

We urge shareholders to vote FOR this resolution.

Statement in Opposition to Proposal

At Caterpillar, we have demonstrated that we greatly respect the proponents' interests in the impact of diseases and health issues in emerging markets. Over the last few years, we have met with the proponents to discuss their concerns and the information sought by this proposal. However, we believe that the proposed study and report would not benefit current or potential victims of the diseases, nor would it benefit Caterpillar and its stockholders.

The company's products bear no relationship to the health issues addressed by the proposal. Moreover, Caterpillar offers employees in emerging markets access to company-subsidized health benefits covering counseling, voluntary testing and treatment programs for HIV-AIDS. The company encourages employees to take advantage of the programs, which supplement government insurance.

While Caterpillar feels a strong responsibility to its employees, we believe the report requested by the proponents is excessive and is not in the best interests of our stockholders.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 5.

PROPOSAL 6 Stockholder Proposal re: Director Election and Caterpillar Response

Pursuant to Rule 14a-8(1)(1) of the Securities Exchange Act of 1934, the company will provide the name, address and number of company securities held by the proponent of this stockholder proposal promptly upon receipt of a written or oral request.

Resolution Proposed by Stockholder

RESOLVED: That the shareholders of Caterpillar, Inc. ("Company") hereby request that the Board of Directors initiate the appropriate process to amend the Company's governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

Supporting Statement of Proponent

Our Company is incorporated in Delaware. Among other issues, Delaware corporate law addresses the issue of the level of voting support necessary for a specific action, such as the election of corporate directors. Delaware law provides that a company's certificate of incorporation or bylaws may specify the number of votes that shall be necessary for the transaction of any business, including the election of directors. (DGCL, Title 8, Chapter 1, Subchapter VII, Section 216). Further, the law provides that if the level of voting support necessary for a specific action is not specified in the certificate of incorporation or bylaws of the corporation, directors "shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors."

Our Company presently uses the plurality vote standard for the election of directors. We feel that it is appropriate and timely for the Board to initiate a change in the Company's director election vote standard. Specifically, this shareholder proposal urges that the Board of Directors initiate a change to the director election vote standard to provide that in director elections a majority vote standard will be used in lieu of the Company's current plurality vote standard. Specifically, the new standard should provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or re-elected to the Board.

Under the Company's current plurality vote standard, a director nominee in a director election can be elected or re-elected with as little as a single affirmative vote, even while a substantial majority of the votes cast are "withheld" from that director nominee. So even if 99.99% of the shares "withhold" authority to vote for a candidate or all the candidates, a 0.01% "for" vote results in the candidate's election or re-election to the board. The proposed majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.

It is our contention that the proposed majority vote standard for corporate board elections is a fair standard that will strengthen the Company's governance and the Board. Our proposal is not intended to limit the judgment of the Board in crafting the requested governance change. For instance, the Board should address the status of incumbent directors who fail to receive a majority vote when standing for re-election under a majority vote standard or whether a plurality director election standard is appropriate in contested elections.

We urge your support of this important director election reform.

Statement in Opposition to Proposal

The public stockholders of each of our primary competitors, as well as the public stockholders of almost all of the largest corporations in America, elect their boards of directors by plurality vote. This methodology is known to and understood by stockholders, and used by corporations that have been identified as leaders in corporate governance reforms. The rules governing plurality voting are well understood and a plurality voting system does not prevent stockholders from challenging and defeating board nominees. Therefore, your board recommends that you vote against this proposal.

Your board believes that while conceptually the proposed approach is simple, implementation of the proposal would establish a potentially disruptive vote requirement that the board does not believe is "reasonable." For example, the proposal does not address what would happen if one or more candidates who are incumbent directors fail to receive a majority of the votes cast. Consistent with the provisions of the Delaware General Corporation Law, the company's bylaws provide that directors shall hold office from the date of their election until their successors have been elected and qualified. An incumbent director who

did not receive a majority of the votes cast would nonetheless remain in office until such person's successor was elected and qualified, absent resignation or removal from the board. In the case of resignation or removal, the board has the right pursuant to the company's bylaws to fill the vacancy, or the position might remain vacant. These alternatives would not necessarily reflect the views of stockholders who have chosen to exercise their right to vote for the directors of their choice at the annual meeting. Adoption of the proposed majority vote standard could result in a less democratic process than the election of directors by plurality vote.

In addition, the proposal may have the unintended consequence of unnecessarily increasing the cost of soliciting stockholder votes. The company may need to employ a proactive telephone solicitation, a second mailing or other vote-getting strategy to obtain the required vote. This proposal could also require that Caterpillar seek stockholder approval at a subsequent annual meeting to amend the company's bylaws to change the voting requirement. The end result may be increased spending by the company in routine elections. Your directors believe this would not be a good expenditure of stockholder funds.

Caterpillar has a history of electing, by a plurality, strong and independent boards. In the past ten years, the average affirmative vote for the directors has been greater than 97 percent of the shares voted through the plurality process. Caterpillar's board is committed to good governance practices. The board does not believe, however, that instituting a vote requirement that decreases democracy and increases uncertainty furthers the company's demonstrated commitment to implementing best corporate governance practices.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST" PROPOSAL 6.

Other Matters

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 were filed on a timely basis except:

One late Form 4 filing reporting a single transaction for W.A. Osborn;

One late Form 4 filing for each of the following: S. C. Banwart, J. B. Buda, S. A. Gosselin, D. M. Murphy, D. R. Olberhelman, M. R. Pfloderer, G. L. Shaheen and R. L. Thompson. These late filings occurred due to an outside vendor's failure to include these individuals on a monthly report of contributions to the company's Deferred Employee Investment Plan (DEIP) until well after the required two business days to report these transactions had passed. The company made appropriate Form 4 filings on behalf of these individuals immediately upon discovering this error and met with the erring vendor to explain the importance of providing accurate and timely reporting in the future. Each of these late Form 4 filings reported a single transaction; and

One late filing for each of the following: R. L. Bussell, R. P. Lavin, R. R. Macier, D. R. Oberhelman and S. H. Wunning. These late filings occurred due to an internal clerical failure to report that shares had been automatically sold on behalf of the named individuals to cover required tax withholdings when some of their restricted stock became unrestricted. The company made appropriate Form 4 filings on behalf of these individuals immediately upon discovering this error and has implemented additional internal procedures to assure that this error is not repeated. Each of these late Form 4 filings reported a single transaction.

Stockholder Proposals for the 2006 Annual Meeting

If you want to submit a proposal for possible inclusion in the company's 2006 Proxy Statement, our Corporate Secretary must receive it on or before November 3, 2005.

Matters Raised at the Meeting not Included in this Statement

We do not know of any matters to be acted upon at the meeting other than those discussed in this statement. If any other matter is presented, proxy holders will vote on the matter in their discretion.

Under Caterpillar bylaws, a stockholder may bring a matter to vote upon at the annual meeting by giving adequate notice to our Corporate Secretary. To be adequate, that notice must contain information specified in our bylaws and be received by us not less than 45 days nor more than 90 days prior to the annual meeting. If, however, less than 60 days notice of the meeting date is given to stockholders, notice of a matter to be brought before the annual meeting may be provided to us up to the 15th day following the date notice of the annual meeting was provided.

Shareholders wishing to submit a question in advance of the annual meeting to be considered for a response during the annual meeting may do so by sending an email to the Corporate Secretary at Directors@CAT.com or by mail c/o the Corporate Secretary at 100 NE Adams Street, Peoria, Illinois 61629.

Solicitation

Caterpillar is soliciting this proxy on behalf of its board of directors. This solicitation is being made by mail, but also may be made by telephone or in person. We have hired Innisfree M&A Incorporated for \$15,000, plus out-of-pocket expenses, to assist in the solicitation.

Stockholder List

A stockholder list will be available for your examination during normal business hours at 100 NE Adams Street, Peoria, Illinois, at least ten days prior to the annual meeting and will also be available for examination at the annual meeting.

Revocability of Proxy

You may revoke the enclosed proxy by filing a written notice of revocation with us or by submitting another executed proxy that is dated later.

Admission Ticket Request Procedure

Request Deadline

Ticket requests must include all information specified in the applicable table below and be submitted in writing and received by Caterpillar on or before March 30, 2005. No requests will be processed after that date.

Number of Tickets

Admission tickets will be limited to stockholders of record on February 14, 2005, and one guest, or a stockholder's authorized proxy representative.

To Submit Request

Submit requests by mail to James B. Buda, Corporate Secretary, 100 NE Adams Street, Peoria, IL 61629-7310 or by facsimile to (309) 675-6620. Ticket requests by telephone will not be accepted.

Verification

In all cases, record date share ownership must be verified at the meeting. Please bring valid photo identification to the meeting.

Authorized Proxy Representative

A stockholder may appoint a representative to attend the meeting and/or vote on his/her behalf. The admission ticket must be requested by the stockholder but will be issued in the name of the authorized representative. Individuals holding admission tickets that are not issued in their name will not be admitted to the meeting. Stockholder information specified below and a written proxy authorization must accompany the ticket request.

Registered Stockholders

For ownership verification provide:

name(s) of stockholder

address

phone number

social security number and/or stockholder account number; or

a copy of your proxy card showing stockholder name and address

Also Include:

name of guest if other than stockholder

name of authorized proxy representative, if one appointed

address where tickets should be mailed and phone number

Beneficial Holders

For ownership verification provide:

a copy of your February brokerage account statement showing Caterpillar stock ownership as of the record date (2/14/05);

a letter from your broker, bank or other nominee verifying your record date (2/14/05) ownership; or

a copy of your brokerage account voting instruction card showing stockholder name and address

Also Include:

name of guest if other than stockholder

name of authorized proxy representative, if one appointed

address where tickets should be mailed and phone number

Exhibit A

**CATERPILLAR INC.
CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
(adopted by the Board of Directors on October 13, 2004)**

I. PURPOSE AND GENERAL RESPONSIBILITIES

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities of the company's compliance with legal and regulatory requirements with respect to financial matters. It performs this function by:

serving as an independent and objective party to monitor the integrity of Caterpillar's financial statements, reporting process and internal control system;

reviewing and assessing audit efforts of Caterpillar's independent auditors and internal auditing department;

providing an avenue of open communication among Caterpillar's independent auditors, financial and senior management, internal auditing department, and Board of Directors;

directly appointing, retaining, compensating, evaluating and terminating the company's independent auditors;

reviewing the qualifications, independence and performance of the independent auditor;

reviewing the performance of the company's internal audit function; and

resolving disagreements, if any, between management and the independent auditor.

In carrying out these responsibilities, the Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts, and other advisors as it determines appropriate to assist it in the conduct of any investigation. The Audit Committee shall receive appropriate funding from the company, as determined in the Audit Committee's sole discretion, for payment of compensation for such outside legal, accounting or other advisors employed by the Audit Committee.

While the Audit Committee has the responsibilities set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that Caterpillar's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations.

II. COMPOSITION

The Audit Committee shall have a Chairman appointed by the Board of Directors. The Board may fill vacancies on the Committee and remove a member of the Committee at any time with or without cause. No member of the Audit Committee shall have a relationship to Caterpillar that may interfere with the exercise of their independent judgment, as such independence is defined by applicable

laws and regulations and the New York Stock Exchange. In addition, Committee members shall meet the definition of an "outside director" within the meaning of Section 162(m) of the IRS Code of 1986, as amended. All members of the Audit Committee shall be financially literate as determined by the Board in its business judgment consistent with financial literacy guidelines adopted by the Board. At least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment.

It is recommended that Audit Committee members not simultaneously serve on more than two other audit committees of public companies in addition to the company's audit committee. The Board shall determine whether a Committee member's simultaneous service on more than two other audit committees impairs the member's service to the company and disclose that determination in the company's proxy. All Audit Committee members shall advise the Chairman of the Board and the chairman of the Governance Committee before accepting membership on another audit committee.

III. MEETING ATTENDANCE AND MINUTES

The Audit Committee shall meet at least six times a year or more frequently if circumstances dictate. Directors not on the Committee may attend meetings at their discretion. At least quarterly, the Audit Committee shall meet separately with the independent auditor and the Vice President for Corporate Auditing and Compliance in executive session. One-third of the Committee, but not less than two members, shall constitute a quorum for the transaction of business. Unless the Committee by resolution determines otherwise, any action required or permitted to be taken by the Committee may be taken without a meeting if all members of the Committee consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Committee. Members of the Committee may participate in a meeting through the use of conference telephone or similar communications equipment, as long as all members participating in such meeting can hear one another, and such participation shall constitute presence at such meetings.

At each meeting of the Audit Committee, the following individuals, or their designated representative, shall be present: the Group President in charge of financial matters, Chief Financial Officer, Controller, General Counsel and Corporate Secretary, Vice President for Corporate Auditing and Compliance, and the engagement partner for the independent auditor. At the invitation of the Audit Committee Chairman, other members of management or outside consultants shall attend Audit Committee meetings. The Audit Committee shall provide the Board with regular reports of issues arising with respect to the quality and integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the performance and independence of the company's auditors and the performance of internal audit.

The Chairman of the Committee shall review and approve the Committee minutes and they shall be filed with the Secretary of the company for retention with the records of the company. Copies of such minutes shall be presented to each Board member.

IV. RESPONSIBILITIES AND DUTIES

Audit Committee Charter

The Audit Committee shall review this charter annually (or more frequently as circumstances require) for adequacy and recommend to the Board any necessary changes. Should necessary charter changes come to the Audit Committee's attention prior to a scheduled review, such changes may be recommended to the Board prior to the review.

Independent Auditor

It is understood that the independent auditor is ultimately accountable to the Audit Committee. In that regard, the Audit Committee has the ultimate authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditor.

At least annually (or more frequently as circumstances require), the Audit Committee shall review a formal written statement from the independent auditor delineating all relationships between the independent auditor and Caterpillar and discuss with the independent auditor all significant relationships the independent auditor has with Caterpillar to determine its independence and objectivity. Any necessary action resulting from that review shall be recommended to the Board by the Audit Committee.

At least annually (or more frequently as circumstances require), the Audit Committee shall review a report of the independent auditor describing the firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

In connection with its continual assessment of the independence of the independent auditor, the Audit Committee shall pre-approve the retention of the independent auditor for any significant nonaudit service and any fee for such service.

The Audit Committee views updates on emerging accounting and auditing issues as critical to its function. In this regard, the independent auditor and management shall provide updates on emerging accounting and auditing issues, as well as an assessment of their potential impact on Caterpillar, on a timely basis throughout the year. Additionally, the independent auditor and management shall at least annually (or more frequently as circumstances require) provide an analysis of the company's critical accounting policies.

The Audit Committee shall also develop and implement hiring policies for employees or former employees of the independent auditors.

Internal Controls

At least annually (or more frequently as circumstances require), the Audit Committee shall review with the independent auditor and management personnel the adequacy and effectiveness of Caterpillar's accounting, financial and other internal controls (including a review of any reports or communications required by or referred to in Statement of Auditing Standards No. 61, as amended by Statement of Auditing Standards 90), and elicit any recommendations for improvement of existing controls or the addition of new or more detailed controls.

Report of Accounting, Internal Controls or Audit Complaints

The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints from company employees on accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submissions by employees regarding questionable accounting or auditing matters.

Financial Reporting Process

Annual Process

In February of each year, the Audit Committee shall review with the independent auditor and management Caterpillar's annual audited financial statements and related financial disclosures including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." As a result of that review, the Audit Committee shall recommend to the Board whether the audited financials and related disclosures should be included in Caterpillar's Annual Report on Form 10-K and the Annual Report to Shareholders as reflected in the Appendix to Caterpillar's annual Proxy Statement. In connection with that review:

the independent auditor shall report on its completion of the annual audit, any significant issues arising, any audit problems or difficulties encountered, management's response to any problems or difficulties, and whether it intends to issue an unqualified opinion on the financials;

the independent auditor shall express its judgment regarding the quality and appropriateness of Caterpillar's accounting principles as they apply to its financial reporting;

management shall review the annual consolidated financial statements with the Audit Committee, discussing significant changes from the previous year and the impact of any new accounting pronouncements;

the Audit Committee shall consider any significant changes to Caterpillar's auditing and accounting practices as suggested by the independent auditor or management;

the Audit Committee shall review separately with management, the internal audit staff and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and

the Audit Committee shall review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented.

Throughout the year, both the independent auditor and Vice President for Corporate Auditing and Compliance shall describe their audit plans (in terms of scope and procedures to be used) for the year and the progress of those plans to date.

Quarterly Process Earnings Releases

Prior to the issuance of each quarterly earnings release, the Committee shall review the release, including the financial information and earnings guidance provided to analysts and rating agencies, if any.

Quarterly Process Forms 10-Q

Prior to each Form 10-Q filing by Caterpillar, the Audit Committee shall review with the independent auditor any significant issues arising in the independent auditor's SAS 71 review of the quarterly financial statements and related disclosures.

Annual Audit Committee Report

Annually, the Audit Committee shall review and approve for inclusion in Caterpillar's annual Proxy Statement a "Report of the Audit Committee," containing information required under Securities & Exchange Commission rules.

Report of Significant Litigation and Regulatory Matters

At least at each October Audit Committee meeting (or more frequently as circumstances require), the Corporate Secretary and General Counsel shall discuss with the Audit Committee any significant litigation or regulatory matters outstanding involving Caterpillar. If significant litigation or regulatory matters arise during the year outside of a regularly scheduled report, those matters shall be brought to the attention of the Audit Committee at its next regularly scheduled meeting.

Additional Areas of Review

The Audit Committee may participate in other areas of review as designated by the Board, including, but not limited to, the following:

Risk and Risk Management At least annually (or more frequently as circumstances require), the Audit Committee shall review the company's policies with respect to risk assessment and risk management, including the company's major financial risk exposures and steps taken to monitor and control such exposures.

Senior Officer Expenses At least annually (or more frequently as circumstances require), the Audit Committee shall review the expenses of the senior officers of Caterpillar through the level of Group President.

Transactions with Management The Audit Committee shall review past or proposed transactions between Caterpillar, members of management, directors, and associates of directors.

Information Technology The Audit Committee shall receive an annual report on the adequacy of Caterpillar's computerized information system controls and related security.

Income Tax Matters At least annually (or more frequently as circumstances require), the Audit Committee shall receive a report from Caterpillar's Director of Tax regarding certain income tax matters, including the status of income tax reserves and governmental tax audits.

Derivative Securities At least annually (or more frequently as circumstances require), the Audit Committee shall receive a report from the Chief Financial Officer on Caterpillar's use of derivative securities and compliance with the Derivative Policy of the Board.

Caterpillar Financial Products Division Matters At least annually (or more frequently as circumstances require), the Vice President in charge of Caterpillar Financial Products Division shall update the Audit Committee on that subsidiary's operations, including a discussion of financing and lending activities.

Committee Evaluation

The Audit Committee shall engage in a self-evaluation annually and report the results of that evaluation to the Chairman of the Governance Committee.

APPENDIX

CATERPILLAR INC.

GENERAL AND FINANCIAL INFORMATION

2004

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**MANAGEMENT'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Caterpillar Inc.

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

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.

Peoria, Illinois
February 24, 2005

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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)

	<u>2004</u>			<u>2003</u>			<u>2002</u>
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	<u>1,231</u>			<u>1,059</u>			<u>1,034</u>
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	<u>(3,277)</u>			<u>(2,914)</u>			<u>(2,669)</u>
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	<u>9,937</u>			<u>\$ 8,450</u>			<u>7,849</u>
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	<u>489</u>			<u>348</u>			<u>86</u>
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)	<u>(993)</u>			<u>(934)</u>			<u>(771)</u>
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	<u>(48)</u>			<u>(48)</u>			<u>(37)</u>
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
Balance at year-end (net of tax of: 2004 \$58; 2003 \$54; 2002 \$4)	<u>110</u>			<u>104</u>			<u>11</u>
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)
	(1)	(1)		21	21		22 22

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	2004	2003	2002
(Gains)/losses reclassified to earnings during year (net of tax of: 2004 \$1; 2003 \$11; 2002 \$12)			
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		