United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
John McCain, Ranking Minority Member

E X H I B I T S

Part 1 of 2 (Exhibits 1-22)

Hearing On

Caterpillar's Offshore Tax Strategy

April 1, 2014

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
John McCain, Ranking Minority Member

EXHIBIT LIST
Hearing On

Caterpillar's Offshore Tax Strategy

April 1, 2014

1. a. *Caterpillar Ownership of CSARL,* chart prepared by the Permanent Subcommittee on Investigations.
   b. *CSARL Legal Structure*, chart prepared by PricewaterhouseCoopers.
   c. *Profit Split: CSARL's Parts Profit versus Caterpillar's Royalty Fee* from CSARL, chart prepared by the Permanent Subcommittee on Investigations.
   d. *Caterpillar Offshore Replacement Parts Sales*, chart prepared by the Permanent Subcommittee on Investigations.
   e. *The Caterpillar 797*, chart prepared by the Permanent Subcommittee on Investigations.
   f. *Caterpillar Replacement Parts*, chart prepared by the Permanent Subcommittee on Investigations.
   g. *Caterpillar Organizations, Performing Key Functions Related to Parts,* chart prepared by the Permanent Subcommittee on Investigations.
   h. *Corporate Income Tax as a Percent of Total Revenue,* chart prepared by the Permanent Subcommittee on Investigations.

Documents Related to Caterpillar Transfer Pricing:

2. PricewaterhouseCoopers tax consulting and audit fees. [PSI-PWC-22-000001-003]

3. *History of Significant Changes in International Operations (Not Inclusive of Financing Arrangements) 1997-2002.* [PSI-TWLF-02-000422-436]

4. a. Excerpts from *Caterpillar Inc. Evaluation of Arm's Length Pricing for Intercompany Transactions, Year Ended December 31, 1994, Prepared by Price Waterhouse LLP, Final Report, April 28, 1996. (P&SS sells the requisite replacement parts to the marketing company, which then sells to dealers, who in turn sell to the customer. *** Cat Inc. has the largest role with regard to market and dealer development.... *** The dealer network and parts distribution are the two keys to after-sales service. ... Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. *** All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies.).* [PwC_PSI_CAT_00008634, 672-674, 684-687, 698-699]

b. Excerpts from *Caterpillar Inc. Evaluation of Arm's Length Pricing for Intercompany Transactions, Year Ended December 31, 1995, Prepared by Price Waterhouse LLP, Final Report, December 19, 1996 (Cat Inc. has the largest role with regard to market and dealer development.... *** The dealer network and parts distribution are the two keys to after-sales service. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. *** All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies. *** Prime Product Profit Centers – Motivate to create machine populations with high degree of proprietary components which have high parts margins; P&SS – Motivate to: Drive overall parts profit).* [PwC_PSI_CAT_00008881, 929-932, 958-959, 963]

c. Excerpts from *Caterpillar Inc. Evaluation of Arm's Length Pricing for Intercompany Transactions, Year Ended December 31, 1996, Final Draft Report, Prepared by Price Waterhouse LLP, January 26, 2998 (Cat Inc. has the largest role with regard to market and dealer development.... *** The dealer network and parts distribution are two keys to after-sales service. The marketing companies have responsibility for the dealer network, while P&SS performs the primary management activity for the parts distribution network. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role.).* [PwC_PSI_CAT_00009105, 155-156]

d. Excerpts from *Caterpillar Inc. 1997 Document Report, Final Report, September 15, 1998, Prepared by PricewaterhouseCoopers LLP (Cat Inc. has the largest role with regard to market and dealer development.... *** The dealer network and parts distribution are the two keys to after-sales service. ... Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. *** All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies.).* [PwC_PSI_CAT_00009339, 392-394]

5. Excerpts from *Caterpillar Fiscal Year 2000 U.S. Transfer Pricing Documentation Report, September 17, 2001. (Cat Inc. is the parent company and is the most complex entity. Cat Inc. operates as an entrepreneur, a marketer and an intangible owner. Cat Inc. is the parent company of the global enterprise. Since Cat Inc. is the most complex Cat entity it was not selected as a tested party in this report. *** Although Cat SARL is a complex entity, it is a simpler entity that Cat Inc. ...we will test Cat SARL's results against the results of a set of independent European manufacturers.).* [PwC_PSI_CAT_00004975, 5008-009, 027-033]

6. Excerpts from *Caterpillar Inc. Global Tax Optimization Case for Action,* September 1998 (*Negative Tax Rate Drivers: U.S. 'centric' profile ... U.S. ownership of intangibles ... Conformity of tax and management books. *** Migrate income from the U.S. to lower-tax jurisdictions; Obtain/maintain U.S. tax deferral *** Description of Idea: Remove Caterpillar Inc. from the chain of title passage for purchased finished parts (from U.S. or foreign sources) sold to foreign markets. The foreign marketers would then buy from and sell to unrelated parties. Benefits/Costs: Eliminates Subpart F character of foreign marketers profits on purchased finished parts sales. Relatively simple re-invoicing requirements.*) [PwC_PSI_CAT_00004632, 636, 640, 646, 674, 675]

7. Excerpts from *Caterpillar GTOP Summary of Ideas - PricewaterhouseCoopers,* 1998 (*Cat Inc. Out of Chain, Recharacterize Marketing Company Income to Achieve U.S. Tax Deferral – Description of Idea: Remove Caterpillar Inc. from the chain of title passage for purchased finished parts (from U.S. or foreign sources) sold to foreign marketers. The foreign marketers would then buy from and sell to unrelated parties. Benefits/Costs: Eliminates subpart F character of foreign marketers profits on purchased finished parts sales. Relatively simple re-invoicing requirements.).* [PwC_PSI_CAT_00004566, 618-619]

8. *COSA as Entrepreneur: European Sold Parts, High-Level Target Design*, charts excerpted from *Caterpillar Inc. Operational Feasibility Analysis, High Level Target Designs: Migration/Deferral (This will cause the accumulation of parts profit in COSA that was previously accumulated in CAT Inc. ... In addition, the parts profit retained in COSA will be enhanced to better reflect the contributions of the functions, risks and dealer network intangibles controlled by COSA. *** Invoicing from suppliers will be changed from CAT HE and Morton HE to COSA "HE." Supply contracts will be changed to COSA.).* [PwC_PSI_CAT_00004548, 550-552]

9. *Caterpillar Inc. Global Tax Optimization Risk Adjusted Benefit Analysis, Working Papers - Draft 1,* December 1998 *(Purpose: Increase shareholder value through tax optimization *** Solution Benefits and Costs: Migrate profits from Cat Inc to low-tax marketing companies . . . Risk: change from current Intercompany pricing method and documentation. *** We are effectively more than doubling the profit of parts.).* [PwC_PSI_CAT_00001336, 338, 341-342, 344-346, 348, 362, 386, 408-409, 411-415]

10. *Economic Analysis of Royalty Rates and Transfer Prices,* charts excerpted from *Caterpillar Inc. Global Value Enhancement Project, Economic Analysis of SARL, Intercompany Transactions with Cat Inc. in the COSA Territory*, Draft October 5, 1999. [PwC_PSI_CAT_00004483, 508-509]

11. *Parts: COSA - Cost Benefit Analysis*, chart excerpted from *Caterpillar Inc. - Global Value Enhancement - Develop Phase Status Report, May 28, 1999.* [PwC_PSI_CAT_00004349, 365]

<u>Documents Related to Marketing Intangibles</u>:

12. Caterpillar email, dated July 2007, re: *value of marketing intangibles (The point is that CSARL (or its predecessor COSA, or CFEL, or CACO) has spent decades building up the dealer network around the world. And has spent decades building the brand name through advertising. Caveat is that in 2001, we said in another transaction that there is no significant marketing intangibles other than workforce in place).* [PwC_PSI_CAT_00122483-484]

13. Excerpts from *Caterpillar Inc. Economic Analysis of Intangible Assets Transferred by Caterpillar Americas CO. to Caterpillar Americas SARL (Based on our analysis of the Intangible Assets Transferred we conclude that they are routine and common to most distribution and marketing companies. These assets have only limited economic life, and could be effectively reproduced by a new start-up company with sufficient investment of time and resources.).* [PwC_PSI_CAT_00142353-367]

14. Excerpt from *Caterpillar Inc. Summary Meeting Notes, Geneva, March 7-9, 2005. Delivering* regarding *CSARL Profitability and Royalty (Should we expand profit split analysis – additional income to CSARL for parts responsibility, dealer/marketing intangible (but consider agreement in LAD restructuring stating that dealer IP is not very valuable)?).* [PwC_PSI_CAT_00150469]

<u>Documents Related to Swiss Tax Rate</u>:

15. Charts from *Presentation to Caterpillar Inc. Audit Committee, June 2004:*
    - *Purchased Finished Parts Distribution - Prior to Establishing CSARL;*
    - *Purchased Finished Parts Distribution - Post CSARL;*
    - *Tax Exposures Reserved at end of 2003;*
    - *ETR - Causes of "Low-Taxed" Non-U.S. Earnings (Switzerland provides favorable tax rulings that many U.S. companies utilize.);*
    - *Background - Pre-2001 (Before Caterpillar S.A.R.L.); and*
    - *Background - 2002-2004 (Effect of Caterpillar S.A.R.L.). (The CAT S.A.R.L. initiative deferred the U.S. taxation of Purchased Finished Replacement Parts sales outside the U.S., <u>but only if the earnings are not repatriated.</u>).*

    [CAT-001899, 905, 906, 912, 920, 934, 935]

16. Excerpts from *Delivering Vision 2020, Value Transformation: An After-tax View (The single largest factor driving Caterpillar's effective tax rate below the U.S. statutory rate is the ability to maintain deferral of earnings outside the U.S. Most of these deferred earnings are located within the Caterpillar S.A.R.L. ("CSARL") organization. The two primary operational drivers of the CSARL deferral are (1) purchases of replacement parts from supplies directly by CSARL for marketing regions outside the US and (2) product management benefits for assemblies at the Grenoble and Gosselies facilities (i.e., toll manufacturing).* [PwC_PSI_CAT_00058419, 429, 449-452]

17. Excerpt from *Caterpillar Global Finance and Strategic Support, Global Tax & Trade Update, Audit Committee, April 13, 2010 (Effective Tax Rate has dropped to lowest in the Dow 30 *** 2009 Effective Tax Rate - Drivers: Losses in high-tax rate countries, Profits in low).* [PwC_PSI_CAT_00205974-979, 984-985]

Documents Related to Parts Business:

18. *Caterpillar Board of Directors Minutes Excerpts. (*2/8/12: *Mr. Gosselin began by explaining that the "seed, grow, harvest" business model ingrained in the organization was a catalyst to aftermarket parts sales and services, creating an annuity continuing long after original equipment sales and generating customer loyalty, PINS and profits. **** 4/7/08: *Mr. Larson then noted that the key points regarding the Logistics Division are that it is driving transformational change in the Transportation, Manufacturing Logistics and the Cat parts business that will deliver significant value....).* [CAT-001855-858, 860, 863-864]

19. Caterpillar email, dated August 2007, re: *Caterpillar parts history (This showed that more than 50% of parts sales were for parts originally placed in service more than 10 years prior. And to capture 80% of parts sales, you had to go back 20 years. (ie, in a given year, Cat still sold 20% of replacement parts that were first placed in service more than 20 years prior....).* [PwC_PSI_CAT_00024439-440]

20. *Cat Parts Desired State,* excerpt from *Caterpillar February 2012 Board of Directors Meeting,* [CAT-001885- 889, 891-898]

21. *Caterpillar dealer push may drive some out, Levenick says*, Reuters, March 6, 2014.

Documents Related to Tax Risk Guardrails:

22. Caterpillar Audit Committee Presentation, December 13, 2005, *Global Tax Management (Audit Committee – Risk Guard Rails).* [PSI-TWLF-16-000167-180]

23. Caterpillar email, dated February 2006, re: *Tax Risk Guardrails - audex (Dave, I have a solid draft of the guard rails done. I have not polished it into a presentation because it was not included on the agenda. I feel comfortable that if Gene demanded to see something today and you came and got me, I could present the draft and get the Aud Comm comfortable that we are meeting our commitments.).* [PSI-TWLF-04-000078]

24. Caterpillar email, dated February 2006, re: *A/C meeting (We had a two day offsite last week to finalize the guardrails. We have two more days next week to plot the tax position on the guardrails. This will be done in April if the agenda changes.)* [PSI-TWLF-04-000089]

25. a. Tax Risk Guardrails, 03/21/06. [PSI-TWLF-04-000382]
    b. Tax Risk Guardrails, 10/15/07. [PSI-TWLF-04-000383]
    c. Tax Risk Guardrails, 03/18/08. [PSI-TWLF-04-000384]
    d. Tax Risk Guardrails Criteria (draft), 02/08/06. [PSI-TWLF-04-000381]

26. *Caterpillar Income Tax Update, June 13, 2006 (Audit Committee - Risk Guard Rails ... Escalation Triggers - Risk positions clearly outside the guardrails trigger communication to the Audit Committee for guidance and possible remediation).* [CAT-001949-952, 954, 956-965]

27. Caterpillar email, dated July 2006, re: *fyi only - Update to Legal 6S team on regulatory compliance (Provided overview of Tax Risk Guard Rails yesterday to a 6S team from legal working specifically on a deep dive into regulatory compliance risks.... They encouraged us to continue with the process and explain our current tax risk profile to the audit committee to get their approval. *** Good work, Dan. ... Can discuss further, but current chart puts one area at high. Assuming guidance is to stay below high in all areas, how could we utilize?)* [PSI-TWLF-04-000368]

28. Caterpillar email, dated August 2006, re: *Tax Risk Guard Rails (FYI, Tax Council will be meeting in near future to update TRGRs. The pressure/question I am getting is focused on reducing the risk shown on the guard rails. ... I need to understand where you want to go with the TRGRs. Are we going to stop where we are at which is just informing the board about the process we went through to create the guard rails, or are we going to show the board the results and have a meaningful discussion explain our risk profile and to determine the board's comfort with it?).* [PSI-TWLF-04-000127]

29. *Caterpillar Global Finance and Strategic Support, Global Tax Update, April 8, 2008 (High risk areas are actively managed.; Higher Risk Areas; CSARL - Product Management - Operational; CSARL - Parts Distribution - Management & Reputation).* [CAT-002087, 090-098, 102]

<u>Documents Related to Economic Substance</u>:

30. *P&SS Availability & Inventory Management (85% of worldwide parts inventory is managed from Morton-moving toward 100% *** Morton knows if Grimbergen sold a part, received part, scrapped a part-information goes into Morton global parts forecast calc)* [PwC_PSI_CAT_00179037-038]

31. *Purchasing Transportation and Technical Support (P&SS has developed (over 12 years) network of suppliers for non current that is independent of current production suppliers).* [PwC_PSI_CAT_00179035-036]

32. Excerpt from *The Deposition of Sally A. Stiles*, February 24, (*Q: It is fair to say that the driving force behind Glove and CSARL was the tax department and not any business unit? A: Yes.)* [PSI-TWLF-11-000008, 114-115]

33. Excerpt from *The Deposition of Robin Beran*, March 15, 2011, *(Q: Well, other than paper issues that were caused by the entities that became involved, were there any other changes to the physical flow of purchased finished replacement parts? A: Physical flow, probably not substantially.)* [PSI-TWLF-12-000008, 177-178]

34. Excerpt from *The Deposition of Rodney Perkins*, March 10, 2011, *(Q: Was there any business advantage to Caterpillar, Inc., to have this arrangement put in place other than the avoidance or deferral of income taxation at higher rates? A: No, there was not.)* [PSI-TWLF-10-000004, 113-115]

35. Excerpt from The Deposition of *Janie Copeland*, May 5, 2011, *(Do you know if the accounting for purposes of the consolidated books and records of Caterpillar, Inc., is done that same way with respect to Swiss operations now as it was before CSARL? *** Q: So would operating profit still be the same? A: Yes. Q: But earnings after taxes would be differently? A: Right.)* [PSI-TWLF-15-000007, 017, 018]

36. Caterpillar email, dated June 2005, re: *Authorization to proceed with planning and ABP cost adjustment (Due to the successful planning from prior years, significant low taxed earnings (over $1.5 billion) have accumulated in CSarl. This cash is now increasing at about $70 million per month at tax rates of about 10%. This is resulting in offshore cash balances that can no longer be managed through intercompany loans and purchases without triggering significant additional tax costs, and an increase in CAT's effective tax rate.)* [PSI-TWLF-12-000315-316]

37. *Caterpillar Sarl - Pop Quiz*, chart excerpted from *Caterpillar Sàrl Overview, July 30, 2008.* [PwC_PSI_CAT_00065585, 589]

38. Caterpillar Memorandum, dated May 2004, re: *Tax Concerns Raised by an Unnamed Source (Caterpillar's transfer pricing policy is the result of detailed analysis of the functional activities of the various entities in strict accordance with required Treasury Regulations. *** The basic operations of Caterpillar SARL are no different than any other valid and legal partnership operating anywhere in the world. *** I do not believe Caterpillar's transfer pricing practices (past and present) meet the IRS' test. The Officers and Board of Directors need to examine the transfer pricing issue before Caterpillar ends up in court and in the press.)* [PSI-TWLF-02-001393-396]

39. Caterpillar email, dated January 2007, re: *7th Cir. Cases (To my knowledge there is no one in CSARL managing the parts business or managing the sub-contracting of all the activity to Inc.)* [PSI-TWLF-02-000349-352]

40. Caterpillar email, dated April 2008, re: *Pls review again before we sent in AM (With all due respect, the business substance issue related to CSARL Parts Distribution is the pink elephant issue worth a Billion dollars on the balance sheet.)* [PSI-TWLF-07-000022]

<u>Documents Related to Substance Added</u>:

41. Caterpillar slides entitled *Product Management Alignment - Recommendation; Product Management Alignment - CSARL Benefits - Based on 2008 Results; Product Management Alignment - Enhance & Optimize (While technically appropriate, creates optics concerns - Taxation in CSARL with minimal business substance); Product Management Alignment - CSARL Benefits - Based on 2009 ATS).* [PwC_PSI_CAT_000063338-341]

42. Caterpillar email, dated November 2008, re: *Exec. Office Slides - Business Alignment* attaching slides entitled *Caterpillar Inc. Machine Business Alignment: Update Briefing, November 11, 2008, Purpose: Leverage business realignment to preserve and enhance CSARL benefits. (Risks & Challenges: Failure to take action weakens current CSARL structure).* [PwC_PSI_CAT_00033241-242]

43. *Caterpillar Inc CSARL 2009 activities, Report to Audit team, January 2010. (During 2009: ... "Worldwide Parts Manager": establish group in CSARL Geneva with worldwide parts responsibilities – Benefit: $300m ("Preserve")).* [PwC_PSI_CAT_00003830, 432-433, 448-449, 456, 472]

44. Caterpillar email, dated May 2010, re: *WW Parts Manager.* [PwC_PSI_CAT_00213059-064]

45. *Worldwide Parts Management Group Key Responsibilities,* excerpt from *Caterpillar Inc. Worldwide Parts Management, Final Closing Book, Draft Version as of March 15, 2010.* [PwC_PSI_CAT_00003876, 906-907]

46. Caterpillar email, dated November 2008, re: *is tomorrow really the only shot with DBB? (PMs in US will put some pressure on the parts profit model. These guys are really bought into the PM is king concept. We are going to have to create a story that will put some distance between them and parts (eg. all the parts that are noncurrent) to retain the benefit. Get ready to do some dancing. *** What the heck. We'll all be retired when this comes up on audit. Bodnam and chris Dunn will have to solve it. Baby boomers have their fun, and leave it to the kids to pay for it.)* [PwC_PSI_CAT_00033157-159]

<u>Other Miscellaneous Documents</u>:

47. *Summary of Caterpillar Operations and Restructuring of Caterpillar Sarl.* [PSI-Caterpillar-04-000002-009]

48. *CSARL Legal Structuring, CSARL 2009 activities, PricewaterhouseCoopers.* [PwC_PSI_CAT_00003411]

49. *Introduction of Caterpillar North America S.A.R.L. (CNAmSARL was created and implemented with the understanding that there be no impact on Caterpillar's accountable profit center reporting systems. While significant changes were made to our legal entity reporting systems, the objective of zero accountable impact was met.* [PSI-TWLF-10-000172-174]

50. a. November 26, 2013 responses from received from Caterpillar Inc. to question posed by the Permanent Subcommittee on Investigations. [CAT-000267-269]

    b. Excerpts from December 3, 2013 responses from received from Caterpillar Inc. to question posed by the Permanent Subcommittee on Investigations. [CAT-000276-277, 279-298]

    c. Excerpts from January 14, 2014 responses from received from Caterpillar Inc. to question posed by the Permanent Subcommittee on Investigations. [CAT-000300-302]

    d. Excerpt from March 7, 2014 responses from received from Caterpillar Inc. to question posed by the Permanent Subcommittee on Investigations. [CAT-001866]

    e. March 13, 2014 response from received from Caterpillar Inc. to question posed by the Permanent Subcommittee on Investigations. [CAT-00002265]

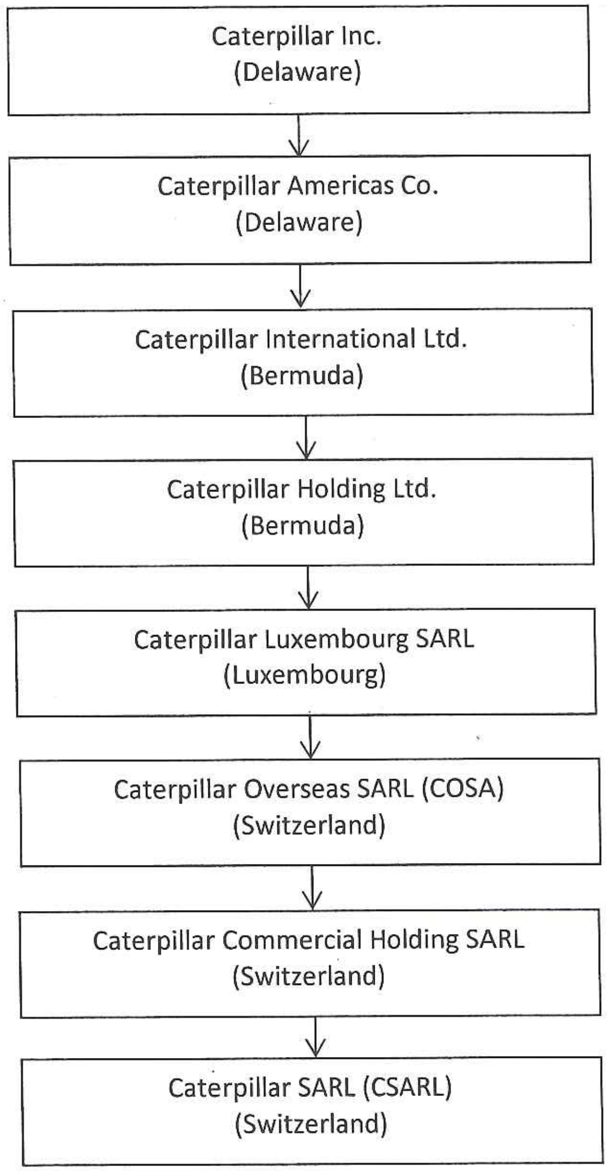
51. *License Agreement*, as of January 1, 2011, between Caterpillar, Inc. and CSARL. [CAT-000306-318]

52. *Fifth Amended and Restated Services Agreement*, as of September , 1999, between Caterpillar Inc. and CAT SARL. [CAT-000653-663]

53. PricewaterhouseCoopers document discussing intangible assets transferred by Caterpillar Inc. to CSARL, undated but likely 1999 *(Scanning the list, it appears that the following items are relevant to the replacement parts license; Patents, designs, trademarks, contracts, systems, procedures, know-how, methods, forecasts, estimates, and technical data.).* [PwC PSI-CAT_ 00199858-862]

✧ ✧ ✧

Caterpillar Ownership of CSARL



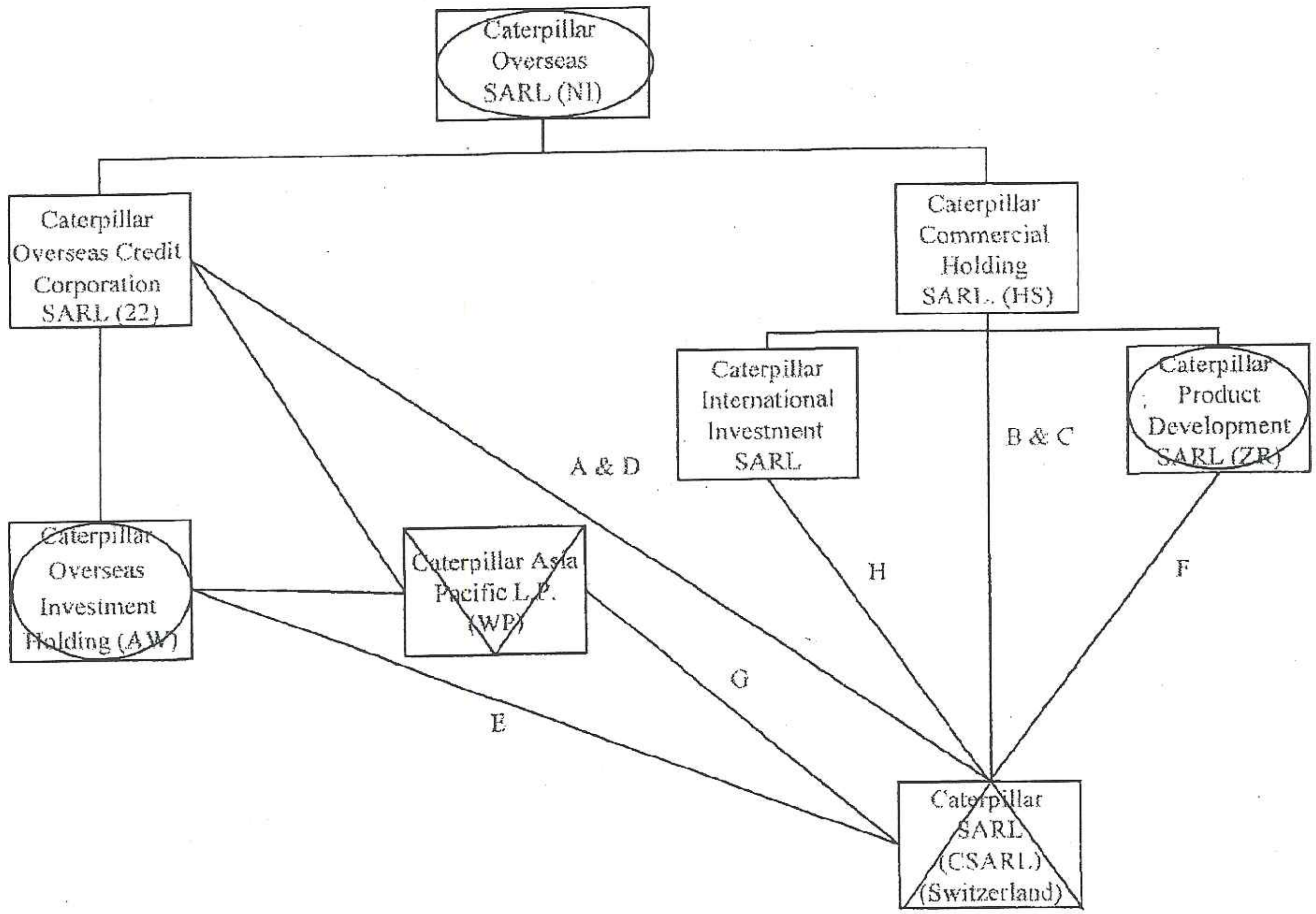
Source: 8/14/2013 letter from McDermott Will & Emery LLP, CAT_000011-038
Prepared by Permanent Subcommittee on Investigations, April 2014

Permanent Subcommittee on Investigations
EXHIBIT #1a

CSARL Legal Structuring

Permanent Subcommittee on Investigations

EXHIBIT #1b



CSARL 2009 activities
PricewaterhouseCoopers

January 2010
Slide 37

Source: PricewaterhouseCoopers submission to Subcommittee, PwC_PSI_CAT_00003411
Prepared by the U.S. Permanent Subcommittee on Investigations, April 2014.

Permanent Subcommittee on Investigations

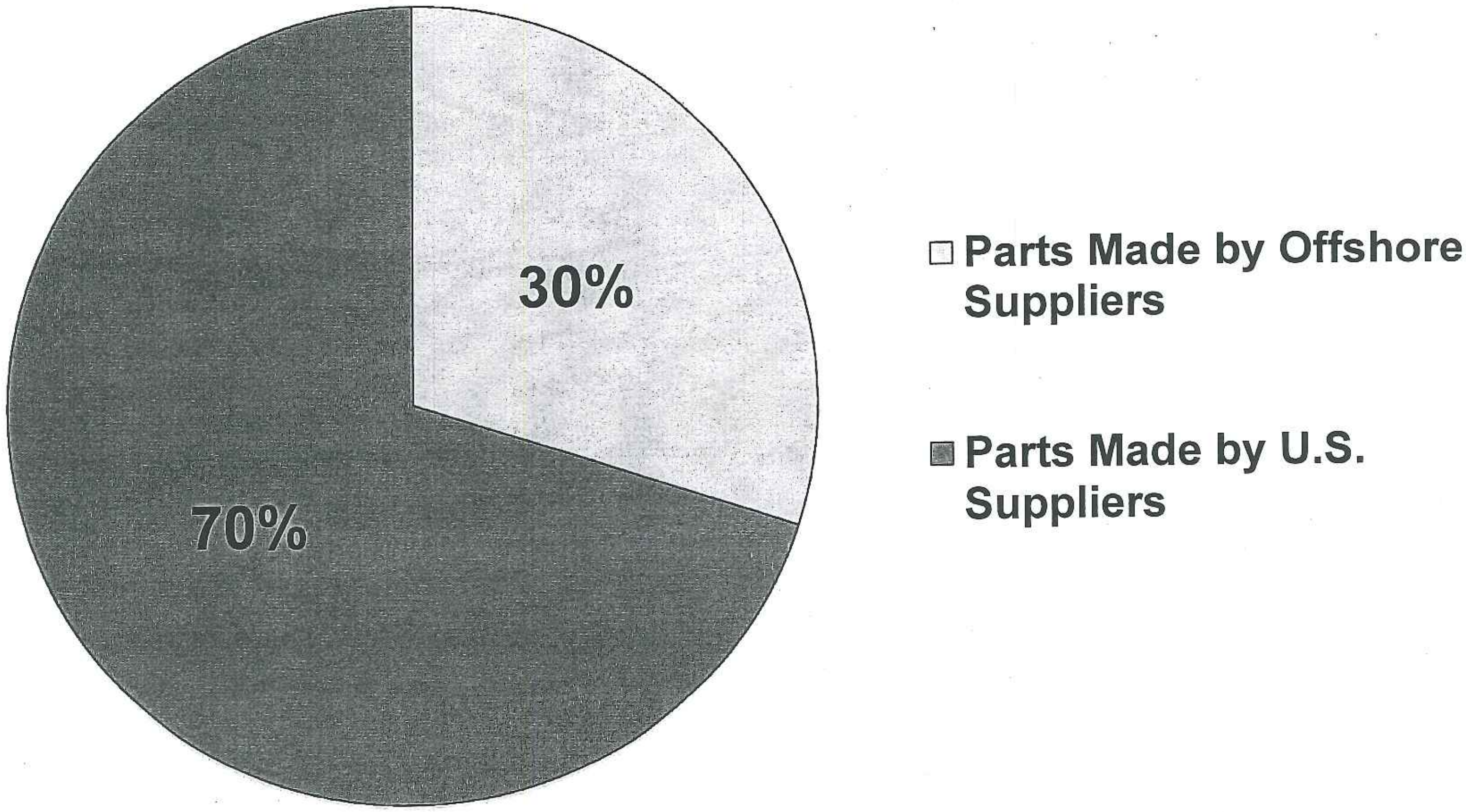
EXHIBIT #1c

Profit Split:
CSARL's Parts Profit versus Caterpillar's Royalty Fee from CSARL

	CSARL Finished Parts Profit Before Tax	Parts Royalty Fee Paid to Caterpillar Inc.	Royalty Fee as a % of Profit
Redacted by the Permanent Subcommittee on Investigations			
Total	$ 8,075,907,000	$ 1,098,149,000	13.6%

Prepared by Permanent Subcommittee on Investigations, April 2014.
Source: Caterpillar Response to Subcommittee Questionnaire, CAT-000277, 301.

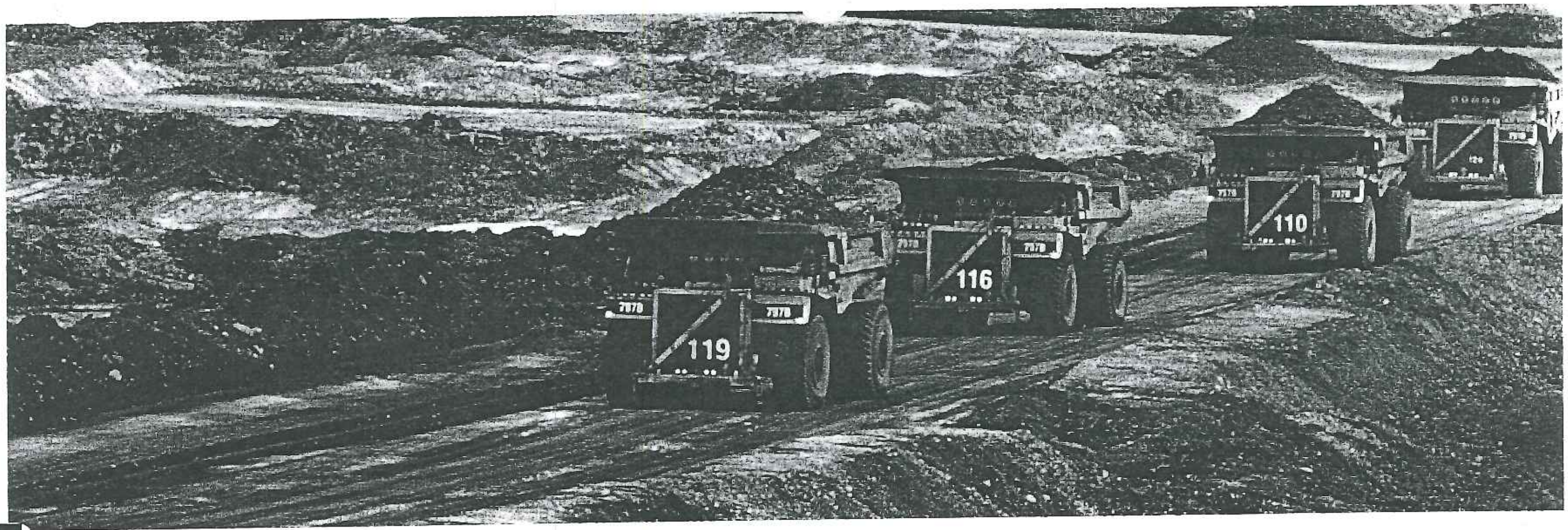
CSARL Offshore Replacement Parts Sales



Source: 3/7/2014 Caterpillar response to Subcommittee Questionnaire, CAT-001866-2264, at 866-7.
Prepared by the U.S. Permanent Subcommittee on Investigations, April 2014.

Permanent Subcommittee on Investigations

EXHIBIT #1d



The Caterpillar 797

<u>Made in America</u>

Engine	Indiana
Axles	North Carolina
Tires	South Carolina
Driver's Cab	Illinois

<u>For Global Replacement Parts Made in America</u>
<u>85% of Parts Profit go to Switzerland</u>

Source: National Geographic "Ultimate Factories"
Prepared by the U.S. Permanent Subcommittee on Investigations, April 2014.

<u>Permanent Subcommittee on Investigations</u>
EXHIBIT #1e

Permanent Subcommittee on Investigations

EXHIBIT #1f

Caterpillar Replacement Parts

United States

- Caterpillar Inc.
- 4,900 parts employees
- 54 manufacturing facilities
- 70% of global finished parts manufacturing
- 10 warehouses
- Stores and ships 1.5 billion parts
- Stores no parts in foreign countries

Switzerland

(4% effective tax rate)

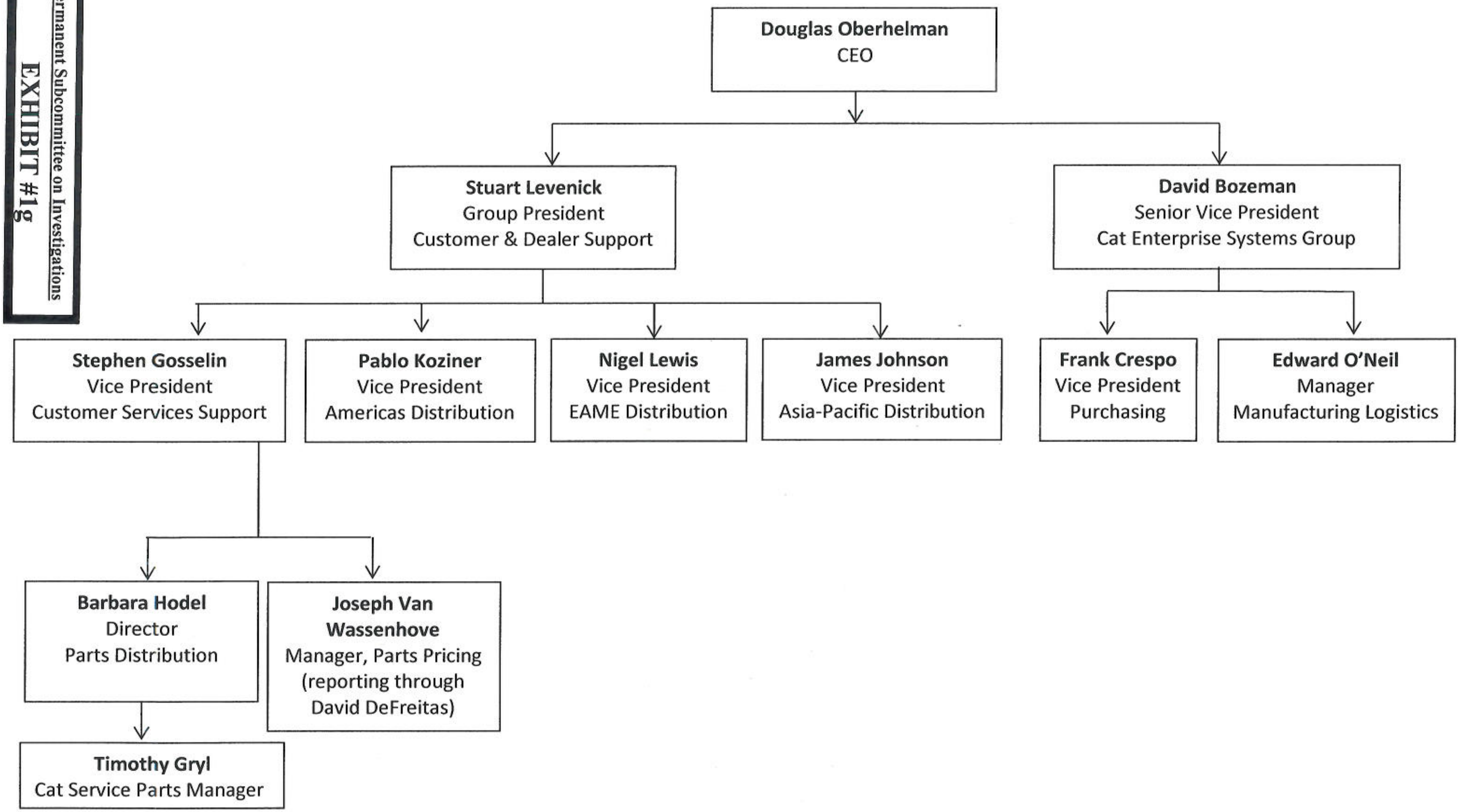
- CSARL
- 65 parts employees
- 0 manufacturing facilities
- 0 parts manufacturing
- 0 warehouses
- Stores 40% of its parts in the U.S.
- Remaining 60% of parts in Caterpillar owned warehouses in other countries

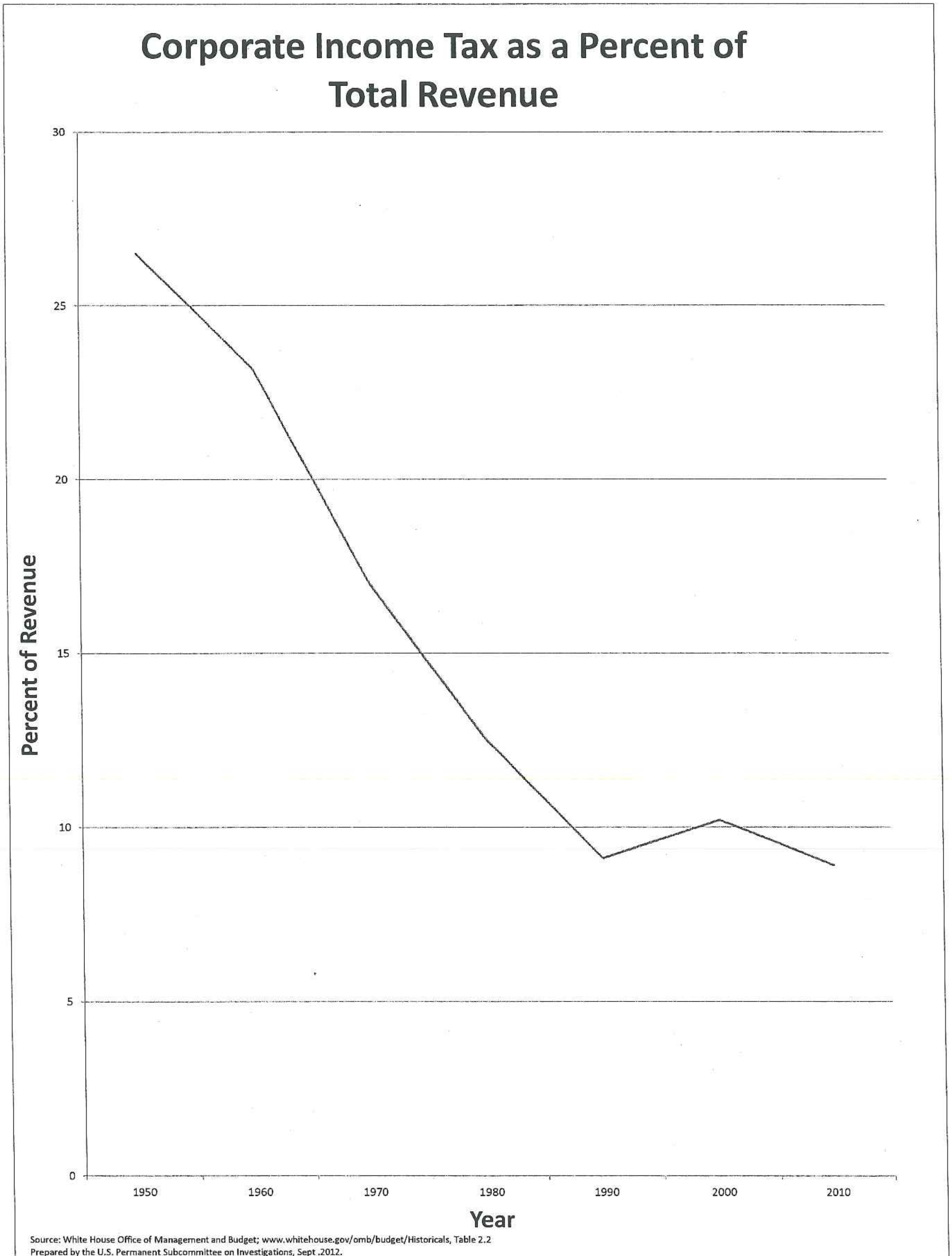
Prepared by the U.S. Permanent Subcommittee on Investigations, April 2014.

Permanent Subcommittee on Investigations

EXHIBIT #1g

Caterpillar Organizations
Performing Key Functions Related to Parts





Permanent Subcommittee on Investigations

EXHIBIT #1h

From: Hill, Eleanor [mailto:EHill@KSLAW.com]
Sent: Friday, March 21, 2014 9:44 AM
To: Katz, David (HSGAC)
Subject: Response regarding fees

David,

I am enclosing, on behalf of our client PricewaterhouseCoopers LLP ("PwC"), information responsive to your request for fees paid to PwC for tax consulting and audit services relating to Caterpillar from the years 1998 to the present.

Given the number of years covered by your request, we have identified responsive and available information from two different sources, as provided in Attachment A and Attachment B. Please note that data provided in Attachment A relates to a different Fiscal Year than data provided in Attachment B. There are also differences in the scope of the data included in the different attachments, as explained below.

Attachment A sets forth the annual tax and audit fees between FYE 12/31/2000 and FYE 12/31/2012, according to Caterpillar's annual meeting proxy statements. Fees paid to PwC for tax and audit services, if any, would be included in these proxy disclosures.

Attachment B, a document entitled "CATERPILLAR – GLOVE/VISION PROJECT BILLINGS", sets forth what appears to be the annual amounts billed by PwC for GLOVE/VISION services between FYE 6/30/1999 and FYE 6/30/2004. PwC produced an earlier version (PwC_PSI_CAT_00195723) of this document to the Subcommittee on February 14, 2014. Note that, unlike the broader data included in the proxy disclosures, the data in Attachment B only includes billings related to the GLOVE/VISION Project. Based on our review to date, we have no reason to believe that the information in Attachment B is not accurate.

In an effort to be timely, I am transmitting this by email today. We will, however, also include this information in the supplemental production we are planning for next week. As we have discussed, this response is the product of a good faith effort to identify, in a timely manner, the most responsive and accurate available information with respect to your request. As always, if you have questions or a discussion would be helpful, please give me a call.

Regards,
Eleanor

Eleanor Hill
King & Spalding LLP
1700 Pennsylvania Ave, N.W.
Washington D.C. 20006-3737
Tel: 202-626-2955
Fax: 202-626-3737

Permanent Subcommittee on Investigations
EXHIBIT #2

ATTACHMENT A

Year	Tax Planning and Consulting Fees[1]	Audit Fees[2]	Audit Related Fees[3]	Tax Compliance Fees[4]
2000	$ 12,800,000	$ 6,700,000	-	-
2001	$ 17,000,000	$ 7,600,000	-	-
2002	$ 11,800,000	$ 8,500,000	$ 3,900,000	$ 2,300,000
2003	$ 10,500,000	$ 10,200,000	$ 3,500,000	$ 2,500,000
2004	$ 7,800,000	$ 18,700,000	$ 2,600,000	$ 3,400,000
2005	$ 6,400,000	$ 15,700,000	$ 3,000,000	$ 2,300,000
2006	$ 2,600,000	$ 20,200,000	$ 3,000,000	$ 2,200,000
2007	$ 2,700,000	$ 21,400,000	$ 4,700,000	$ 2,200,000
2008	$ 2,300,000	$ 22,200,000	$ 5,500,000	$ 2,800,000
2009	$ 1,900,000	$ 21,800,000	$ 2,100,000	$ 1,900,000
2010	$ 1,700,000	$ 23,200,000	$ 5,000,000	$ 2,200,000
2011	$ 3,900,000	$ 31,600,000	$ 1,600,000	$ 1,800,000
2012	$ 1,500,000	$ 31,900,000	$ 2,800,000	$ 1,700,000

[1] **Tax Planning and Consulting Fees:** The table sets forth the annual fees for tax planning and consulting services between FYE 12/31/2000 and FYE 12/31/2012, according to Caterpillar's annual meeting proxy statements beginning in 2001. Fees paid to PwC for tax planning and consulting services in connection with Caterpillar SARL, if any, would be included in these proxy disclosures. Please note that the fees listed for FYE 2000 and FYE 2001 include other services provided to Caterpillar, as noted in the proxy statements.

[2] **Audit Fees:** The table sets forth the audit services fees (including out-of-pocket expenses) between FYE 12/31/2000 and FYE 12/31/2012, according to Caterpillar's annual proxy meeting statements beginning in 2001. Fees paid to PwC for audit services relating to Caterpillar SARL, if any, would be included in these proxy disclosures.

[3] **Audit Related Fees:** The table sets forth the "audit-related" fees (including out-of-pocket expenses) between FYE 12/31/2002 and FYE 12/31/2012, according to Caterpillar's annual meeting proxy statements beginning in 2004. Fees paid to PwC for such services relating to Caterpillar SARL, if any, would be included in these proxy disclosures. The 2002 and 2003 audit related fees are included in the 2004 annual proxy meeting statement.

[4] **Tax Compliance Fees:** The table sets forth the tax compliance fees (including out-of-pocket expenses) between FYE 12/31/2002 and FYE 12/31/2012, according to Caterpillar's annual meeting proxy statements beginning in 2003. Fees paid to PwC for such services relating to Caterpillar SARL, if any, would be included in these proxy disclosures. The 2002 and 2003 tax compliance fees are included in the 2004 annual meeting proxy statement.

CATERPILLAR INC. - GLOVE / VISION PROJECT BILLINGS

Invoice Date	Amount	Expense	Total Invoice	Cumulative Total Billed	(Cumul Amts. Only)	(Cumul Exps Only)
7/31/1998	100,000	41,187	141,187.00	141,187.00	100,000.00	41,187.00
10/19/1998	100,000	54,891	154,891.00	296,078.00	200,000.00	96,078.00
10/19/1998	500,000	0	500,000.00	796,078.00	700,000.00	96,078.00
11/11/1998	500,000	0	500,000.00	1,296,078.00	1,200,000.00	96,078.00
12/15/1998	500,000	39,616	539,616.00	1,835,694.00	1,700,000.00	135,694.00
1/18/1999	500,000	45,174	545,174.00	2,380,868.00	2,200,000.00	180,868.00
2/16/1999	625,000	26,343	651,343.00	3,032,211.00	2,825,000.00	207,211.00
3/12/1999	625,000	70,768	695,768.00	3,727,979.00	3,450,000.00	277,979.00
4/15/1999	625,000	54,267	679,267.00	4,407,246.00	4,075,000.00	332,246.00
5/13/1999	625,000	72,135	697,135.00	5,104,381.00	4,700,000.00	404,381.00
6/10/1999	625,000	67,607	692,607.00	5,796,988.00	5,325,000.00	471,988.00
7/12/1999	625,000	91,232	716,232.00	6,513,220.00	5,950,000.00	563,220.00
8/13/1999	625,000	83,799	708,799.00	7,222,019.00	6,575,000.00	647,019.00
9/16/1999	625,000	103,013	728,013.00	7,950,032.00	7,200,000.00	750,032.00
10/11/1999	625,000	92,681	717,681.00	8,667,713.00	**7,825,000.00**	**842,713.00**
11/18/1999	625,000	75,177.86	700,177.86	9,367,890.86	8,450,000.00	917,890.86
12/15/1999	625,000	94,989.82	719,989.82	10,087,880.68	9,075,000.00	1,012,880.68
1/18/2000	625,000	83,696	708,696.00	10,796,576.68	9,700,000.00	1,096,576.68
2/16/2000	625,000	66,174	691,174.00	11,487,750.68	10,325,000.00	1,162,750.68
3/18/2000	625,000	88,317	713,317.00	12,201,067.68	10,950,000.00	1,251,067.68
4/13/2000	625,000	55,606	680,606.00	12,881,673.68	11,575,000.00	1,306,673.68
5/15/2000	625,000	70,633	695,633.00	13,577,306.68	12,200,000.00	1,377,306.68
6/13/2000	625,000	42,206	667,206.00	14,244,512.68	**12,825,000.00**	**1,419,512.68**
7/13/2000	625,000	53,093	678,093.00	14,922,605.68	13,450,000.00	1,472,605.68
8/17/2000	625,000	63,485	688,485.00	15,611,090.68	14,075,000.00	1,536,090.68
9/15/2000	625,000	57,847	682,847.00	16,293,937.68	14,700,000.00	1,593,937.68
12/11/2000	900,000	210,118	1,110,118.00	17,404,055.68	**15,600,000.00**	**1,804,055.68**
1/17/2001	900,000	70,424	970,424.00	18,374,479.68	16,500,000.00	1,874,479.68
2/23/2001	900,000	43,556	943,556.00	19,318,035.68	17,400,000.00	1,918,035.68
3/26/2001	900,000	116,102	1,016,102.00	20,334,137.68	18,300,000.00	2,034,137.68
4/19/2001	825,000	120,506	945,506.00	21,279,643.68	19,125,000.00	2,154,643.68
5/15/2001	650,000	43,841	693,841.00	21,973,484.68	**19,775,000.00**	**2,198,484.68**
6/14/2001	341,383	58,617	400,000.00	22,373,484.68	20,116,383.00	2,257,101.68
7/18/2001	325,389	74,611	400,000.00	22,773,484.68	20,441,772.00	2,331,712.68
8/20/2001	312,044	87,956	400,000.00	23,173,484.68	20,753,816.00	2,419,668.68
9/26/2001	339,361	60,639	400,000.00	23,573,484.68	21,093,177.00	2,480,307.68
12/20/2001	4,129,621	296,705	4,426,326.00	27,999,810.68	**25,222,798.00**	**2,777,012.68**
1/16/2002	925,000	18,142	943,142.00	28,942,952.68	26,147,798.00	2,795,154.68
3/15/2002	2,005,000	123,892	2,128,892.00	31,071,844.68	28,152,798.00	2,919,046.68
7/1/2002	3,750,000	304,190	4,054,190.00	35,126,034.68	31,902,798.00	3,223,236.68
9/20/2002	475,000	47,483	522,483.00	35,648,517.68	32,377,798.00	3,270,719.68
9/17/2002	370,000	21,541	391,541.00	36,040,058.68	32,747,798.00	3,292,260.68
10/7/2002	322,000	13,674	335,674.00	36,375,732.68	33,069,798.00	3,305,934.68
10/7/2002	4,190,000	201,233	4,391,233.00	40,766,965.68	37,259,798.00	3,507,167.68
11/7/2002	231,000	15,557	246,557.00	41,013,522.68	37,490,798.00	3,522,724.68
12/11/2002	500,000	5,630	505,630.00	41,519,152.68	**37,990,798.00**	3,528,354.68
1/9/2003	605,000	13,740	618,740.00	42,137,892.68	38,595,798.00	3,542,094.68
1/20/2003	1,500,000	117,441	1,617,441.00	43,755,333.68	40,095,798.00	3,659,535.68
2/14/2003	497,000	7,817	504,817.00	44,260,150.68	40,592,798.00	3,667,352.68
4/18/2003	1,500,000	160,043	1,660,043.00	45,920,193.68	42,092,798.00	3,827,395.68
5/28/2003	175,000	37,796	212,796.00	46,132,989.68	42,267,798.00	3,865,191.68
7/15/2003	2,900,000	133,095	3,033,095.00	49,166,084.68	45,167,798.00	3,998,286.68
7/15/2003	175,000	33,385	208,385.00	49,374,469.68	45,342,798.00	4,031,671.68
9/26/2003	2,900,000	38,793	2,938,793.00	52,313,262.68	48,242,798.00	4,070,464.68
12/12/2003	2,103,000	53,335	2,156,335.00	54,469,597.68	50,345,798.00	4,123,799.68
3/23/2004	2,100,000	0	2,100,000.00	56,569,597.68	52,445,798.00	4,123,799.68
7/16/2004	2,000,000	0	2,000,000.00	58,569,597.68	54,445,798.00	4,123,799.68
Grand Totals	54,445,798	4,123,800	58,569,598			

3,125,442 = Total APD Bills
3,000,000 = Total Time billed to APD

	Amts. Billed FYTD	Exps. Billed FYTD	Total Billed FYTD
FYE 6/30/99:	5,325,000	471,988	5,796,988
FYE 6/30/00:	7,500,000	947,525	8,447,525
FYE 6/30/01	7,291,383	837,589	8,128,972
FYE 6/30/02:	8,036,415	661,945	8,698,360
FYE 6/30/03:	17,190,000	1,112,625	18,302,625
FYE 6/30/04:	9,103,000	92,128	9,195,128

Bills Rendered to date

PSI-PWC-22-000003
9/30/2004

History of Significant Changes in International Operations
(Not Inclusive of Financing Arrangements)
1997-2002

A general definition for each Class Interest is attached as Exhibit A.

Relevant Transaction	What	CSARL Class Interest
	Effective 7/14/97, COSA [1] and CCH[2] organized Caterpillar S.A.R.L. (*"CSARL" or "CAT SARL"*) (named "Caterpillar Commercial S.A.R.L." until 7/6/99, at which point it was renamed Caterpillar S.A.R.L.)	
	Effective 8/1/97, COSA and CCH Entered into a **Joint Venture Agreement (the *"Original JV Agreement"*)** memorializing certain of their understandings and agreements with respect to CSARL, including the: • funding of the development and commercialization of the 1997 Technologies;[3] • manufacturing and marketing of products and parts resulting from the development and commercialization of the 1997 Technologies (the *"1997 Technologies Activity"*); and • sharing of the distributions, profits and losses from the 1997 Technologies Activity.	**COSA** –Preferred partnership interest **CCH** – Common partnership interest
	Effective as of 1/1/98, COSA and CCH entered into **a First Amendment to Joint Venture Agreement (the *"First Amendment"*)** memorializing their additional understandings and agreements regarding extension of the provisions of the Original JV Agreement to cover the: • funding of the development and commercialization of the 1998 Technologies;[4] • manufacturing and marketing products and parts resulting from the development and commercialization of the 1998 Technologies (the *"1998 Technologies Activities"*); and • the sharing of the distributions, profits and losses from the 1998 Technologies Activities. The First Amendment generally extended the provisions of the Original JV Agreement to the 1998 Technologies Activities without modification.	**COSA** –Preferred partnership interest **CCH** – Common partnership interest
Transaction	**On 7/1/99**, CAT and COSA organized Caterpillar Holding (Suisse) S.A.R.L., a	

[1] Caterpillar Overseas S.A., a societé anonyme organized under the laws of Switzerland on 11/30/60 and wholly-owned by Caterpillar Inc. (*"CAT")*.

[2]Caterpillar Commercial Holding S.A. (*"CCH"*) (formerly named "Caterpillar Building Construction Products AG,") a societé anonyme organized under the laws of Switzerland on 8/4/95 and was wholly-owned by CAT.

[3] The 1997 Technologies was generally understood to include both the Forest Products Technology and the P2000 Technology (which is also referred to as the "*Compact Construction Equipment Business.*")

[4] The 1998 Technologies was generally understood to include the "Articulated Trucks," "Drag Line Buckets," and "G340-16 Engines" (otherwise referred to as the Developed MAK M32 Technology).

1999 Swiss Restructuring	societé a responsabilité limitée organized under the laws of Switzerland (*"CHS"*). CAT contributed cash in the amount of CHF 99,000 to CHS as Registered Capital. In exchange, CAT received 1 common share of CHS which had a par value of CHF 99,000. COSA contributed case in the amount of CHF 1,000 to CHS as Registered Capital. In exchange COSA received 1 common share of CHS with a par value of CHF 1,000. CHS was registered on 7/6/99.	
Transaction *1999 Swiss Restructuring*	**Effective 8/18/99,** CAT transferred its single share of CHS and all 35,021 shares of its wholly-owned subsidiary, CCH, to COSA in exchange for 351,200 of the common shares of COSA with a par value of CHF 100.	
Transaction *1999 Swiss Restructuring*	**Effective as of 9/1/99**, COSA, CCH and CHS entered into a **First Amended and Restated Joint Venture Agreement** to reflect: • contributions to CSARL by COSA of a U.S.$75,402,629 Subordinated Loan in favor of COSA, and the assets and liabilities described in Articles 1 and 2 of a Contribution In Kind Agreement between COSA and CSARL dated 9/1/99; • contributions to CSARL by CHS of CHF 16,000; • the admission of CHS as a Partner of CSARL; and • the revised understandings and agreements among the partners with respect to the sharing of the profits and losses of, and distributions by, CSARL and certain other matters.	**CHS**-Class A **COSA**-Class B **COSA-** • Preferred C-1 • Preferred C-2 **CCH-** • Common C-1 • Common C-2
Transaction *1999 Swiss Restructuring*	**Effective as of 9/1/99**, CAT and CSARL entered into a **Purchased Finished Replacement Parts License Agreement** (*"PFR Parts License")* and a **Worked Parts License Agreement,** which gave CSARL certain exclusive and nonexclusive rights with respect to having made and purchasing "PFR Parts" and "Worked Parts" in exchange for respective royalty amounts of 15% and 7% of Net Sales in the CAT SARL Territory. The term, "CAT SARL Territory" was essentially defined as the former territory associated with COSA.[5]	

[5] Pursuant to the PFR Parts License CSARL was granted the following rights:

- an exclusive right and license to have made and/or purchase PFR Parts (and to perform or have performed processes associated therewith) for sale by CAT SARL to Third Parties in the CAT SARL Territory;
- a nonexclusive right similar to that above with respect to PFR Parts for sale by CAT SARL to CAT pursuant to and in accordance with the terms of the Purchasing Agency Agreement;
- a nonexclusive right and license to use identified intellectual property for having PFR Parts made by Third Parties in accordance with the rights granted above;
- a nonexclusive right and license to purchase PFR Parts from CAT's network of Third Party suppliers; and
- all other rights and licenses reasonably necessary for CAT SARL to exploit the rights and licenses specifically identified above.

Pursuant to the Worked Parts License Agreement CSARL was granted the following rights:

- an exclusive right and license to have "Worked Parts" made (and to perform or have performed processes associated therewith) by CAT Affiliates, outside the United States, for sale by CAT SARL in the CAT SARL Territory;
- a nonexclusive right and license to have Worked Parts made (and to perform or have performed processes associated therewith) by CAT Affiliates, outside the United States, for sale by CAT SARL to CAT for resale by CAT and/or other CAT Affiliates outside the CAT SARL Territory;
- an exclusive right and license to use identified intellectual property for having Worked Parts made by CAT Affiliates in accordance with the rights granted above; and
- all other rights and licenses reasonably necessary for CAT SARL to exploit the rights and licenses specifically identified above.

Transaction *1999 Swiss Restructuring*	**Effective as of 9/1/99,** CAT and CSARL entered into **a Purchasing Agency Agreement,**[6] pursuant to which CSARL appointed CAT as its non-exclusive purchasing agent with respect to certain of its purchases from third party suppliers, and a **Services Agreement,** [7]pursuant to which CAT provides certain services with respect to CSARL's management and sales of replacement parts.	
Transaction *1999 Swiss Restructuring extended to the Singapore Branch*	CAT and CSARL entered into a **First Amended and Restated Purchased Finished Replacement Parts License Agreement** and a **First Amended and Restated Worked Parts License Agreement,** which principally expanded the definition of the CAT SARL Territory **effective as of 12/1/99,** to include the following territories associated with CAT SARL's Singapore Branch: India, Bangladesh, Korea, Lao PDR, Cambodia, Thailand, Philippines, Myanmar, Indonesia, Bhutan, Nepal, Malaysia, Singapore, Sri Lanka, Vietnam, and Mongolia.	
Transaction *1999 Swiss Restructuring*	**Effective 12/1/99,** CAT and CSARL entered into (1) a **Reallocated Parts License Agreement**; (2) **the Second Amended and Restated Services Agreement**; and (3) a **Reallocated Parts Purchasing Agency Agreement.**	
Transaction *COFA 2000*	**On 5/9/00,** COSA formed Caterpillar Overseas Investment Holding S.A. ("*COIHSA*") under the laws of Switzerland with CHF 100,000. In exchange, COSA received 1,000 shares of COIHSA with a par value of CHF 100.	
Transaction *COFA 2000*	**On 5/31/00,** CAT formed Caterpillar Holdings Australia Limited, a company registered under the Corporations Law of Victoria ("*CAT Holdings Australia*") with A$2 of capital and in exchange received 2 ordinary shares of Caterpillar Holdings Australia. A Form 8832 was filed making an initial entity classification election to treat CAT Holdings Australia as a disregarded entity of CAT effective 5/31/00.	
Transaction *COFA 2000*	**On 5/31/00,** Caterpillar of Australia Ltd. (*"COFA"*) formed a wholly-owned subsidiary, Caterpillar Commercial Australia Limited, under the laws of Australia as a public company limited by shares.	
Transaction *COFA 2000*	**On 6/1/00,** CAT formed Caterpillar (Bermuda) Ltd. and received 12,000 shares. **A Form 8832** was filed making an initial entity classification election to treat Caterpillar (Bermuda) Ltd. as a disregarded entity of CAT effective 6/1/00.	
Transaction *COFA 2000*	**On 6/6/00,** the following entities each transferred the one share of COFA that they held as nominee for CAT, to CAT: Caterpillar of Delaware, Inc., COSA,	

The Worked Parts License Agreement was generally understood to be relevant with respect to those parts manufactured by Caterpillar Belgium S.A. and Caterpillar France S.A.

[6] The Purchasing Agency Agreement was amended and restated from time to time with the principal purpose of modifying the definition of "CAT SARL Territory", consistent with the transactions described below.

Pursuant to the terms of the Purchasing Agency Agreement, CAT agreed to purchase from CSARL all Goods not destined for the "CAT SARL Territory," (such goods being defined as "Transferred Goods") with the sale being deemed to occur immediately after CAT initially purchased such Transferred Goods on behalf of CSARL – even though the Transferred Goods were not specifically identifed until they arrived at the contract packagers. The sale was to take place according to the same price and payment terms as those applicable when CSARL purchased the same Transferred Goods from the third party supplier.

[7] Except as otherwise noted below, the Services Agreement was amended and restated from time to time with the principal purpose of modifying the definition of "Territory", consistent with the transactions described below.

	Caterpillar of Canada Limited and Caterpillar UK Limited.	
<u>**Transaction**</u> *COFA 2000*	**On 6/14/00**, CAT and Caterpillar (Bermuda) Ltd. entered into an **Assignment, Acceptance and Bill of Sale agreement** pursuant to which CAT contributed to Caterpillar (Bermuda) Ltd. its rights, title and interest in and to a Participation Agreement with Société Générale.	
<u>**Transaction**</u> *COFA 2000*	**On 6/19/00,** CAT transferred all of the issued and outstanding 1,023,750 shares of COFA to Caterpillar Holdings Australia in exchange for (a) the increase of the aggregate value of Caterpillar Holdings Australia's shares by an amount equal to the fair market value of the COFA shares and (b) A$2 nominal consideration.	
<u>**Transaction**</u> *COFA 2000*	**On 6/20/00,** CAT contributed the following to COSA in exchange for 84,080 registered shares of a nominal value of CHF 100 each of COSA: (a) the 2 issued and outstanding shares of CAT Holdings Australia; (b) all 12,000 of the issued and outstanding shares of Caterpillar (Bermuda) Limited, and (c) all 500 of the issued and outstanding shares in Caterpillar Overseas Credit Corporation S.A. ("*COCCSA*").	
<u>**Transaction**</u> *COFA 2000*	**On 6/27/00,** COSA transferred the following shares to its wholly-owned subsidiary, COCCSA in exchange for 85,580 shares of a nominal value of CHF 100 each of COCCSA: (a) the 2 issued and outstanding shares of CAT Holdings Australia; (b) all 12,000 issued and outstanding shares of Caterpillar (Bermuda) Limited; (c) the single issued and outstanding share of CHS with a par value of CHF 100,000, (d) all 1,000 registered shares of a nominal value of CHF 100 of COIHSA.	
<u>**Transaction**</u> *COFA 2000*	**On 6/30/00**, COFA assigned its rights an interests to a Facility Agreement entered into with Caterpillar Financial Australia Limited to Caterpillar Commercial Australia Limited.	
<u>**Transaction**</u> *SCM*	**Effective at the end of the day 6/30/00,** CAT sold its shares in Mitsubishi Heavy Industries Ltd., with which it had entered into a 50/50 joint venture, Shin Caterpillar Mitsubishi Ltd.	
<u>**Transaction**</u> *COFA 2000*	**Effective 7/3/00,** COCCSA contributed to CSARL in exchange for an interest in CSARL: (a) 2 shares of CAT Holdings Australia and (b) 12,000 shares of Caterpillar (Bermuda) Limited.	
<u>**Transactions**</u> *COFA 2000,* *SCM, and* *Class C (C-3) Technologies*	**On 7/3/00**, COSA, CCH, CHS, COCCSA and COIHSA Entered into a **Second Amended and Restated Joint Venture Agreement** to: • **effective 9/1/99,** amend their understandings and agreements as memorialized in the First Amended And Restated Joint Venture Agreement and make clarifications of, and corrections to, the First Amended And Restated Joint Venture Agreement; • **reflect the 4/18/00 contribution** by CCH of U.K. £5,600,000 used by CSARL to purchase certain small telescopic materials handler technology from Claas Holdings Limited; • **effective 7/3/00,** reflect the expansion of the activities of Company to include the Class D Company Activity and the Class E Company Activity; • **effective 7/3/00,** reflect the contribution by CCH of CHF 32,000 for use ½ in	**CHS**-Class A **COSA-** • Class B • Preferred C-1 • Preferred C-2 **CCH-** • Common C-1 • Common C-2 **COCCSA**-Class D

	the Class C-1 Company Activity and ½ in the Class C-2 Company Activity; • **effective 7/3/00,** reflect the contribution by CHS of CHF 32,000 for use in the Class A Company Activity; • **effective 7/3/00,** reflect the contribution by COIHSA of CHF 48,000 for use in the Class E Company Activity and its admission as a Partner of CSARL; • **effective 7/3/00,** reflect the contribution by COCCSA of the 2 existing and outstanding shares of CAT Holdings Australia (which held COFA) and its admission as a Partner of CSARL; and • **effective 7/3/00,** reflect the revised understandings and agreements of COSA, CCH and CHS and the understandings and agreements of COCCSA and COIHSA with respect to the sharing of the profits and losses of, and distributions by, CSARL and certain other matters.	**COIHSA**-Class E
Transaction *COFA 2000*	CAT and CSARL entered into a **Second Amended and Restated Purchased Finished Replacement Parts License Agreement** and a **Second Amended and Restated Worked Parts License Agreement** which in principal part expanded the definition of CAT SARL Territory **effective 7/3/00** to include the following territories associated with Caterpillar of Australia Ltd. Australia, Fiji Islands; New Caledonia; New Zealand; Papua New Guinea; Samoa, America; Solomon Islands; Tahiti and Tonga.	
Transaction *Class C (Original Loan & Guaranty Agreement)*	Caterpillar Belgium S.A., a company incorporated under the laws of Belgium, as lender, and CSARL, as borrower, entered into a **Variable Amount Loan Agreement dated 11/30/00** (the "*Original Loan Agreement*"), and COSA and Caterpillar Belgium S.A. entered into a **Guaranty dated 11/30/00** under which COSA guaranteed Borrower's obligations under such loan agreement (the "*Original Guaranty*").	
Transactions *Class C* *(Combination of C-1 and C-2 class into C-1 and* *specifics related to the C-3 class)*	On 11/30/00, COSA, CCH, CHS COCCSA and COIHSA entered into a **Third Amended and Restated Joint Venture Agreement** to amend and restate the Second Amended And Restated Joint Venture Agreement in order to memorialize: • **effective 9/1/99,** clarifications of, and corrections to, the Second Amended And Restated JV Agreement; • **effective 12/1/99,** the combination of the Original Class C-1 Company Activity and the Original Class C-2 Company Activity into the Class C-1 Company Activity and their understandings and agreements with respect to the Class C-1 Company Activity; • **effective 4/18/00,** their understandings and agreements with respect to the Class C-3 Company Activity;[8] and • **effective 7/3/00,** clarifications related to the Class D Company Activity and Class E Company Activity.	**CHS**-Class A **COSA-** • Class B • Preferred C-1 *(C-1 consists of a combination of the C-1 and C-2 Interests)* • Preferred C-3 **CCH-** • Common C-1 • Common C-3 **COCCSA**-Class D **COIHSA**-Class E
Transaction *1999 Swiss Restructuring*	**Effective 9/1/00,** the Purchasing Agency relationship between CAT and CSARL was terminated and CSARL began to issue purchase orders and receive invoices from third party suppliers in its own name. Accordingly, **effective 9/1/00**, CAT and CSARL entered into a **Termination Agreement** terminating the Purchasing Agency Agreement, as amended and restated from time to time and entered into a **Termination Agreement** canceling the Reallocated Parts Purchasing Agency Agreement and a Reallocated Parts License Agreement.	

[8] The Class C-3 interest was generally understood to encompass the small telescopic materials handler technology.

	Effective 9/1/00, CAT and CSARL also entered into a **Purchasing Services Agreement**, pursuant to which CAT provides certain purchasing services to CSARL with respect to certain of CSARL's purchases from third party suppliers.[9]	
<u>**Transactions**</u> *EAME* *COFA 2001*	During November 2001, COSA, CCH, COCCSA acting on its own behalf and as successor to CHS, and COIHSARL acting on its own behalf and as successor to COIHSA[10] entered into a **Fourth Amended and Restated Joint Venture Agreement** amend and restate the Third Amended And Restated Joint Venture Agreement in order to: • **effective on dates as specified in the Third Amended And Restated JV Agreement,** reflect clarifications of, and corrections to, the Third Amended And Restated JV Agreement; • **effective 1/1/01,** memorialize their understandings and agreements regarding the expansion of the activities of CSARL to include the Class F Company Activity; • **effective 8/14/01,** reflect the merger of CHS into COCCSA and the conversion of COIHSA to COIHSARL; and • **effective 8/21/01,** reflect the distribution by CSARL to COCCSA of the shares of CAT Holdings Australia and Caterpillar (Bermuda) Ltd.	**COCCSA-** • Class A • Class D **COSA-** • Class B • Preferred C-1 • Preferred C-3 **CCH-** • Common C-1 • Common C-3 • Class F **COIHSARL-** • Class E
<u>**Transaction**</u> *EAME*	**Effective as of 1/1/01,** CAT and CSARL entered into a **License Agreement** ("***Bundled License Agreement*")** which effectively replaced the Second Amended and Restated PFR Parts License Agreement and the Second Amended and Restated Worked Parts License Agreement, but limited the definition of CSARL Territory to exclude the territories associated with COFA, identified above and expanded CSARL's rights to include those connected with the Class F activities, described above with respect to the Fourth Amended and Restated Joint Venture Agreement. In exchange for the rights granted under the License Agreement CSARL agreed to pay CAT a royalty of 4% of Net Sales (i) to Third Parties within the CSARL Territory, (ii) to CAT Affiliates located outside of the CSARL Territory, or (iii) to Caterpillar Special Services Belgium, Sprl., adjusted for certain items. The Bundled License Agreement provides that Caterpillar France S.A. ("*CFSA*")and Caterpillar Belgium S.A. ("*CBSA*") (and, where appropriate, other	

[9] The Purchasing Services Agreement has been amended and restated from time to time with the principal purpose of modifying the definition of "CAT SARL Territory", consistent with the transactions described below.

Similar to the agreement by the parties as contained within the former Purchasing Agency Agreement, CAT agreed to purchase from CSARL all Goods not destined for the "CAT SARL Territory," (such goods being defined as "Transferred Goods"). Unlike the Purchasing Agency Agreement, however, the sale was to occur once the Transferred Goods were specifically identified at the contract packager locations (as opposed to relating back to the time at which CSARL obtained title to the Transferred Goods). Consistent with the past, however, the sale was to take place according to the same price and payment terms as those applicable when CSARL purchased the same Transferred Goods from the third party supplier.

[10] See the transactions involving CHS and COIHSARL effective 8/14/01 and 8/18/01, as described below.

	CAT Affiliates) will provide research and development and related engineering services for CAT pursuant to engineering services agreements with CAT and that intellectual property arising as a result of such services is considered licensed by CAT to CSARL under the Bundled License Agreement.[11] Upon request by CAT, CSARL as licensee agrees to provide supervision and oversight for CAT of the performance of such services.[12]	
<u>**Transaction**</u> *EAME*	**Effective as of 1/1/01,** CSARL and CBSA and CSARL and CFSA entered **into Manufacturing Services Agreements** (*"MSAs")* pursuant to which CBSA and CFSA agreed to provide CSARL with toll manufacturing services in exchange for a recovery of their cost of operations and a 7% return of capital employed fee.[13]	
<u>**Transaction**</u> *EAME*	**Effective as of 1/1/01,** CSARL and CBSA and CSARL and CFSA exchanged a **Letter Agreement** pursuant to which they memorialized their agreements as of 1/1/01 regarding implementation and interpretation of the MSA during the Systems Modification Period (which was defined as the period beginning 1/1/01 and ending when the information and accounting systems were modified to reflect the legal relationship contemplated by the MSA, which date was 7/30/01).	
<u>**Transaction**</u> *EAME*	**Effective as of 1/1/01,** CAT, CSARL and CBSA entered into a **Caterpillar Products Tripartite Agreement** pursuant to which a license agreement effective as of 2 October 1967, as amended from time to time, by and between CAT and CBSA was cancelled.	
<u>**Transaction**</u> *EAME*	**Effective as of 1/1/01,** CAT, CSARL and CFSA entered into a **Caterpillar Products Tripartite Agreement** pursuant to which a license agreement effective as of 30 March 1961, as amended from time to time, by and between CAT and CFSA was cancelled.	
<u>**Transaction**</u> *COFA 2001*	**On 8/14/01,** CHS was merged into COCCSA and COIHSA was converted to COIHSARL .	
<u>**Transaction**</u> *COFA 2001*	**Effective 8/18/01,** a Form 8832 was filed to treat COIHSARL as a disregarded entity, and as a result, COIHSARL was liquidated into COCCSA for United States tax purposes effective 8/17/01.	
<u>**Transaction**</u> *COFA 2001*	**On 8/21/01,** CSARL distributed the shares CAT Holdings Australia and Caterpillar (Bermuda) Ltd. to COCCSA.	
<u>**Transaction**</u> *CACO*	**On 8/22/01,** Caterpillar Americas Co. ("*CACO*") formed Caterpillar Americas S.A.R.L. ("*CAmSARL*") under the laws of Switzerland as a société à responsabilité limitée.[14]	

[11] **Effective as of 1/1/01,** CAT and CBSA; and CAT and CFSA entered into **Engineering Services Agreements**, pursuant to which CBSA and CFSA agreed to provide certain engineering related services to CAT.

[12] **Effective as of 1/1/01,** CSARL and CBSA and CSARL and CFSA entered into **Engineering Maintenance Services Agreements** pursuant to which CBSA and CFSA agreed to provide CSARL engineering services for alterations of products manufactured by CSARL and processes relating thereto.

[13] There were a number of other agreements executed in connection with the EAME transaction. An index to these agreements is attached as Exhibit B.

[14] A Form 8832 was filed to treat CAmSARL as a disregarded entity for federal income tax purposes as of the date of its formation.

Transaction *COFA 2001*	**Effective 8/27/01**, CAT Holdings Australia converted into a proprietary company and officially became known as Caterpillar Holdings Australia Pty. Ltd.	
Transaction *COFA 2001*	**Effective 9/1/01,** a check-the-box election was made to treat CAT Holdings Australia as a disregarded entity, and as a result, CAT Holdings Australia was liquidated for United States tax purposes on 8/31/01.	
Transaction *COFA 2001*	**Effective 9/7/01**, COFA and its wholly-owned subsidiary, Caterpillar Commercial Australia, an Australian company treated as a corporation for U.S. federal tax purposes, converted into a proprietary companies.	
Transaction *CACO*	**On 9/19/01,** CAmSARL (99%) and CSARL (1%) formed Caterpillar Latin America Services SRL as a sociedad de responsabilidad limitada organized under the laws of Costa Rica ("*CLASS*").[15]	
Transaction *COFA 2001*	**Effective 10/01/01,** a Form 8832 was filed to treat COFA as a disregarded entity of COCCSA and as a result, COFA was liquidated into COCCSA for United States tax purposes on 9/30/01.	
Transaction *CACO*	**On 10/10/01**, CAmSARL (99.967%) and CSARL (.033%) formed Caterpillar Americas Mexico, S. de R.L. de C.V. as a limited liability partnership with variable capital organized under the laws of Mexico ("*CAMX*").[16]	
Transaction *CACO*	**On 11/1/01**, CAmSARL (99.99%) and CSARL (.01%) formed Caterpillar Brasil Services S-C Ltda as a sociedade civil por quotas de responsabilidade limitada organized under the laws of Brazil ("*CBSL*").[17]	
Transaction *CACO*	**On 11/12/01**, CLASS (99.967%) and CAmSARL (.033%) formed Caterpillar Latin America Services de Mexico, S. de R.L. de C.V. as a limited liability partnership with variable capital organized under the laws of Mexico ("*CLASM*").[18]	
Transaction *CACO*	**On 11/21/01**, CLASS (99.9%) and CAmSARL (.1%) formed Caterpillar Latin America Servicios de Chile Ltda. as a sociedad de responsabilidad limitada organized under the laws of Chile ("*CLASC*").[19]	
Transaction *CACO*	Pursuant to a **Share Transfer Agreement and Stock Power**, dated as of 11/21/01 and effective as of 11/30/01, Caterpillar transferred all of the 1,460,788 issued and shares in COSA to CACO.[20] For tax purposes it was determined that the transfer of these shares was **effective 11/21/01.**	

[15] A Form 8832 was filed to treat CLASS as a disregarded entity for federal income tax purposes effective at the time when CSARL owned 100% of CAmSARL, thus making CLASS a disregarded entity.

[16] A Form 8832 was filed to treat CAMX as a disregarded entity for federal income tax purposes. The election was made effective at the time when CSARL owned 100% of CAmSARL, thus making CAMX a disregarded entity.

[17] A Form 8832 was filed to treat CBSL as a disregarded entity for federal income tax purposes. The election was made effective at the time when CSARL owned 100% of CAmSARL, thus making CBSL a disregarded entity.

[18] A Form 8832 was filed to treat CLASM as a disregarded entity for federal income tax purposes.

[19] A Form 8832 was filed to treat to treat CLASC as a disregarded entity for federal income tax purposes.

[20] Caterpillar owned 100% of CACO both before and after the transfer of the COSA stock.

Transaction *CACO*	**On 11/29/01**, CLASS and CLASM formed Caterpillar Latin America Services de Puerto Rico, S. en C. as a limited co-partnership organized under the laws of Puerto Rico ("*CLASP*").[21]	
Transaction *CACO*	**Effective 11/30/01**, and pursuant to a **Contribution in Kind Agreement** dated November 26, 2001 and an **Assignment Agreement** dated November 30, 2001 and in consideration for a CHF 780,000 increase in the nominal value of the share of CACO in CAMSARL's capital, CACO transferred tangible and intangible assets (including Dealer Contracts and Purchase Orders) related to its business of selling Caterpillar products in the Caribbean, Central America, Mexico and South America to CAmSARL. Additionally, CACO transferred to CAmSARL its interest in Forchester de Brasil Ltda., Forchester International, S.A. and Forchester del Peru S.R.L.	
Transaction *CACO*	**Effective 11/30/01,** CACO transferred its shares in CAmSARL to CSARL in exchange for an interest in CSARL.	
Transaction *CACO*	**Effective 11/30/01,** CACO transferred the interest in CSARL to COSA in exchange for 49,485 common shares of COSA.	
Transaction *CACO*	CAT and CSARL entered into a **First Amended and Restated License Agreement** ("*First Amended and Restated Bundled License Agreement*") which **effective 12/1/01**, expanded the definition of CSARL Territory to include the following territories associated with Caterpillar Americas S.A.R.L.: Caribbean, Central America, Mexico and South America.	
Transaction *CACO*	**Effective 12/1/01,** CSARL, Caterpillar and CAmSARL entered into **The Interim Parts Agreement** which memorialized the understanding among the parties that Caterpillar will hold certain inventory in its U.S. warehouses as CSARL's consignee.	
Transaction *CACO*	**Effective 12/4/01,** COSA transferred certain interests in CSARL that it received from CACO in the 11/30/01 transaction, described above as a contribution in kind, to CCH (which received the Common C interest in exchange for 20 shares of CHF 1,000 par value) and to COCCSA (which received the A, D, and E Class Interests in exchange for 400 shares of CHF 100 par value). **Effective 12/4/01 and after the transfer described immediately above,** COCCSA transferred the Class E Interest that it received from COSA to COIHSARL in exchange for an increase in the nominal share value of its single share from CHF 100,000 to CHF 120,000..	
Transaction *Class Cs (Refinancing Loan Agreement Due to EAME)*	During November 2002, CSARL ("*Borrower*") and Caterpillar Group Services S.A.,[22] ("*CGS or Lender*") entered into **an Intercompany Loan Agreement as of 1/1/02** (the "*Refinancing Loan Agreement*") under which Borrower obtained a loan from Lender (the "*Refinancing Loan*") that was used to repay the loan made to Borrower under the Original Loan Agreement.	

[21] A Form 8832 was filed to treat CLASP as a disregarded entity for federal income tax purposes.

[22] CGS is a company organized under the laws of Belgium with a registered office at Avenue Des Etats Unis 1, B-6041; Gosselies, Belgium.

Transaction *CACO – Canada*	**On 7/16/02,** CACO formed Caterpillar North America S.A.R.L. ("*CNAmS*") under the laws of Switzerland as a société à responsabilité limitée.[23]	
Transaction *CACO – Canada*	**On 7/22/02,** Caterpillar transferred 100% of the shares of Caterpillar Commercial Services Ltd. ("*CCSL*") and Caterpillar of Canada Ltd. ("*CCA Ltd.*") to CACO.	
Transaction *CACO – Canada*	**On 7/23/02,** CACO transferred 100% of the shares of CCSL and CCA Ltd. to COSA in exchange for ___.	
Transaction *CACO – Canada*	**On 8/1/02,** Caterpillar of Canada Corporation ("*CCAC*") was formed as a subsidiary of COSA through an amalgamation of CCSL, CCA Ltd. and an unnamed Nova Scotia Unlimited Liability Company[24] under Canadian law.	
Transaction *CACO- Canada*	**Effective 8/30/02,** and prior to the transfers described below, CACO transferred to CNAmS transferred tangible and intangible assets (including Dealer Contracts and Purchase Orders) necessary to conduct business with Canadian dealers.[25] In exchange for this contribution in kind, CNAmS shall increase the nominal value of the share of CACO in its share capital by CHF 150'000.- from CHF 20'000.- up to an amount of CHF 170'000. **Effective 8/30/02,** CACO transferred its share in CNAmS to CSARL in exchange for an interest in CSARL. **Effective 8/30/02,** COSA transferred 6,650,000 shares of CCAC to CSARL in exchange for an interest in CSARL. **Effective 8/30/02,** CACO transferred its interest in CSARL to COSA in exchange for 5'412 new registered shares of COSA each with a nominal value of CHF 100.- and fully paid up; **Effective 8/30/02,** COSA transferred portions of the interest in CSARL it received in the above transaction to CCH (which received the Common C Class Interest in exchange for 20 new registered shares of CCH each with a nominal value of CHF 1'000) and to COCCSA (which received the Class A, D and E Class Interests in exchange for in exchange for 400 new registered shares of COCCSA each with a nominal value of CHF 100). **Effective 8/30/02,** COCCSA transferred the Class E Interest it received above to COIHSARL. In consideration for this contribution in kind COCCSA had the nominal value of its registered share of COIHSARL increased from CHF 120'000.- to CHF 140'000.	

[23] A Form 8832 was filed to treat CNAmS as a disregarded entity for U.S. federal income tax purposes, effective as of the date of formation.

[24] The unnamed Nova Scotia Unlimited Liability Company was formed by CCA Ltd. on July 9, 2002, and remained wholly owned by CCA. Ltd. as of the date of the amalgamation.

[25] CNAmS was responsible for the sale of Caterpillar products in Canada. CCAC provided marketing services on behalf of CNAmS pursuant to a marketing service agreement between the parties.

	Effective 8/30/02, CSARL transferred its 6,650,000 shares of CCAC to CNAmS in exchange for an increase in its registered share in CNAmS.	
Transactions *Class C (Combination of Class C-1 and Class C-3)* *CACO; and* *CACO-Canada*	During November 2002, COSA, CCH, COCCSA and COIHSARL, entered into a **Caterpillar SARL Restated Joint Venture Agreement** to amend and restate the Fourth Amended And Restated Joint Venture Agreement in order to: • **effective on dates as specified in the Fourth Amended And Restated JV Agreement,** to reflect clarifications of, and corrections to, the Fourth Amended And Restated JV Agreement; • **effective 12/1/01,** memorialize their understandings and agreements regarding the combination of the Class C-1 Company Activity and the Class C-3 Company Activity; and • **effective 12/1/01,** memorialize their understandings and agreements regarding the expansion of the CSARL Territory to include the Caribbean, Central America, Mexico and South America; and **effective 8/30/02,** Canada.	**COCCSA-** • Class A • Class D **COSA-** • Class B • Combined Class C Preferred: *(Combined Class C is a combination of the C-1 and C-3 interests)* **CCH-** • Combined Class C Common • Class F- **COIHSARL-** • Class E
Transaction *CACO-Canada*	CAT and CSARL entered into a **Second Amended and Restated License Agreement,** which **effective 8/30/02** expanded the definition of CSARL Territory to include Canada.	
Transaction *Class C (Increased Loan Amounts))*	CSARL and CGS entered into an **Amended Intercompany Loan Agreement dated 11/29/02** (such amended loan agreement and any and all amendments, schedules and exhibits thereto, and any and all renewals, extensions and/or refinancings thereof, are collectively referred to as the "*Loan Agreement*") providing for loans to Borrower (each a "*Loan*") up to an increased total amount and amending and restating the Refinancing Loan Agreement.	
	COSA agreed to guarantee CSARL's obligations under the Loan Agreement, on substantially the same terms and conditions as the Original Guaranty by entering into a Guaranty Agreement in favor of the Lender on 29 November 2002 ("*COSA Guaranty*").	
Transaction *Singapore Branch/ Bermuda Partnership planning*	**On 12/13/02,** COCCSA and COIHSARL organized Caterpillar Asia Pacific L.P ("*CAPLP's*") as a limited partnership under the laws of Bermuda. A Form 8832 will be filed making an initial entity classification election to treat CAPLP as a corporation for U.S. federal tax purposes will be made **effective 12/13/02.** On **12/18/02,** COCCSA, as general partner contributed $27,000 and COIHSARL, as limited partner, contributed $1,000 to the capital of CAPLP.	
Transaction *Class C – (Prepatory for COSA's Contribution of its CSARL Interest to CCH)*	**On _____ CCH organized** Caterpillar Product Development S.A.R.L., ("*CPDSARL*"), a societé a responsabilité limitée under the laws of Switzerland; and **effective 12/19/02** (the *"CPDSARL Contribution Date"*), CCH transferred to CPDSARL, as a capital contribution, all of CCH's interest in the Class F Company Activity.	
Transaction *Class C –*	COCCSA, COSA, CCH COIHSARL, and CPDSARL entered into a **First Amendment to Caterpillar SARL Restated Joint Venture Agreement** to	**COCCSA-** • Class A

(Prepatory for COSA's Contribution of its CSARL Interest to CCH)	amend the CSARL Restated Joint Venture Agreement to: • **effective 12/19/02,** reflect the admission of CPDSARL as a Partner of CSARL; and • **effective 12/19/02,** effectuate the transfer and contribution of the Class F Company Activity from CCH to CPDSARL.	• Class D **COSA-** • Class B • Combined Class C Preferred **CCH-** • Combined Class C Common **COIHSARL** • Class E **CPDSARL**-Class F
Transaction *Class C – (COSA's Contribution of its CSARL Interest to CCH)*	**On 12/23/02** (the *"CCH Contribution Date"*), COSA transferred to CCH as a capital contribution all of its interests in CSARL and therefore, ceased to be a member/partner of CSARL.	
Transaction *Class C – (Replacement of COSA as Guarantor of CSARL's debt to CGS by CCH)*	**On 12/23/02,** CGS agreed to the substitution of CCH's guaranty for COSA's guaranty under the COSA Guaranty and to the termination of COSA's obligations under the COSA Guaranty effective contemporaneously with the transfer by COSA of its interest in CSARL to CCH.	
Transaction *Class C – (COSA's Contribution of its CSARL Interest to CCH and Combination of the Combined Class C Common and Preferred Interests into a single Class C Interest)*	COCCSA, CCH, COIHSARL and CPDSARL entered into a **Second Amendment to Caterpillar SARL Restated Joint Venture Agreement** to amend and restate the Caterpillar SARL Restated Joint Venture Agreement (the "*Agreement*") as amended, to: • amend and restate the Agreement to reflect clarifications of, and corrections to the Agreement, as so amended; • **effective 12/23/02** reflect that COSA ceased to be a member/Partner of CSARL; • **effective 12/23/02,** effectuate the transfer of all of COSA's interests in CSARL to CCH; and • **effective 12/23/02,** simplify the agreement as it pertains to the Class C Company Activity so that the terms as they relate to such are the same as those applicable to each other Company Activity.	**COCCSA-** • Class A • Class D **CCH-** • Class B • Class C (Both the Preferred and Common interests) **COIHSARL-** • Class E **CPDSARL**-Class F
Transaction *Singapore Branch/ Bermuda Partnership Planning*	**As of 1/1/03 and effective after the APD Contribution** (defined below), (i) COCCSA, as general partner of CAPLP, transferred to CAPLP as a contribution in kind and as paid in surplus all the Class G Company Activity (defined below), and (ii) COIHSARL, as a limited partner of CAPLP, transferred to CAPLP as a contribution in kind and as paid in surplus a 1/136 (i.e., .7353%) interest in the Class E Company Activity.	
Transactions *Asia Pacific* *and;*	COCCSA, CCH, COIHSARL, CPDSARL and CAPLP entered into a **Third Amendment to Caterpillar SARL Restated Joint Venture Agreement** to amend and restate the Second Amendment to Caterpillar SARL Restated Joint Venture Agreement to: • **effective as of 1/1/03,** reflect the contribution by COCCSA as paid in surplus to the Singapore branch of CSARL certain sales and distribution assets	**COCCSA-** • Class A • Class D **CCH-** • Class B • Class C

Singapore Branch/ Bermuda Partnership Planning	activities and liabilities related to the Chinese, Taiwanese and Australian markets ("*APD Contribution*") and effectuate the establishment of the Class G Company Activity; • **effective 1/1/03,** effectuate transfers of the Class G Company Activity and a 1/136 interest in the Class E Company Activity to CAPLP's Contributed Surplus Account (as defined in the Contribution In Kind Agreement among COCCSA, COIHSARL and CAPLP dated 12/27/02); and • **effective 1/1/03 and after the APD Contribution,** the admission of CAPLP as a Partner of CSARL.	**COIHSARL-** • Class E 135/136 **CPDSARL-** • Class F **CAPLP-** • Class G • Class E 1/136
	CAT and CSARL entered into a **Third Amended and Restated License Agreement** ("*Third Amended and Restated Bundled License Agreement*") which **effective 1/1/03** expanded the definition of CSARL Territory to include: the People's Republic of China; Hong Kong; the Republic of China (Taiwan); Australia, Fiji Islands; New Caledonia; New Zealand; Papua New Guinea; Samoa, American; Solomon Islands; Tahiti and Tonga.	

Exhibit A

CLASS INTERESTS

"A" CSARL's income from sales of all PFR Parts (which are generally defined as finished replacement parts purchased directly by CSARL from third party suppliers and effective 7/1/00 includes those from SCM).

"B" CSARL's income from sales to Dealers within the territory formerly associated with COSA, of replacement parts, machines, components, engines, work tools and other products manufactured by CAT and/or other CAT Affiliates. Also, compensation and commissions received by CSARL that relate to the use of CSARL's marketing territory; the Geneva office building, and the results of Treasury Functions that are not conducted on behalf of the other Class Interests.

"C-1" The income of CSARL and its Singapore Branch from sales of products related to the 1997 Technologies manufactured by CAT and/or other CAT Affiliates

"C-2" The income of CSARL and its Singapore Branch from sales of products related to the 1998 Technologies manufactured by CAT and/or other CAT Affiliates.

"C-3" The income of CSARL and its Singapore Branch from sales of products related to certain small telescopic materials handles technology acquired from Claas Holdings Limited, manufactured by CAT and/or other CAT Affiliates.

"D" CSARL's income from sales of everything but PFR Parts and SCM sourced Machines to COFA and to the Singapore Branch and the Singapore Branch's income from the sale of the same. Also, compensation and commissions received related to use of the Class D Company Activity Territory; the manufacturing assembly assets and activities of CSARL and Disregarded Entity Subsidiaries located in and conducted within the Class D Company Activity Territory; real estate located in Singapore; and the Class D Treasury functions.

"E" CSARL's income from sales of SCM sourced Machines that are sold to Third Parties, the COFA branch of COCCSA/CHS/COIHSA and the Singapore Branch and the Singapore Branch's income from the sale of SCM sourced Machines to Third Parties.

"F" CSARL's income from the sales of replacement parts, machines, components, engines, work tools and other products manufactured by CSARL under the Manufacturing Services Agreements with CAT Belgium and CAT France ("Tolling Product") and the Singapore Branch's income from the sale of the same to Third Parties.

"G" The income of CSARL and its Singapore Branch in connection with the acquisition, promotion and sale in the APD Company Activity Territory of PFR Parts.

Exhibit B

EAME Transaction Documents

CATERPILLAR INC.

EVALUATION OF ARM'S LENGTH PRICING FOR INTERCOMPANY TRANSACTIONS

Year Ended December 31, 1994

Prepared by Price Waterhouse LLP

FINAL REPORT
April 18, 1996

Price Waterhouse LLP

Permanent Subcommittee on Investigations

EXHIBIT #4a

> "Caterpillar, Inc., headquartered in Peoria, Illinois, is the world's largest manufacturer of earthmoving, construction, and materials handling equipment, and a major manufacturer of diesel and natural gas engines and gas turbines.
>
> The [company's] products have a wide variety of uses, including highway, dam, pipeline, and other construction; petroleum, agricultural, industrial, and other applications; and electric power generation systems."

Caterpillar products are sold and serviced principally through a worldwide network of more than 200 independently owned dealers and one company-owned dealership.

This report focuses on intercompany transactions for earthmoving and construction equipment, machines, engines, and production components and replacement parts for these segments. The industrial turbine power systems designed, manufactured, and marketed by Caterpillar's Solar Turbines Inc. subsidiary are <u>not</u> part of this report.

a. Structure

Caterpillar was formed in 1925 by two companies which produced wheel and crawler tractors principally for agricultural uses. Until 1950, all manufacturing was performed in the United States, although there had been overseas sales by the predecessor companies since 1909. Exports represented about 20% of sales by the late 1940's. In the 1950's and 1960's, Caterpillar established manufacturing operations in the United Kingdom, Brazil, Australia, Canada, France, Mexico, and Belgium. The original purpose of these international operations was to overcome barriers such as foreign exchange shortages, tariffs, import controls, and other difficulties in supplying replacement parts to customers. Later, the manufacturing plants were established to enable Caterpillar to provide prime products to users in all parts of the world.

In addition to these manufacturing operations, marketing subsidiaries were established to market product and to provide product support outside the United States Caterpillar Americas Company

(CACO) was established in 1957 to serve the Western Hemisphere;[15] Caterpillar Overseas, S.A. (COSA) was first established in 1957 as Caterpillar Overseas C.A. in Venezuela and was organized and relocated in Switzerland in 1960 to serve the rest of the world outside the U.S. In 1967, Caterpillar Far East, Ltd (CFEL) was formed by COSA to serve Asian markets. In 1994, CFEL became a separate branch of COSA.

Caterpillar has established a number of subsidiary companies generally organized according to their principal function as either marketing and manufacturing companies and, within these, by geographic area of responsibility. For example, Caterpillar Overseas S.A. is the marketing company for Europe, the Middle East, and Africa and is a subsidiary of Caterpillar, Inc. By contrast, Caterpillar France S.A. (Cat France) is a manufacturing subsidiary supplying a range of products across a number of markets.

No corporate entity is "pure" in terms of functions, however. Because of local needs, almost all Caterpillar manufacturing companies perform some marketing, and vice versa. For example, Cat France sells its own manufactured product directly to dealers in France, although COSA performs all of the other marketing functions that enhance Cat France's ability to make these sales. On the other side, the Australian company (Caterpillar of Australia, Ltd -- COFA), predominantly a marketing company, also has a minor manufacturing function, assembling motor graders for its own market.

COSA is the shareholder for many of Caterpillar's foreign manufacturing companies (including Caterpillar's share of overseas joint venture companies) and marketing companies. The remaining companies are generally subsidiaries of Caterpillar, Inc. For the purposes of this transfer price review, the ownership structure of the entities is not as important as the business relationships among them. Our description and analysis focuses on intercompany transactions and the economic

[15] CACO is consolidated with Caterpillar Inc. in the U.S. tax return and hence, is not discussed in detail in the remainder of this report.

functions exercised by each company. The legal structure is not discussed further in this report, except as needed.

b. Product Flow

Generally, Caterpillar product flows from a manufacturing company to a related marketing company, to independent dealers, and finally to end-users. Departure from this flow occurs only when and where conditions require a departure. The following is a brief description of the normal flow of prime products, parts, and components among related Caterpillar companies.

i. Manufacturing

Prime Product. Prime product refers to the completed machines or engines sold by Caterpillar entities to their dealer network. Prime product is manufactured at Caterpillar owned plants or (in a few instances) by a third party manufacturer.

Sourcing for products is generally based on geography, so that the nearest plant that manufacturers an item is typically the source of that product for the local marketing company. Because sales volumes for some large machines do not justify multiple manufacturing sites, these machines are usually sourced at a single plant and sold to each of the marketing companies.

Replacement Parts. Caterpillar maintains three primary parts distribution centers serving parts depots worldwide. Morton, IL is headquarters of the Parts & Service Support (P&SS) business unit and the primary parts distribution center for North America; Grimbergen, Belgium is a branch of COSA (and owns the inventory therein); and Singapore sells to dealers in the CFEL region. Thus, P&SS sells the requisite replacement parts to the marketing company, which then sells to dealers, who in turn sell to the customer. In addition, other Caterpillar companies maintain parts depots or facilities in Australia, Brazil, Canada, Mexico, and South Africa.

products or components; production delays for lack of supplies; and missed sales from failures to supply dealers.

The manufacturing companies (Cat Inc., Cat Belgium and Cat France) generally bear the inventory risk for finished product. Cat Inc., COSA and CFEL also have inventory risk for their parts inventories.

5. Purchasing. Purchased materials represent about 60 percent of the manufacturing cost of Caterpillar product, so purchasing is clearly an important activity for Caterpillar manufacturing operations. At the same time, Caterpillar's purchases primarily consist of commodities and components manufactured to Caterpillar specifications. Purchasing per se at Caterpillar is a relatively routine activity, subject to relatively little risk, and is principally the responsibility of manufacturing companies, including the manufacturing operations of Cat Inc, Cat Belgium and Cat France.

6. Manufacturing operations. With more than 20 plants around the world and virtually all of its revenues derived from the sale of manufactured goods, manufacturing operations are a keystone activity. At the same time, given the responsibility within "commercial entities" for overall strategy, technology, manufacturing process design, and cost control, manufacturing operations themselves are best viewed as essential functions that, nevertheless, would command a "normal" manufacturing return if carried out by an unrelated contractor.

7. Quality control. Quality control, too, is important, but the entrepreneurial aspects of quality control at Caterpillar are found in product design and manufacturing process design. Quality control operations are a "routine" manufacturing function. Daily responsibility for quality control rests with the commercial entities and manufacturing companies.

8. Parts distribution. Parts distribution is one of Caterpillar's most important competitive advantages in the marketplace. Caterpillar's guarantee to deliver parts anywhere in the world on very short

notice enables it sell more machines, since customers know that they will not be idled long by missing parts. The parts distribution function at Caterpillar, is very closely associated with the marketing functions because of its strategic importance in sales and aftermarket services.

Caterpillar operates a network of parts distribution centers, parts depots, and other parts facilities around the world. Parts distribution, and ownership of parts facilities rests principally with the marketing companies. The major parts distribution center is located at Morton, Illinois, which is part of Cat Inc. The two other major parts distribution centers belong to COSA and CFEL. COFA maintains a large parts depot.

c. Marketing Functions

Caterpillar does not market and sell directly to end users, but is rather like automotive companies that sell to unrelated dealers, who in turn sell to the customer. Thus, Caterpillar's marketing operations, as distinct from marketing strategies, are mainly focused on ways of developing and supporting its dealer network so that dealers can sell more.

1. Market development. Market development functions are aimed at the establishment, maintenance, and nurturing of Caterpillar's dealer network. Introduction of product improvements, new products, or expansion to new market areas or classes of end customers are also market development functions, in conjunction with dealers.

Cat Inc. has the largest role with regard to market and dealer development, since 1) it has the largest single market, 2) it was the originator of the basic marketing systems and concepts, and 3) it continues to be involved with the development and oversight of worldwide marketing programs and approaches. The marketing companies also have major responsibility for market development; in fact, this is their primary responsibility.

2. Pricing. Pricing has both strategic and tactical components. The strategic economic choice of trading off margins for sales volumes is one that Caterpillar has faced often in recent years, especially in certain product lines and geographical markets. On a micro level, adjustments to pricing may be required to meet local or temporary market conditions, to establish prices for product improvements, or to help dealers in competitive situations.

The "commercial entities" are responsible for worldwide pricing policy for their respective product lines, in conjunction with local market knowledge contributed by the marketing companies. Cat Inc, Cat Belgium, Cat France therefore have predominant roles in establishing pricing policies.

3. After sales service. Caterpillar's after sales service, which includes supporting dealers in the servicing of equipment and the timely provision of parts around the world, is one of its major competitive tools. Caterpillar's role in after-sales service includes developing servicing procedures and standards, technical manuals, technical support and training for dealers, and warranty support.

The dealer network and parts distribution are the two keys to after-sales service. Since the marketing companies are responsible for both, they have responsibility for this important entrepreneurial activity. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. COSA, CFEL, and COFA undertake substantial activities in this area.

4. Marketing Operations. Caterpillar performs a variety of marketing programs, both at a general corporate level and in cooperation with its dealers. For example, Caterpillar marketing companies advertise directly (and join with dealers in cooperative advertising) develop marketing programs, and conduct marketing education for its dealers. The marketing companies (including Cat Inc.'s NACD) all have complete day-to-day responsibility for marketing.

5. Sales. With the exception of certain kinds of sales such as those to some government financing programs, Caterpillar does not generally sell directly to end users. However, Caterpillar sales

representatives will make joint sales calls with dealers when needed and when the size or importance of the prospective sale warrants.

Actual sales to dealers, as well as the occasional sales to end users, are of course arranged predominantly by the marketing companies, including NACD in Cat Inc. In addition, the manufacturing companies make sales to dealers in their own countries. When manufacturing companies sell directly to dealers, whether in their own country or another, they pay a 5 percent fee to the relevant marketing company as compensation for the services that the marketing company provides.

6. Dealer administration. Maintaining Caterpillar's dealer network requires significant day-to-day effort including visits to dealers by Caterpillar field staff. Providing support to dealers in the area of financial management and financing, for example, are important activities in the overall marketing scheme.

All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies.

has the incentive to reduce its manufacturing costs, including purchases from other Cat suppliers and third parties, and to design products specific to customers' needs.[18]

2. Sale of Parts

Parts & Service Support ("P&SS"), a division of Cat Inc. located in Morton, IL, is charged with managing the worldwide parts distribution network. Intercompany pricing of parts consists of four major components: (1) Sale of Parts to Marketing Companies, (2) Purchase of Parts from Manufacturing Facilities, (3) Compensation to P&SS for its Functions, and (4) Distribution of Residual Parts Profit to Commercial Entities.[19]

- **Sale of Parts to Marketing Companies**: Marketing companies purchase parts from P&SS at an **11% discount off Area D/N**. For non-US marketing companies, local D/N is converted to a factor to yield the equivalent discount off US D/N.[20] The 11% discount from Area D/N is applied to all marketing companies, and is intended to cover the local marketing company's sales variance, operating expenses[21] and a 4% return on sales.

- **Purchase of Parts from Manufacturing Facilities**: P&SS purchases parts from manufacturing facilities, or from third party vendors. Parts acquired from manufacturing facilities are purchased at different prices depending on the type of parts:

---

[18]See section 3 below for discussions of the intercompany pricing of production components.

[19]For details, see Exhibit III-2.

[20]The parts inventory and invoicing system is not set up to handle different Area D/Ns, so all intercompany prices are set as a percentage of US D/N.

[21]Estimated as 4% for sales variances and 3% for marketing expenses.

- If the part is a "worked part" (manufactured in a Cat facility), P&SS purchases the part at the established intercompany price for that part when sold as a "production component". As described in more detail below, production components are sold inter-plant at market-based prices, based on quotes from independent suppliers. Therefore, if a replacement part purchased by P&SS is identical to a part used as a production component, the market-based production component price is used as the P&SS acquisition price.

- If the part is a "purchased finished" part (acquired by a Cat manufacturing facility directly from a supplier, and then shipped to a replacement parts warehouse), P&SS purchases the part from the manufacturing facility at the factory's acquisition cost, without a markup. P&SS then pays a procurement fee to the manufacturing facility for its procurement services.[22]

- **Compensation to P&SS for its functions:** P&SS incurs expenses in managing the replacement parts system, including principally the operating costs of the warehouses and the P&SS headquarters in Morton (including a world-wide computer system for managing the inventory). Out of the gross margin earned from buying the parts from the facilities, and selling the parts to the marketing entities, P&SS earns a fee calculated as its direct operating costs plus 10% of the "enterprise profit" earned on the sale of the parts.[23] As P&SS is a division of Cat Inc, a US entity, this share remains part of the taxable income of Cat Inc.

- **Distribution of Parts Residual Profit to Commercial Entities:** After paying the P&SS fee, the residual profit is allocated to the commercial entities responsible for

---

[22]This procedure happened in the COSA division in 1994. In future years, Cat Inc. (P&SS) will purchase finished parts directly from the vendor for resale to the marketing companies.

[23]See Exhibit III-2 for details.

CATERPILLAR INC.
EVALUATION OF ARM'S LENGTH PRICING FOR INTERCOMPANY TRANSACTIONS

Year Ended December 31, 1995

Prepared by Price Waterhouse LLP

FINAL REPORT
December 19, 1996

ice Waterhouse LLP

6. Manufacturing operations. With more than 20 plants around the world and virtually all of its revenues derived from the sale of manufactured goods, manufacturing operations are a critical activity. At the same time, given the responsibility within "commercial entities" for overall strategy, technology, manufacturing process design, and cost control, manufacturing operations themselves are best viewed as essential functions that, nevertheless, would command a "normal" manufacturing return if carried out by an unrelated contractor.

7. Quality control. Quality control, too, is important, but the entrepreneurial aspects of quality control at Caterpillar are found in product design and manufacturing process design. Quality control operations are a "routine" manufacturing function. Daily responsibility for quality control rests with the commercial entities and manufacturing companies.

8. Parts distribution. Parts distribution is one of Caterpillar's most important competitive advantages in the marketplace. Caterpillar's guarantee to deliver parts anywhere in the world on very short notice enables it sell more machines, since customers know that they will not be idled long by missing parts. The parts distribution function at Caterpillar is very closely associated with the marketing functions because of its strategic importance in sales and aftermarket services.

Caterpillar operates a network of parts distribution centers, parts depots, and other parts facilities around the world. Parts distribution, and ownership of parts facilities rests principally with the marketing companies. The major parts distribution center is located at Morton, Illinois, which is part of Cat Inc. The two other major parts distribution centers belong to COSA and COSA-Sing. COFA maintains a large parts depot.

c. Marketing Functions

Caterpillar does not market and sell directly to end users, but is rather like automotive companies that sell to unrelated dealers, who in turn sell to the customer. Thus, Caterpillar's marketing operations, as distinct from marketing strategies, are mainly focused on ways of developing and supporting its dealer network so that dealers can sell more.

1. Market development. Market development functions are aimed at the establishment, maintenance, and nurturing of Caterpillar's dealer network. Introduction of product improvements, new products, or expansion to new market areas or classes of end customers are also market development functions, in conjunction with dealers.

Cat Inc. has the largest role with regard to market and dealer development, since 1) it has the largest single market, 2) it was the originator of the basic marketing systems and concepts, and 3) it continues to be involved with the development and oversight of worldwide marketing programs and approaches. The marketing companies also have major responsibility for market development; in fact, this is their primary responsibility.

2. Pricing. Pricing has both strategic and tactical components. The strategic economic choice of trading off margins for sales volumes is one that Caterpillar has faced often in recent years, especially in certain product lines and geographical markets. On a micro level, adjustments to pricing may be required to meet local or temporary market conditions, to establish prices for product improvements, or to help dealers in competitive situations.

The "commercial entities" are responsible for worldwide pricing policy for their respective product lines, in conjunction with local market knowledge contributed by the marketing companies. Cat Inc, Cat Belgium, Cat France therefore have predominant roles in establishing pricing policies.

3. After sales service. Caterpillar's after sales service, which includes supporting dealers in the servicing of equipment and the timely provision of parts around the world, is one of its major competitive tools. Caterpillar's role in after-sales service includes developing servicing procedures and standards, technical manuals, technical support and training for dealers, and warranty support.

The dealer network and parts distribution are the two keys to after-sales service. Since the marketing companies are responsible for both, they have responsibility for this important entrepreneurial activity. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. COSA, COSA-Sing, and COFA undertake substantial activities in this area.

4. Marketing Operations. Caterpillar performs a variety of marketing programs, both at a general corporate level and in cooperation with its dealers. For example, Caterpillar marketing companies advertise directly (and join with dealers in cooperative advertising) develop marketing programs, and conduct marketing education for its dealers. The marketing companies (including Cat Inc.'s NACD) all have complete day-to-day responsibility for marketing.

5. Sales. With the exception of certain kinds of sales such as those to some government financing programs, Caterpillar does not generally sell directly to end users. However, Caterpillar sales representatives will make joint sales calls with dealers when needed and when the size or importance of the prospective sale warrants.

Actual sales to dealers, as well as the occasional sales to end users, are of course arranged predominantly by the marketing companies, including NACD in Cat Inc. In addition, the manufacturing companies make sales to dealers in their own countries. When manufacturing companies sell directly to dealers, whether in their own country or another, they pay a 5 percent fee to the relevant marketing company as compensation for the services that the marketing company provides.

6. Dealer administration. Maintaining Caterpillar's dealer network requires significant day-to-day effort including visits to dealers by Caterpillar field staff. Providing support to dealers in the area of financial management and financing, for example, are important activities in the overall marketing scheme.

All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies.

PARTS PROFIT DISTRIBUTION CONCEPTS

PROFIT CENTER	PARTS PROFIT DISTRIBUTION OBJECTIVES	METHODOLOGY
MARKETING ORGS	Motivate to maximize parts POPS & price realization	Distribute a % of parts sales
PRIME PRODUCT PROFIT CENTERS	Motivate to create machine populations with high degree of proprietary components which have high parts margins & high POPS	Distribute a portion of residual profit
COMPONENT PROFIT CENTERS	Motivate to develop differentiated & proprietary components for prime products which are profitable for profit centers & the enterprise	Mfg parts: market-based transfer prices Pur parts: distribute a portion of residual profit
MANUFACTURING PLANTS	Motivate to lower plant costs	Market-based transfer prices
P&SS	Motivate to: 1) Drive overall parts profit 2) Achieve acceptable ROA (on $1.5B in assets) 3) Keep owning & operating costs of CAT equipment best value in the industry	Distribute a % of enterprise profit

Exhibit III-2
page 4 of 15

Price Waterhouse LLP

PARTS PROFIT DISTRIBUTION

PARTS PROFIT RECIPIENTS

	PORTION OF TOTAL
MARKETING:	4 %
CACO CFEL COSA	
CBSA COFA NACD	
ENGINE DIVISION CIPI	
MANUFACTURING PLANTS:	3 %
ALL US MFG PLANTS	
ALL SUB MFG PLANTS	
COMPONENT PROFIT CENTERS:	4 %
CHEM PRODUCTS TRANSMISSIONS	
HYDRAULICS UNDERCARRIAGE	
ENGINE DIV (for captive engines)	
COMMERCIAL ENTITIES:	16 %
44 PRODUCT GROUPS	
P&SS	3 %
TOTAL	30 %

Price Waterhouse LLP

PARTS PROFIT DISTRIBUTION

RULES FOR SHARING RESIDUAL PROFIT BETWEEN COMPONENT PROFIT CENTERS AND COMMERCIAL ENTITIES

	PURCHASED PART		WORKED PART	
TYPE OF PART	COMPONENT PROFIT CENTER	COMMERCIAL ENTITY	COMPONENT PROFIT CENTER	COMMERCIAL ENTITY
CHEMICAL PRODUCT	60 % a)	40 %	0 % b)	100 %
HYDRAULIC	60 % a)	40 %	0 % b)	100 %
TRANSMISSION	60 % a)	40 %	0 % b)	100 %
UNDERCARRIAGE	20 % a)	80 %	0 % b)	100 %
ENGINE				
– CAPTIVE	80 %	20 %	80 %	20 %
– COMMERCIAL	0 %	100 %	0 %	100 %
ALL OTHER	0 %	100 %	0 %	100 %

Comments:

a) Identification of purchased part for which component profit center receives a % of residual profit is done by design control.

b) Component profit center obtains its profit in the transfer price to P&SS

Price Waterhouse LLP

CATERPILLAR INC.
EVALUATION OF ARM'S LENGTH PRICING FOR INTERCOMPANY TRANSACTIONS

Year Ended December 31, 1996

FINAL DRAFT REPORT

Prepared by Price Waterhouse LLP

January 26, 1998

P&SS, a division of Cat Inc. The major parts distribution center is located at Morton, Illinois, which is part of Cat Inc. The two other major parts distribution centers are part of COSA (located in Grimbergen, Belgium) and COSA-Sing (located in Singapore). COFA maintains a large parts depot. In these non-US parts facilities, the inventory is controlled by P&SS, although it is owned for legal purposes by the marketing companies. The intercompany price for the sale of spare parts from P&SS to the marketing companies includes a component for the interest costs of the marketing companies' ownership of the parts.

c. Marketing Functions

Caterpillar does not market and sell directly to end users, but is rather like automotive companies that sell to unrelated dealers, who in turn sell to the customer. Thus, Caterpillar's marketing operations, as distinct from marketing strategies, are mainly focused on ways of developing and supporting its dealer network so that dealers can sell more.

1. Market Development. Market development functions are aimed at the establishment, maintenance, and nurturing of Caterpillar's dealer network. Introduction of product improvements, new products, or expansion to new market areas or classes of end customers are also market development functions, in conjunction with dealers.

Cat Inc. has the largest role with regard to market and dealer development, since 1) it has the largest single market, 2) it was the originator of the basic marketing systems and concepts, and 3) it continues to be involved with the development and oversight of worldwide marketing programs and approaches. The marketing companies also have major responsibility for market development; in fact, this is their primary responsibility.

2. Pricing. Pricing has both strategic and tactical components. The strategic economic choice of trading off margins for sales volumes is one that Caterpillar has faced often in recent years, especially in certain product lines and geographical markets. On a micro level,

adjustments to pricing may be required to meet local or temporary market conditions, to establish prices for product improvements, or to help dealers in competitive situations.

The "commercial entities" are responsible for worldwide pricing policy for their respective product lines, in conjunction with local market knowledge contributed by the marketing companies. Cat Inc., Cat Belgium, Cat France therefore have predominant roles in establishing pricing policies.

3. After Sales Service. Caterpillar's after sales service, which includes supporting dealers in the servicing of equipment and the timely provision of parts around the world, is one of its major competitive tools. Caterpillar's role in after-sales service includes developing servicing procedures and standards, technical manuals, technical support and training for dealers, and warranty support.

The dealer network and parts distribution are the two keys to after-sales service. The marketing companies have responsibility for the dealer network, while P&SS performs the primary management activity for the parts distribution network. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. COSA, COSA-Sing, and COFA undertake substantial activities in this area.

4. Marketing Operations. Caterpillar performs a variety of marketing programs, both at a general corporate level and in cooperation with its dealers. For example, Caterpillar marketing companies advertise directly (and join with dealers in cooperative advertising) develop marketing programs, and conduct marketing education for its dealers. The marketing companies (including Cat Inc.'s NACD) all have complete day-to-day responsibility for marketing.

Caterpillar, Inc.

1997 Documentation Report

Final Report

September 15, 1998

Prepared by:
PricewaterhouseCoopers LLP

EWATERHOUSECOOPERS

it is owned for legal purposes by the marketing companies. The intercompany price for the sale of spare parts from P&SS to the marketing companies includes a component for the interest costs of the marketing companies' ownership of the parts.

c. Marketing Functions

Caterpillar does not market and sell directly to end users, but is rather like automotive companies that sell to unrelated dealers, who in turn sell to the customer. Thus, Caterpillar's marketing operations, as distinct from marketing strategies, are mainly focused on ways of developing and supporting its dealer network so that dealers can sell more.

1. Market Development. Market development functions are aimed at the establishment, maintenance, and nurturing of Caterpillar's dealer network. Introduction of product improvements, new products, or expansion to new market areas or classes of end customers are also market development functions, in conjunction with dealers.

Cat Inc. has the largest role with regard to market and dealer development, since 1) it has the largest single market; 2) it was the originator of the basic marketing systems and concepts; and 3) it continues to be involved with the development and oversight of worldwide marketing programs and approaches. The marketing companies also have major responsibility for market development; in fact, this is their primary responsibility.

2. Pricing. Pricing has both strategic and tactical components. The strategic economic choice of trading off margins for sales volumes is one that Caterpillar has faced often in recent years, especially in certain product lines and geographical markets. On a micro level, adjustments to pricing may be required to meet local or temporary market conditions, to establish prices for product improvements, or to help dealers in competitive situations.

The "commercial entities" are responsible for worldwide pricing policy for their respective product lines, in conjunction with local market knowledge contributed by the marketing companies. Therefore, Cat Inc., Cat Belgium, and Cat France have predominant roles in establishing pricing policies.

3. <u>After Sales Service</u>. Caterpillar's after sales service, which includes supporting dealers in the servicing of equipment and the timely provision of parts around the world, is one of its major competitive tools. Caterpillar's role in after sales service includes developing servicing procedures and standards, technical manuals, technical support, training for dealers, and warranty support.

The dealer network and parts distribution are the two keys to after sales service. The marketing companies have responsibility for the dealer network, while P&SS performs the primary management activity for the parts distribution network. Cat Inc., as the designer of the system and owner of the Morton parts center, has the greatest strategic role. COSA, COSA-Sing, and COFA undertake substantial activities in this area.

4. <u>Marketing Operations</u>. Caterpillar performs a variety of marketing programs, both at a general corporate level and in cooperation with its dealers. For example, Caterpillar marketing companies advertise directly (and join with dealers in cooperative advertising), develop marketing programs, and conduct marketing education for its dealers. The marketing companies (including Cat Inc.'s NACD) all have complete day-to-day responsibility for marketing.

5. <u>Sales</u>. With the exception of certain kinds of sales such as those to some government financing programs, Caterpillar does not generally sell directly to end users. However, Caterpillar sales representatives will make joint sales calls with dealers when needed and when the size or importance of the prospective sale warrants.

Actual sales to dealers, as well as the occasional sales to end users, are of course arranged predominantly by the marketing companies, including NACD in Cat Inc. In addition, the manufacturing companies may in some instances make sales to dealers in their own countries. When manufacturing companies sell directly to dealers, whether in their own country or another, they pay a 5 percent fee to the relevant marketing company as compensation for the services that the marketing company provides.

6. Dealer Administration. Maintaining Caterpillar's dealer network requires significant day-to-day effort including visits to dealers by Caterpillar field staff. Providing support to dealers in the area of financial management and financing, for example, are important activities in the overall marketing scheme.

All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies.

Final Report

Caterpillar

Fiscal Year 2000 U.S. Transfer Pricing Documentation Report

September 17, 2001

PRICEWATERHOUSECOOPERS

Permanent Subcommittee on Investigations

EXHIBIT #5

The original purpose of these international operations was to overcome barriers such as foreign exchange shortages, tariffs, import controls, and other difficulties in supplying replacement parts to customers. Later, manufacturing plants were established to enable Caterpillar to provide prime products to users in all parts of the world.

In addition to these manufacturing operations, marketing subsidiaries were also established to market product and to provide product support outside the United States. Cat marketing companies distribute Cat products – both prime product and replacement parts – through a network of independent dealers. As a general rule, there is one dealer per country, and each dealer has an exclusive territory.

Cat's dealers have been associated with Caterpillar products for an average of approximately 50 years. This longevity of the commercial relationship is considered by Cat to be a very important business advantage. Cat believes that critical aspects of its dealers – aspects that give Cat marketing companies a competitive advantage over their competitors – include the dealers' financial strength and size; their physical presence (e.g., the German dealer has over 40 branch locations in Germany); the capabilities of their sales force, technicians, and engineers; their loyalty to Caterpillar; and their stability, as reflected in the longevity of the dealerships.

Caterpillar dealers earn revenue from three interrelated activities: prime product sales, replacement parts sales, and service sales.

The remainder of this chapter describes in greater detail: the types of entities that have evolved within Cat, the entities tested in this report, and the transactions under review.

B. Summary of Entities

1. Principal Types of Entities

Caterpillar operations are organized into various entities. Each entity can normally be characterized as containing entrepreneurial activities, marketing activities, or supplier factory activities, or any combination thereof. Below is a description of each primary type of entity.

a. Entrepreneurial

Entrepreneurs either own the intangibles used to manufacture product or they license the intangibles employed from another Cat entity.[9] Entrepreneurial entities have primary responsibility for developing and implementing product strategy for their designated product lines. This responsibility includes: design of the product to meet market demands, responsibility for manufacturing product, and (jointly with the relevant marketing company) developing a marketing strategy including the establishment of prices in each of the primary markets around the world. Entrepreneurial entities are responsible for the manufacture of their products, either directly in their own manufacturing facilities or through supplier relationships with other Caterpillar facilities.

Entrepreneurial entities are charged with designing and manufacturing products at the lowest cost, and positioning sales in the market at the highest price and volume, in order to maximize profits of the entrepreneurial entity.

b. Marketing Companies

Caterpillar marketing entities maintain dealer relationships, purchase product from

[9] All research and development expenses are borne by the technology owner.

The entrepreneurial entities have primary responsibility for setting Caterpillar's market strategy for their products. Cat Inc. has the primary responsibility for market strategy for products manufactured in Cat Inc. factories. Similarly, Cat SARL has a major role in setting market strategy for products manufactured by Cat Belgium and Cat France. Cat SARL also is engaged in establishing market strategy for its product lines. The marketing companies, too, play a role in setting market strategy for their territories, especially with regard to advertising, marketing, and dealer relationships.

For example, Cat SARL is responsible for determining market strategy in its region. Cat SARL evaluates competitors and competitor offerings in each of the countries in its territory and uses this information to set local area prices, dealer promotions, advertising goals, and product positioning. Cat SARL also evaluates dealer operations, including equipment sales, part sales, and after-sales service. Cat SARL assists dealers in determining which parts of their businesses to emphasize and market to customers.

<u>Market Development</u>. Market development functions are aimed at the establishment, maintenance, and nurturing of Caterpillar's dealer network. Expansion to new market areas or new classes of end customers are also market development functions, in conjunction with dealers.

The marketing companies (including Cat Inc. for the US market) have the primary responsibility with regard to market and dealer development. Cat SARL, for example, has both local area representatives, who are responsible for maintaining local dealer relationships, and product groups, which contain experts on products and competitors. The local area representatives directly assist dealers with dealer-specific issues such as assistance on sales calls, delivery or service issues, and communication of Caterpillar objectives. The product groups provide expertise on specific product issues such as highlighting technical differences between Caterpillar and competitor products or providing detailed advice on which products are most appropriate for specific applications. Cat SARL also supports a sales and demonstration facility in Malaga, Spain where dealers may bring their customers to observe Caterpillar equipment in action. Approximately 150-200 customers per day visit the Malaga facility.

Pricing. Pricing has both strategic and tactical components. The strategic economic choice of trading off margins for sales volumes is one that Caterpillar has faced often in recent years, especially in certain product lines and geographical markets. On a micro level, adjustments to pricing may be required to meet local or temporary market conditions, to establish prices for product improvements, or to help dealers in competitive situations.

The entrepreneurial entities are responsible for worldwide pricing policy for their respective product lines, in conjunction with local market knowledge contributed by the marketing companies. Therefore, Cat Inc. and Cat SARL have predominant roles in establishing pricing policies.

The marketing companies also have input into their local area dealer net prices. Cat SARL, for example, can recommend a change to base prices in certain countries with significant competitive price pressures or unusual market conditions. Any base price changes, however, have to be approved by the entrepreneurial entity responsible for the product. Alternatively, Cat SARL may decide to offer promotional pricing or merchandising programs; these discounts are reflected as Cat SARL's sales variance.

Marketing and Sales Operations. Caterpillar performs a variety of marketing programs, both at a general corporate level and in cooperation with its dealers. For example, Caterpillar marketing companies advertise directly (and join with dealers in cooperative advertising), develop marketing programs, and conduct marketing education for its dealers. The marketing companies all have significant day-to-day responsibility for marketing.

With the exception of certain kinds of sales such as those to some government financing programs and some direct engine sales to large manufacturers, Caterpillar does not generally sell directly to end users. However, Caterpillar sales representatives will make joint sales calls with dealers when needed and when the size or importance of the prospective sale warrants.

Actual sales to dealers, as well as the occasional sales to end users, are of course arranged predominantly by the marketing companies. In addition, the manufacturing companies may in some instances make sales to dealers in their own countries. When manufacturing companies sell directly to dealers, whether in their own country or another, they pay a commission to the relevant marketing company as compensation for the services that the marketing company provides.

Dealer Administration and After-Sales Service. Maintaining Caterpillar's dealer network requires significant day-to-day effort including visits to dealers by Caterpillar field staff. Providing support to dealers in the area of financial management and financing, for example, are important activities in the overall marketing scheme.

All companies with marketing responsibilities are actively involved in dealer administration. These include Cat Inc. and the three principal marketing companies. Caterpillar's after sales service, which includes supporting dealers in the servicing of equipment and the timely provision of parts around the world, is one of its major competitive tools. Caterpillar's role in after sales service includes developing servicing procedures and standards, technical manuals, technical support, training for dealers, and warranty support.

The dealer network and parts distribution capabilities are the two keys to after sales service. The marketing companies have responsibility for the dealer network and manage the replacement parts distribution warehousing and activities in their regions. Cat SARL, Cat SARL-Sing, and CofA also employ parts marketing specialists for their regions.

Specific dealer development activities undertaken by Cat SARL, for example, include installation and training on dealer information systems; dealer process improvement assistance (consulting and best practices advice on sales, parts, service, tools, etc.); and dealer business and financial assistance (reviewing dealer business plans and financial results, benchmarking dealer results against established standards, making recommendations to improve dealer efficiency and profitability, sharing new business opportunities, etc.).

Parts Distribution. Parts distribution is one of Caterpillar's most important competitive advantages in the marketplace. Caterpillar's guarantee to deliver parts anywhere in the world on very short notice enables it to sell more machines, since customers know that they will not be idled by missing parts. The parts distribution function at Caterpillar is very closely associated with the marketing functions because of its strategic importance in sales and aftermarket services.

Caterpillar operates a network of parts distribution centers, and other parts facilities around the world. The major parts distribution center is located in Morton, Illinois, which is part of Cat Inc. Other major parts distribution centers are part of Cat SARL (located in Grimbergen, Belgium) and Cat SARL-Sing (located in Singapore). CofA also maintains a distribution center. In these non-US parts facilities, the inventory is typically owned by the marketing companies.

Marketing companies acquire replacement parts from two sources, Cat Inc. and Cat SARL. Parts manufactured in Caterpillar factories ("worked parts") in the U.S. and in non-European factories (e.g., Cat Mexico and Cat Brasil) are sourced by Cat Inc. Parts acquired for third party vendors ("purchased finished parts") are sourced by Cat SARL. Worked parts destined for sale in the EAME region are sourced by Cat SARL. This latter category includes worked parts produced by Caterpillar's European facilities (Cat Belgium, Cat France, and others).

Cat SARL pays a license fee and various service fees to Cat Inc. related to the purchased finished and European worked replacement parts business.

b. Marketing Risks

Inventory Risk. Inventory risk for finished product remains for a limited period of time with the marketing companies, who hold title only for the time in transit from the factory to the dealer. The factories have minimal inventory risk for finished product since assembly for most product is usually based on dealer orders. Inventory risk for replacement parts rests entirely with the marketing entities, who own the finished parts inventory for their territories.

Foreign Exchange Risk (See 1.2.4 above.) The foreign exchange risk for the marketing operations rests with the marketing companies. Marketing companies hedge their exchange rate exposure on an annual basis against changes in local currencies vs. the US dollar. Most marketing companies purchase in US dollars from related entrepreneurial companies.

c. Marketing Assets

Name. Caterpillar's name and reputation have worldwide recognition. Caterpillar has promoted its name and related trademarks, logos, etc. and defended them as necessary. Development and maintenance of the Caterpillar name, and related trademarks, are performed, or paid for, by Cat Inc. and Cat Inc. owns all rights thereof.

Established Dealer Network The foreign marketing companies hold the dealer contracts. Caterpillar has a network of worldwide dealers that provide sales and service support to customers.

Cat Inc., with assistance from the foreign marketing companies, spends significant resources in supporting and improving the dealer network, through sales and service training, dealer administration support, financial advice, and other programs.

The marketing companies are primarily responsible for maintaining the dealer relationships that form the basis of the dealer network. As detailed above, the marketing companies provide dealer services that range from market strategy and market development to specific business and financial assistance to dealers. Furthermore, the marketing companies receive dealer feedback and work in cooperation with the dealers in order to obtain current market, product, and customer information. In the EAME territory, for example, Cat SARL has dedicated significant resources to dealer development and relationship building. As a result, the average length of a dealer relationship in the EAME territory is more than 45 years and dealer turnover is rare.

E. Conclusion and Characterization of Entities

Based on the information gathered during our functional analysis, we have characterized each entity. Below is a description of our characterization. In addition, we specify which entities have been selected as tested parties.

1. Entities with Combined Manufacturing and Marketing Functions

a. Cat Inc.

Cat Inc. is the parent company and is the most complex entity. Cat Inc. operates as an entrepreneur, a marketer and an intangible owner. Cat Inc. is the parent company of the global enterprise. Since Cat Inc. is the most complex Cat entity it was not selected as a tested party in this report.

b. Cat SARL

Cat SARL is also a complex entity. Cat SARL operates as an entrepreneurial entity, a marketer and a supplier factory. Although Cat SARL is a complex entity, it is a simpler entity than Cat Inc. As a result, we have selected Cat SARL as the tested party for transactions between Cat Inc. and Cat SARL. In Chapter III we will test Cat SARL's results against the results of a set of independent European manufacturers.

2. Marketers

a. Cat SARL-Singapore

Cat SARL-Singapore is a marketer and will be tested in Chapter IV against a set of independent Asian distributors.

b. CofA

CofA is also a marketer and will be tested in Chapter V against a set of independent Australian distributors.

3. Manufacturers

a. Cat (UK) Ltd.

Cat (UK) Ltd. is a supplier manufacturer for both Cat Inc. and Cat SARL. Cat (UK) Ltd's compensation from Cat SARL and Cat Inc. is based on the same formula. Accordingly, in Chapter VI we have tested Cat (UK) Ltd.'s results in total against the results of a set of independent European manufacturers.

CATERPILLAR INC.

Global Tax Optimization
Case for Action

PRICEWATERHOUSECOOPERS

Analyze Phase Report
September 1998

Table of Contents

The Caterpillar income forecasts and related tax assumptions form an integral part of this report

Primary Tax Rate Drivers

Substantially all of Caterpillar's income is currently subject to tax in the U.S. or jurisdictions having comparable tax rates (i.e., 35% or higher). As a major exporter, the company benefits from a U.S. tax rate reduction (3.2 percentage points in 1997) on export sales. This benefit is largely offset, however, by state and local income taxes and other adjustments. Thus, the company's Structural Tax Rate (STR) can be viewed as approximately 35%. As noted earlier, operating losses and other one time planning measures have often reduced the company's ETR to below 35% in prior years.

Caterpillar's foreign taxes are not a major STR component as a result of both effective jurisdictional planning and the company's ability to fully utilize foreign tax credits against its U.S. tax. However, based on Caterpillar's current tax operating structure, it will be difficult to sustain a worldwide tax rate much below the U.S. statutory rate of 35%. The single most significant opportunity to reduce Caterpillar's STR is to take advantage of the Company's substantial presence in Switzerland where income is taxed well below 35%.

There are several factors which currently drive Caterpillar's tax rate and/or which will impact the company's opportunity to optimize its tax position.

+ Positive Tax Rate Drivers

- Swiss substance and low tax rate
- Significant exporter
- Foreign tax credit position
- Illinois-based manufacturing
- Jurisdictional planning (e.g., Australia, U.K., Germany)
- Unrelated dealer network
- Mobility of CAT financial income

– Negative Tax Rate Drivers

- U.S. 'centric' profile
- Limited deferral of low-tax earnings
- Manufacturing in high-tax locations (e.g., Italy, Belgium, etc.)
- U.S. ownership of intangibles
- Pre-tax performance metrics
- Market creation fee
- Conformity of tax and management books
- Losses in Asia
- Mexican and other foreign tax planning offset by U.S. tax cost
- Movement of states (other than Illinois) to single sales apportionment factor

III. Strategy for Caterpillar

Overview

We have developed a strategy that we believe will achieve tax optimization for Caterpillar. This strategy can be summarized as follows:

- ✓ Migrate income from the U.S. to lower-tax jurisdictions
- ✓ Obtain/maintain U.S. tax deferral
- ✓ Maximize export benefits
- ✓ Employ tax effective Treasury strategies
- ✓ Isolate state income in Illinois
- ✓ Utilize intra-jurisdictional opportunities

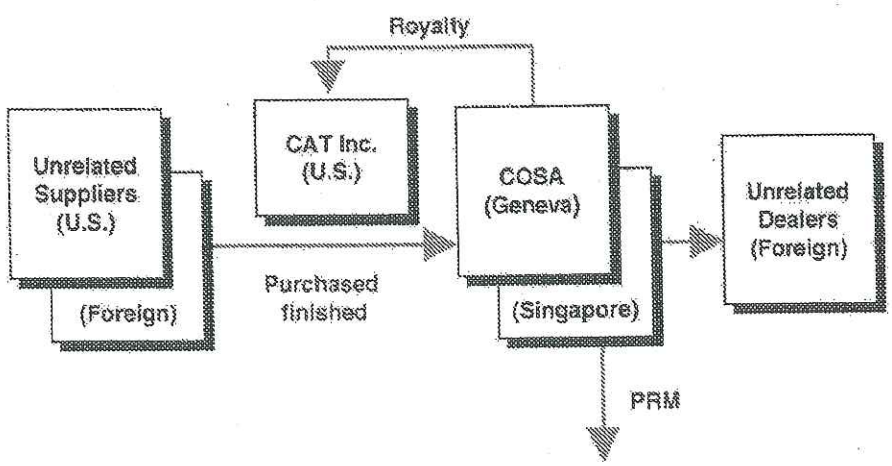
Implementation of the strategy is achieved through the execution of three main initiatives:

- ✓ **Global Income Migration**
- ✓ **Financial Structuring, and**
- ✓ **Jurisdictional Planning**

These initiatives and the specific ideas to achieve the Vision are summarized on the following pages. The purpose of the Analyze phase is to identify opportunities, quantify the approximate net benefits to the Company and achieve high-level buy-in for further development leading to a comprehensive implementation plan. As a result, any one of the following ideas may require substantial modification, result in benefits different than those estimated, or lead to even more significant opportunities. Taken as a whole, however, we believe these ideas will result in substantial further optimization of Caterpillar's tax position.

CAT Inc. Out of Chain

Solution #1



Description of Idea

- Remove Caterpillar Inc. from the chain of title passage for purchased finished parts (from U.S. or foreign sources) sold to foreign marketers. The foreign marketers would then buy from and sell to unrelated parties.

Benefits/Costs

- Eliminates Subpart F character of foreign marketers profits on purchased finished parts sales.
- Relatively simple re-invoicing requirements.

Issues

- LIFO cost of transferring in-transit inventory from CAT Inc. to COSA
- Clearing the 30% full inclusion hurdle
- Reduction of FSC benefit
- Reduction of foreign source income

Recognize Profit Associated with Marketing
Solution #2

Parts Profit Split	Current Margin Split (% of Sales)	Vision Margin Split (% of Sales)
Marketing		
Routine Functions	4	4
Dealer Network		5
Field Population		3
Intangible Trademark		2
Parts and Service Support		
Routine Functions	3	3
Logistics		3
Manufacturing Plants		
Routine Functions	3	3
Market Creation Fee		
Component Profit Center	4	
Commercial Entities	16	
Design		4
Field Population		3
Total	30	30

Description of Idea
* Evaluate and reallocate parts profitability to reflect
  - Recognition of valuable marketing intangibles
  - Compensation of designers, and
  - Creation of parts base of installed equipment

Rationale
* All residual profit is currently identified with commercial entity. No recognition given to valuable marketing intangibles (e.g. dealer network)
* All value of installed base/field population is attributed to commercial entity. Field population results from collective design, manufacturing and marketing efforts (razor/razor blades).
* Profit from logistics - CUP exists from CLS business with higher margins.
* "Design fee" should be compared to a royalty.

Benefits/Costs
* Migrates profits from CAT Inc. to low-tax marketing companies
* An additional 11 percentage points (from 4% to 15%) of margin attributable to COSA (Dealer Network, Field Population, and Logistics).

Issues
* Overcoming resistance to changing current method of profit accounting
* Employee measurement and benefit plans
* Increasing manufacturers' margins on machines
* Buy-in from current system through a declining royalty

CATERPILLAR

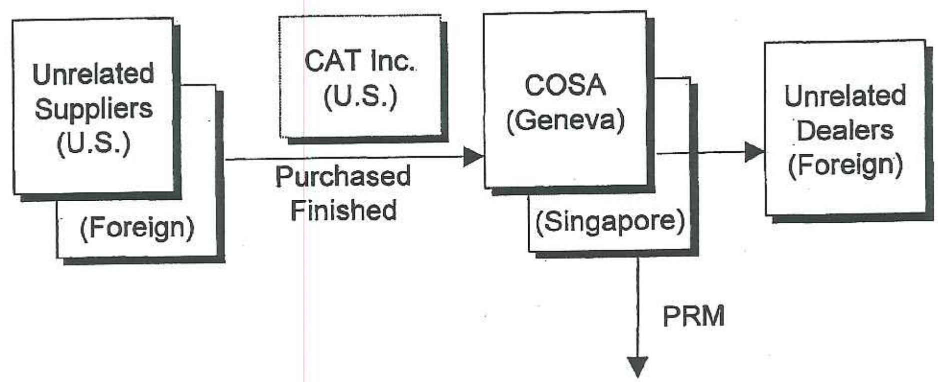
CATERPILLAR GTOP

Summary of Ideas

PRICEWATERHOUSECOOPERS

CAT INC. OUT OF CHAIN

Recharacterize Marketing Company Income to Achieve U.S. Tax Deferral



Description of Idea:

- Remove Caterpillar Inc. from the chain of title passage for purchased finished parts (from U.S. or foreign sources) sold to foreign marketers. The foreign marketers would then buy from and sell to unrelated parties.

Benefits/Costs:

- Eliminates subpart F character of foreign marketers profits on purchased finished parts sales.
- Relatively simple re-invoicing requirements

Issues:
- LIFO cost of transferring in-transit inventory from CAT Inc. to COSA
- Clearing the 30% full inclusion hurdle
- Reduction of FSC benefit
- Reduction of foreign source income

INCREASE PROFIT ASSOCIATED WITH MARKETING

U.S. Tax Deferral

Parts Profit Split	Current Margin Split (% of Sales)	Vision Margin Split (% of Sales)
Marketing		
Routine Functions	4	4
Dealer Network		5
Field Population		3
Parts and Service Support		
Routine Functions	3	3
Logistics		3
Manufacturing Plants		
Routine Functions	3	3
Market Creation Fee		
Component Profit Center	4	
Commercial Entities	16	
Design		6
Field Population		3
Total	30	30

Description of Idea:

- Evaluate and reallocate parts profitability to recognize appropriateness
  - Recognition of valuable marketing intangibles
  - Compensation of designers, and
  - Creation of parts base of installed equipment

Rationale:

- All residual profit is currently identified with commercial entity. No recognition given to valuable marketing intangibles e.g. dealer network
- All value of installed base/field population is attributed to commercial entity. Field population results from collective design, manufacturing and marketing efforts (razor/razor blades).
- Profit from logistics - CUP exists from CLS business with higher margins.
- "Design fee" should be compared to a royalty.

Benefits/Costs:

- Migrates profits from CAT Inc. to low-tax marketing companies

Issues:

- Overcoming resistance to changing current method of profit accounting
- Increasing manufacturers' margins on machines
- Buy-in from current system

Caterpillar Inc.

Operational Feasibility Analysis
High Level Target Designs:
Migration/Deferral

For Discussion Purposes Only
Company Confidential: Do Not Copy

Version 1.1 (2/16)

PRICEWATERHOUSECOOPERS

CONFIDENTIAL

Permanent Subcommittee on Investigations
EXHIBIT #8

PwC-CAT-00003588

B1. COSA as Entrepreneur: European Sold Parts High-Level Target Design

A. Solution: General Description

CAT Inc. will be removed from the chain of title passage for purchased finished parts sourced from the U.S. or from overseas and sold to foreign marketers (COSA, CACO, COFA etc). COSA will therefore acquire the purchased finished parts directly from unrelated suppliers for resale to the dealers. COSA will also acquire worked parts in the same way. This will cause the accumulation of parts profit in COSA that was previously accumulated in CAT Inc./CAT HE. COSA will pay fees to P&SS for logistics and other parts order functions. COSA will pay a royalty (MCF transfer) to CAT Inc. reflecting design intangibles and recognizing the participation of CAT Inc. in the creation of the base of installed equipment. In addition, the parts profit retained in COSA will be enhanced to better reflect the contributions of the functions, risks and dealer network intangibles controlled by COSA.

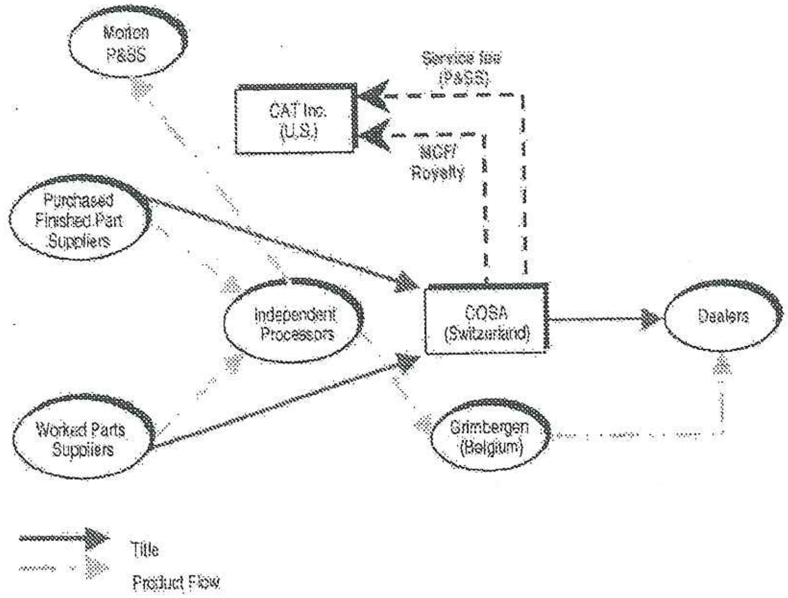
Relative financial effects of the solution are as follows:

$US Millions		1997	Return on Sales
COSA net sales		2,988	
Current COSA profit		82	2.7%
Profit from Cat Inc to COSA			
Cat Inc parts profit	154		
Royalty and service fees	(83)	71	
Revised COSA profit		153	5.1%
Parts profit deferred from US taxation		67	
Annual earnings & cash flow benefit provided by difference between US and Swiss tax rates		15	

PRICEWATERHOUSECOOPERS

B1. COSA as Entrepreneur: European Sold Parts High-Level Target Design

Diagram



B. Main Implementation Observations

1. There will be no change with respect to sales of parts by COSA. Changes are proposed to the purchase of parts for resale.

2. There will be no change in the physical locations of Accounts Payable processing. Opportunities are created for shared service efficiencies.

3. COSA will create new "HE" to capture and record all transactions relating to parts purchased for sale in COSA territory. Use of the existing CAT HE facility code will be discontinued.

4. Invoicing from suppliers will be changed from CAT HE and Morton HE to COSA "HE." Supply contracts will be changed to COSA.

5. There will be enhanced marketing profit and therefore a reduced pool of Market Creation Fee for redistribution to entities with design rights. The enhancement arises from realignment of inter-company profit. There is no change to dealer pricing. A reconcilable difference is created between legal and accountable profit.

6. Royalty/Service fee arrangements to be developed.

B1. COSA as Entrepreneur: European Sold Parts High-Level Target Design

C. Preliminary Operational Issues

1. Supplier receives multiple purchase orders. Supplier issues multiple invoices (to each marketing company). Implementation timeline is dependent on ability to communicate this to suppliers.
2. Coordination with payables processing.
3. Reconciliation of divergence between legal entity and accountable profit.
4. Treasury Management. Change in cash accumulation and repatriation approaches.
5. Exceptions for:
   - emergency shipments
   - redeployments
   - remanufactured products.

D. Tax Issues

1. Characterization of MCF/Royalty payment and therefore coordination of treatment by other marketing entity jurisdictions (i.e. Singapore).
2. LIFO Recapture.
3. Customs and VAT
4. Review of agreements with tax authorities
   a) Belgium
   b) Switzerland

E. Agreements

1. Service agreement/P&SS.
2. Distribution license/CAT Inc.
3. Intangibles license/CAT Inc.
4. Supplier agreements
5. PTE Service agreement

CATERPILLAR INC.

Global Tax Optimization
Risk Adjusted Benefit Analysis

Working Papers - Draft 1

Develop Phase Report - Part 1
December 1998

PRICEWATERHOUSECOOPERS

Table of Contents

NB There are no templates for solutions 5 (SCM), 10 (Irish Bank), 11 (Capital Allowances), 23 (CAT offshore); Solution 20 (Cat China) has been combined with Solution 21 (Supercharge FTCs): Of these it is likely that one will be produced only for solution 5.

Agenda

- Introductions
- Project Overview and Current Status
- Caterpillar's Tax Vision
- Caterpillar's Tax Optimization Strategy
  - Risk Adjusted Benefits
  - Specific Optimization Strategies
    - Migration and Deferral
    - Cost of Capital
    - Jurisdictional
    - Dealer Focused
- Next Steps

Subject to Attorney Client and/or Work Product Privilege

PRICEWATERHOUSECOOPERS

Project Overview - Current Status

- **Purpose:** Increase shareholder value through tax optimization
- **6-month review:** Caterpillar, McDermott, Will & Emery and PricewaterhouseCoopers
- Risk Adjusted Benefit Analysis now complete:
  - Technical Tax Analysis
  - Available Facts and Assumptions Clarified
  - Benefits Quantified : Committed, Probable and Bold
- Next Steps
  - Operational Feasibility Analysis ("OFA")
  - Detailed Design ("Blueprint")
  - Implementation

PRICEWATERHOUSECOOPERS

Caterpillar's Tax Vision

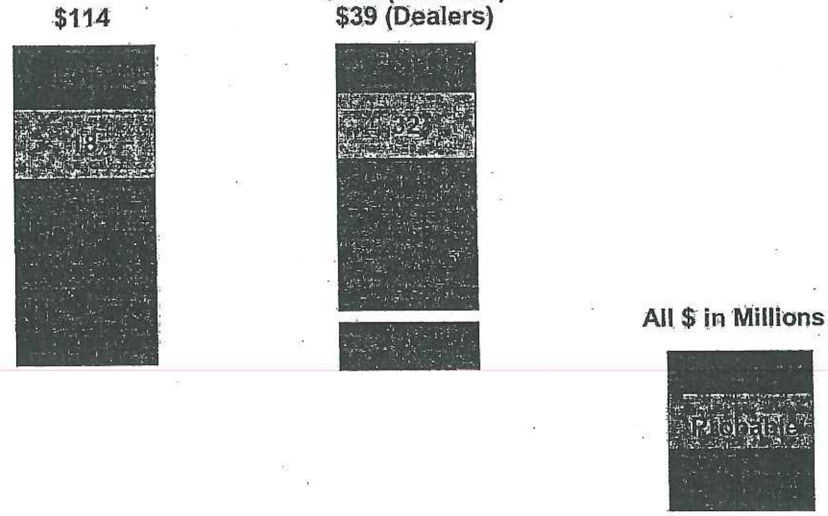
The Company's Vision for Tax Optimization is to achieve significant **cash savings** and a long term, sustainable **structural** tax rate approaching 30% - comparable to Best in Class Dow 30 Companies.

PRICEWATERHOUSECOOPERS

Rsmt.Catp1381.dec9
8

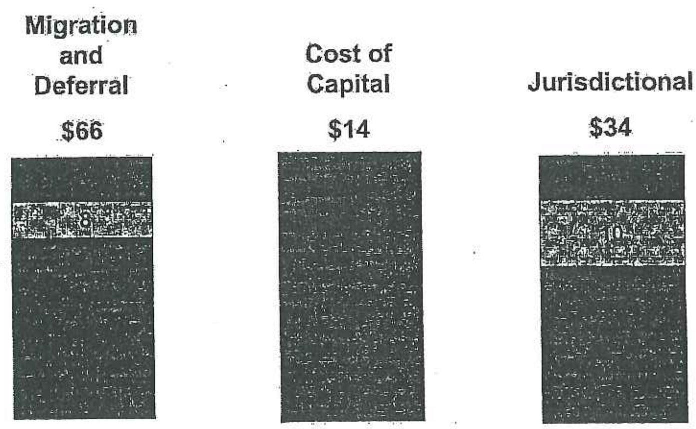
Caterpillar's Tax Optimization Strategy
Risk Adjusted Benefits

Annual Tax/ Earnings Savings	Year 1 Cash Tax Savings
$114	$176 (CAT Inc.) $39 (Dealers)



The Caterpillar income forecasts and related tax assumptions form an integral part of this report

Specific Tax Optimization Strategies
Annual Tax/Earnings Savings

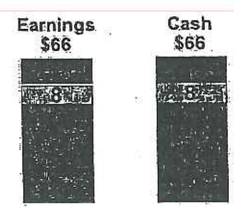


Subject to Attorney Client and/or Work Product Privilege

Rsml.Catp1381.dec9
8

Migration and Deferral

- Recharacterize and increase parts profits earned by COSA
- Treat COSA as entrepreneur for European contract manufacturing
- Marketing companies share design costs
- CACO parts profits migrated from U.S.
- Treat COSA as entrepreneur for Mexican contract manufacturing
- Recharacterize profit on SCM products



PRICEWATERHOUSECOOPERS

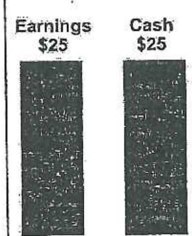
Migration and Deferral

Recharacterize and Increase Parts Profits Earned by COSA

Changes Proposed

- COSA and COSA-Singapore purchase replacement parts directly from third-party vendors and from CAT facilities.
- COSA and COSA-Singapore pay fees (P&SS) and royalties (MCF) to CAT Inc.
- Increase profit to Marketers to recognize valuable dealer contributions.
- Convert COSA-Singapore to corporation for Singapore tax purposes.

Year 1 Benefits



- COSA and COSA-Singapore's purchased finished parts income is increased and recharacterized as non-Subpart F income.
- COSA benefit: $15 million.
- COSA-Singapore benefit: $10 million.
- FSC benefits for suppliers identified.

Risk Adjustments

- Change from historical transfer pricing methodology.
- Minimal U.S. PE exposure.
- No taxable outbound transfer.
- Full inclusion avoided by increasing marketing profit.
- LIFO recapture tax and increased cost of any future LIFO liquidations.
- Coordinate with Swiss Technology Company planning.

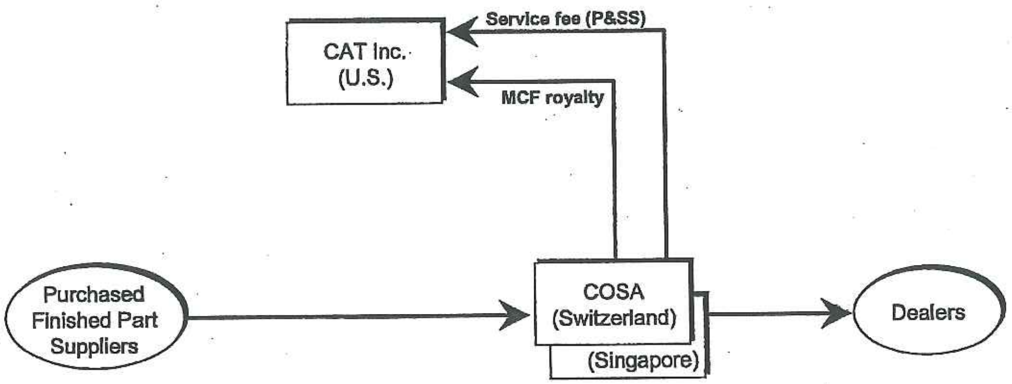
Operational Issues

- Supplier receives multiple purchase orders.
- Supplier issues invoices to each marketing company.
- Service agreement and license agreement needed between COSA, COSA-Singapore and CAT Inc. for P&SS and payment of MCF.
- True-up transactions: Intercompany sales transaction is required to reallocate incoming parts upon delivery.
- Belgium and France must replace lost MCF to retain profitability (see page 12).
- Develop systems to determine and pay fees/ royalties to CAT Inc.

PRICEWATERHOUSECOOPERS

Rsml.Catp1381.dec9
6

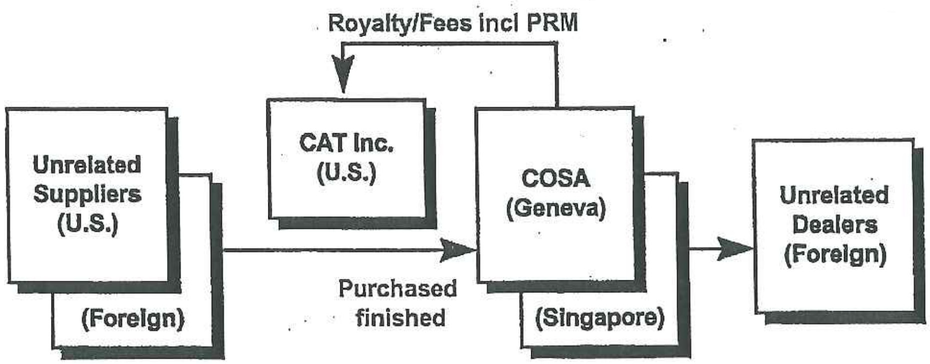
Recharacterize and Increase Profit Associated with Parts



E. Structure Diagrams

Before

After



F. Key Facts and Assumptions

1. Purchasing agents at Morton can issue a purchase order to a supplier on behalf of Cat Inc and (up to three other) purchasers
2. Vendors will receive up to four purchase orders (Inc, COSA, COSA-Sing, and eventually CACO). Shipment may be to Morton for all four shipments. Morton consolidates and ships to Grimbergen and Singapore.
3. COSA and COSA-Sing pay fee to Cat Inc (P&SS) for parts procurement, and for management of parts system. Fee calculated as 18% of parts sales (less any local expenses at Grimbergen and Singapore)
4. COSA and COSA-Sing pay Market Creation Fee to Cat Inc. Cat Inc then pays out a portion to Cat Belgium and Cat France (and any other non-US commercial entities); and retains the balance in Cat Inc. Fee estimated at approx 20% of sales.
5. Coordinate with parts structure contemplated for Swiss Technology Company

G. Technical Tax issues (from 11/23 mtg in Rosemont)

1. Commingling (954, 956, LIFO)
   - 1.1. Greg Palmer: write-up needed for ruling on LIFO
   - 1.2. Wayne Jenner: write up needed on risk memo (954)
   - 1.3. Operational changes (Quinn)
     - 1.3.1. defer title until specific identification is possible and LIFO issue
     - 1.3.2. system changes, eg 2 purchase orders
2. State Issues: nexus because of inventory for export: White
3. Character of Payments back to Cat

3.1. Deductible in Swiss? Withholding in Swiss? McDonald /Quinn
4. Swiss Rate: McDonald /Quinn
5. 70/30: Brent Esplin/McGill
6. US Permanent Establishment
   6.1. purchasing/packaging/painting: Sandra McGill
7. LIFO ($123m OK?) see Palmer
8. Defer title passage from suppliers [mitigates LIFO issue?]
9. 367 transfer? Valuable supply contracts transferred (no, since under Solution 1 we pay all income back above a routine income)

H. Benefits Quantification / Risk analysis

1. See attached 4-page model (COSA Current + Vision, COSA-Singapore Current + Vision)
2. Tax rate savings for COSA:
   COSA from US: 9.6% vs 29% current. Benefit = 19.4%
   COSA from other: 9.6% vs 35% current. Benefit = 25.4%
   Combined COSA rate benefit: 19.9%
   Query: should we be including a US state tax rate to reflect state taxation of subpart F?
3. Tax rate savings for COSA-Singapore (to be confirmed)
   COSA-Sing from US: 14% vs 29% current. Benefit = 15%
   COSA-Sing from other: 14% vs 35% current. Benefit = 21%
   Combined COSA-Sing rate benefit: 16.1%:
   Query: should we be including a US state tax rate to reflect state taxation of subpart F?

	COSA	COSA-SING
1. US source (Cat Inc)	$21.9m	$11.0m
2. Europe source (Cat HE)	$1.3m	n/a
3. SCM Source	$0.9m	$2.4m
Total Migration	$24.1m	$13.4m
Tax Rate Differential	**19.9%**	**16.1%**
Total Savings	**$4.8m**	**$2.2m**

I. Detailed Impact on Tax Filing

J. Operational Issues

1. Determine commingled inventory vs. P&SS as purchasing agent for COSA + others
2. Reallocate incoming parts on arrival @ Morton (i.e. anticipated allocation at time of purchase may not reflect needs at time of arrival
3. Need license agreement? for COSA to pay out PRM as license fee

K. Timeline to Implementation

A. Team Responsible:
GPA team

B. Countries Potentially Impacted:
United States
Switzerland
Singapore

C. Solution Description:

1. Recognize that the current profit allocation for the marketers <u>undercompensates</u> them for their valuable contributions to the overall profit of the business.
2. Increase parts profit allocation to marketers to reflect:
   - valuable marketing intangibles: dealer network created by marketing companies, service support by dealers & marketing company
   - creation of parts base of installed equipment.

D. Solution Benefits and Costs

1. Migrate profits from Cat Inc to low-tax marketing companies
2. Increase in Profits: ***$70*** million in COSA, ***$53*** million to COSA-Singapore
3. Tax savings, attributable to increase in profits on non-Subpart F parts: ***$6.6*** million (COSA), ***$4.1*** million COSA-Singapore.
4. Risk: change from current intercompany pricing method and documentation. For best results, combine with Solution 3 and charge product managers (at least partially) to COSA and COSA-Sing.

E. Structure Diagrams

Before

After

F. Key Facts and Assumptions

1. The marketing companies have created a significant intangible: ownership of the dealer network, and the value therefrom.

2. Customers (end-users) who buy Cat machines instead of competitors', do so because of the service they receive from dealers: quick turnaround of service and spare parts, dealer service to customer. This quick turnaround is a function of COSA getting parts to the dealer within 24 hours, and COSA's training of the dealer in servicing Cat machines. It is the marketing company (e.g. COSA), which has trained the dealer.

3. The field population of existing machines leads to replacement parts sales. The marketing companies are responsible jointly with the product manufacturers for having created the installed base.

4. Assumption: There is arm's length evidence of Original Equipment Manufacturers allowing third parties to take over the replacement parts business.

G. Technical Tax Issues

1. Is there a 367(d) outbound transfer of intangibles? Arguably not, at least in solution 2, because we are just recognizing that the current interco price undercompensates COSA and other marketers. We're not transferring an intangible, we are just recognizing an intangible they had already. In addition, our method of calculating the amount of increased profit to COSA is allowing COSA to earn up to the top of the arm's length range on sales and distribution, thus masking the specific calculation of the marketing intangibles at COSA.
   1.1. If no 367(d) transfer of intangibles, then there is no buy-in necessary.

2. Issue of changing transfer pricing, and resulting difference of US documentation reports: up through 1998, we have characterized COSA (and other marketers) as routine marketers. We have also relied on *conformity of management and legal books* as one of our defenses. This will change, and our documentation reports will rely on greater discussion of the value of the marketers' contribution (supported by additional external research)

H. Benefits Quantification / Risk analysis

1. We are effectively more than doubling the profit on parts. Now we would have to test COSA and COSA-Sing on a combined basis (do not segregate machines vs. parts). Our profit schedules of COSA and COSA-Sing in the documentation reports should combine machines and parts.

2. The Comparable Profit Method of testing the profit on the foreign marketers allows us some "room" to increase profit at the marketers. For example, COSA earned 2.7% overall in 1997 for parts and machines (3-yr average: 3.3%). The top of the interquartile range is 5.1%. COSA could earn up to 5.1% on a combined basis and still be within the arm's length range. Increasing the parts profit alone in 1997 to allow COSA to earn the 5.1% profit would increase parts profit by $70.7 million, $33 million of which relates to purchased-finished parts. The parts operating profit margin would increase from 7.1% to 16.3%.

3. Similarly, the COSA-Singapore parts operating profit margin would increase from 8.1% to 24.7%. (The Asian comparables range was significantly higher than the European comparables.) COSA-Singapore's overall operating profit was 4.2% in 1997 (3-yr average of 5.7%), while the top of the interquartile range was 9.0%. Therefore, we can increase COSA-Singapore's profit by $53 million, of which $26 million would be attributable to purchased-finished

4. Tax Rate Savings: **$10.7 million** for COSA and COSA-Singapore.

5. See Detailed Calculation Next Page.

Error! Not a valid link.

I. Detailed Impact on Tax Filing

J. Operational Issues

1. Will create <u>different</u> transfer prices for legal vs. management books.

2. Are we taking <u>too much</u> profit from manufacturers, especially from Belgium?

   Shifting $70 million in income to COSA will come out of the manufacturers' Parts Residual Margin (Market Creation Fee). Risk that we are taking so much profit from Belgium and France that their profit will fall too low. Some portion of this reduction will come from PRM earned by Belgium and France, with the balance from Cat Inc. Need to quantify reduction in PRM earned by Belgium and France, vs. reduction in PRM suffered by Inc. Belgium earned $49m in PRM (84% of its total profit), mostly from sales in COSA territory. (France earned $13m (35% of its total profit), from COSA and other territories (probably ½ COSA)

3. If we are reducing Belgium and France's profit too much, then we need to consider makin Belgium and France as <u>contract manufacturers</u> for COSA. (and also for Cat Inc as well, on sales from Belgium and France back to Cat Inc.) Without PRM/MCF, Belgium and France would need to increase their prime product price to the marketing companies. In that case, the <u>product management team</u> at Belgium and France should then be charged on a service-fee basis to COSA and Cat Inc., and COSA would pay a royalty back to Cat Inc. *(this is a major modeling exercise that we have not started yet!)*

K. Timeline to Implementation

SOLUTION 3 : MARKETERS SHARE DESIGN COSTS
REPORT TEMPLATE **CURRENT DRAFT as of *21-Dec-98 10:33 AM***
(Chuck Larson's draft of 11/23/98, put into Template format)

A. Team Responsible:
GPA team

B. Countries Potentially Impacted:
United States
Switzerland

C. Solution Description:

1. COSA enters into a cost sharing arrangement (CSA) with Cat Inc. for the R&D associated with intangibles that relate to certain replacement parts. By sharing R&D costs (and paying any required buy-ins), COSA is entitled to exploit its interests in the intangibles assigned to it under the arrangement. There would be no need for COSA to pay other intangibles fees (i.e., market creation fee payments or license fees) to Cat Inc.

2. Currently, COSA purchases replacement parts from Cat Inc. at transfer prices that are intend to leave COSA with a "routine" profit for its marketing and distribution functions. All product intangibles are owned by Cat Inc., and the profit attributable to these intangibles accrues to Cat Inc.

3. *For this solution to work, do we have to combine Belgium and France into Contract Manufacturing? Should the product managers also work for COSA and COSA-Sing? In this case, COSA becomes the "entrepreneurial manufacturer" for Europe, and would pay a royalty to Cat Inc.*

D. Solution Benefits and Costs

1. By sharing R&D costs, COSA is entitled to exploit its interests in the intangibles assigned to it under the arrangement. Costs for COSA include a timing disadvantage. COSA must contribute funds under the CSA, and most likely make buy-in payments to Cat Inc., before its benefits (arising from exploiting its interests in the intangibles) are forthcoming. This timing disadvantage can be overcome through sufficiently profitable sales of the parts.

E. Structure Diagrams

Before

After

F. Key Facts and Assumptions

1. P&SS appears to track parts (forecasting, scheduling, purchasing, shipping, inventory levels) on a global basis with great amounts of detail. Thus, information should be available to track COSA's sales of relevant parts.

2. COSA can be an "eligible participant" in a parts CSA. This should be the case given that the cost sharing regulations do not contain an "active conduct rule".

3. That parts only -- and not the original equipment to which the parts relate, which were developed simultaneously -- can be in the CSA. This appears feasible, given the factors that the regulations focus on, namely 1) that the cost be shared in proportion to the reasonably anticipated benefits from exploiting the intangibles developed under the CSA, and 2) that there is an appropriate "buy-in" for intangibles that exist as of the inception of the CSA and are shared through the CSA.

   But consider issue above—if PRM shifted to COSA reduces Belgium and France profit too low, then we have to increase Belgium and France's profit, either through (1) increasing transfer price for prime product, or (2) converting Belgium and France into contract manufacturers. In this latter case, then COSA becomes the licensee for prime product as well as parts.

G. Technical Tax issues

H. Benefits Quantification / Risk analysis

Quantifying benefits requires information/assumptions on several issues including those listed below:

1. Which parts are under the CSA ("covered parts") (all models of prime product? Worked parts and purchased finished parts? Current and non-current parts?)
   1.1. For purchased finished parts, one idea here is that COSA's rights for a particular part would take effect at the time the purchased finished part becomes non-current. Then, COSA would fund any P&SS engineering pertaining to that part.

2. The rate at which (timing and volume), after the inception of the CSA, COSA begins to sell covered parts (P&SS and/or the business units should be able to forecast the trajectory of future parts sales that is expected in relation to a new prime product that is developed today)

3. The relevant amount of intangible development costs (probably not all Cat R&D, but a certain subset)

4. COSA's share of the intangibles development costs (under the regulations this is to be determined based on the CSA members' reasonably expected operating profits through their exploitation of the developed intangibles)

5. Projections of COSA's reasonably anticipated benefits from exploiting its interests in the intangibles assigned to it under the CSA

JCMcD

CATERPILLAR INC.

GloVE

Global Value Enhancement Project

Economic Analysis of SARL Intercompany Transactions with Cat Inc. in the COSA Territory

DRAFT October 5, 1999

CONFIDENTIAL RED

Subject to Attorney Client and/or Work Product Privilege

Economic Analysis of Royalty Rates and Transfer Prices

International Competitiveness

- For prime product transfer pricing, the transfer pricing policy utilized in recent years will be carried-over. Although the policy calls for the marketing company to earn a ROS equal to 2%, actual ROS results have been less than 2%, as shown in the table below.
  - This generates a prime product-segment ROS for SARL of 0.8%.

SARL Prime Product Segment - COSA Territory

	U.S. $ millions	
Sales	2,494	100%
COGS	2,363	95%
Gross Profit	131	5.3%
Operating Expenses	110	4.4%
Operating Profit	21	0.8%

Actual 1998 results

Economic Analysis of Royalty Rates and Transfer Prices

International Competitiveness

- For replacement parts, applying the proximate net profitability differential ratio to the target prime product ROS of 2% provides a basis for an appropriate replacement parts ROS.

SARL's Replacement Parts Segment - COSA Territory

	U.S. $ millions	
Sales	712	100%
COGS	358	50%
Gross Profit	354	50%
Operating Expenses (incl. roy.)	229	32%
Operating Profit	125	18%

Based on 1999 Plan data

Jedu

CATERPILLAR INC.

Global Value
Enhancement

GLOBAL VALUE ENHANCEMENT
Develop Phase Status Report

[illegible]

Private & Confidential

Parts: COSA — CHS Benefit Analysis

		Sales	Net Pre-tax Margin % Total	U.S.	Local	Swiss	Swiss Net Margin	Tax Rate Differential	Benefit	% of Sales
COSA	**Europe source**	**106**	35	15	0	20	21	25	5	5
	U.S. source	**329**	36	15	0	21	69	20	14	4
Singapore										
	Local source	16	9	9	0	0	0	25	0	0
	U.S. source	104	39	15	3	21	22	20	4	4
CACo.	U.S. Source	149	35	15	3	17	25	20	5	3
COFA										
	Local source	19	12	12	0	0	0	25	0	0
	U.S. source	130	38	15	3	20	26	20	5	4
		853					163		33	4
Post Cost Sharing							246		51	6

Notes:
Based on 1999 Plan with actual proportions of purchased finished and worked parts sales.

Global Value Enhancement

From: CN=Jim Matthews/OU=US/OU=TLS/O=PwC
To: CN=Steven R. Williams/OU=US/OU=TLS/O=PwC@Americas-US
Sent: 07/09/2007 08:15:26 AM EST
CC: CN=Christopher E Dunn/OU=US/OU=TLS/O=PwC@Americas-US
Subject: Re: Caterpillar: value of marketing intangibles

Steve, I can certainly work on this. Is this urgent...as in we need this in a day or two? or is it something like the end of the week?

Thanks,
Jim

Jim Matthews | PricewaterhouseCoopers LLP | Transfer Pricing Group | Email: jim.matthews@us.pwc.com
Two Commerce Square, Suite 1700 | 2001 Market Street | Philadelphia, PA 19103-7042 | Phone: (267) 330-3101 | Fax: (813) 281-1519

Steven R. Williams/US/TLS/PwC
07/07/2007 10:06 AM

"Reply to All" is Disabled

To
Jim Matthews/US/TLS/PwC@Americas-US
cc
Christopher E Dunn/US/TLS/PwC
Subject
Caterpillar: value of marketing intangibles

Jim-- our Chicago team is on vacation this week. Can you do some research on the "trademark legal entitlement" approach to marketing intangibles. I think that was used a lot in Anjali may have a source for previous work done on that.

The concept is that right now, we split Caterpillar's non-US residual profit just by R&D expenditures. We don't do anything as sophisticated even as creating a stock of R&D. And we don't give CSARL any credit for the dealer network , or any other marketing intangibles.

What is this "legal entitilement" approach to markeiting intangibles? I haven't used it, but i've heard about it. Apparently, under that concept, CSARL pays Cat Inc for the "legal entitlement" but CSARL has rights to "further develop" that intangible on its own.

The point is that CSARL (or its predecessor COSA, or CFEL, or CACO) has spent decades builidng up the dealer network around the world. And has spent decades

Permanent Subcommittee on Investigations
EXHIBIT #12

building the brand name through advertising.

Caveat is that in 2001, we said in another transaction that there is no significant marketing intangibles other than workforce in place. ie we made the assertion that dealer want access "yellow iron" and want the "Cat-designed yellow iron that works well"-- they don't really care whether it's purchased from Cat Americas Co (a US company), or Caterpillar Americas SARL (a Swiss co). Accordingly, we only valued CACo's "business" that CAmSARL had to "pay for" as the value of the assembled work force.

Of course, the reason I want to improve the profit split analysis is that CSARL is "pushing the edge of the IQ range".

I'd like a 2-3 page memo explaining the issue and what data we would need.

Thanks.

CATERPILLAR INC.

ECONOMIC ANALYSIS
OF INTANGIBLE ASSETS TRANSFERRED
BY CATERPILLAR AMERICAS CO. TO
CATERPILLAR AMERICAS SARL

Prepared By:

PRICEWATERHOUSECOOPERS

Privileged and Confidential

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

A. Scope and Purpose of Analysis

PricewaterhouseCoopers LLP ("PwC") has been engaged by McDermott, Will & Emery to assist Caterpillar Inc. ("Cat Inc." or the "Company") in the evaluation of certain intangible assets that were transferred by Caterpillar Americas Company ("CACo") to Caterpillar Americas SARL ("CAmSARL") as of November 26, 2001. More specifically, this engagement entailed testing the arm's length value of the following assets:

(1) Dealer Contracts;
(2) Training Programs (Pro2000 and Masters programs);
(3) Order Tracking Software;
(4) Procedures and Manuals;
(5) Marketing Brochures/Product Catalogues;
(6) Website;
(7) Any Other Marketing-Related Intangibles (such as Customer Lists or Dealer Network) Associated with the Caribbean, Central America, Mexico and South America; and
(8) Goodwill and Going-Concern Value Located In the Caribbean, Central America, Mexico and South America.

Hereinafter, the above listed intangible assets will be collectively referred to as the "Intangible Assets Transferred".

For purposes of this analysis, we applied the arm's length standard as defined in the U.S. Treasury Regulations issued under § 482 of the Internal Revenue Code[1]. The arm's length standard under the Treasury Regulations that the prices paid in intercompany transaction be similar to the prices that would have been charged between unrelated parties operating under the same or similar circumstances.[2]

This report is based upon information provided by employees at Caterpillar and publicly available information. PwC has not independently verified or audited the information considered in the preparation of this report.

B. Overview

Following this Executive Summary, Section II provides (i) an overview of the organization structure of Caterpillar in Latin America and an overview of the responsibilities transferred by CACo to CAmSARL; and (ii) a description of the Intangible Assets Transferred by CACo to CAmSARL. Section III of the study provides (i) an overview of the intangible assets definition; (ii) an overview and selection of the alternative transfer pricing methods; (iii) the application of

[1] The arm's length standard is the internationally accepted norm for testing the appropriateness of intercompany transfer prices.
[2] Reg. §1.482-1(b)(1).

the CPM method; and (iv) application of an unspecified method to derive the most reliable measure of the arm's length consideration of the Intangible Assets Transferred. Finally, Section IV summarizes the findings of this study.

C. Conclusion

On December 1, 2001, CACo's distribution responsibilities and certain tangible assets (e.g. inventories) were transferred to CAmSARL. In connection with this re-structuring, CACo also transferred certain intangible assets to CAmSARL. This report analyzes the value of the Intangible Assets Transferred from CACo to CAmSARL.

Our analysis of the Intangible Assets Transferred indicates that they are routine in nature and easily reproducible by another comparable marketing and distribution company. Moreover, the Intangible Assets Transferred had only limited legal protection and economic life. The value of the Intangible Assets Transferred by CACo to CAmSARL consists mainly of the value of the workforce in place.

To test the arm's length value of the Intangible Assets Transferred, the Comparable Profit Method ("CPM") and an unspecified method were employed. The CPM and the unspecified method provide the most reliable method to evaluate the amount to be charged by CACo to CAmSARL. The CPM supports the conclusion that the Intangible Assets Transferred are routine in nature.

Therefore, our analysis indicates that the value of the Intangible Assets Transferred is to allow CAmSARL to avoid start-up costs and risks associated with the formation of a new company such as hiring, training and/or relocation of employees. Thus, to determine the value associated with the Intangible Assets Transferred we used an unspecified method. The unspecified method relies on empirical analysis to provide an estimate of the foregone profits that CAmSARL would have realized without the Intangible Assets Transferred under the same or similar circumstances. The empirical observations indicate the reduced sales associated with exceptional employee turnover and the resulting foregone operating income. Specifically, our economic analysis indicates that during this year, sales could be reduced by 12.8 percent. Based on this estimated reduction in sales, we estimate that the value of the Intangible Assets Transferred as defined in the U.S. Treasury Regulations issued under § 482 of the Internal Revenue Code to be approximately between $2.8 to $3.1 million.

II. FUNCTIONAL ANALYSIS

A. Responsibilities Transferred to CAmSARL

CACo, a U.S. company based in Miami and wholly-owned by Cat Inc., served as Caterpillar's marketing company for Latin America and other regions until November 30, 2001. Until that time, CACo functioned as a buy-sell distributor for approximately forty years, purchasing parts and prime product from Cat Inc. and its affiliates for resale to dealers in Latin America, the Caribbean, and Canada.

CACo's responsibilities with respect to product dealers included: (i) the negotiation and signing of contracts with dealers in the CACo assigned region; (ii) the purchase of products and parts from Cat Inc. and other Caterpillar affiliates for resale to dealers; (iii) taking title to products purchased from Cat Inc. (and other Caterpillar affiliates) destined for dealers; (iv) arranging logistics support for prime product and part shipments; (v) maintaining minor inventory levels of prime product for quick delivery to dealer customers; (vi) assisting dealers in identifying product performance issues and conveying technical data about such problems to Cat Inc.; (vii) providing dealers with marketing information and sales training programs; (viii) assisting dealers in arranging financing; and (ix) conducting monitoring and oversight activities to insure compliance by dealers with the terms of dealer sales and service agreements. The economic activities associated with purchase and resale of Caterpillar products to dealers in the CACo's sales region occurred both within the U.S. and offshore.

As of December 1, 2001, Cat Inc. has established CAmSARL as the non-exclusive distributor of parts and prime product in Latin America and the Caribbean.[3] Pursuant to this distribution arrangement, Cat Inc. and related entities sell parts and prime product to CAmSARL at arm's-length intercompany prices. CAmSARL then resells the products to the dealers in Latin America and the Caribbean on the same terms as CACo, incurring the similar selling, general, and administrative expenses as CACo.[4]

---

[3] CACo is a U.S. company that is wholly owned by Cat Inc. and included in Cat's U.S. consolidated group. CAmSARL is a Swiss limited liability company that was organized by CACo, initially wholly owned by CACo, and classified as a disregarded entity for federal income tax purposes. Following CACo's transfer of intangible assets to CAmSARL, CACo contributed the shares of CAmSARL to CSARL in exchange for a partnership interest in CSARL. CSARL is a Swiss limited liability company that is classified as a partnership for U.S. federal income tax purposes. Since CAmSARL is a disregarded entity, the transfer of shares of CAmSARL to CSARL is treated for federal income tax purposes as a transfer by CACo to CSARL of the assets that CACo had previously transferred to CAmSARL. For federal income tax purposes, the partners of CSARL are COSA, a Swiss company, and CCH and COCCSA, two wholly owned Swiss subsidiaries of COSA. COSA, CCH and COCCSA are classified as corporations for federal income tax purposes. COSA is wholly owned by CACo. Following its receipt of its partnership interest in CSARL, CACo transferred to COSA its interest in CSARL, and COSA then transferred portions of such partnership interest to COCCSA and CCH. CACo's transfer of its CSARL partnership interest to COSA is treated for purposes of Section 367 of the Internal Revenue Code as a transfer by CACo to COSA of its share, as a partner of CSARL, of the assets of CSARL determined in accordance with the CSARL joint venture agreement. It is the latter transfer that is within the ambit of Section 367 of the Code.

[4] The restructuring will include segregation of the Canadian territory. CAmSARL is now responsible only for the Latin America and Caribbean territories.

CACo's Miami-based employees became employees of Caterpillar Americas Services Company ("CASCo") and are compensated on a cost-plus service fee by CAmSARL for all the technical support, administrative and back office functions. CACo employees based outside of the U.S. became employees of non-U.S. service companies and are also compensated on a cost-plus service fee by CAmSARL for the provision of marketing and administrative services.

Cat Inc. transferred CACo's responsibilities to CAmSARL as part of an effort by Caterpillar to consolidate certain marketing, sales and distribution functions into an entity focused on the needs of non-U.S. customers. The transfer of CACo responsibilities to CAmSARL coincides with the relocation of additional service personnel to offshore entities dedicated to serving non-U.S. customers more effectively and efficiently than may be accomplished from the U.S. By consolidating such services and functions in an offshore entity, Cat seeks to increase sales of prime products and parts to non-U.S. customers.

B. Intangibles Assets Transferred to CAmSARL

Pursuant to the Contribution in Kind Agreements signed on November 26, 2001 by CACo and CAmSARL, CACo transferred to CAmSARL certain assets[5]. CAmSARL employs these assets in the performance of its new distribution functions in Latin America. Per Exhibit A to the Contribution in Kind Agreement, the whole list of assets that were transferred includes certain short-term investments, inventory, intangible assets, investments in subsidiaries, contracts and purchase orders.[6]

As listed on Exhibit C of the Contribution in Kind Agreement, the Intangible Assets Transferred from CACo to CAmSARL consist of:

1. Dealer Contracts;
2. Training Programs (Pro2000 and Masters programs);
3. Order Tracking Software;
4. Procedures and Manuals;
5. Marketing Brochures/Product Catalogues;
6. Website;
7. Any Other Marketing-Related Intangibles (such as Customer Lists or Dealer Network) Associated with the Caribbean, Central America, Mexico and South America; and
8. Goodwill and Going-Concern Value Located In the Caribbean, Central America, Mexico and South America.

[5] The Contribution in Kind Agreement can be found in Appendix A of this report.
[6] This report only analyzes the value of the Intangible Assets Transferred as listed on Appendix C.

Below we analyze the nature of each of the above listed Intangible Assets Transferred:

- The Dealer Contracts generally are terminable at will within 90 days by either party.[7] The agreements do not provide for scheduled price increases or minimum purchase requirements by dealers. The agreements therefore have a short economic life, and provide no basis for assuming economic value beyond the 90-day termination period. Moreover, the Sales and Service agreements have little or no economic value without the corresponding right to purchase and resell Caterpillar products, or the right to use the Caterpillar trademark.

- The Pro2000 and Masters training programs developed by CACo have proved successful in promoting sales among dealers in Latin America. Although proprietary, the training programs nevertheless simply assist CACo to maintain its market share relative to other heavy equipment suppliers in Latin America, and thereby protect its routine distribution income from erosion. The training programs are therefore routine operating intangible assets that functionally could be reproduced over time by another start-up company with sufficient investment of time and resources.

- The Order Tracking Software is a customer service program that allows CAT and CACo employees to check the status of a customer order. The Order Tracking Software was developed by Cat Inc. and only minor improvements were made by CACo. The Order Tracking improvements made by CACo consist mostly of customization to its environment. Therefore, the customization of the Order Tracking Software would have very limited value outside of CACo.

- Procedures and manuals provide documentation of the CACo work procedures, which have evolved over time. Most procedures and manual have been developed by Cat Inc. but may be further developed for the Latin American markets. The benefit of such procedures and manuals is to ensure the smooth operation of the CACo business during employee rotation or the unexpected loss of key personnel. Procedures and manuals are standard business practice, are likely to be short lived.

- Marketing brochures, catalogues and company websites were mostly developed by Cat Inc. Marketing brochures and catalogues are sometimes customized by CACo to the Latin American market through routine language translations, the use of local photographs, and enhanced sensitivity of the publications to local customs and business practices. The marketing brochures, product catalogues, and website are the result of standard business practices and could be easily reproduced over time by start-up company.

[7] The Dealer Contracts consist of the Dealer Sales and Service Agreement, Distribution Agreement for Engines, Parts and Service, Power Systems Distribution Agreement, Dealer Representative Consent, Distribution Agreement for Medium Speed Engine Sales and Service, and any other similar agreements between CACo and third party dealers selling Caterpillar branded products in the Latin American region.

- Information relating to equipment dealers in Latin America is publicly available. Typically, there is one Caterpillar dealer per country (the territories of Brazil and Mexico are served by multiple dealers each). Hence, there is no trade secret value associated with the assembly of the names of CACo customers. The only value in the customer lists is the likelihood that the dealers will purchase Caterpillar products from CAmSARL again in the future as they have done in the past. However, dealers and customers value the "Caterpillar" brand name and products, not the CACo name. The CACo name thus has no separate trade name or brand value. Therefore, thee dealer network effectively belongs to Cat Inc., not CACo, evidenced by the fact that dealers would not stop buying Caterpillar products if CACo were to be replaced by a new sales and marketing company.

- Any going concern or goodwill intangible value attributable to CACo would be derived from and consist primarily (if not exclusively) of the value of the trained and assembled workforce-in-place. Although CAmSARL will inherit many experienced personnel, CACo's employees are routinely rotated to new positions every three to five years within CACo or other Caterpillar entities. Hence, any value associated with a trained workforce in place is limited to the short period required to train new employees to perform routine marketing and distribution functions on behalf of CAmSARL.

C. Functional Analysis Conclusions

Based on our analysis of the Intangible Assets Transferred we conclude that they are routine and common to most distribution and marketing companies. These assets have only limited economic life, and could be effectively reproduced by a new start-up company with sufficient investment of time and resources. Moreover, the Intangible Assets Transferred would have limited value outside of CACo. These assets have no legal protection (i.e. patent or registration) and would have little or no value on a stand-alone basis.

The Intangible Assets Transferred have been developed over time through the accumulated business experience of a going-concern providing routine marketing and distribution services. When combined, an organized assembled workforce would enable a new start-up company to step into the shoes more quickly than if it were to start afresh. Therefore, we conclude that the Intangible Assets Transferred have very limited economic value and this value is mostly related to its assembled workforce in place.

III. ECONOMIC ANALYSIS OF INTANGIBLE ASSETS TRANSFERRED TO CAmSARL

A. Intangible Assets Definition

Treasury Regulations issued under § 482 of the Internal Revenue Code define intangible property as "any commercially transferable interest in any item included in the following six classes of intangibles, that has substantial value independent of the services of any individual."[8] Specifically, Treasury Regulations issued under § 482 of the Internal Revenue Code provide the following list of potential intangible assets:

(1) Patents, inventions, formulae, processes, designs, patterns, or know-how;
(2) Copyrights and literary, musical, or artistic compositions;
(3) Trademarks, trade names, or brand names;
(4) Franchises, licenses, or contracts;
(5) Methods, programs, systems, procedures, campaigns, surveys, studies, forecasts, estimates, customer lists, or technical data; and
(6) Other similar items.

With respect to *other similar items*, an item is considered similar if it "derives its value not from its physical attributes but from its intellectual content or other intangible properties."[9]

B. Selection of a Method

The standard applied under Treasury Regulations issued under § 482 of the Internal Revenue Code to analyze the value of transferred intangible property is the arm's length standard. Under this standard, a controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in a comparable transaction under comparable circumstances.[10] The Treasury Regulations issued under § 482 of the Internal Revenue Code regulations provide that the arm's length character of the transfer of an item of intangible property must be determined by applying one of the methods specified in the regulations under a "best method" analysis. The specified methods include: (i) the Comparable Uncontrolled Transaction ("CUT") Method; (ii) the Comparable Profits Method ("CPM"); (iii) the Profit Split Method ("PSM"); and (iv) Unspecified Methods.[11]

The CUT method evaluates whether the amount charged for a controlled transfer of intangible property was appropriate by reference to the amount charged in a comparable uncontrolled transaction. The CUT method is generally the most direct and reliable measure of an arm's

[8] Reg. § 1.482-4(b).
[9] Reg. § 1.482-4(b)(6).
[10] Reg. § 1.482-1(b).
[11] Reg. § 1-482-4(a).

length result for the transfer of an intangible if the uncontrolled transaction involves the transfer of the same intangible under substantially the same circumstances as the controlled transaction.

When the CUT method cannot be applied because adequate valid comparable transactions cannot be identified, the regulations provide that the CPM may be used to test the arm's length character of a royalty rate or value of intangible property.[12] Under the CPM approach, royalty payments are deemed to be at arm's length if the post-royalty operating profits reported by the licensee fall within the arm's length profitability range derived from uncontrolled taxpayers that are functionally similar to the taxpayer being analyzed but do not own or use valuable non-routine intangibles.[13]

The Profit Split Method, as it applies to the transfer of intangible property, is based on the allocation of the overall profits attributable to an intercompany transaction. The relative contribution of a party to a controlled transaction should be an indication of the relative profits that should be attributed to that party.[14]

The use of unspecified methods to value intangible property transactions between related parties is permissible as long as the method provides the most reliable measure of an arm's length result.[15] The regulations provide that such unspecified method should take into account the general principle that uncontrolled taxpayers evaluate the terms of the transaction by considering the realistic alternatives to that transaction, and only enter into that transaction if none of the alternatives is preferable. In establishing whether a controlled transaction achieved an arm's length result, an unspecified method should provide information on prices or profits that the controlled taxpayer could have realized by choosing a realistic alternative to the controlled transaction.[16]

Because comparable and reliable CUTs could not be identified, and the profit split method appears inapplicable in these circumstances, a combination of the CPM and unspecified methods provided by the Treasury Regulations issued under § 482 of the Internal Revenue Code regulations was chosen to value the Intangible Assets Transferred.[17] The CPM is applicable here because the method provides an approach to test for the presence overall of high-value intangibles or residual goodwill by assessing whether such assets have contributed to non-routine profits earned by CACo above those consistent with the normal profits earned by comparable marketing and distribution companies. The use of an unspecified method – in this case, the measurement of intangible property value by determination of the foregone profits that CAmSARL would have realized without the Intangible Assets Transferred – provides the most

[12] Reg. § 1.482-4(c).
[13] Reg. § 1.482-5.
[14] Reg. §1.482-6.
[15] Reg. §1.482-4(d).
[16] Id.
[17] The fact that comparable and reliable CUTs are not available to value most of the Intangible Assets Transferred is consistent with their classification as "operating intangibles" under the regulations of Section 367(d). Operating intangibles are defined in the regulations as property of a type not ordinarily licensed or transferred between unrelated parties for consideration contingent upon the transferee's use of the property. Reg. § 1.367(a)-1T(d)(5)(ii).

reliable measure of the arm's length result because it takes account of the profits that the controlled taxpayer could have realized by choosing a realistic alternative to the controlled transfer.

C. Application of the CPM

Application of the CPM required a search for comparable marketing and distribution companies. The description of the search performed can be found in Appendix C of this report. [18] This search resulted in a set of five comparable companies that produced an arm's length range as measured by their operating margin of 2.3 percent to 5.1 percent.[19] The median level of operating profit earned by the comparable marketing and distribution companies is 4.2 percent.

The results of the CPM where then compared to those of CACo. Table 1 below presents the financial performance of CACo over the 1997 through 2001 period. From Table 1, based on CACo's financial data, the highest operating profit earned by CACo during the 1997 through 2001 period was 3.6 percent.

Table 1
CACo Financial Statements (including Canada)
(USD millions)

	1997	1998	1999	2000		2001*	Average 97-01
Net Sales	$2,197.1	$2,268.1	$1,754.3	$1,859.2		$1,897.2	$1,995.2
Gross Margin	151.7	128.8	84.5	79.0		106.7	110.2
Operating Expenses	85.0	112.4	106.8	159.3	**	100.6	112.8
Operating Income	66.7	16.4	(22.3)	(80.3)		6.1	(2.7)
Other Exp/(Inc)	(11.3)	(7.3)	(11.0)	(1.2)		(0.4)	(6.2)
Profit Before Tax	$78.0	$23.7	($11.3)	($79.0)		$6.5	$3.6
Operating Margin	3.0%	0.7%	-1.3%	-4.3%		0.3%	-0.1%
Profit Margin Before Tax	3.6%	1.0%	-0.6%	-4.3%		0.3%	0.2%

*June year to date annualized data.
**Includes approximately $60 million one time only payment of Foreign Sales Corp. commission (1992 through 1997 adjustment).

[18] Appendices C1 and C2 provide a discussion of the search for comparable companies and an analysis of the financial results for the comparable companies, including detailed search strategy and business descriptions for comparable distributors.

[19] Note that this arm's length range, 2.3 percent to 5.1 percent, is <u>unadjusted</u> for balance sheet differences between CACo/CAmSARL and the comparables. CAmSARL will have significantly lower assets, as a percentage of sales, than comparables. (CAmSARL's inventory is limited to in-transit inventory, and CAmSARL factors all of its receivables.) It is reasonable to expect, therefore, that a correctly-applied balance sheet adjustment would <u>lower</u> the interquartile range by up to one percentage point.

Table 2 provides CAmSARL's Pro Forma financial results in 2000. These Pro Forma CAmSARL financial results have been created in an effort to determine the expected profit-and-loss statement for CAmSARL. The lower level of sales - $795 million as compared to $1,897 million - are due to the two categories of sales to Latin American dealers that will not be handled by CAmSARL. The two categories of sales that will not be handled by CAmSARL are: (i) sales to Canadian dealers; and (ii) sales to Latin America dealers occurring within the US (US title passage). As shown in Table 2, the 2000 Pro Forma financial results were derived from adjusting CACo's financial statements for the lines of business that will not be transferred.[20] On a Pro Forma basis CAmSARL would have earned an operating profit margin of 2.4 percent in 2000.

Table 2
CAmSARL Pro Forma Financial Statements
(USD Millions)

	2000		
Net Sales	$795.48		
Gross Margin	$85.90		
Operating Expense	($67.15)		
Operating Income	$18.75		
Operating Income %	2.36%		
Pro Forma CAmSARL =	CACO Financial Statements	Less Canada Less US Title Passage Plus Mexico Parts	

The historic financial results obtained by CACo and reflected on Table 1 and the Pro Forma financial statements for CAmSARL on Table 2 are two measures of the profitability of the distribution function in Latin America. These two measures demonstrate that the distribution function in Latin America earns operating profit margins that are within the arm's length range of comparable distribution companies of 2.3 percent to 5.1 percent.

[20] Detailed derivation of the Pro Forma financial results of CAmSARL is provided in Appendix B.

The fact that both CACo and CAmSARL Pro Forma earn or would have earned a level of profitability that is not greater than the financial results of comparable distributors of industrial products performing similar marketing and distribution activities supports the analysis that these companies do not own significant non-routine intangible assets. This is consistent with the corporate worldwide transfer pricing policy by which CACo earned a routine return for the routine risks incurred, routine functions performed and routine operating assets developed and employed. [21] Therefore, the CPM indicates that CACo does not possess non-routine operating assets.

D. The Value of the Intangible Assets Transferred

As discussed in the Functional Analysis, although the Intangible Assets Transferred are routine in nature, they have value to CAmSARL since they would enable it to avoid start-up costs during its initial period. In effect, the transfer of CACo's intangibles allows CAmSARL to "step into the shoes" of CACo immediately, thus allowing CAmSARL to earn a normal distributor profit much sooner than if it were it to reproduce the assets through investment over time. Moreover, an unrelated party would be willing to pay in order to avoid initial start-up costs. Therefore, the amount of foregone profits and additional risk avoided by CAmSARL provides the best measure of the arm's length value of the Intangible Assets Transferred.

To measure the profits likely to be foregone by CAmSARL during the start-up period without access to the Intangible Assets Transferred, Caterpillar and PwC examined empirical information related to the substantial loss in employees in the San Francisco district office in 2000 due to voluntary separation as well as the normal employee rotation. Caterpillar determined that sales of equipment, engines and parts dropped considerably in the San Francisco district in 2000 due to the loss of several key sales representatives and sales managers.

A statistical analysis [22] prepared by Caterpillar and PwC suggests that the percentage decline in Caterpillar's Percentage of Industry Sales ("PINS") attributable to the higher than expected employee turnover in the San Francisco district was 12.8 percent. Caterpillar further estimates that the reduction in sales attributable to the staff turnover lasted for approximately one year after which the district office again achieved normal personnel operating levels and productivity, and sales. The experience of Caterpillar in San Francisco provides a unique experience from which to gauge the value of a trained workforce in place and other related Intangible Assets Transferred.

Based on the estimated decline in sales of 12.8 percent, we estimated the foregone profits for CAmSARL if CAmSARL were to begin operations without the benefit of the Intangible Assets Transferred, particularly the trained workforce in place. The observed sales decline of 12.8 percent was used to calculate CAmSARL's sales level under an initial or "Start-Up Scenario"

[21] Because Cat Inc., which owns, develops and maintains patents, brands, and other intangible property incorporated in Caterpillar products it receives compensation for its intangible assets primarily through the price of product sold to CACo and CAmSARL and through receipt of royalties on licensed product sold by CAmSARL.
[22] See Appendix D for a summary of the statistical analysis.

which assumes the absence of a trained workforce in place. Our analysis estimates that the reduction in sale would not be coupled with a reduction in Selling, General & Administrative expenses ("SG&A") of the same magnitude. Although the new company would have reduced employee costs it would incur additional training and recruiting costs. Thus, we estimate that the reduction in SG&A would only be 95 percent of the reduction in sales (i.e. 12.2 percent). The analysis further assumes that the reduction in sales attributable to the hypothetical absence of the sales staff, as well as the loss of the other intangible assets, would last for one year.

Based on the above assumptions, PwC conducted a sensitivity analysis of the foregone profit by applying two alternative sales growth rate projections: no growth and 5 percent annual sales growth. The results of this analysis are shown in Table 3.

Table 3
Sensitivity Analysis
($ Millions)

	Sales Growth Rate	
	0%	5%
Foregone Operating Income	$2.8	$3.1

Table 4 represents one of the scenarios described in Table 3. Specifically in Table 4 we compare the projected performance under the "Steady State" (i.e., CAmSARL has access to CACo's operating intangible assets) to a "Start-Up" (i.e., CAmSARL does not benefit from CACo's operating intangible assets) assuming no sales growth and a 12.8 percent decline in sales attributable to staff turnover.

Table 4
Example Economic Analysis Assuming No Growth in Sales

	2002
Net Sales CAmSARL "Steady State"	$795.48 *
Operating Income CAmSARL "Steady State"	$18.75
Net Sales CAmSARL "Start Up" (12.8% Reduction in Sales and 12.2% Reduction in SG&A)	$694.03
Operating Income CAmSARL "Start Up"	$15.93
Difference in Operating Income - Foregone Profits	($2.82)

** CAmSARL's 2002 sales are based on the $795.5 million Pro Forma net sales for 2000. (see Table 2) which assumes no sales growth through 2002, its first year of operation.*

Therefore, the application of this foregone profits start-up analysis to CAmSARL – an unspecified method under Treasury Regulations §1.482 – indicates that the total value of the Intangible Assets Transferred is between $2.8 million to $3.1 million. In other words, if CAmSARL were to develop the Intangible Assets Transferred over a year and were to recruit and train the workforce, the amount that it would have foregone in profits would be between $2.8 to $3.1 million.

CSARL Profitability and Royalty
March 7, 2005

Participants: Nathalie Laks, Mary Miller, Crystal Carter, John Caviness, Giles Parsons, Nigel Burroughs, Pierre de Pena, Gary Abellard, Tom Quinn, Steve Williams (presenter), Ian Dykes, Yvonne Coysh, Natalia Pryhoda

Issues:

- CSARL profitability increasing
- Current "bundled royalty" agreement with Cat Inc. @ 4% royalty expires on 1/1/06 (6th amendment)
- Need to justify Cat Inc.'s I/C pricing (primarily royalty) with CSARL for TP documentation purposes

Discussion Points:

[See PowerPoint presentation "Caterpillar Inc.- Caterpillar SARL Transfer Pricing Analysis", March 7, 2005]

Current Transfer Pricing Tests

1. CPM analysis – licensed business may be above arm's length range for 2005; aggregated – OK
2. Profit split – indicates a 5% royalty based on 2001-2004 profitability; preliminary 78/22 residual profit split is a conservative approach for US; profit split analysis is based on CSARL related R&D expenditure; excludes dealer/marketing and TM intangibles
3. CUTs – while inexact – indicate royalty range 2%-5%

Revisions to Testing Methodology

4. Should we expand profit split analysis – additional income to CSARL for parts responsibility, dealers/marketing intangible (but consider agreements in LAD restructuring stating that dealer IP is not very valuable)?
5. Is CPM/TNMM still the best method?
6. Reconsider current comparables set (e.g., remove JLG, etc., use Amadeus companies)? (SW/ID)
7. Use range other than IQ range? (per US regs, IQ range ordinarily provides an acceptable measure of range of returns, however other statistical methods may be used if are more reliable)

Volume Observations

8. CSARL's profitability is driven by volume growth – historical sales increased faster than costs
9. Third-party agreements – as volume increases – royalty rate may decrease to motivate sales growth (mature business); royalty rate may also increase if original royalties were set up for startup operations
10. While CSARL is a mature business (volume increase should bring lower royalty rate), CSARL actually added new, more profitable territories – so volume increase could require a higher royalty rate
11. Is it possible to argue that CSARL profits increased due to higher volume of products sold to 3rd party customers from CSARL's efforts, while operating expenses remained low – so royalty change is not relevant? (GA)
12. However, volume growth may be related to adding new businesses, not specific product line sales growth

Hedging Gains

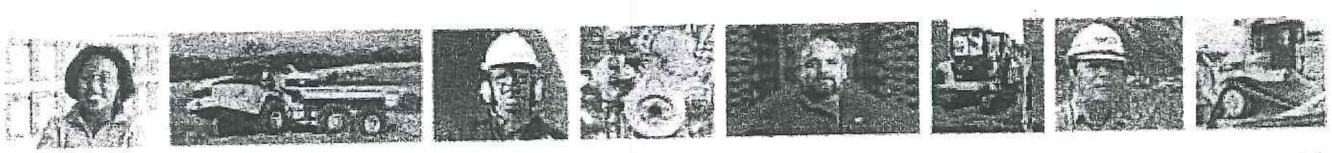
13. CSARL high profitability in 2004 also driven by est. $80M hedging gain ($650M total operating profit) – MTH contracts terminated in 2004 – so no hedging effect in 2005
14. If hedging related to balance sheet restatement – excluded from analysis
15. MTH contracts terminated in 2004 – these contracts are related to operations in future periods (will be no hedge for spot FX sales) – consider excluding from analysis? (TQ)

Permanent Subcommittee on Investigations
EXHIBIT #14

Presentation to Caterpillar Inc.
Audit Committee

June 2004

Corporate Tax
Robin D. Beran



CATERPILLAR

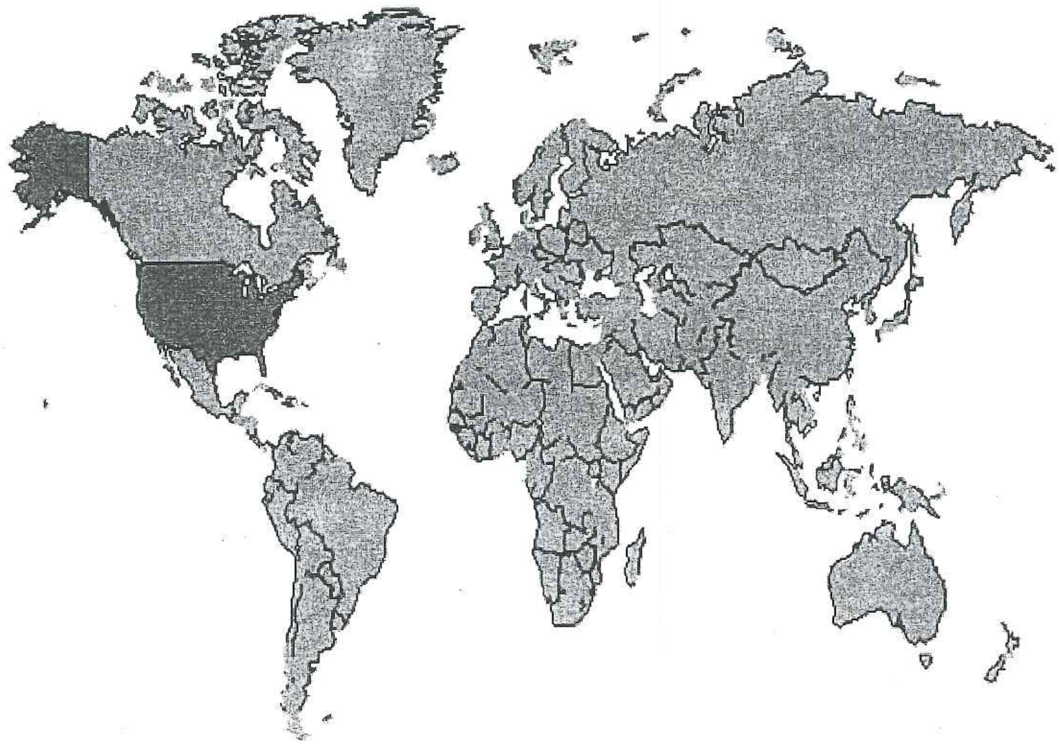
Permanent Subcommittee on Investigations
EXHIBIT #15

Purchased Finished Parts Distribution – Prior to Establishing CSARL

Effective Tax Burdens Associated with Operating Income:

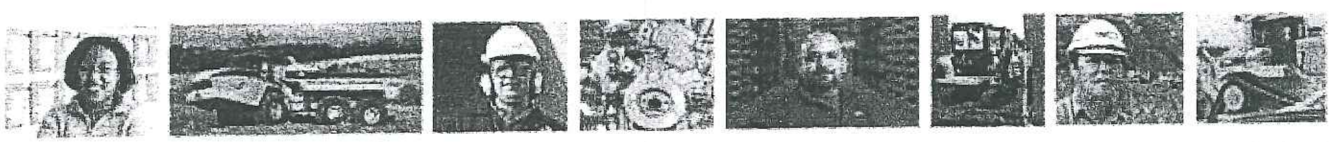
- Taxable in U.S. (35%+)
- Taxable in Local Country (25%-35%+)
- Taxable in U.S. and Local Country (35%+)

Purchased Finished Parts Distribution
– Post CSARL



Effective Tax Burdens Associated with Operating Income:

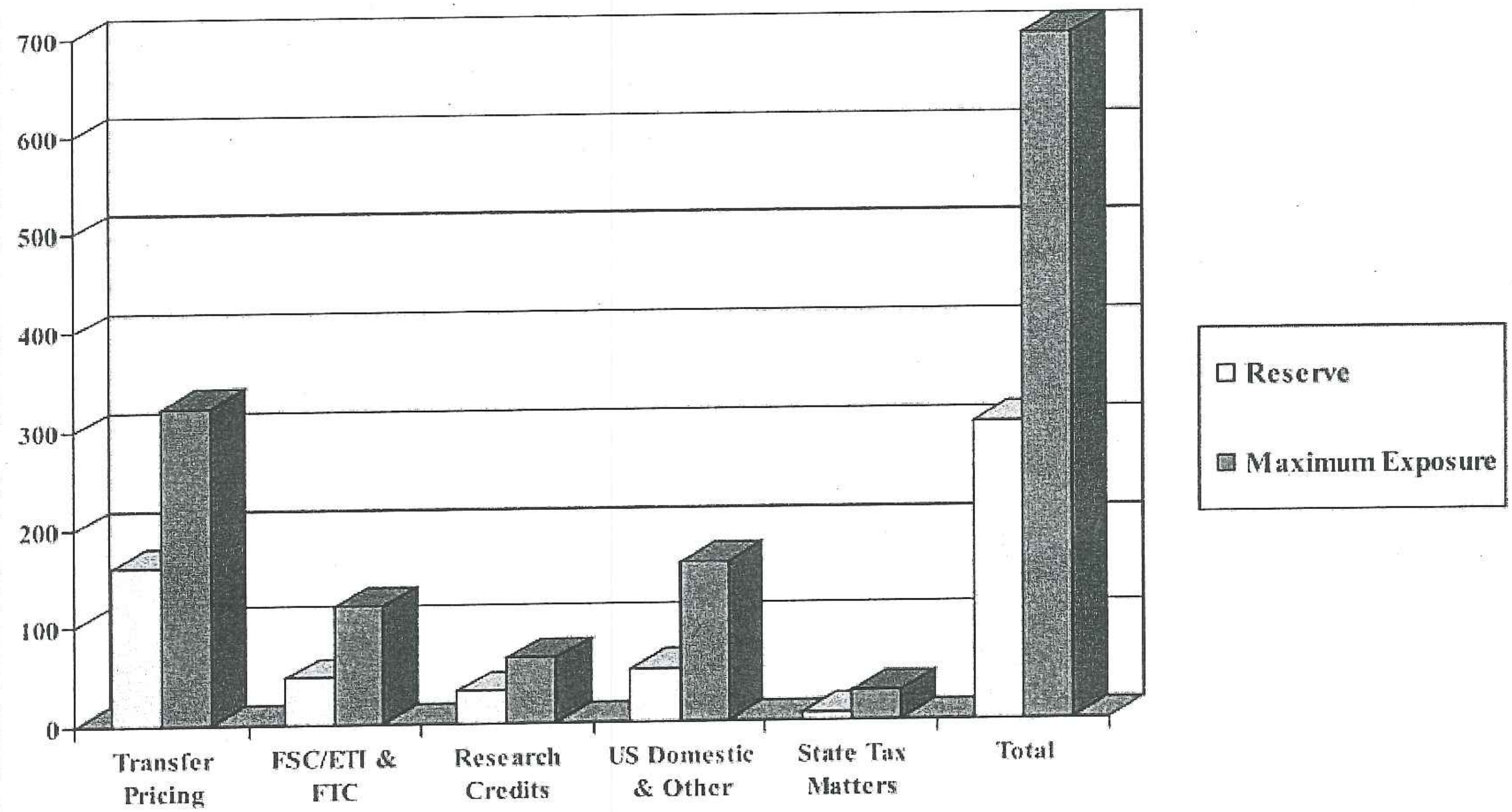
- Taxable in U.S. (35%+)
- Taxable in Local Country and Geneva (~9%)

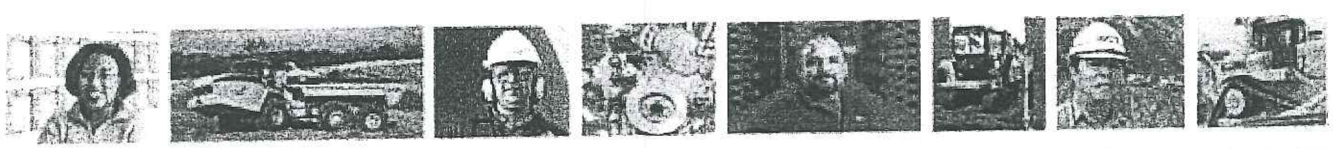


CATERPILLAR

[redacted]

▬ = Redacted by the Permanent Subcommittee on Investigations



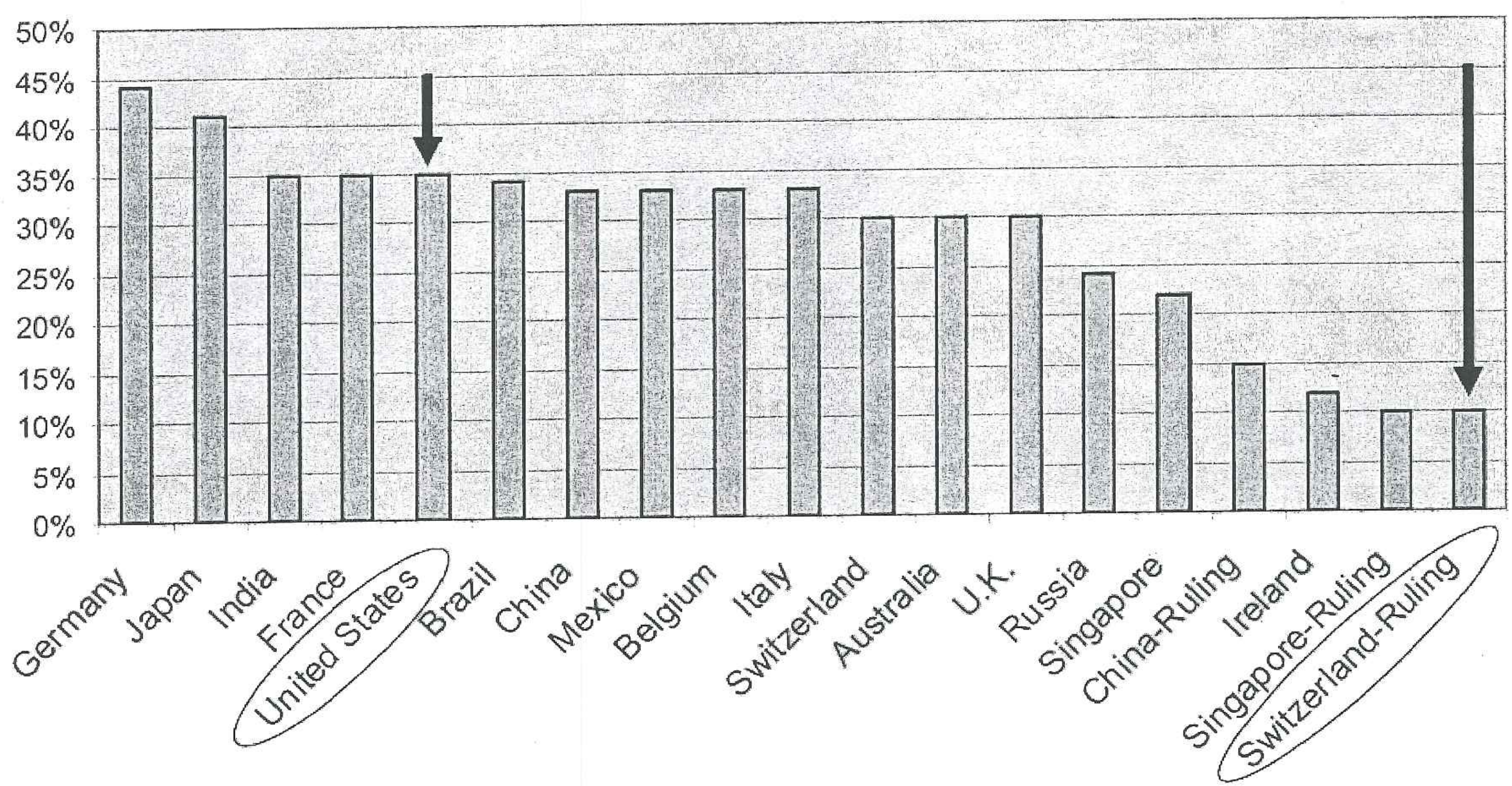


CATERPILLAR

ETR- Causes of "Low-Taxed" Non-U.S. Earnings

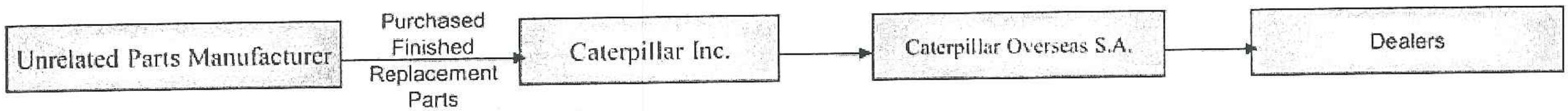
Switzerland provides favorable tax rulings that many U.S. companies utilize.

Tax Rates



Background - Pre-2001
(Before Caterpillar S.A.R.L.)

Pre-2001, the Swiss earnings were taxed in the U.S. and, therefore, the funds were available for U.S. funding needs.



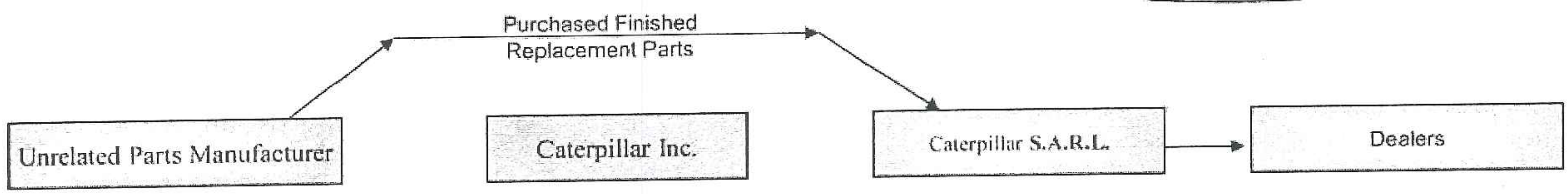
	Caterpillar Inc.	Caterpillar Overseas S.A.
Profit from operations	50	50
Swiss profit taxable in US	50	
Total US taxable profit	100	
Tax @ 35%	(35)	
Cash available for US funding	65	

Includes the Swiss earnings because they have been fully subjected to U.S. tax.

Background - 2002-2004

(Effect of Caterpillar S.A.R.L.)

The CAT S.A.R.L. initiative deferred the U.S. taxation of Purchased Finished Replacement Parts sales outside the U.S., but only if the earnings are not repatriated.



Profit from operations	50	50
"No" Swiss profit taxable in US	0	—
Taxable profit	50	50
Tax @ 35% US / 10% Swiss	(18)	(5)
Cash available for funding in U.S.	32	
Cash available for funding in Switz.		45

CSD – Corporate Tax

8/22/2008 2:15 PM

Delivering Vision 2020

Value Transformation: An After-tax View

Prepared jointly by Corporate Tax and Corporate Accounting Services

Mary Miller
Terri Pierpont
Rod Perkins
Matt Dobberfuhl

Permanent Subcommittee on Investigations

EXHIBIT #16

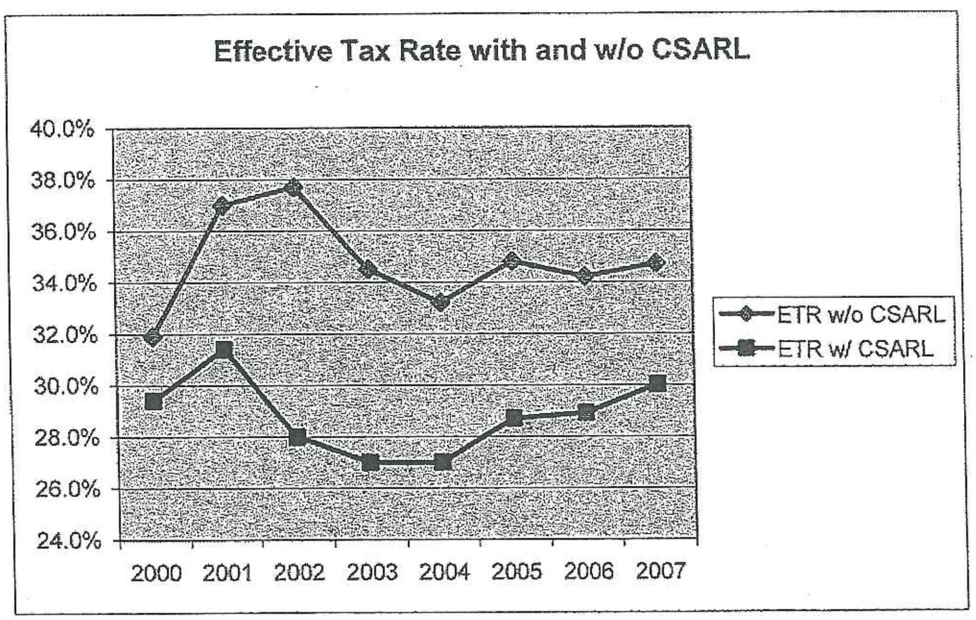
manufacturing). See Section IV for a complete discussion on the CSARL operations. Table I-6 reflects the financial statement benefits the CSARL structure provides:

Table I-6

CSARL Benefits (in millions of $)			
	Parts	Tolling	Benefits
2000	39	-	39
2001	46	21	67
2002	80	29	109
2003	108	3	111
2004	133	33	166
2005	196	37	233
2006	214	41	255
2007	222	11	233
TOTAL	**1,038**	**175**	**1,213**

Table I-7 shows the actual Caterpillar effective tax rate (bottom line) and what the tax rate would have been without the CSARL structure in place (top line).

Table I-7



IV. Maintaining Prior Gains

The single largest factor driving Caterpillar's effective tax rate below the U.S. statutory rate is the ability to maintain deferral of earnings outside the U.S. Most of these deferred earnings are located within the Caterpillar S.A.R.L. ("CSARL") organization. The two primary operational drivers of the CSARL deferral are (1) purchases of replacement parts from suppliers directly by CSARL for marketing regions outside the US and (2) product management benefits for assemblies at the Grenoble and Gosselies facilities (i.e., toll manufacturing).

In conjunction with a reorganization of European Operations in 2001, CSARL became the manufacturing entrepreneur for activities at the Grenoble and Gosselies facilities. Caterpillar France SAS ("CFSAS") and Caterpillar Belgium SA ("CBSA") provide manufacturing services to CSARL, receiving a service fee consistent with their limited functions and risks. CBSA and CFSAS are not in the buy-sell flow of transactions. Consistent with the management structure, all inventories are owned by CSARL, and corresponding technology licenses are between CAT Inc. and CSARL. As noted in Section III, it is extremely important that the key functions such as product management, product development and inventory risk, remain within CSARL, rather than at CBSA and CFSAS.

U.S. tax rules penalize the sale of purchased goods to a non-U.S. customer where the product was purchased from a related Caterpillar entity. However, if these same goods were purchased directly from an unrelated entity and re-sold to a non-U.S. customer, the income would not be immediately taxed in the U.S. Caterpillar purchases significant quantities of replacement parts from unrelated suppliers to service field populations of CAT produced products. CSARL is the entity with territorial marketing rights to non-U.S. regions. In 1999, CSARL began purchasing replacement parts directly from suppliers for sale into non-U.S. markets. By removing CAT Inc. from the supply chain in connection with the reorganization of certain European operations and payment of a royalty to Caterpillar Inc. (formerly: 3rd party supplier →CAT Inc. → CSARL →non-U.S. Customer), CSARL is both buying from and selling to unrelated parties (current supply chain: 3rd party supplier →CSARL →non-U.S. Customer).

This allows the profits on these sales to be deferred from U.S. taxation. To maintain this tax benefit, supplier agreements and service agreements must be respected and maintained. The cost of logistics or administrative service activities related to purchased finished replacement parts must be borne by CSARL. CSARL can be perform such activities itself or engages others to perform this work on CSARL's behalf. In addition, CSARL must incur the carrying costs of inventory ownership, as well as risk of obsolescence.

See charts I-6 and I-7 for the historical view of the CSARL impact to profit and the effective tax rate. In addition to maintaining the alignment of functions and risks within CSARL, past and future CSARL benefits depend on the management of the non-U.S. cash position. As noted in Section I. "Caterpillar's Effective Tax Rate: Past and Present," indefinite reinvestment of CSARL deferred earnings outside the U.S. is required, or U.S. GAAP will mandate these earnings be recorded at the 35% U.S. tax rate. This increased tax cost can occur by repatriating CSARL low-tax earnings to the U.S. or lacking a reasonable plan to indefinitely reinvest those earnings outside the U.S. In other words, even if no cash is repatriated to the U.S., the U.S. GAAP rules will require a tax provision on current earnings at the 35% U.S. rate, unless a definite plan exists to maintain the earnings outside the U.S. Prior earnings of CSARL back to its formation are also at risk of uplift to the US tax rate if a reinvestment plan does not exist.

For every $100 million of low-tax CSARL earnings repatriated, the financial statement impact would be additional tax expense of 30 percentage points. The impact on the earnings per share would be a reduction of 5 cents per share per $100M of repatriation. Without a reinvestment plan, future benefits also would be in jeopardy, and the ongoing effective tax rate would be similar to Table I-7 "ETR w/o CSARL" line.

V. Caterpillar's Cash Obstacle

As noted, the most significant impediment to reducing Caterpillar's effective tax rate below the U.S. statutory rate is the ability to maintain deferral of earnings outside the U.S. This ability depends upon the management of the non-U.S. cash position. Indefinite reinvestment of low-tax earnings outside the U.S. is required, or U.S. GAAP will mandate these earnings be recorded at the 35% U.S. tax rate.

Caterpillar has stated its earnings and cash objectives as:

a. Continue growing the business through both organic and acquisitive means
b. Funding pension plans
c. Increasing dividends to our shareholders
d. Repurchasing Caterpillar stock

Caterpillar has seen record growth and profitability over the past few years. As a global operating company, a significant amount of cash is generated outside the U.S. in jurisdictions with low-tax rates. However, as a US-based company, the final three of Caterpillar's above listed cash objectives must be funded with U.S. cash.

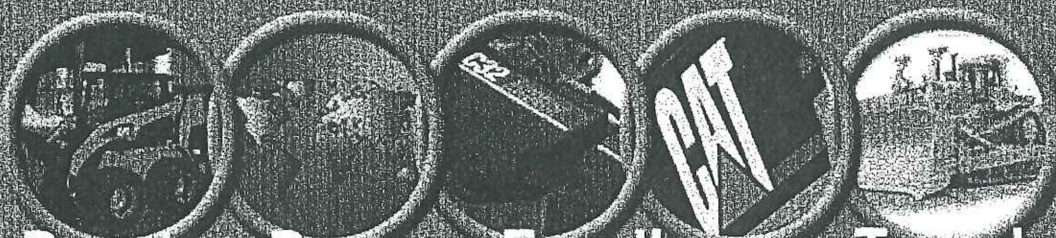
The primary objective, funding the growth of the company, includes both organic and acquisitive growth. Organic growth includes investments in capital projects (replacing, building or improving property, plants and equipment) and research activities. Organic growth demands lie both inside the U.S. and outside the U.S. However, research activities are currently funded primarily inside the U.S. As Caterpillar expanded its global reach, it was anticipated expansion via acquisitions would occur predominantly outside the U.S.

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

The cash crossover position is continuously monitored by a stellar Global Finance and Strategic Support team from Treasury and Tax. Crossover is the point where non-U.S. cash utilized in the U.S. exceeds tax capacity. Tax capacity is the ability to apply cash to US operations and uses without incurring significant, additional enterprise tax expense. This includes repatriation of non-U.S. earnings previously taxed in the U.S., advance payments for US-sourced goods and services, or one-time planning opportunities(such as the 2005 U.S. tax legislation allowing repatriation of non-U.S. earnings at a low US rate, often referred to as the Homeland Investment Act). Based on existing and past treasury practices, crossover is expected to occur in late 2008 or early 2009. Chart V-I shows the history and projections of crossover.

Global Finance *and* Strategic Support



People Process Excellence Trough

Global Tax & Trade Update

Audit Committee, April 13, 2010

CATERPILLAR®

Caterpillar: Confidential Red

Permanent Subcommittee on Investigations

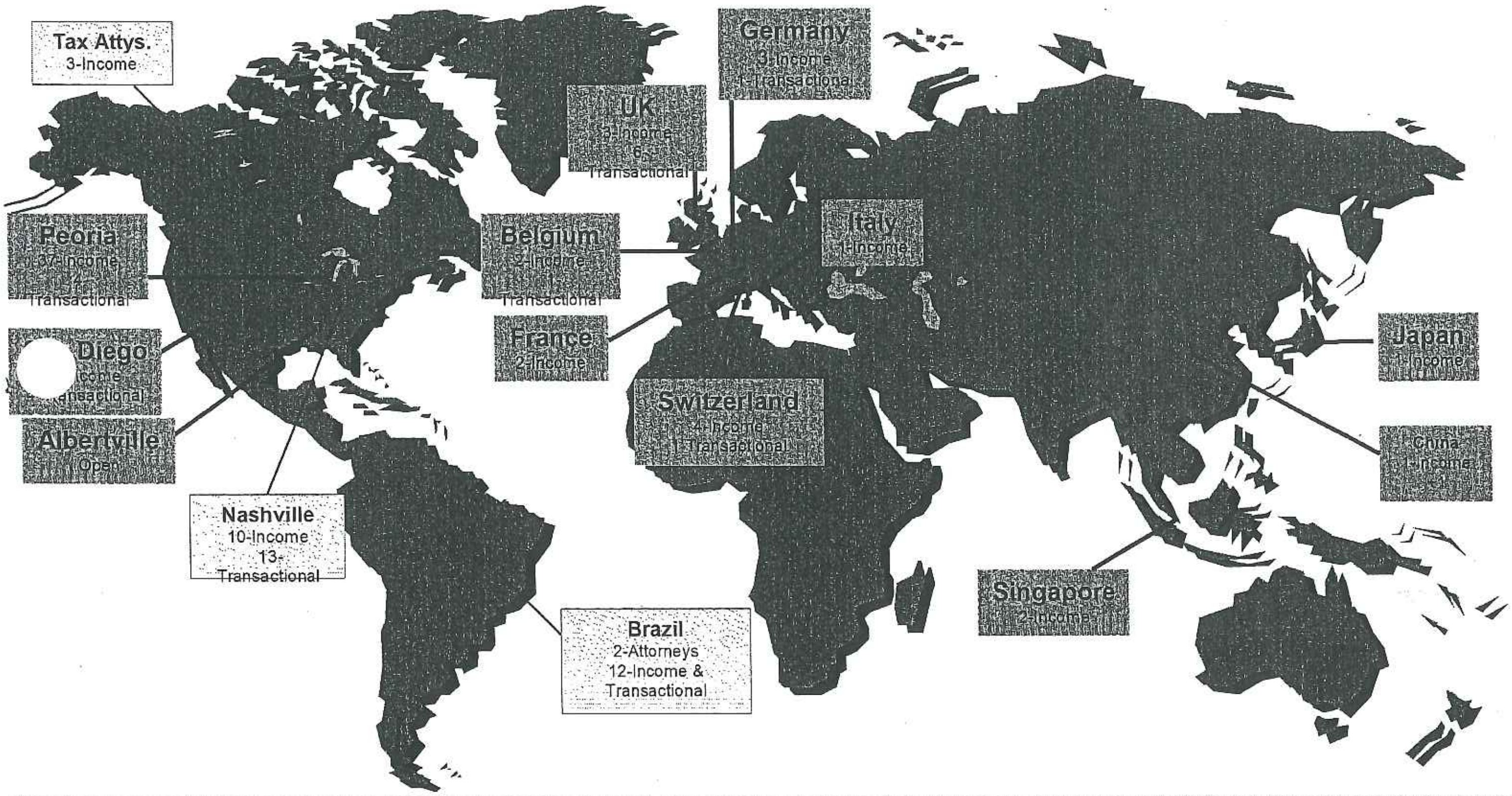
EXHIBIT #17

Summary – Key Messages

- We have Global Tax & Trade resources—
  - Retirements absorbed, focus on development and retention of bench
- Effective Tax Rate has dropped to lowest in the Dow 30
  - 2009 ETR dramatically impacted by decline and mix of income, plus $133 million in discrete benefits
- Tax Reserves of $761 million are adequate
- Cash Management – Build-up of foreign earnings and cash are being aggressively managed to improve returns while protecting assets.
- Legislation and Regulation—
  - Political attacks on Big Business continue
  - Caterpillar is leading lobbying activities in Washington
  - Coordinated approach has been successful and is continuing

Global Organization

Global coverage
Expanding east
114 People



report to GF&SSD

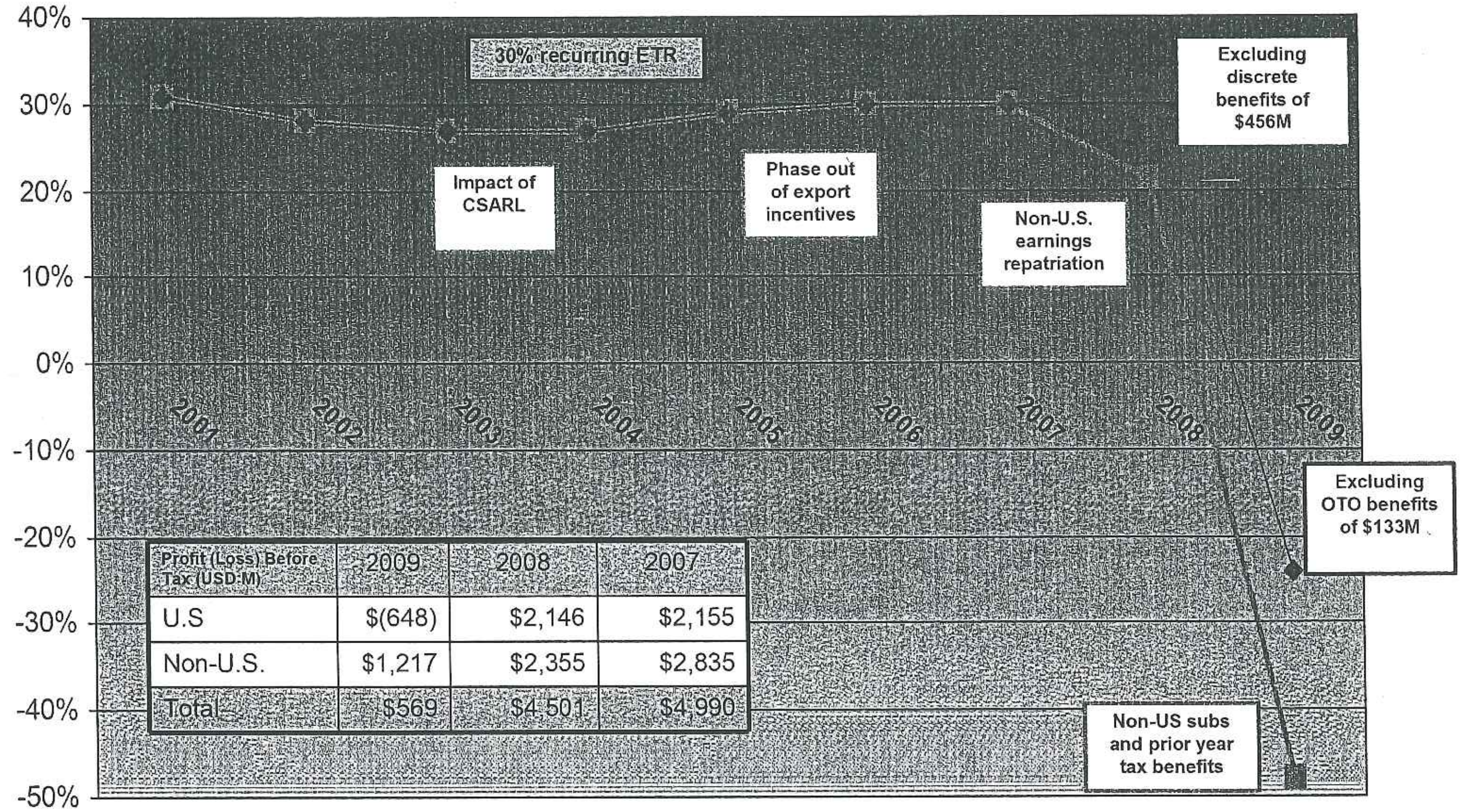
report to BU

Caterpillar: Confidential Red

People Process Excellence Trough

Effective Tax Rate - Trend

2009 ETR reduced by $133M prior year tax benefits



Profit (Loss) Before Tax (USD M)	2009	2008	2007
U.S	$(648)	$2,146	$2,155
Non-U.S.	$1,217	$2,355	$2,835
Total	$569	$4,501	$4,990

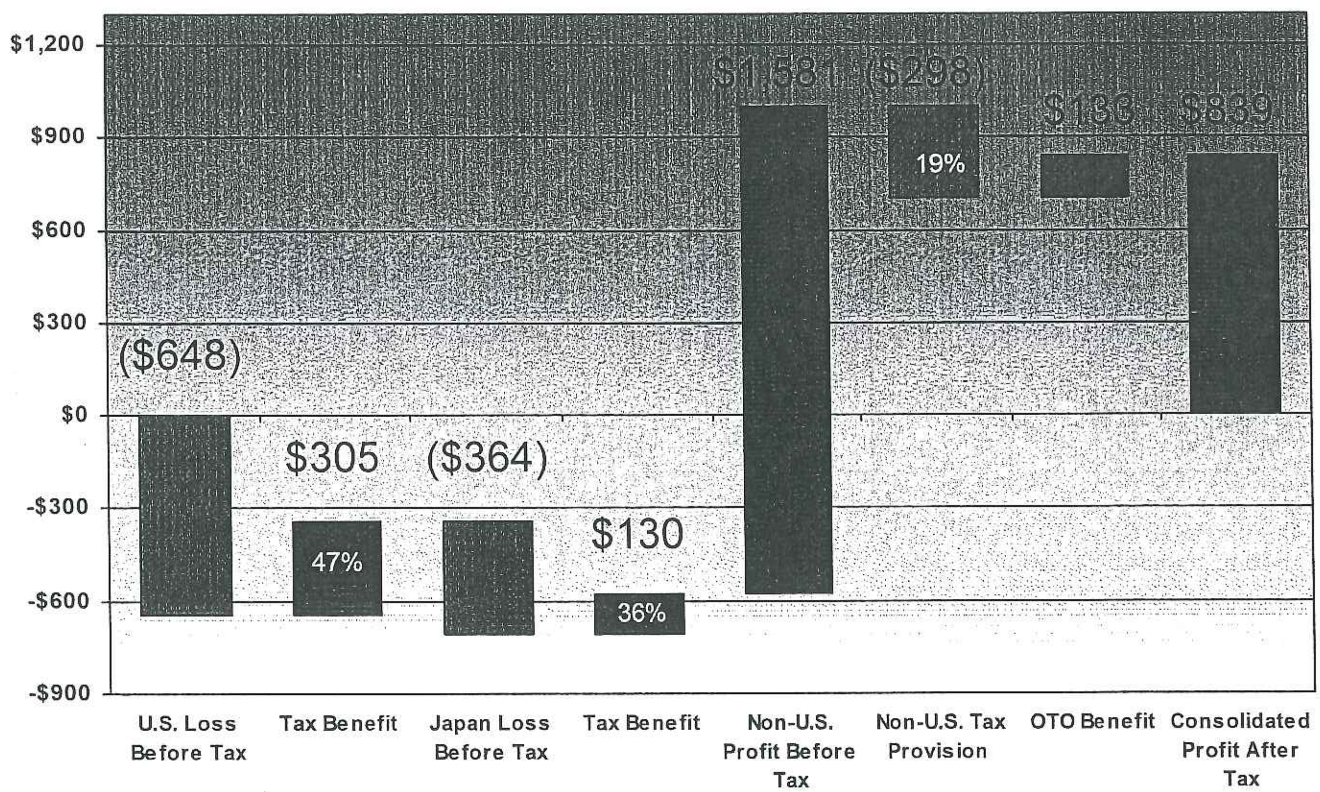
Effective Tax Rate – Dow 30

Earnings in low-tax jurisdictions and (highly taxed) non-U.S. earnings repatriation benefit ETR

Dow 30	2009 ETR	2008 ETR	Rank		Competitors	ETR
Caterpillar Inc.	-47.5%	21.2%	1		Fiat (CNH)	-131.1%
Bank of America	-44.0%	9.5%	2			
General Electric Co.	-10.5%	5.3%	3		Volvo	-28.6%
Verizon Communications, Inc.	10.5%	20.9%	4			
Merck & Co. Inc.	14.8%	20.1%	5			
Hewlett-Packard Co.	18.6%	20.5%	6			
DuPont (E.I.) deNemours	19.0%	15.9%	7			
Cisco System	20.3%	21.5%	8			
Pfizer Inc.	20.3%	17.0%	9			
Johnson & Johnson	22.1%	23.5%	10			
Coca-Cola Co.	22.8%	21.7%	11		Terex	22.7%
Boeing Co.	22.9%	33.6%	12			
Travelers	23.0%	21.0%	13			
Intel Corp.	23.4%	31.1%	14			
American Express Co.	24.8%	19.8%	15		Cummins	24.4%
International Bus. Mach.	26.0%	26.0%	16			
Procter & Gamble Co.	26.3%	24.5%	17			
Microsoft Corp.	26.5%	25.8%	18			
United Technologies Corp.	27.4%	27.1%	19			
J.P. Morgan Chase & Co.	27.5%	-33.4%	20			
KRAFT FOODS INC CL A	29.4%	29.0%	21			
McDonalds Corp.	29.8%	30.0%	22			
3M Company	30.0%	31.1%	23			
AT&T Inc.	32.4%	34.9%	24		Komatsu	32.8%
Wal-Mart Stores, Inc.	34.2%	34.2%	25		Deere & Co.	34.3%
Home Depot, Inc.	35.2%	35.6%	26			
Walt Disney Co.	36.2%	36.1%	27			
Alcoa Inc.	38.3%	43.2%	28			
Chevron Texaco Corp.	43.0%	44.2%	29			
Exxon Mobil Corp.	47.0%	46.0%	30			

2009 Effective Tax Rate – Drivers
($ Millions)

Losses in high-tax rate countries,
Profits in low



Cash Management

Actively working to utilize Geneva cash

"Crossover" cash buildup in Geneva

Caterpillar Definition: <u>Crossover</u> occurs when offshore cash no longer can be accessed in the U.S. without incremental U.S. tax cost

Impact and Risk:
- High enterprise tax cost of repatriation – 25% additional tax
- Low return on bank deposits of excess Geneva cash

Balance December 2009	$1.5 billion
2010 Growth	<u>$2.9 billion</u>
ATS Dec. 2010	$4.4 billion
Geneva Cash Feb. 2010	$1.6 billion

Plans:
- Geneva cash position monitored monthly
- Aggressively manage Geneva cash buildup
- Develop tax efficient repatriation strategies

Cash Management

Improve utilization and returns vs. bank deposits

Action Plans – What are we doing?

Developing tax efficient repatriation strategies – $3 billion

- 2010 Planning Actions – Repatriate $1 billion
  - Loans to U.S. with minimal tax impact
  - Tax efficient dividends – high-tax pools
- 2010 Planning Opportunities – $2 billion
  - Prepay royalties
  - Expand goods prepayment – CSARL purchases from U.S. affiliates
  - Other options under consideration

Aggressively managing Geneva cash utilization – $1 billion

- Fund reduction of external debt for Cat Japan
- Fund part of Cat Financial's non-U.S. funding needs
- Supplier pre-pay programs – steel, tires

Plans identified to cover cash flow through 2010

08/11/99
P.5

Global Value Enhancement (GloVE) project

Mr. Owens discussed the Global Value Enhancement (GloVE) project involving numerous initiatives under the guidance of the Corporate Tax Department reporting to a steering committee chaired by the Chief Financial Officer. The projects were said to range from simple process changes to subsidiary capital restructuring. Approval of two initiatives coming out of this effort was being requested. These were explained and, after discussion, on motion duly made, seconded and unanimously carried, the following resolutions were adopted:

RESOLVED, that the recapitalization of $25,000,000 of existing loans from Caterpillar Inc. to Caterpillar Commercial Holding S.A.

Redacted by the
Permanent Subcommittee on Investigations

12/11/02
Page 5

Mr. Owens then updated the Board on Critical Success Factor #4 – Product Support Parts Sales Growth. He described the parts business value chain and the product support core processes, and explained that the company has recently focused on parts sales and increased investment in parts products development, parts and service systems, and emphasized increasing parts sales and service people in the field. In addition, he said

12/11/02
Page 6

that in 2003 the company will change the accountable system to align internal business units' goals and objectives in order to drive more accountability for parts sales and profit.

He described the expected future parts growth and the factors that influence the growth including product mix and product design. He detailed the metrics to be utilized for Critical Success Factor #4 including parts order growth and parts margin improvement.

He concluded by saying the product support business is vitally important to the company and its dealers; has been a traditional source of competitive advantage and the company is working to strengthen that position; initiatives currently in place have served to sustain sales in a recessionary market; plans are in place to accelerate growth; and the company has long-term metrics in place to achieve its goals on this critical success factor.

Redacted by the
Permanent Subcommittee on Investigations

December 9, 2009
Page 11

Mr. Levenick reviewed positive feedback from customers and dealers, the improvement in the clarity of roles and responsibilities and the increase in teamwork that has resulted from the Enterprise Alignment. He also noted that there are numerous areas for continued focus, which include business table effectiveness, clarifying decision rights, focus on distribution manager portfolio responsibility and the organization of the parts business. He noted that customer feedback would be the best measure of the effectiveness of the Enterprise Alignment. He also reviewed the 2012 Quarry and Special Industries Division targets to demonstrate the increased alignment under the new structure. In response to questions from the Board, Mr. Levenick described the organization of the Company's parts business and how the business table operates.

Redacted by the Permanent Subcommittee on Investigations

Parts Growth and Distribution Facility Footprint Expansion

Mr. Levenick invited Messrs. Gosselin and Larson to discuss the Company's parts business. Mr. Gosselin began by explaining that the "seed, grow, harvest" business model ingrained in the organization was a catalyst to aftermarket parts sales and services, creating an annuity continuing long after original equipment sales and generating customer loyalty, PINS and profits. He then identified six strategic actions being undertaken to maximize the aftermarket opportunity. Mr. Gosselin then tracked current parts performance against financial and operations goals established in 2010, noting that the Company had made significant improvements and was on track to meet the 2015 targets. He then explained the Company was making similar progress on POPS.

Mr. Larson next described the efforts underway to transform the parts distribution business from a United States centric model into regional distribution centers located throughout the world. He noted that the 2011 parts distribution and delivery business had met or exceeded the internal objectives or competitive benchmarks. Mr. Larson then described the distribution network transformation that was underway. This, he observed, involved moving from world-wide suppliers and packaging to regional suppliers and packaging, with the goal of reducing the number and distance of shipments. Under the reconfigured global footprint, he explained, receiving points would be closer to suppliers and shipping points closer to dealers and customers. Mr. Larson then previewed a map showing the planned location of distribution facilities and contrasted the Company's strategy with that of Komatsu.

During their presentations Messrs. Gosselin and Larson responded to questions from the Board concerning Bucyrus, remanufacturing, automation, facility and workforce size, the Company's ability to identify the most profitable parts and those that are rarely ordered, barriers to on-time delivery, the optimal number of distribution facilities and on-line ordering in secondary markets.

Parts and Distribution

Mr. Levenick explained that the parts business was meeting its inventory availability and turnover targets, but levels were elevated as a result of the initial stocking of three new parts distribution centers. He noted that the business was focused on opportunities to eliminate inventory for low volume parts and increase direct shipments from parts suppliers to dealers. [redacted]

= Redacted by the Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

Business unit risk management update (Product Support Division)

Mr. Springer then made a presentation regarding the implementation of the company's Business Risk Management ("BRM") process in the Product Support Division ("PSD"). He began with an overview of the company's various roles in the product support process and interaction with the dealers. He discussed the company's parts business, its importance to the enterprise and the implementation of the company's product support excellence on Critical Success Factor. He described the company's goals for the Product Support Division and the applicable metrics to be achieved in a very difficult competitive environment. He said that this combination of factors required a very through analysis of PSD's strategy and risks.

Global Finance and Strategic Support Transformation Update

Income Tax Matters

Mr. Beran provided a presentation on, and led a discussion of, the Company's income tax matters and specifically noted that the Company now has global tax resources in place to manage tax issues, its effective tax rate ("ETR") which is approximately at the median of the Dow 30 companies, its tax reserves which are adequate and the tax department's risk management processes which are robust.

[redacted]

Redacted by the
Permanent Subcommittee on Investigations

Redacted by the
Permanent Subcommittee on Investigations

04/07/2009
Audit Committee
Page 5

Mr. Larson then noted that the key points regarding the Logistics Division are that it is driving transformational change in the Transportation, Manufacturing Logistics and the Cat parts business that will deliver significant value and address key areas of risk. He noted that the Logistics Division has set a goal of reducing parts inventory during 2009 by US$350-500 million while maintaining 95% parts availability. He also informed the Committee that the external client business delivered 15% return on assets in 2008 and US$71 million in positive cash flow.

12/08/2009
Audit Committee
Page 2

Project "Stay Strong" / Financial Markets update

[redacted]

**Redacted by the
Permanent Subcommittee on Investigations**

From: CN=Steven R. Williams/OU=US/OU=TLS/O=PwC
To: CN=Clifford A. Mangano/OU=US/OU=TLS/O=PwC@Americas-US
Sent: 08/29/2007 11:26:25 AM EST
": CN=Thomas F. Quinn/OU=US/OU=TLS/O=PwC;CN=Charles Larson/OU=US/OU=TLS/O=PwC@Americas-US
.bject: Fw: Caterpillar parts history

Chuck Larson has an even better memory than me. Here's a file of the parts data at Caterpillar. This showed that more than 50% of parts sales were for parts originally placed in service more than 10 years prior. And to capture 80% of parts sales, you had to go back 20 years. (ie, in a given year, Cat still sold 20% of replacement parts that were first placed in service more than 20 years prior....)

Hence the very long tail for cost sharing buy-in.

----- Forwarded by Steven R. Williams/US/TLS/PwC on 08/29/2007 12:18 PM -----

Charles Larson/US/TLS/PwC
08/29/2007 12:05 PM
Office: (312) 298-3105; Mobile: (708) 205-7997
Chicago
US
"Reply to All" is Disabled

To
Steven R. Williams/US/TLS/PwC@Americas-US
cc

Subject
Re: Caterpillar parts history

Steve, here is what I could find off-hand:

I hope this helps.

-Chuck

.even R. Williams/US/TLS/PwC
08/29/2007 10:39 AM

"Reply to All" is Disabled

To
Charles Larson/US/TLS/PwC@Americas-US
cc

Subject
Re: Caterpillar parts history

yes if you can find the excel model. I gave Cat some presentations in both 02 and 05, regarding the tradeoff between higher CS+ royalty now, vs lower overall CS later, but they always balked at the 10 year transiton period. (easy enough to model)

the parts life cycle analysis-- showing parts consumption per machine over the machine life-- from Cat, is the "evidence" I'm looking for that supports the "parts life cycle" So if you have that, it would be great.

thanks a lot!

Charles Larson/US/TLS/PwC
08/29/2007 11:33 AM
Office: (312) 298-3105; Mobile: (708) 205-7997
Chicago
US
"Reply to All" is Disabled

To
Steven R. Williams/US/TLS/PwC@Americas-US
cc

Subject
Re: Caterpillar parts history

I remember it. We met in DC with Steve Hannes from some law firm to discuss the potential cost sharing model. I probaby have some old excel models etc. if you'd like to have them.

Permanent Subcommittee on Investigations

EXHIBIT #19

Steven R. Williams/US/TLS/PwC
8/29/2007 10:30 AM

"Reply to All" is Disabled

To
Charles Larson/US/TLS/PwC@Americas-US
cc

Subject
Caterpillar parts history

Hey Chuck--

I recall an interesting analysis we did for Cat at least 5 years ago, and wonder if you were involved with me at the time. We were considering if Cat Sarl could cost share instead of paying a royalty (ie a declining royalty for old technology, plus cost sharing for new technology).

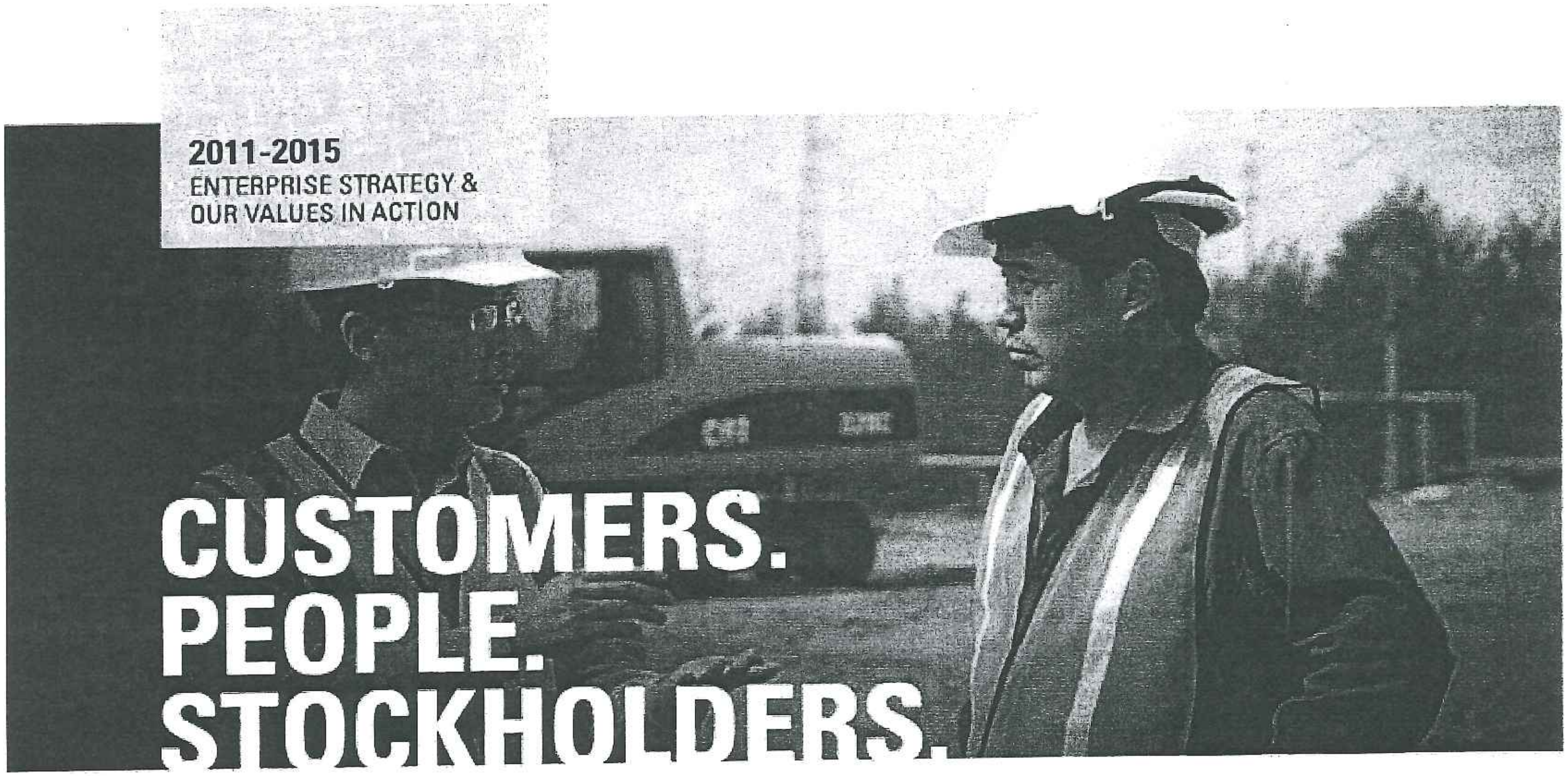
the rate of decline of course had to do with the product life cycle.

then we got some analysis from Cat that showed that machines still consume (profitable) replacement parts for 10, 20 years, so the declining royalty became too long to make it worthwhile, ie the product life cycle was 10+ years when you considered replacement parts.

But do you recall that parts analysis? of age of machines and consumption of parts? It was surprising how long machines stayed in service and still consumed parts... We are considering a similar analysis for another client.

Thanks

Steve



CATERPILLAR®

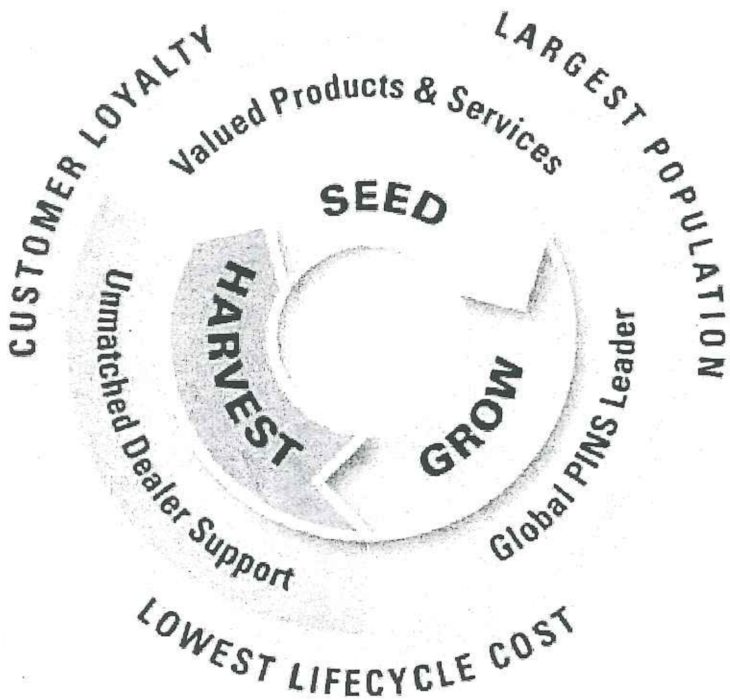
Parts Growth & Distribution Network Transformation

Steve Gosselin / Steve Larson

February 2012 Board of Directors Meeting

The Caterpillar Business Model

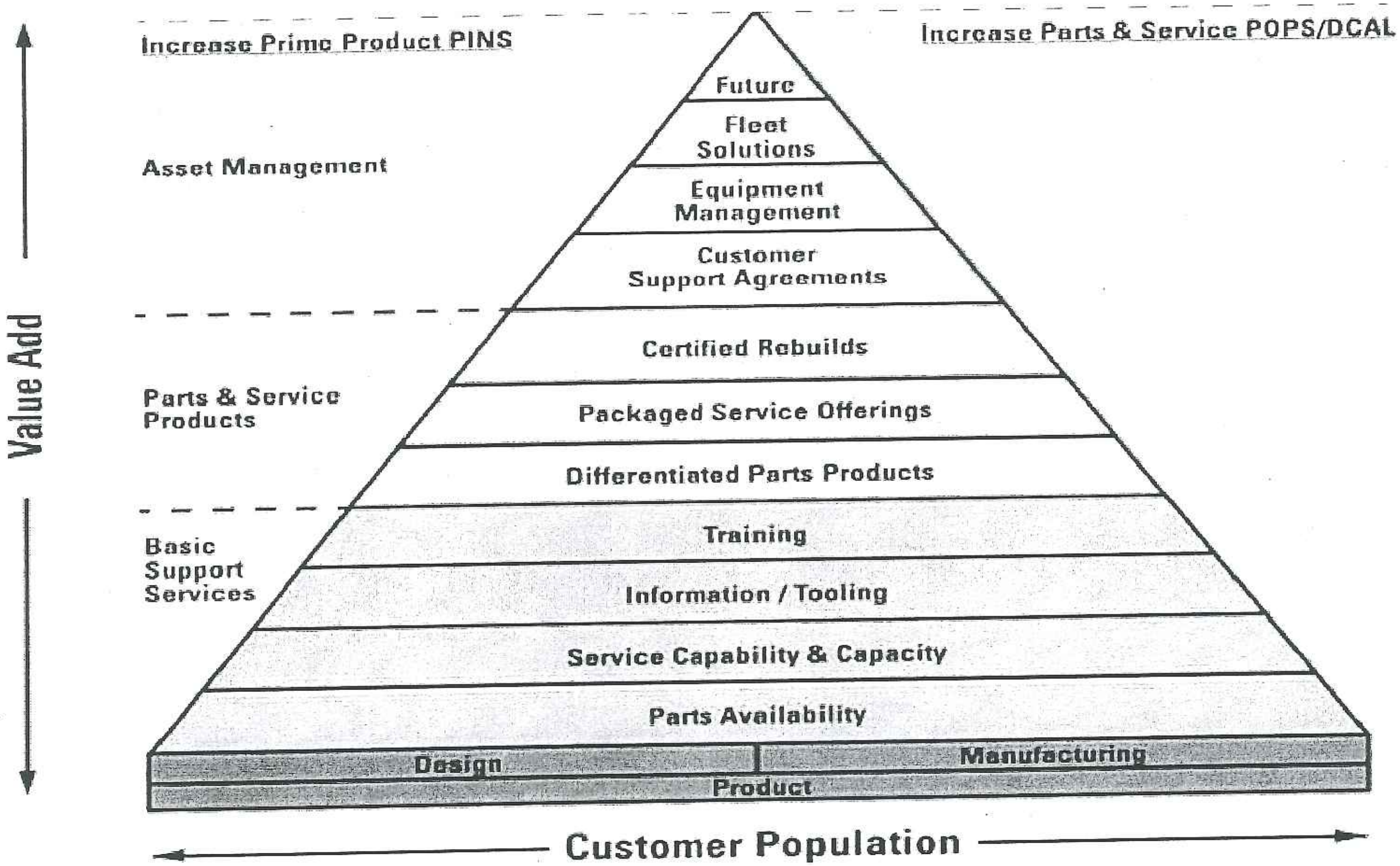
Our Fundamental, Competitive Advantage—Executed in Close Partnership with our Dealers



Maximizing our parts & service opportunity given our large field population is critical to our ability to increase customer loyalty, PINS and profitability.

Enterprise Product Support Strategy

A Strong Product Support Foundation Enables More Effective Parts Marketing



2011-2015
ENTERPRISE STRATEGY & OUR VALUES IN ACTION

CUSTOMERS. PEOPLE. STOCKHOLDERS.

CATERPILLAR®

Enterprise Parts Strategy
Strategic Actions

Aggressive Strategic Actions
Aligned Across the
Enterprise

- ✓ Increase Parts Distribution Capacity and Operational Efficiency
- ✓ Increase Parts Manufacturing Capacity
- ✓ Improve Customer Ease of Doing Business with Caterpillar
- ✓ Enhance Dealer Capability & Market Competitiveness
- ✓ Expand Parts & Service Offerings
- ✓ Simplify & Attack Our Cost Structure

Cat Parts Desired State

The Parts Strategy Targeted Significant Improvements.... We Are On Target to Deliver

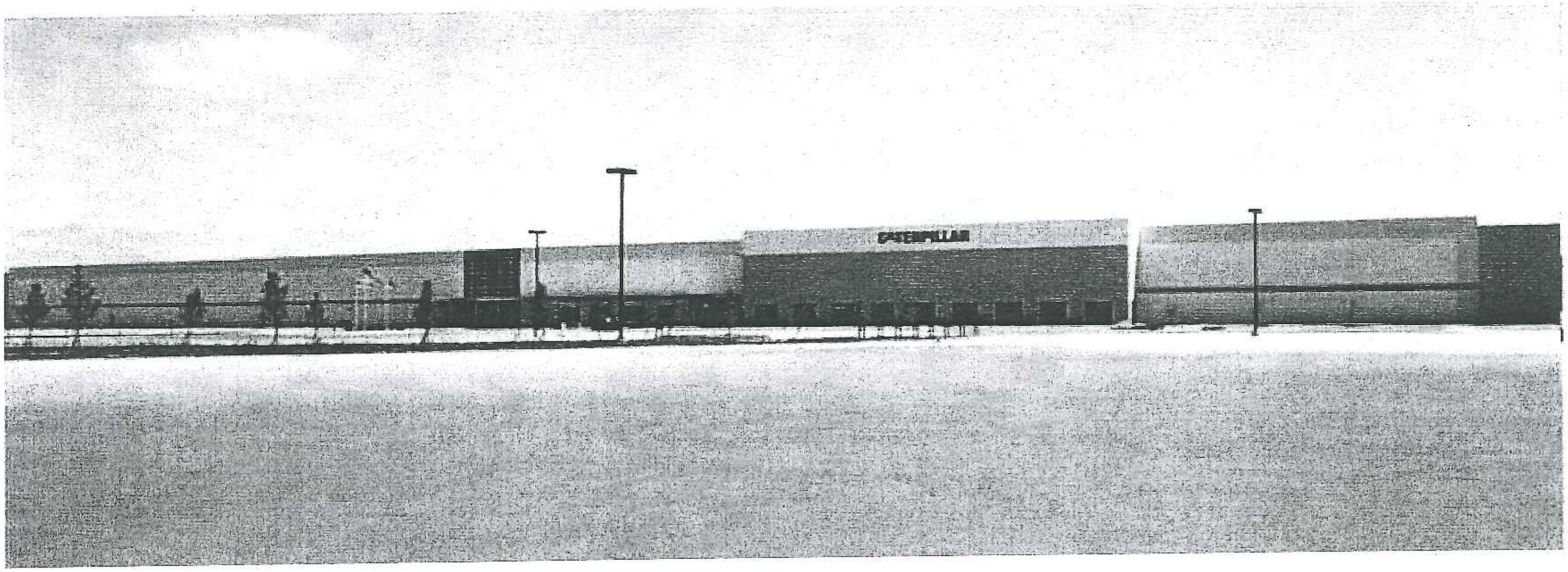
	Fall 2010	Current	Desired State
Manufacture / Distribution Capacity	[redacted]		
Distribution Capacity Utilization			
Supply Chain Delivery Performance			
Parts Availability	93%	96.3%	95%
Parts Past Due	[redacted]		
Price Premiums			
Undercarriage			
Engine Parts			

2011-2015 ENTERPRISE STRATEGY & OUR VALUES IN ACTION

CUSTOMERS. PEOPLE. STOCKHOLDERS.

CATERPILLAR®

▬ = Redacted by the Permanent Subcommittee on Investigations



Clayton, Ohio / Distribution Center and Inbound Processing Center

Parts Distribution & Logistics Division
Transforming Caterpillar's Parts Distribution Network

Steve Larson

2011 Parts Distribution & Logistics Scorecard

Strong Performance in 2011

[redacted] = Redacted by the Permanent Subcommittee on Investigations

	ABP Target	Actual
Net Sales	[redacted]	[redacted]
Safety	[redacted]	[redacted]
On-time Delivery - external	[redacted]	[redacted]
On-time Delivery - internal	[redacted]	[redacted]
Parts Availability	94.8%	96.3%
Inventory Turns	[redacted]	[redacted]

- Demand at Record Levels
- Safety performance significantly better than competitors
- Improving Supply Chain
- Record Parts Availability
- Turns Above Target

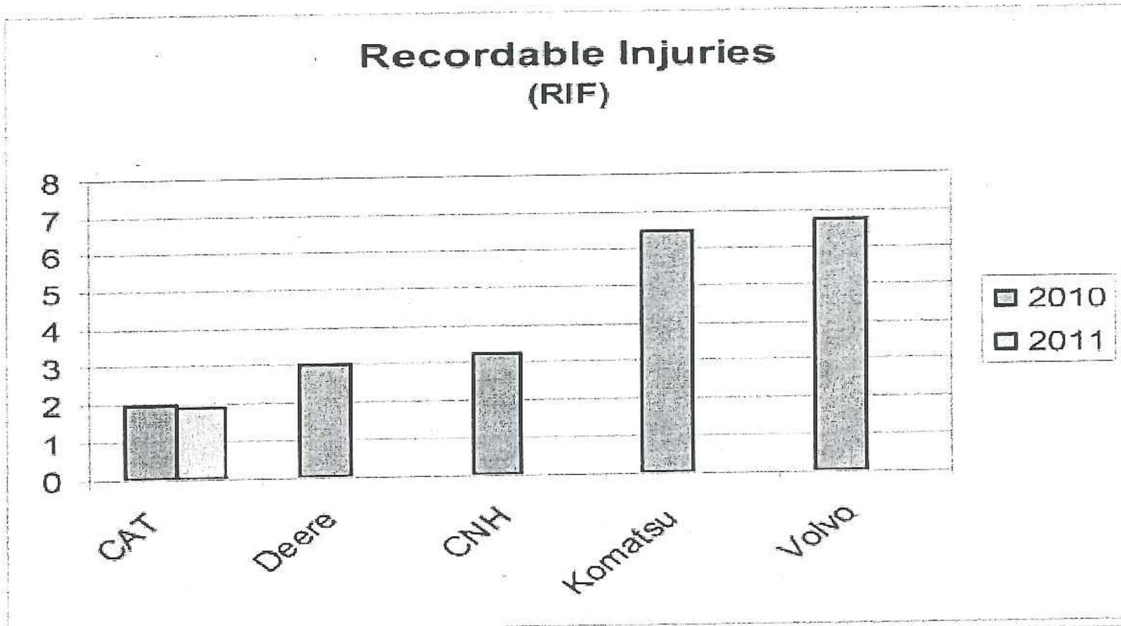
Parts shipping errors have been reduced by 18% from 2010, by 44% from 2008. Quality project won Group President Annual Quality Improvement award.

2011-2015
ENTERPRISE STRATEGY & OUR VALUES IN ACTION

CUSTOMERS. PEOPLE. STOCKHOLDERS.

CATERPILLAR®

Parts Distribution Competitive Benchmarks – North America



CAT injuries are two-thirds Deere level and one-third of Komatsu level.

Parts Distribution Competitive Benchmarks – North America

Redacted by the
Permanent Subcommittee on Investigations

Source: Carlisle North America Service Parts Conference

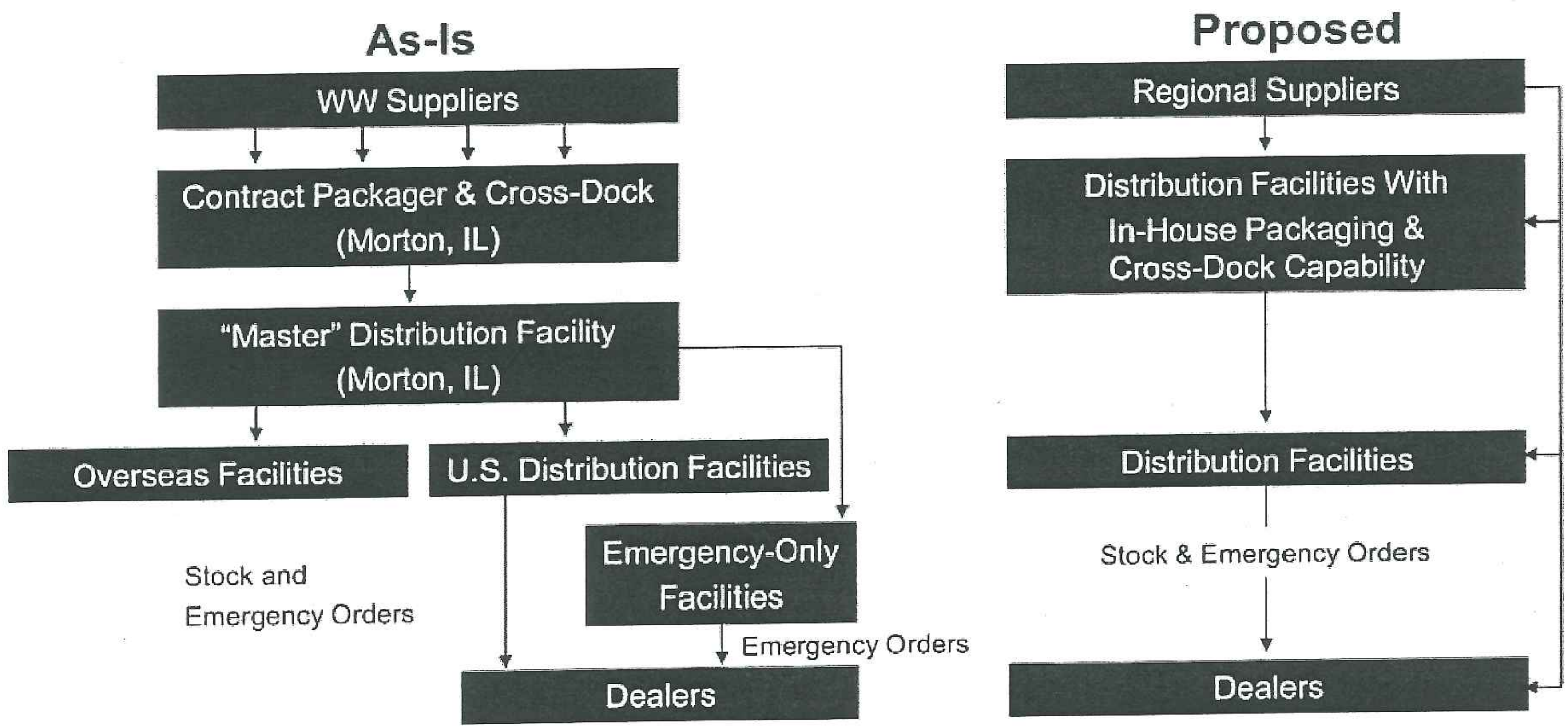
Parts Distribution Competitive Benchmarks – North America

Redacted by the
Permanent Subcommittee on Investigations

Source: Carlisle North America Service Parts Conference

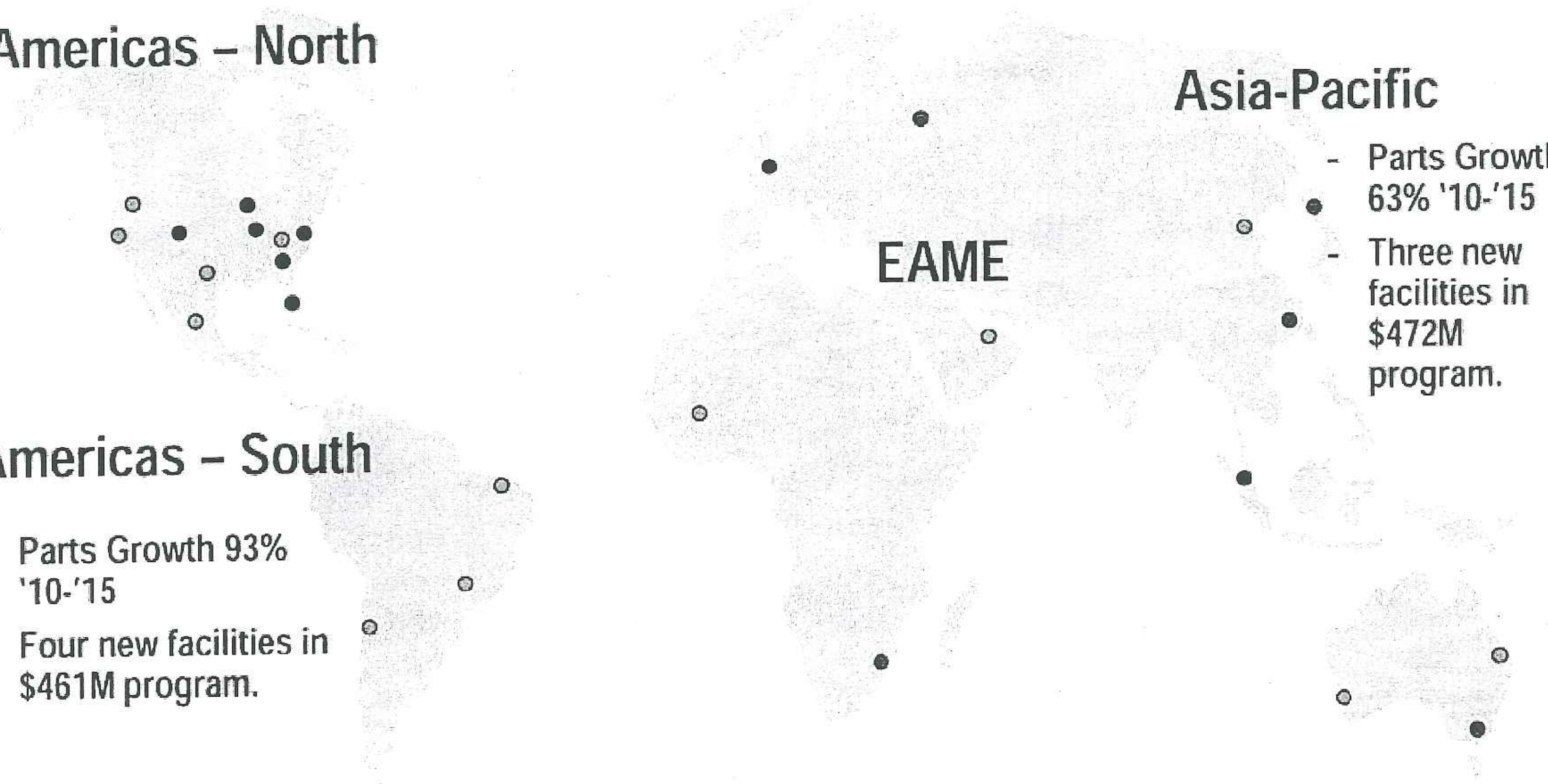
Solution: Network Transformation

Processes And Systems
Are Foundational



- Receiving points closer to suppliers
- Shipping points closer to dealers and customers

Cat Parts Distribution Future Footprint



Americas – North

Americas – South

- Parts Growth 93% '10-'15
- Four new facilities in $461M program.

Asia-Pacific

- Parts Growth 63% '10-'15
- Three new facilities in $472M program.

● 8 Existing
EAME – 1, AN – 5, AS – 1, AP – 1

○ 13 New
AP – 3 , EAME – 2, AN – 4, AS – 4

● 5 Expansion
EAME – 2, AP – 3

Excluding Bucyrus

West Africa location for illustration purposes only actual location TBD

Cat Parts Distribution - Summary

- Strong foundation for transformation work – record parts availability, inventory turns exceeding target, and shipping quality significantly improved

- Excellent progress on facility additions / expansions to date
  - Utilizing lean capital deployment principles
  - Work beginning on Asia Pacific and Americas South programs

- Strong organizational alignment on capacity plans

- Future focus on getting more capacity from existing / planned investments
  - Low volume parts strategy
  - Direct ship initiative
  - Service life policy

Caterpillar dealer push may drive some out, Levenick says

BY **JAMES B. KELLEHER**

LAS VEGAS Thu Mar 6, 2014 1:33am EST

http://www.reuters.com/article/2014/03/06/us-caterpillar-dealers-idUSBREA250AZ20140306

Stuart Levenick, group president of Caterpillar, speaks at the Reuters Manufacturing and Transportation Summit in New York, December 12, 2011 file photo.

CREDIT: REUTERS/BRENDAN MCDERMID

(Reuters) - Caterpillar Inc's (CAT.N) bid to lift the financial performance of its dealer network isn't designed to thin the ranks of the 178 independent distributors that sell and service its earth-moving products around the globe, a company executive said.

But Stuart Levenick, who is charged with overseeing the financial turnaround, said an unknown number of dealers including some family-run businesses, could be casualties of the push unveiled last month.

"This is not a plan to cull our dealers or drive consolidation - although you can expect that some of that will occur," Levenick told Reuters in an interview on Wednesday.

"But we do expect results. If you are not aligned, if you're not progressing towards those results, then you can expect us to move judiciously to make changes ... They all get that."

Caterpillar used to organize its global business - including dealer relations - regionally rather than by product category or customer type. So dealers were, in Levenick's words, "measured against the guy down the street".

That changed when the company reorganized a few years ago. The far-flung dealer network was put under one executive in Peoria, Illinois, who began comparing the performance of dealers across the globe.

The disparities, Levenick says, were jaw-dropping. So, too, were the money-making possibilities - if the laggards sold machines, parts and services as efficiently as dealers in the top half of the dealer performance rankings.

Permanent Subcommittee on Investigations

EXHIBIT #21

That, in a nutshell, is what the company has said it now wants them to do. Caterpillar has said the plan could increase sales and service revenue at the dealer level by $9 billion to$18 billion by 2018 - and that much of that increased revenue would flow to Caterpillar itself.

Under the plan, underperforming dealers have until the end of 2014 to come up with a plan for raising key metrics. Once the plan is approved by Caterpillar, they have three years to meet the targets.

The push is not without risk. Caterpillar has long touted its independent dealers, whose 162,000 workers more than double its global headcount, as a key competitive advantage, especially in recent years as lower-priced Asian rivals with thinner dealer support networks rose up to challenge it.

Tweaking that magic formula could create some ugly chemistry and sour the special relationship that Caterpillar says has been key to its success in remaining the world's top maker of construction and mining equipment.

The company has tried to increase distributor enthusiasm for the plan by tapping 20 of its top-performing dealers to help design the program's carrots and sticks.

So far, Levenick says, "there's not a lot of pushback." But the plan is still in its infancy and resistance could grow as dealers are forced to change long-standing practices and raise their game.

Analysts say a number of factors are driving Caterpillar's focus on dealer performance, including a tougher-than-expected sales environment, especially of high-margin products to the mining sector.

After peaking at $66 billion in 2012, Caterpillar's sales tumbled 16 percent to $55.6 billion in 2013 and the company has said 2014 revenue growth will be flat and could even fall as much another 5 percent.

But customer expectations are playing a big role, too, Levenick says. Many of Caterpillar's customers now do business around the globe and work with multiple dealers whose service levels - and prices - are not always consistent. "They want to have a common experience wherever they go," he said.

(Editing by Jeremy Laurence)