CATERPILLAR®

2010 Sustainability Report

BOOSTING
ENERGY EFFICIENCY

ENABLING
MATERIALS CONSERVATION

PROMOTING
SUSTAINABLE PROGRESS

Caterpillar plays a key role in providing reliable and efficient energy solutions, promoting responsible use of materials, enabling the mobility of people and goods and developing quality infrastructure. The interests of society intersect with our capabilities. Through our diverse businesses, we can contribute to a society in which people's basic needs are not only met, but also fulfilled in a way that sustains the environment.

Caterpillar is powering change by leveraging technology and innovation to increase efficiency and productivity with less impact on the environment and helping our customers do the same – enabling their businesses to become more productive by providing products, services and solutions that use resources more efficiently.

CHAIRMAN'S MESSAGE

POWERING CHANGE

EMPOWERING CUSTOMERS

It's not every day you get to be part of something truly game changing and life altering. However, I would make the argument that Caterpillar people do just that every day.

Think about it. Our machines build roads and bridges that connect remote villages to resources they've never had access to before. That's game changing.

Our power systems allow people to turn the lights on. We provide electricity in places that may never have had it before. That's life altering.

And when you think about it – it's pretty exciting.

There is a whole world out there that desires electricity, clean water, accessible roads and the overall infrastructure necessary to make a living and provide for families. As a global company, not only can we help provide these basic needs, but we can also do it in a way that can be maintained through generations.

The world's population is growing. The demand for energy is increasing, and progress and development will continue. And as exciting as that progress is, it certainly creates some challenges. Fortunately, we have the opportunity to be a part of meeting those challenges.

To me, Caterpillar's ties to sustainable development (SD) are clear. I always get questions about our SD efforts and how SD fits within our strategy. And I am always more than happy to give some answers!

Doug Oberhelman
Chairman and CEO

Q. How does this fit in our strategy?

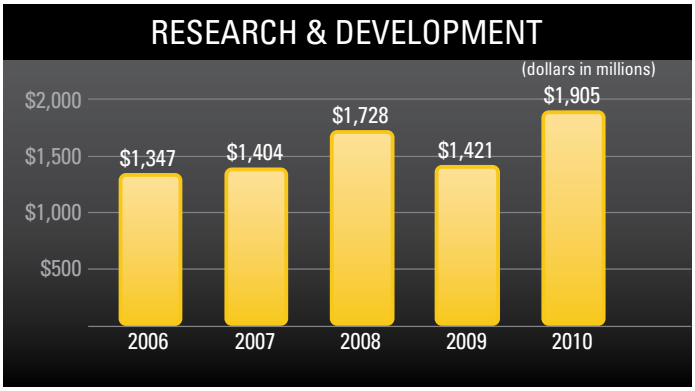
A. It's a perfect fit. Our strategy is all about serving our customers. And our customers are asking us how we can help make them more efficient and help them meet their sustainability challenges. That pull from customers is really all we need, but our people are also pushing us. Caterpillar employees get really excited about making our products more sustainable and also making our own operations more efficient.

And guess what? One of the key groups on our strategy pyramid – stockholders – like sustainability, too. I've yet to meet a stockholder that doesn't believe in investing for the future and providing superior products, services and solutions that meet our customers' needs. And that's what we are doing when we deliver sustainable solutions to our customers.

CHAIRMAN'S MESSAGE

Q. What are the costs of focusing on SD?

A. In the early days, when people talked about SD, we thought in terms of "what's it going to cost us to save." And it's true – we've made significant investments in technologies like emissions reductions. But when you start to think in a broader context, investing in SD is like any other investment for our future. And in some cases, it's a huge savings. Making more fuel-efficient machines saves our customers money on fuel. By eliminating waste from our facilities, we don't have to pay to send the waste to the landfills. It's rare to think about SD efforts in terms only of cost anymore.



Q. What has been the most significant business development in sustainability for Caterpillar in the past 12 months?

A. We have a couple of great examples, and one of my favorites is our pending acquisition of MWM. Our ability to provide gas engine systems that run on natural gas, coal seam methane, landfill methane, biogas, biomass, coke oven gas – you name it – is a real opportunity. Along with our traditional diesel and natural gas engines and turbines, we will have one of the broadest engine offerings in the industry and are, strategically, very well placed. On top of all that, we're expanding our mining business with our agreement to acquire Bucyrus International. This enables us to better meet the needs of the world's mining community, which is extracting and processing vital natural resources. All of these things have a tremendous impact on our sustainability efforts.

$5 Million

Average invested daily on product efficiency and energy improvements

Q. Speaking of mining – it's easy to see the sustainability benefits of certain power system applications, like converting landfill gas into clean, usable energy. But how can you help your mining customers be more sustainable?

A. It's true, the world has a limited number of resources, and we have to be as prudent as possible with mining the resources we've got. That's how we can help. The world's demand for natural resources is increasing and our role is to help our mining customers harvest those resources in the most efficient way possible.

And we all have a role to play to ensure those resources are then used in the most efficient manner possible. That's why we always talk about conserving, reusing and recycling. That's one of the reasons why our business model works so well. No one in our industry can help customers throughout the value chain in the manner that we do, from initial product selection, through the end of useful life and rebirth through remanufacturing and rebuilding to start the cycle over again.

Q. When will Caterpillar be done focusing on SD?

A. Never. SD will be with us forever. Society is pushing us, and we are pushing society. And there will always be opportunities to do better and to do more.

CHAIRMAN'S MESSAGE

Q. No one wants to harm the environment, so why is there debate on SD issues?

A. You'll notice that we don't say things like "we are going green" or "saving the planet." Instead we talk about sustainable development. Progress is going to happen. It needs to happen, and it should happen. We just need to do it in the best way possible, with the least impact on the planet.

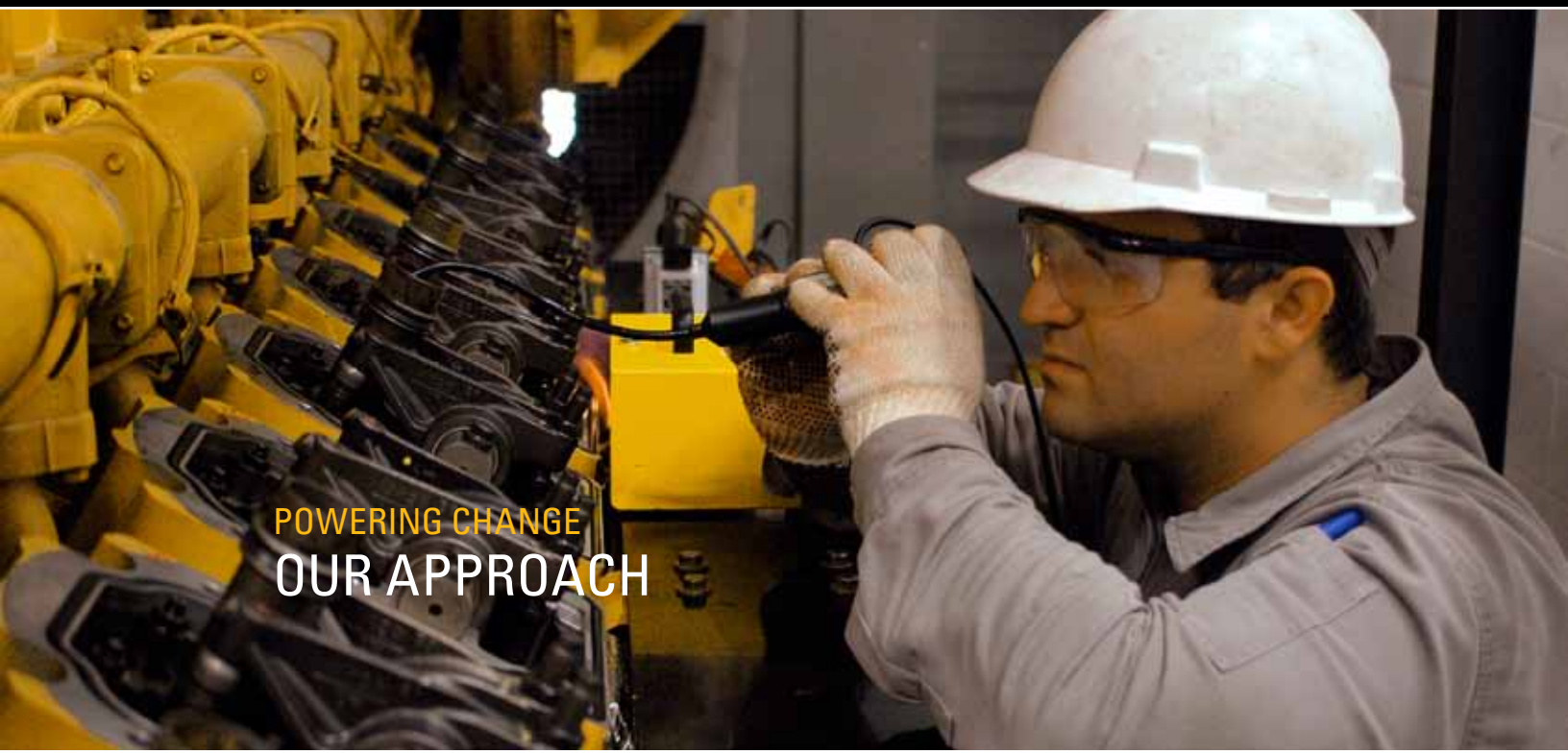
Individual situations are hardly ever black and white. I have a very personal example. Years ago, I worked for Caterpillar in South America and spent some time fishing on the Paraguay River. It was in the middle of an amazing jungle. There was green everywhere – so much plant and wildlife. And it really made an impression on a young man from central Illinois.

When I traveled back years later – full of excitement to revisit the jungle – it was very different. Much of it had been cleared for farmland. I was disappointed, for sure, but I'm just a visitor. The farmland is highly productive, and it's been great for the communities and the country. But is it great for the world? In some ways, one resource was traded for another. There are always two sides to every story, and it is important to find a balance. The conversion of the jungle into farmland from a world view may seem devastating, but for the people in this South American region to survive – to be sustainable – they need arable farmland. That's why when we talk about sustainable development we often talk about three pillars – economic, social and environmental. And to find success, we have to find a balance to all three.

Q. How will the big issues be resolved?

A. It's going to take cooperation from around the world. At Caterpillar, we will do our part. We are proud to do our part, but we can't do it alone. As a country, I think the United States is ready to do its part. We often follow the lead of the European Union, which is certainly committed to high standards. But we need countries around the world working together to address the issues on a global scale.

We may never all agree completely, but the world is moving along. The demand for sustainable solutions is there. And Caterpillar will be part of the solution.



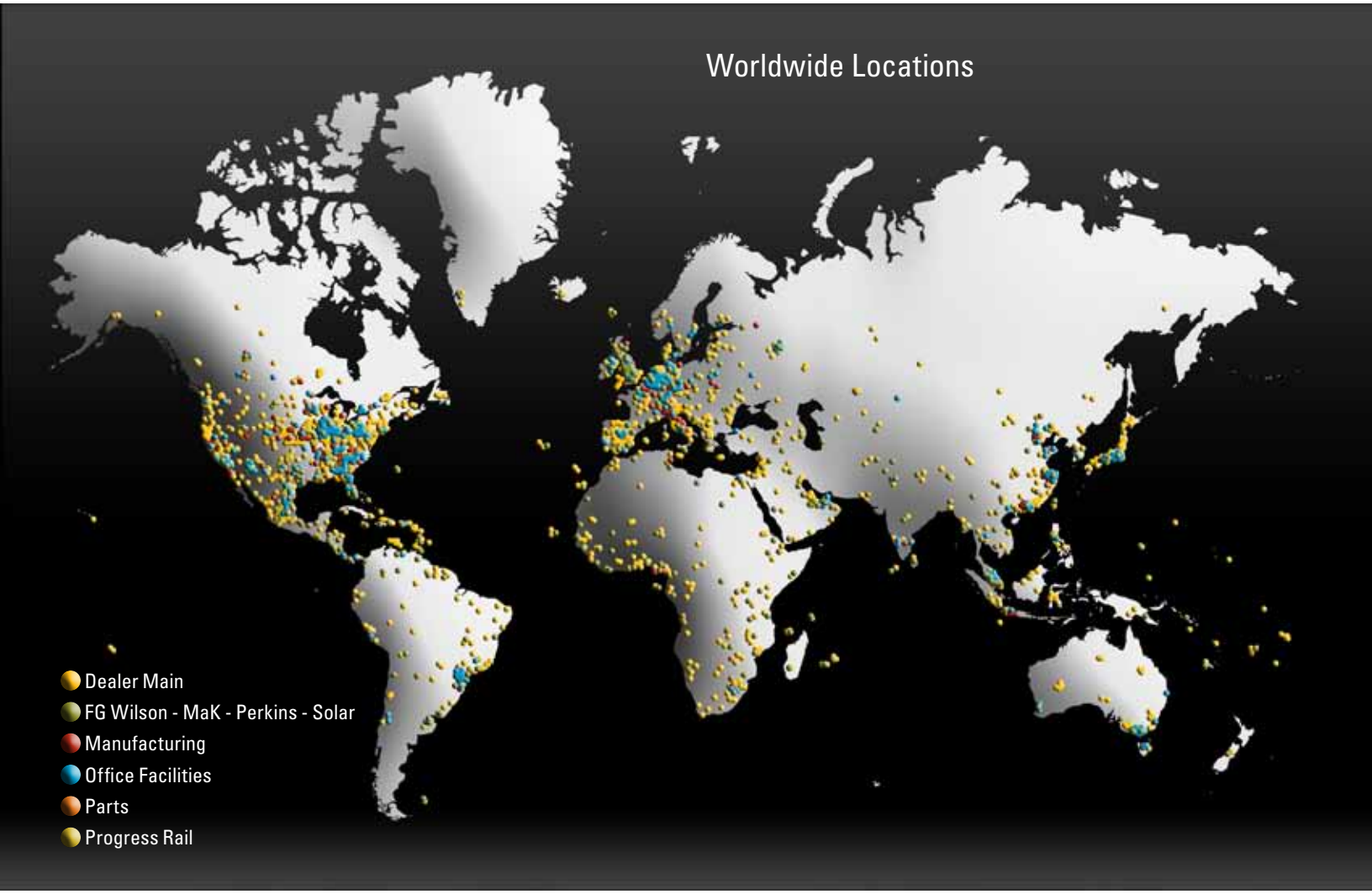
POWERING CHANGE

OUR APPROACH

For more than 85 years, Caterpillar Inc. has been making sustainable progress possible and driving positive change on every continent. With 2010 sales and revenues of $42.588 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel electric locomotives. The company also is a leading services provider through Caterpillar Financial Services, Caterpillar Remanufacturing Services, Caterpillar Logistics Services and Progress Rail Services.

CORPORATE PROFILE

Caterpillar is a global leader, a worldwide enabler of sustainable progress. Caterpillar operates hundreds of offices and facilities across the world and has more than 100,000 employees. Caterpillar's global presence, product breadth and financial strength enable us to win in today's competitive marketplaces. We serve customers in more than 180 countries around the globe with more than 300 products. http://www.caterpillar.com.



Forward-Looking Statements
Certain statements in this 2010 Sustainability Report relate to future events and expectations and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to known and unknown factors that may cause Caterpillar's actual results to be different from those expressed or implied in the forward-looking statements. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should" or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and Caterpillar does not undertake to update its forward-looking statements.

It is important to note that Caterpillar's actual results may differ materially from those described or implied in its forward-looking statements based on a number of factors, including, but not limited to: (i) global economic conditions and economic conditions in the industries and markets Caterpillar serves; (ii) government monetary or fiscal policies and government spending on infrastructure; (iii) commodity or component price increases and/or limited availability of raw materials and component products, including steel; (iv) Caterpillar's and its customers', dealers' and suppliers' ability to access and manage liquidity; (v) political and economic risks associated with our global operations, including changes in laws, regulations or government policies, currency restrictions, restrictions on repatriation of earnings, burdensome tariffs or quotas, national and international conflict, including terrorist acts and political and economic instability or civil unrest in the countries in which Caterpillar operates; (vi) Caterpillar's and Cat Financial's ability to maintain their respective credit ratings, material increases in either company's cost of borrowing or an inability of either company to access capital markets; (vii) financial condition and creditworthiness of Cat Financial's customers; (viii) inability to realize expected benefits from acquisitions and divestitures, including the acquisition of Bucyrus International, Inc.; (ix) the possibility that the acquisition by Caterpillar of Bucyrus International, Inc. does not close for any reason, including, but not limited to, a failure to obtain required regulatory approvals; (x) international trade and investment policies, such as import quotas, capital controls or tariffs; (xi) the possibility that Caterpillar's introduction of Tier 4 emissions compliant machines and engines is not successful; (xii) market acceptance of Caterpillar's products and services; (xiii) effects of changes in the competitive environment, which may include decreased market share, lack of acceptance of price increases, and/or negative changes to our geographic and product mix of sales; (xiv) union disputes or other employee relations issues; (xv) Caterpillar's ability to successfully implement the Caterpillar Production System or other productivity initiatives; (xvi) adverse changes in sourcing practices of our dealers or original equipment manufacturers; (xvii) compliance costs associated with environmental laws and regulations; (xviii) alleged or actual violations of trade or anti-corruption laws and regulations; (xix) additional tax expense or exposure; (xx) currency fluctuations, particularly increases and decreases in the U.S. dollar against other currencies; (xxi) failure of Caterpillar or Cat Financial to comply with financial covenants in their respective credit facilities; (xxii) increased funding obligations under our pension plans; (xxiii) significant legal proceedings, claims, lawsuits or investigations; (xxiv) imposition of operational restrictions or compliance requirements if carbon emissions legislation and/or regulations are adopted; (xxv) changes in accounting standards or adoption of new accounting standards; (xxvi) adverse effects of natural disasters; and (xxvii) other factors described in more detail under "Item 1A. Risk Factors" in Part I of our Form 10-K filed with the SEC on February 22, 2011 for the year ended December 31, 2010. This filing is available on our website at *www.caterpillar.com/secfilings*.

GOVERNANCE & ETHICS

Corporate Governance

Caterpillar's corporate governance program is designed to serve the interests of stockholders and other stakeholders with the highest standards of responsibility, integrity and in compliance with all laws. These standards are guided by our Board of Directors and global management team, who work to oversee the company's performance and governance policies.

http://www.caterpillar.com/company/governance

Code of Conduct

Our Values in Action, Caterpillar's Worldwide Code of Conduct, first published in 1974 and updated in 2010 in conjunction with our corporate strategy, defines what we stand for and believe in, documenting the uncompromisingly high ethical standards our company has upheld since its founding in 1925. The Code of Conduct helps Caterpillar employees put the values and principles expressed in our Code of Conduct into action every day by providing detailed guidance on the behaviors and actions that support our values of Integrity, Excellence, Teamwork and Commitment.

http://www.caterpillar.com/company/strategy/code-of-conduct

Supporting Human Rights

Caterpillar values teamwork with our employees, dealers, suppliers and other stakeholders. We are committed to building and maintaining a productive, motivated workforce by treating all employees fairly and equitably. We support and obey laws that prohibit discrimination everywhere we do business. Likewise, we seek suppliers and business allies who also demonstrate strong values and ethical principles. We avoid those who violate the law or fail to comply with the sound business practices we promote. Our goal is to conduct business in such a way that employees will not feel the need for representation by unions or other third parties. Where people have chosen such representation or been required by law to do so, however, we pursue an honest, business-like approach in working with those representatives. We feel strongly that Our Values in Action creates a work environment that places our people around the globe, and their needs and rights, first. Therefore, we do not see a need to become signatories to other voluntary conventions, frameworks and standards that offer direction on how to promote the rights and freedoms of people, including those brought forward by the United Nations and the International Labor Organization.

Opposing Bribery and Corruption

Caterpillar believes fair competition based on quality, innovation and overall value is fundamental to free enterprise and economic growth. Bribery and corruption can often have serious social, environmental and economic consequences – impeding trade, competition, investment and economic growth, and limiting a nation's ability to reduce poverty and improve standards of living. In some areas of the world where Caterpillar does business, bribery and corruption are significant issues that touch our customers. As a result, we strongly advocate and enforce anticorruption policies in all areas of our business.

ROADMAP OF MILESTONES

2000 Diesel Technology Forum founding member

2001 Joined World Business Council for Sustainable Development

2002 Lead corporate sponsor for Nature Conservancy's Illinois River Emiquon Preserve restoration and preservation project

2003 Vision Zero Safety Goal

U.S. EPA Climate Leaders

Developed innovative battery materials technology

First delivery of reduced-impact logging certified lumber in the U.S., resulting from Tropical Forest Foundation program, supported by Caterpillar

2005 First Sustainability Report

Revised and relaunched worldwide Code of Conduct

Sustainable Development becomes Enterprise Strategic Area of Improvement

Lead corporate sponsor for Nature Conservancy's Great Rivers Project

2006 Dow Jones Sustainability World Index Industrial Engineering Sector Leader

Acquired Progress Rail Services, Inc.

Co-leading corporate sponsor of the World Resources Institute Center for Transport and the Environment EMBARQ project

2007 U.S. Climate Action Partnership (USCAP)

Founding partner, Energy Technologies Institute in the U.K.

2008 First U.S. EPA International Combined Heat and Power Award – to customer in China

Cat® D7E, electric drive track-type tractor introduced

AC electric drive mining trucks introduced

2009 Sustainability Council formed to drive increased revenues

Growth markets – Announced remanufacturing joint venture in China with Yuchai Machinery and opening of R&D center in China

U.S. EPA Clean Air Excellence Award for Cat® D7E

Leadership in Energy and Environmental Design (LEED) Existing Building Gold Certification for Corporate Headquarters and Cat Financial Headquarters

2010 Acquired Electro-Motive Diesel (EMD), manufacturer of diesel-electric locomotives

Announced acquisition of MWM Holding, Germany-based manufacturer of natural gas reciprocating engines, which is currently pending regulatory approval

Announced acquisition of Bucyrus International, Inc., manufacturer of high-productivity mining equipment, which is currently pending regulatory approval

Greenmark Gold Plus certification for Singapore remanufacturing facility

LEED Gold certification for Suzhou, China, Medium Wheel Loader / Motor Grader facility; Wuxi, China, R&D facility; Tianjin, China, Genset facility; and Washington, Ill., Instrument Applications Center

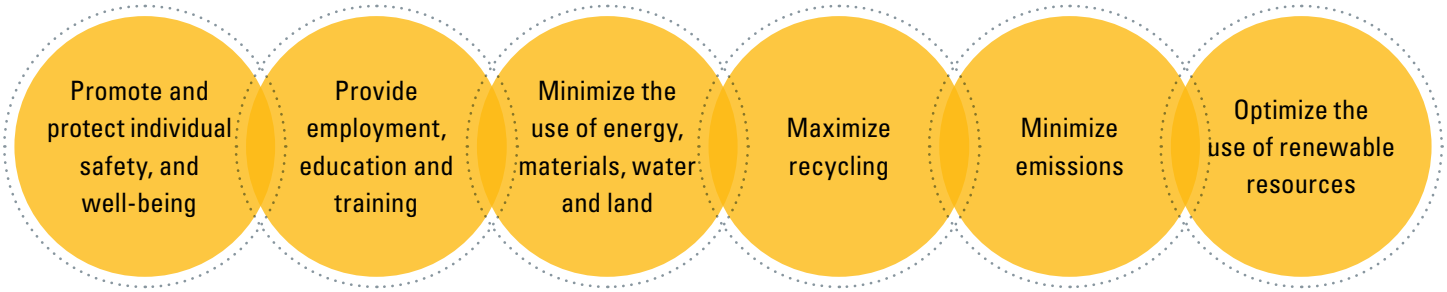
LEED Silver certification for Wuxi, China, Perkins Shibaura engine facility and Beijing, China, office facility

2020 Achieve enterprise goals in the areas of workplace and product safety, energy efficiency, greenhouse gas emissions, water consumption, materials efficiency, waste reduction and LEED building criteria

VISION, MISSION & STRATEGY

Our vision is a world in which all people's basic requirements – such as shelter, clean water, sanitation and reliable power – are fulfilled in a way that sustains our environment.

Our mission is to enable economic growth through infrastructure and energy development, and to provide solutions that protect people and preserve the planet.



We will execute our strategy by working to meet our long-term aspirational goals. We set yearly targets where possible and are working on additional targets to help us measure our annual progress.

Our strategy is to provide work environments, products, services and solutions that make efficient use of the world's natural resources and reduce unnecessary impacts on people, the environment and the economy. This means that we leverage resources, including technology and innovation to:

- Promote and protect individual safety and well-being
- Provide employment, education and training
- Minimize the use of energy, materials, water and land
- Maximize recycling
- Minimize emissions
- Optimize the use of renewable resources

The coming years will require Caterpillar to become a significantly more engaged citizen, and more responsive to a broad array of stakeholder expectations. But more importantly, these complex social and environmental issues will require a new leadership from Caterpillar, a leadership that will look for more active engagement with key stakeholders and authentic responses and contributions to society.

Bradley Googins
Professor, Carroll School of Management
Former Director, Center for Corporate Citizenship, Boston College

CRITICAL SUCCESS FACTORS

Culture. Create a culture of sustainable development in all our business units and in all our daily work.

Progress: Our employee opinion survey measures our employees' awareness and understanding of sustainability. We continue to foster a corporate culture of transparency, disclosure and engagement.

Operations. Be consistent with our sustainability principles and contribute to enterprise sustainable development goals.

Progress: The Caterpillar Production System provides the recipe for deploying and sustaining excellence in our facilities. We actively encourage employees to conserve resources and be more efficient. Operating in a more efficient and sustainable manner will reduce impacts on people and the environment, and help us and our customers save money.

Business Opportunities. Identify and pursue business growth opportunities created by sustainable development.

Progress: We are working to embed sustainability into our Caterpillar brand portfolio, new product development process and our technologies. Our business leaders continue to drive growth in sales of products, services and solutions that help customers meet their sustainability challenges. We utilize 6 Sigma methodologies to focus our work and drive measurable benefits.

STRATEGIC COLLABORATION

Contributing to a Better World

As individual citizens, we can help solve local problems and contribute to the welfare and prosperity of our communities. As a global company, we can use our strength and resources to improve and rebuild communities around the world. Caterpillar's involvement in strategic collaborations supports its commitment to conserving the earth's resources and efforts to pursue development in new and more sustainable ways.

A company can make important contributions to the communities in which it operates. Through strategic philanthropy, Caterpillar seeks out issues where it has unique capabilities, relationships or expertise to offer – and works with nonprofit and other organizations to leverage these assets to benefit both the company and society.

Caterpillar and its employees give generously through the Caterpillar Foundation and its matching gift program, supporting educational and environmental causes, health and human services, culture and art and civic and community activities. Funded in part from corporate operating profits, the Foundation has invested nearly $500 million since its inception in 1954. Historically, it made contributions to organizations in and around Caterpillar's headquarters city of Peoria, Ill. Over time, the Foundation has expanded its investing worldwide and now does so in ways that support Caterpillar's sustainability initiatives. The Foundation has provided support for a variety of initiatives including EMBARQ, Great Rivers Partnership, Opportunity International, the World Food Programme, CHF International and India's Room to Read.

Caterpillar is in a unique position to react when disaster occurs. Cat® machines are essential to relief, recovery and rebuilding efforts. Cat® power generation equipment provides critical emergency and back-up power for businesses, hospitals and other organizations. With hundreds of facilities and Cat® dealers worldwide, Caterpillar can quickly respond with products, services, people and funds.

POWERING CHANGE

OUR VIEWS

Caterpillar is a global company with more than 500 locations worldwide and serves customers around the world. We understand that there are many differing economic and political philosophies and forms of government throughout the world. We acknowledge and respect the diversity that exists among the social customs and cultural traditions in the countries in which we operate. And we maintain the flexibility to adapt our business practices to them – to the extent that we can do so in keeping with Our Values in Action. In certain areas, however, our positions are clear and long standing. These include Energy & Climate, Growth & Trade and People & Planet.

ENERGY & CLIMATE

Global Climate Change

Global climate change has many environmental and commercial implications, and a number of governmental and intergovernmental organizations are implementing mechanisms in an attempt to reduce greenhouse gas emissions. We support intelligent, responsible public policies addressing climate and energy policies and are:

- Investing in emissions reduction technologies that are important to our customers and represent significant areas of opportunity for our business.
- Committed to development and deployment of technologies such as combined heat and power (CHP), waste gas conversion to useful energy, clean diesel engines and carbon capture and sequestration (CCS).
- An active supporter of policies and flexible mechanisms that harness the marketplace to drive innovation, mobilize investment and allow the sharing of clean, efficient technologies.
- Encouraging the coordination of domestic and international programs to maximize the use of flexible, proven mechanisms to reduce emissions.

Through these activities, Caterpillar will continue making significant contributions to efforts designed to reduce greenhouse gas emissions.

Energy

Energy consumption is rising rapidly, driven by worldwide population growth, swiftly developing economies, improving global living standards and the burgeoning use of ever more energy-dependent technologies. The global demand for energy is expected to increase dramatically over the next twenty years. There is no one single solution to providing globally abundant, secure, clean and reasonably priced energy. Leadership is required to forge consensus and a commitment to providing global energy needs that address economic development, stability and environmental impacts.

We promote a policy atmosphere in which the best companies, experts, researchers, inventors and entrepreneurs have the freedom, the flexibility and the resources to develop cleaner, more secure energy – and more of it. We encourage innovation that leads to new sources of energy and improved and more efficient use of existing, abundant resources.

Caterpillar subsidiary, Solar Turbines, serves as a member of the Board of Directors of the Business Council for Sustainable Energy (BCSE), which advocates for the deployment of clean energy technologies, including renewable energy, energy efficiency and natural gas. The Council promotes the development of state, regional, federal and international energy and environmental policies that encourage the use of existing clean energy technologies as an immediate measure to meet the world's growing energy demand in an environmentally sound manner.

ENERGY & CLIMATE

Energy Poverty

Some 3.6 billion people today do not have adequate access to energy and approximately 1.6 billion people do not have any access to electricity. So how do we get it to them? Today, the technology and the natural resources exist to rapidly expand energy access, but how is this accomplished in a fundamentally more efficient manner?

The Copenhagen Accord affirms that social and economic development and poverty eradication are the primary goals of developing nations. One of the biggest differences between a developing nation and a developed nation is access to electricity – so let's increase that access, help economies grow and reduce energy poverty where it hits the hardest.

Energy, or the lack thereof, is a key element for sustainable progress and development. So we need to focus our talents on reducing emissions while increasing energy access. Caterpillar does this every day by leveraging technology to help society while, at the same time, limiting environmental impact. With distributed generation solutions, utilizing diesel and natural gas engines – and alternative fuels – Caterpillar is positioned to get power where it needs to be. Cat® equipment helps meet the demands of the mining and resources industries, getting raw materials to where they need to be to create increased access to power. Coal is an important fuel – both today and for the future. Coal is available in the quantity and locations needed to satisfy the world's energy needs. All energy sources are important and should be developed, but coal is abundantly available and has the scale to meet the primary energy needs of the world's rising population and expected economic growth over the next several decades.

The facts show that coal is about 70 percent cleaner burning today (from a particulate matter (PM), oxides of nitrogen (NOx) and mercury perspective) than just a couple of decades ago. New coal-fired power plants are 15-45 percent more efficient than the oldest ones in operation around the world today. Carbon capture and sequestration technologies (CCS) that can remove most of the CO_2 emissions are being demonstrated today. Efforts are needed to commercialize this technology around the globe as part of a path for low carbon-emitting energy. This energy can help the largest populations that don't have reliable energy today. Add new nuclear build outs (carbon-free electricity), new natural gas reserves, plus renewables like wind, photovoltaic, tidal and others, and you start to see a portfolio of power that helps eliminate energy poverty, raise standards of living and propel economic growth with less impact on the environment. This leads to more R&D for new technologies that develop cleaner and more efficient fuel sources. Eliminating energy poverty is a vision that can be achieved.

ENERGY & CLIMATE

Operating in a Carbon-Constrained World

At Caterpillar we believe in the importance of providing energy-efficient products and technologies for our customers and our facilities, as well as advocating for policy solutions that are both environmentally and economically sustainable.

Caterpillar works with policymakers on developing economy-wide emissions reduction programs in the United States that work in conjunction with international efforts to reduce greenhouse gas emissions.

Many countries already control greenhouse gas emissions, and more jurisdictions are evaluating plans to do so. Just as business cannot operate efficiently under 50 different sets of state standards in the U.S., business will struggle with vastly differing approaches around the world. That is why we'll continue to advocate a comprehensive international approach that encompasses emissions reduction commitments from all major economies. We know we cannot reduce carbon emissions in a vacuum. We must look at the issue with an eye toward energy security, energy availability, technology, price and global competitiveness.

Innovation will be key to developing new energy sources, and we continue to call for policies that encourage innovation to improve the use of existing energy resources – particularly coal, oil and natural gas. We cannot afford to overlook any solution.

Despite the divergent proposals under discussion worldwide – everything from carbon caps and carbon taxes to strict regulatory control of emissions – we all agree that technology plays a key role in any successful strategic approach to reduce emissions. The private sector must take the lead in developing and deploying technology solutions to reduce greenhouse gas emissions.

We believe it's too soon to disparage any solution that hasn't been fully developed. Done right, placing a price on carbon will provide an incentive to stimulate investment and innovation in the technologies we need to meet our environmental goals.

Ultimately, no unilateral action to reduce greenhouse gas emissions will be successful. We need policies that integrate well into a global system of emissions reduction initiatives. We support legislation that's both environmentally effective and economically sustainable. And we encourage both a constructive dialogue and a proactive approach to providing energy safely, efficiently and affordably to the billions of people that inhabit our planet.

It's a tall order – but one that's critical to the future of business.

As the world economy continues

its recovery, Caterpillar can best serve its stakeholders by further integrating the concept of sustainability into its core business model. By helping its customers become more sustainable and by using sustainability as a platform for growth, Caterpillar can become a model of sustainable production and consumption (Caterpillar Remanufacturing Services is an example) and it can help the world meet its development challenges in a more thoughtful manner.

Stephanie Hanford-Hass
President, Connectivity Consulting LLC

GROWTH & TRADE

Advocating Free and Open Markets

Caterpillar has long believed that the pursuit of business excellence and profit in a climate of free enterprise, free trade and unencumbered competition is the best means for efficient development and distribution of goods and services. Further, we believe such international exchange promotes better understanding across borders and cultures, leading to a more peaceful world. The enormous rise in post-World War II gross national product and living standards in countries participating significantly in international commerce has demonstrated such benefits. In contrast, countries that have been isolated as a result of lack of infrastructure, protectionist policies or economic sanctions have not enjoyed these advantages.

The economic growth brought about by international trade is essential for poverty reduction, but it doesn't come without challenges. Chief among them is the need to balance economic, environmental and social policies in support of sustainable development. When this happens, sustainable development can become a shared objective and provide a common frame of reference – allowing environmental and trade policymakers to engage stakeholders, analyze issues and evaluate policy more efficiently.

Caterpillar has a long history of advocacy for free trade. Our support comes not from the perspective of any one country, but from a global context. We believe that companies compete best in a free trade environment. When trade barriers are removed, we can better meet our global customer needs and grow more efficiently. Our suppliers benefit because they can more efficiently satisfy our global sourcing requirements. Our employees benefit from a higher standard of living as they have access to more product choices at lower prices. Because open markets lead to improved competitiveness, we believe free trade also allows us to provide more and better job opportunities.

Caterpillar will continue to promote policies that reduce – or better yet, eliminate – trade and investment barriers. At the same time, we will continue to speak out against protectionist policies. We believe that the United States, European Union and Japan should adopt policies that allow the benefits of the global economy to be extended to developing countries. Caterpillar also recognizes that in many of the world's poorest countries, humanitarian and development assistance is necessary to fight disease, improve living conditions, combat corruption and provide the know-how to drive economic growth and trade. We support the goals of initiatives aimed at increasing economic growth and reducing poverty in developing countries.

GROWTH & TRADE

Harmonizing Global Standards

On an international level, Caterpillar is actively involved in developing International Standards Organization (ISO) criteria and chairs the committee that develops industry consensus standards for earthmoving equipment, including standards for visibility, rollover protection structures and braking. Our global standards and regulations team works closely with these organizations to enhance machine safety standards worldwide. Caterpillar provides input to regulatory agencies to help ensure the smooth introduction of new technologies. We design products and services that help people and communities as they strive to create better lives for themselves. As the global population continues to grow, the availability of natural resources may diminish; and the need for Cat® products and services as enablers of sustainable development becomes even more important.

Caterpillar regularly makes its management and technical expertise available to regulatory bodies in advisory roles and to provide technical assistance as new product standards are developed. These activities include participation and leadership roles in organizations such as the ISO; membership in governmental and nongovernmental delegations to international bodies such as the International Maritime Organization (IMO) and the United Nations Framework Convention on Climate Change (UNFCCC); participation in formal European Union industry expertise panels and participation in Federal Advisory Committees chartered under the U.S. Environmental Protection Agency.

Society has only recently begun to understand that the world's resources and ecological carrying capacity are not only finite, but are being used up faster than they can be replaced, replenished or restored. This situation makes life especially difficult for the poor nations, which do not have sufficient economic means nor the technological wherewithal to meet basic needs. If done well, Caterpillar's global reach combined with cost-efficient product and service offerings can help the poor nations make substantial progress in improving the quality of life of their citizens.

William A. Wallace
Past President and Member of the Governing Board
Engineers Without Borders – USA

PEOPLE & PLANET

Safety

Caterpillar is dedicated to the long-term health and safety of everyone at Caterpillar. Caterpillar also offers the SAFETY.CAT.COM™ website for environmental, health and safety training. This site provides access to a wide range of interactive online training courses for safety, health and the environment – in full support of our vision: Safely home. Everyone. Every day.™ The low-cost solutions offered through this safety training library help users of industry-specific equipment create a culture of safety and sustainability on any job site.

The safety of people is primary in everything Caterpillar does. Caterpillar's safety vision is to be recognized as a leader in its industry for creating and maintaining an accident- and injury-free workplace. Caterpillar believes accidents and injuries are preventable; therefore, the goal is to reduce them to zero. Caterpillar believes that continually improving its safety practices, processes and performance supports the business excellence for which Caterpillar people worldwide are known. Caterpillar continues to strengthen processes to help all its facilities succeed – in ensuring employees return home as safe and healthy as when they came to work.

Environment

Caterpillar contributes to a safe environment in communities where we operate. We establish and adhere to environmentally sound policies and practices in product design, engineering and manufacturing in all of our facilities worldwide. Caterpillar's Environmental Protection Program helps ensure that Caterpillar complies with applicable laws and regulations, as well as remains an upstanding corporate citizen and good neighbor. Successfully identifying and managing our environmental issues protects the environment we all live in and makes good business sense.

The third Global Biodiversity Outlook, released in May 2010, shows serious negative trends, although efforts to address the problem are clearly improving. In the end, we need to recognize that our planet works as a biological and physical system linked together, and truly sustainable development is that which works with, not against, the living systems of the planet.

Thomas E. Lovejoy
Biodiversity Chair
Heinz Center for Science, Economics and the Environment

POWERING CHANGE

Caterpillar makes sustainable progress possible by powering change. Sustainable development – including economic, environmental and social considerations – is important to our customers, our shareholders, our people and the planet.

Caterpillar is positioned to:

Boost energy efficiency by providing reliable, innovative, productive and efficient products, services and solutions.

Enable materials conservation by providing products, services and solutions that use resources more efficiently and sustain our environment.

Promote sustainable progress by helping our customers be more efficient and enabling growth and development in sustainable ways.

BOOSTING ENERGY EFFICIENCY

PRODUCT LINK BOOSTS EFFICIENCY AND PRODUCTIVITY

Remote condition monitoring enabled by Cat® Product Link technology ensures optimum efficiency – saving time, fuel and wear and tear. This helps customers maximize equipment utilization and productivity while minimizing cost and waste.

Product Link provides wireless communication between Cat® equipment in the field, the Cat® dealer and the customer. The onboard Product Link module sends equipment data to the VisionLink™ interface, which in turn provides a wide array of equipment information for customers, dealers and Caterpillar. Satellite or cellular connectivity enables remote monitoring from almost anywhere in the world.

West Virginia highway and heavy construction contractor, Vecellio & Grogan (V&G), utilizes Product Link technology to help manage 117 machines in its mobile equipment fleet. The system has helped improve equipment and operator productivity, lowered operating costs and improved overall fleet efficiency. V&G Equipment Superintendent Dan Walker estimates that Product Link has saved his company nearly a half million dollars in potential repair costs in the last four years alone.

Dan is using Product Link to actually predict the future of his Cat equipment. With the expertise and quick response of Joey Pickett, Technology Consultant at Cat dealer Carolina Cat, V&G avoided substantial potential engine damage and down time. Joey and his team routinely use Product Link to schedule preventive maintenance and monitor operating hours, idle time and fuel consumption. They also monitor and interpret fault codes and alerts that may require immediate action. Walker points out that the fuel usage monitoring is also helpful when bidding jobs. "Before we bid a job, we download the fuel consumption and compare what each machine burns. We know how many hours we'll use each machine per job, and we use that as a bidding tool."

By the time V&G finishes a job at Piedmont Triad International Airport in Greensboro, N.C., its fleet of earthmoving equipment will have moved 6.4 million cubic yards of dirt and debris. Product Link remote tracking and management system is helping V&G achieve the level of productivity required to move this massive quantity of material and stay on schedule with the overall job. Cat Condition Monitoring is a value-added service from Carolina Cat that creates huge value for V&G and scores of other customers throughout the dealer's territory.

As the next-generation Product Link rolls out, V&G plans to add this new technology to the remainder of its fleet. The new Product Link produces customized alerts and reports with accurate and timely information on hours, location and condition of customer equipment. Product Link and VisionLink technology integrate equipment information along with Cat dealer support to create sustainable, value-added services and solutions for customers and a competitive advantage for dealers and Caterpillar.

V&G Equipment

Superintendent Dan Walker estimates that Product Link has saved his company nearly a half million dollars in potential repair costs in the last four years alone.

BOOSTING ENERGY EFFICIENCY

SOLAR TURBINES PROVIDES POWER FOR SUCCESS FOR LOS ANGELES LANDFILL OPERATION

A sanitary landfill's primary purpose is to provide for the disposal of society's waste material. As it decomposes, however, this waste material produces methane, considered a greenhouse gas. To prevent the release of this gas into the atmosphere, the U.S. Environmental Protection Agency has for decades required that landfills be equipped with gas collection systems to capture and destroy this gas. Traditionally, the methane has been destroyed by burning the collected gas in flare stations. While doing so reduces greenhouse gas emissions from the landfill, the potential energy available from the methane combustion is lost. Until recently, this was the case at the Los Angeles County Sanitation Districts' Calabasas landfill, where the amount of energy consumed by the flares was enough to power more than 5,000 households.

In 2004, the District became aware of Solar Turbines' low emissions Mercury™ 50 and approached Solar Turbines with the idea of operating this turbine on landfill gas. With assistance from the U.S. Department of Energy, the Mercury 50 had been developed to advance the sustainability of gas turbine technology in terms of both efficiency and emissions of nitrogen oxides and carbon monoxide. However, it had not been initially designed to operate on landfill gas. The challenge Solar Turbines faced was formidable: modify the Mercury 50's combustion system to operate on the diluted landfill gas produced at the Calabasas landfill while still meeting the strict emissions limits imposed by southern California regulatory authorities.

Solar Turbines took on and successfully completed the necessary development program and in June 2010, three Mercury 50 gas turbines began operating at the Calabasas Landfill Gas-to-Energy Facility. The turbines deliver about seven megawatts of electrical power to the local grid and have also demonstrated exceptional emissions performance, reducing emissions of both nitrogen oxides and carbon monoxide substantially below previously established limits in southern California.

The Mercury 50 has enabled the Los Angeles County Sanitation Districts to productively utilize the low-quality gas produced at the Calabasas landfill while meeting some of the strictest air pollution limits in the world, providing an attractive option for other landfill gas-to-energy developers. The Solar Turbines Mercury 50 has earned its place among Caterpillar's sustainable products.

The challenge Solar Turbines faced was formidable:
modify the Mercury 50's combustion system to operate on the diluted landfill gas produced at the Calabasas landfill while still meeting the strict emissions limits imposed by southern California regulatory authorities.

BOOSTING ENERGY EFFICIENCY

CATERPILLAR CONTINUES TO POWER RENEWABLE ENERGY PROGRESS

With the help of Caterpillar, Jean-Louis Puisségur, President of SIVOM, a solid waste collection agency in the suburbs of Paris, has shown how to turn a landfill site into a sophisticated biogas power station supplying electricity to the city.

Cat® dealer Eneria France installed a biogas recovery system at the landfill, which uses Cat® generator sets that burn methane gas released from decaying waste. Running at full capacity, the installation produces more than 12,800 MWh of power each year – power output equivalent to the yearly consumption of more than 2,000 households. The site was revamped in 2008 to optimize gas feed to the Cat® G3516 and G3512 generator sets, increasing the system's efficiency even more.

Caterpillar's Electric Power Division offers integrated power systems with a broad range of products, including a complete line of generator sets, containerized power modules, environmentally compliant gas-fueled systems, heat recovery solutions and rental units to meet temporary or emergency needs.

As electricity use rises, our leadership in converting alternative fuels into clean energy is increasingly important in meeting power generation needs and in reducing the demand for fossil fuels.

Worldwide, our power generation products provide approximately 10.5 million MWh of electricity per year created from renewable resources. Here are a few more examples of Caterpillar's line of power generation products in action:

At mine sites in Australia, our generator sets, fueled by coal seam methane, power roughly 30,000 homes while significantly reducing greenhouse gas (GHG) emissions.

In the United States, cow manure – an abundant, renewable resource – is tapped as a source of clean power. Farmers use Cat generator sets to produce electricity from the gas produced by animal waste.

Coke oven gas (COG), considered a GHG by-product of the coking process, is a tremendous energy source for growing economies in countries like China. Solar Turbines' multiple gas turbine generator sets convert COG into electricity and thermal energy, reducing GHG emissions by over 540,000 metric tons per year.

Caterpillar's Electric Power Division positioned itself for growth in 2010 with the acquisition of Germany-based manufacturer of natural gas reciprocating engines, MWM Holding, which is currently pending regulatory approval. The expansion gives customers even greater options for sustainable power generation solutions.

"MWM is recognized for its leading technology and product strength, particularly for its highly efficient range of engines," said Caterpillar Chairman and CEO Doug Oberhelman. "This is a natural complement to Caterpillar's existing diesel and gas power generation business and demonstrates our commitment to continued investment in sustainable products and industries."

Worldwide, our power generation products provide approximately 10.5 million MWh of electricity per year created from renewable resources.

REMANUFACTURING MAKES EFFICIENT USE OF RESOURCES

For more than 30 years, Caterpillar has taken near end-of-life parts and restored them to original engineering specifications through remanufacturing, an advanced form of recycling. This makes both economic and environmental sense because it reduces waste and consumption of raw materials and provides a lower cost to the customer. Through remanufacturing, Caterpillar makes one of the greatest contributions to sustainable development – keeping nonrenewable resources in circulation for multiple lifetimes.

Caterpillar Remanufacturing Services recycles more than two million components annually. Every year, Caterpillar Remanufacturing Services recycles:

- more than 130 million pounds (58,967 metric tons) of end-of-life iron
- 200,000 pounds (90.7 metric tons) of cardboard
- 3.4 million pounds (1,542.2 metric tons) of wood materials

I am pleased to see that one of the synergies from Caterpillar's pending acquisition of Bucyrus is the extension to Bucyrus of Caterpillar Remanufacturing products and services for Bucyrus equipment. This shows yet again that the drive for sustainability has clear business benefits. Equally pleasing is the achievement of the second year of zero-waste-to-landfill and 100 percent recycling at Caterpillar's Desford site in the U.K. I challenge the company to spread the learning to all facilities world-wide – it makes good business and environmental sense.

George C. Eads
Senior Consultant, Charles River Associates

Cat® Reman is a driving force in minimizing customer operating costs. The services ensure that parts otherwise destined for the scrap yard can be reused – an important step toward our goal of zero waste. Cat Reman's unique core return process includes a financial deposit incentive to encourage return of used cores for remanufacture or traditional recycling. The Cat Reman business model has been highly successful, resulting in an end-of-life parts return rate of greater than 93 percent.

With the expansion of our Cat Reman division, we are able to create a platform for more sustainable jobs and technology. In 2010, Cat Reman grew through:

- A new Caterpillar remanufacturing joint venture in China with Yuchai Machinery. This supports the Chinese government's goal of achieving a sustainable economy based on industry-leading manufacturing expertise and environmentally friendly business practices.
- Completion of a new state-of-the-art remanufacturing facility in Singapore, which is focused on large machine engines and components, servicing the entire Asia-Pacific region.
- Increasing the availability of parts by adding new components to the Cat Reman product line and by working closely with various countries to minimize or eliminate trade barriers.
- The creation of Future-Dated Ordering options which allow dealers to effectively plan their future requirements and maximize availability of parts.

During 2010, at the Franklin, Ind., facility, Caterpillar introduced a thermal spraying process that uses a state-of-the-art technology to salvage over 2.8 million pounds (1,270.1 metric tons) of cast iron cylinder blocks. Thermal spraying makes it possible to salvage engine blocks that would otherwise be scrapped by replacing worn material and refinishing to original engineering specifications. Validation testing of remanufactured engines has shown that this process improves engine power output, reduces oil consumption and improves long-term cylinder wear characteristics.

25 YEARS AND COUNTING – CAT CERTIFIED REBUILD PROGRAM CONTINUES TO EXTEND MACHINE PRODUCTIVITY AND SAVE RESOURCES

Cat® machines are so durable that instead of scrapping older models, we can rebuild them to excellent reliability, performance and durability, providing a second lease on life. Rebuilding customer equipment requires 50 to 60 percent less energy by reusing 85 to 95 percent of the materials from the original product by weight. By restoring used equipment, Cat® dealers minimize waste while offering high-quality, cost-effective solutions to our customers. It's good for business and for the environment.

By integrating some of the latest technical enhancements, emissions are also reduced. Furthermore, only trained dealer service technicians and Cat® parts are used to complete a certified rebuild. The result is a proven option for Caterpillar customers when they must decide to repair, rebuild or replace.

In 2010, Cat Certified Rebuild celebrated its 25th birthday and 5,000th machine rebuilt under the program. In the same year, Cat® dealers worldwide rebuilt a total of 684 machines, saving owners up to half the cost of a comparable brand new machine.

In September 2010, Cat Certified Rebuild made history, carrying out the world's first rebuild of an articulated truck (two Cat® 740 Ejectors) for French company ECT (Enviro – Conseil – Travaux).

"We're a company whose primary concern is sustainability, and whose whole business is related to conservation and restoration of the environment. So does it make sense simply to scrap and replace a Cat machine when there's a more cost-effective, sustainable alternative? Of course not!" says ECT's environmental consultant Joel Labille.

The Cat Certified Rebuild process includes automatic replacement of more than 7,000 parts (3,000 parts in a power-train rebuild). Remaining parts are measured against Caterpillar's strict reusability guidelines, and those not up to standard are either replaced with new or Cat Reman Parts, or reconditioned.

We want as many customers as possible to take advantage of our rebuild program, extend machine productivity and save resources. Since 2004, the Cat® dealer engine rebuild program has also allowed owners of Cat® engines in commercial engine applications (petroleum, marine, electric power and industrial) to rebuild these power plants to their original engineered specifications.

The Certified Hydraulic Rebuild Program, added in 2008, provides cost-effective rebuilds of the complete hydraulic system in certain Cat® hydraulic excavators. To complete the range, a Certified Machine Component Rebuild Program, initiated in 2009, allows machine users to have individual components, such as transmissions, rebuilt to be as good as new.

In 2010, Cat Certified Rebuild celebrated its 25th birthday and 5,000th machine rebuilt under the program. In the same year, Cat® dealers worldwide rebuilt a total of 684 machines, saving owners up to half the cost of a comparable brand new machine.

UNIQUE LIFE CYCLE COST PHILOSOPHY ALLOWS PROGRESS RAIL TO GIVE NEW LIFE TO RAILROAD EQUIPMENT

By continually growing our remanufacturing and reconditioning business, we broaden our market and provide our unique salvage capabilities to new customers around the world, while conserving materials and resources.

Progress Rail Services, a wholly owned subsidiary of Caterpillar Inc., supplies diversified products and services to the North American railroad industry and is a significant business in our remanufacturing and reconditioning enterprise. The company's integrated business model is structured around a life cycle cost mentality from the customer's acquisition through the ultimate disposition, including remanufacturing, reconditioning or recycling. This philosophy allows Progress Rail to maximize the value of railroad equipment and materials, providing cost-effective, sustainable solutions to customers.

Our extensive service and supply network operates reconditioning, remanufacturing and recycling programs that work to:

- Harvest reusable components
- Reduce waste
- Save energy
- Minimize the consumption of raw materials

Within Progress Rail's Locomotive and Railcar Services (LRS) division, we recondition the reusable parts of retired locomotives and railcars and return the parts to our extensive inventory. The sustainable processes give new life to oil pumps, auxiliary generator drive assemblies, camshafts, oil pans and other components – which are then used to build reconditioned locomotives that meet or exceed regulatory requirements.

Through our Engineering and Track Services (ETS) division, we collect or purchase used, viable track components, and then recondition, reshape and resell the items to our customers at an affordable price. We also extend the life of existing rails by re-welding.

Progress Rail's life cycle cost management business structure emanates from our remanufacturing and reconditioning practices. As a part of our commitment to our railroad customers, we manage the life cycle cost for products in these core business areas: locomotives, railcars and components, and rail material. To make this process more efficient for our customers, Progress Rail also adds materials from third parties. These operations reduce unnecessary impacts on the environment and provide quality goods by reprocessing and repurposing materials into useable products.

Any material unused by our LRS and ETS units is used by steel mills. Our operations have the capability to process up to 1.2 million tons (approximately 1.1 metric tons) of such unused material per year, and we continually invest in new process technologies that allow us to reduce overall waste sent to landfill.

In August 2010, Progress Rail purchased Electro-Motive Diesel (EMD). Founded in 1922, EMD is one of two U.S. original equipment manufacturers of diesel-electric locomotives and has sold its products in more than 70 countries worldwide. With this acquisition, Caterpillar and Progress Rail will continue to strengthen EMD's successful aftermarket business that offers customers replacement parts, maintenance solutions and a range of value-added services, in addition to its production of advanced, low-emission locomotives and fuel-efficient engines. Through the acquisition of EMD, Caterpillar and Progress Rail look to further sustainable practices by continuing to take life cycle cost management to the next level.

PROMOTING SUSTAINABLE PROGRESS

IMPROVING PRODUCT TECHNOLOGY AND INCREASING FOCUS ON ENERGY EFFICIENCY

Global demand for energy, rising fuel prices and tighter emissions regulations are challenging our customers to work more efficiently. Caterpillar is responding by continually enhancing the efficiency of its equipment and improving product technologies.

Up to 70 percent of our machines' net fuel energy is used to power hydraulic systems. This is why our designers are focused on improving the efficiency of those systems. Gains in the efficiency of hydraulics reduce both fuel use and emissions, saving customers money.

"We view hydraulics as an important part of our future. Hydraulics provide a unique combination of power density, variability and precise control," says Tana Utley, Vice President and Chief Technology Officer at Caterpillar.

There are three drivers in Caterpillar's energy-conscious approach to hydraulics. First, examining engineering details that can be changed to improve efficiency, such as the bends, sources of leaks and transitions in fluid flow.

Second, improving the system architecture and how the components are assembled, and enhancing the way they are controlled, including the integration of electronics into hydraulic systems.

Third, using the hydraulics platform to enable capabilities for greater benefits from the ownership and operation of the equipment. Hydraulics, and especially electro-hydraulics, is the platform for semi-autonomous and fully autonomous functions on Cat® machines.

Caterpillar's business sits at an interesting "pivot point" of various industry sectors, serving, for example, energy, infrastructure and transportation companies. As we increasingly move to more "systems solutions" approaches to many of the world's biggest challenges, this pivot point becomes vital with great opportunities to positively influence growth in a sustainable direction; I think Caterpillar is a strong contender to place at the head of the pack in The Race for Sustainable Development.

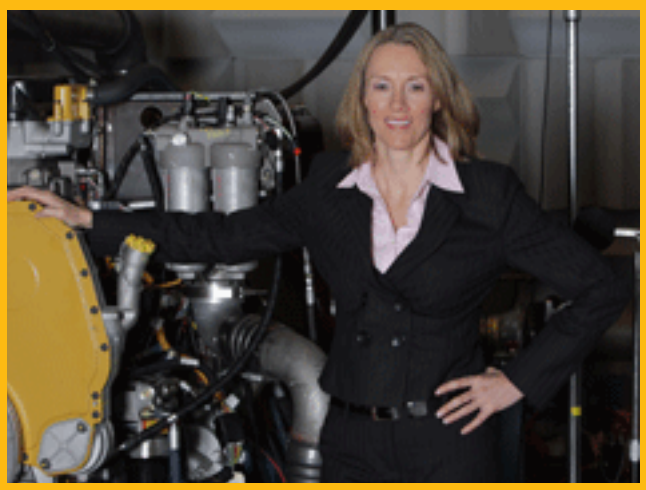
Margaret Flaherty
Chief Operating Officer
World Business Council for Sustainable Development

IMPROVING PRODUCT TECHNOLOGY AND INCREASING FOCUS ON ENERGY EFFICIENCY *(continued)*

Consideration for the efficiencies of what the hydraulic system itself enables includes technologies such as Caterpillar's innovative AccuGrade™ system, which uses electro-hydraulic systems as a fundamental building block. AccuGrade and auto-dig features rely on the ability of the machine to sense the position of the blade and control it based on the difference between what the computer thinks is the blade's ideal position and the actual position. Utley says "It is not uncommon using AccuGrade technology to see a 20 to 30 percent improvement in the efficiency of an earthmoving job. In hydraulic efficiency, a five- or 10-point improvement is tremendous. We have achieved 20 percent with a basic electro-hydraulic system; adding the positioning technology has enabled us to implement innovations such as AccuGrade to drive additional improvement gains."

In 2010, Caterpillar introduced an updated Cat® 988H wheel loader with a new hydraulic system, designed to boost loading performance and save fuel. Building on the 988 legacy, the refined design provides up to 15 percent greater fuel-efficiency and new features that boost production, lower costs, enhance operator environment and further advance the 988's durability and reliability.

Caterpillar is also meeting the Tier 4 / Stage IIIB product development challenge in world-class fashion. Engine power and reduced emissions are what customers expect from Caterpillar at Tier 4. Our opportunity is to provide them with more – higher quality, unmatched performance and value-added features to enhance their business success. "Our strategy to win in Tier 4 has been to design customer-defined value into every product," noted Utley. "Our customers will realize the value of our updated machines through features such as improved fuel economy, shorter cycle times, greater operator visibility and improved ergonomics." Further, benefits to the enterprise from the Tier 4 development experience are significant – robust technology, solid validation capabilities, supplier engagement, manufacturing efficiency, and the hands-on experience gained by thousands of Caterpillar engineers, technical experts and product professionals. Caterpillar produced 52 machines with Tier 4 Interim certified engines in 2010, and will produce Tier 4 Final Cat® C18, C27 and C32 petroleum engines three years ahead of the regulated date.



"In hydraulic efficiency, a five- or 10-point improvement is tremendous. We have achieved 20 percent with a basic electro-hydraulic system; adding the positioning technology has enabled us to implement innovations such as AccuGrade to drive additional improvement gains."

Tana Utley
Vice President and Chief Technology Officer
Caterpillar

PROMOTING SUSTAINABLE PROGRESS

A COLLABORATIVE APPROACH TO REDUCING CARBON EMISSIONS

Caterpillar is helping United States Steel Corporation reduce carbon emissions and reach its sustainability goals.

Part of U.S. Steel's commitment to environmental stewardship and sustainability is through efforts to reduce its carbon footprint by reducing energy consumption. Since the amount and type of fuel used impacts greenhouse gas (GHG) emissions, U.S. Steel originally approached Caterpillar to explore the use of alternative fuels for its fleet of mobile equipment. These discussions led to the creation of a diverse team comprised of individuals from both companies. This team looked at U.S. Steel's mining operation in Minnesota and its steelmaking facility in Indiana to identify additional possibilities to increase energy efficiency and reduce GHG emissions.

"We engaged with Caterpillar in a very collaborative manner to help us think about different paths to achieve better energy efficiency," said Tim Lynch, general manager of procurement for U.S. Steel. "Caterpillar and our dealer, Ziegler Cat, demonstrated a willingness to go above and beyond by bringing key executives and critical technical experts to the table."

Experts from U.S. Steel's mining, steelmaking operations and research and development organization teamed up with Caterpillar's mining, technology, remanufacturing, engine, research and development and continuous improvement groups to identify solutions aimed at improving operations and reducing carbon emissions.

The team leveraged U.S. Steel's work in life cycle analysis as the baseline to guide deeper analysis of the energy consumption across its entire operation. Through onsite energy assessments, the team explored possibilities in heat recapture and other efficiencies in steelmaking and mining. Factoring in commercial viability, the team then evaluated and prioritized improvement opportunities by focusing on those with the greatest impact on carbon output, production and cost. Currently, the companies are collaborating to implement the opportunities identified through this effort.

"We are committed to our customer's success," said Steve Wunning, Caterpillar Group President. "By working closely with U.S. Steel, we've had an opportunity to better understand their critical business needs and how best to align all that Caterpillar has to offer."

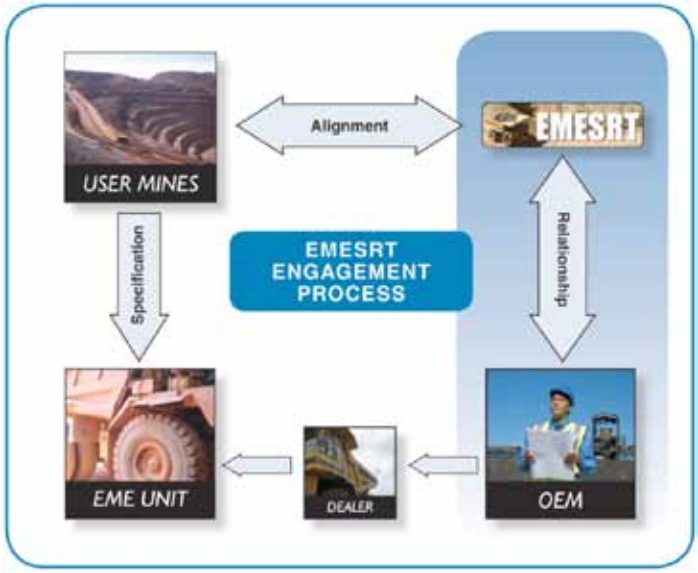
SAFETY REMAINS OUR NUMBER-ONE PRIORITY

Caterpillar provides leadership in the safety of people in, on and around our products. We are dedicated to the long-term health and safety of those who use our equipment and work closely with customers to ensure that our machines and equipment are designed for safe use.

Caterpillar's major mining customers participate in and provide resources for a unique collaboration, the Earth Moving Equipment Safety Round Table (EMESRT). EMESRT encourages manufacturers to improve human factors design of equipment in order to minimize health and safety risks.

In 2010, EMESRT representatives participated in a forum at Caterpillar's Edwards Demonstration and Learning Center, sharing their knowledge and experience with product group leaders and other stakeholders, and hearing about new features on upcoming models.

"Caterpillar has always made safety a priority in design," says Dave Faber, Product Manager for large Cat® mining trucks. "With EMESRT, we've gained additional insight through design reviews with operators and maintenance technicians that allows us to further refine the equipment design-and-build before it is shipped. A combination of engineering excellence and direct input from operators and maintenance technicians produces the best results."



EMESRT has initiated an engagement process aimed at establishing an effective relationship between its mining company members and original equipment manufacturers.

PROMOTING SUSTAINABLE PROGRESS

CATERPILLAR FOUNDATION'S MISSION: MAKING SUSTAINABLE PROGRESS POSSIBLE

Caterpillar is a proactive member of communities around the world and invests significant time and resources in promoting the health, welfare and economic stability of those communities. Caterpillar encourages employees to participate in community activities that promote the common good and believes that our success should also contribute to the quality of life in, and the prosperity and sustainability of, communities where we work and live. The Caterpillar Foundation, our strategic philanthropy program, has contributed nearly $500 million since its formation in 1954.

In 2010, the Foundation invested $36 million, with 41 percent of the total invested outside of the U.S. Projects included:

- A Caterpillar pledge of $6 million to Opportunity International to provide loans, financial literacy training and access to basic banking services to disadvantaged people in 20 countries. Opportunity International has financed 65,000 entrepreneurs and created 30,000 jobs.
- Continued collaboration with Room to Read in India. This nonprofit organization focuses on girls' education initiatives providing scholarships, basic medical care, life skills and tutoring. Our $500,000 contribution so far has created 20 reading rooms and libraries and helped more than 1,000 disadvantaged girls take an active role in their education.
- More than 100 Caterpillar employees and their families cleaning up trash along the Illinois River in a joint effort with Living Land & Waters, a local nonprofit organization dedicated to the protection and conservation of America's rivers.
- An investment of $300,000 to provide school feeding programs in Indonesia.
- An investment of $250,000 in CHF International in 2010 to help mobilize informal waste collectors in the impoverished areas of Bangalore, India. CHF provides support services such as access to sorting stations and safety training and organizes groups to generate income from recyclables.

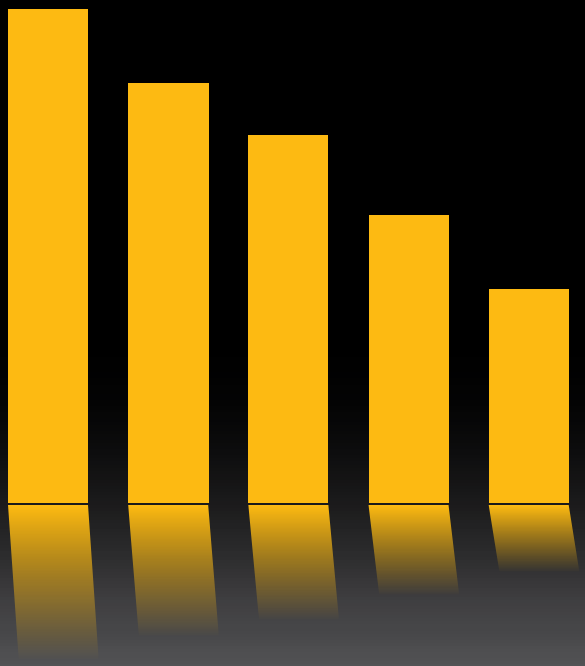
The Caterpillar Foundation's mission:

making sustainable progress possible in our communities via programs that support:

- Sustainable Humanity (basic human needs, self-reliance)
- Sustainable Education
- Sustainable Environment

POWERING CHANGE

GOALS & PROGRESS



In our 2005 Sustainability Report – our first – we pledged to develop a comprehensive, coherent strategy and dedicated staff to focus on sustainable development. In 2006, we focused our efforts on engaging our leadership to drive toward achievement of 2010 goals, strengthening our metrics and data collection processes and creating organizational energy around sustainable development. In 2007, we established aspirational, enterprise-wide goals for our operations and our products, services and solutions.

This section describes our progress in 2010 toward our aspirational, long-term goals.

Caterpillar has set aspirational, long-term goals for our operations as well as our products, services and solutions. We believe these higher standards affirm our determination to lead our industry to a more sustainable future. (Baseline 2006)

2020 Goals for **Operations**

Reduce recordable workplace injury rate to 0.6 and lost-time case rate due to injury to 0.15

↑25%

Increase energy efficiency by 25%

↓25%

Reduce absolute greenhouse gas emissions from existing facilities by 25%

20%

Use alternative/renewable sources to meet 20% of our energy needs

Eliminate waste by reducing waste generation and reusing or recycling all that remains

Hold water consumption flat

LEED

Design all new construction to meet Leadership in Energy and Environmental Design (LEED) or comparable green building criteria

2020 Goals for **Products, Services and Solutions**

Provide leadership in the safety of people in, on and around our products

↓20%

Reduce customer greenhouse gas emissions by 20%

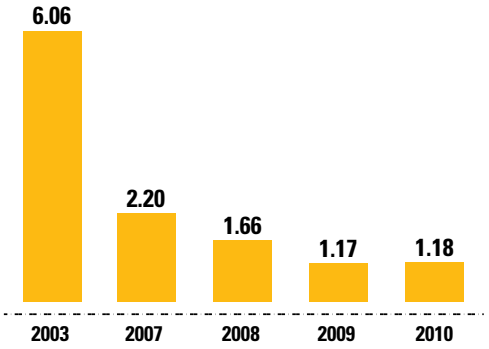
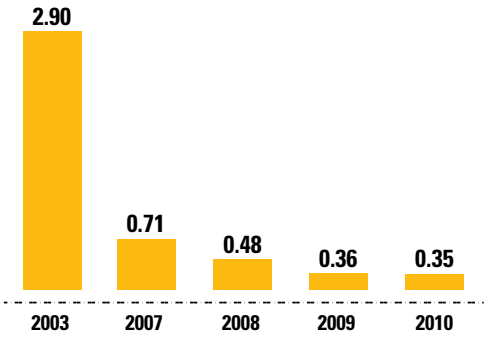
↑20%

Increase customer energy efficiency by 20%

↑20%

Increase customer materials efficiency by 20%

Health and Safety

Goals	Performance Summary	Progress	Commentary
Operational Goal Reduce recordable workplace injury rate to 0.6 and lost-time case rate due to injury to 0.15	**1.18** Recordable Injury Frequency (RIF) *(Recordable injuries per 200,000 hours worked)*  	1% increase from 2009 81% improvement from 2003 120 of 298 reporting facilities ended 2010 with zero recordable injuries. *It's not about the metrics, but about our people!*	Vision Zero (established in 2003): We are committed to creating a zero-injury workplace. We continue to maintain a strong focus on personal safety and strive for zero injuries. 40% of our facilities reached zero recordable injuries.
	0.35 Lost-Time Case Frequency (LTCFR) *(Lost-time injuries per 200,000 hours worked)*  	3% improvement from 2009 88% improvement from 2003 187 of 298 reporting facilities ended 2010 with zero lost-time injuries. *It's not about the metrics, but about our people!*	We continue to realize improvements over previous years' results.
	We are assessing standard-work jobs for safety and ergonomic risk. By year-end 2010, we assessed 98% of the jobs.	We achieved an 85% reduction in high-risk jobs since the first quarter 2008 launch of the ergonomic risk initiative. *It's not about the metrics, but about our people!*	We continue to complete assessments and take corrective actions based on the risks identified. Our focus on ergonomics has driven continued reduction in ergonomic-related injuries.

Health and Safety

Fostering a culture of safe work in Corinth, Miss.

Employee safety is exemplified in our Cardinal Drive, Corinth, Miss., facility. September 28, 2010 marked 365 days without a recordable injury at the facility – a record in the facility's 28-year history. The facility fosters a culture of safe work practices and good housekeeping.

- Senior leaders conduct daily safety walks with facility managers to identify and correct any problems.
- Area team members conduct safety observation audits to identify and correct behavioral and environmental safety risks.
- Teams conduct regular housekeeping, ranging from cleaning and painting to area reorganization.

Fostering a culture of safe work in China

Caterpillar facilities evaluate performance regularly to identify improvements and reduce hazards. The Shandong SEM Machinery, Qingzhou, China, facility reviewed the transmission testing area for unsafe practices. Techniques used to operate the transmission test equipment were determined to pose potential risks, including vibration and entanglement hazards and grip and posture issues. The equipment was replaced, and workers using the test equipment were given safety training.

Fostering a culture of safe work in France

Following simple rules and standard processes improves safety. After observing work practices, Caterpillar Logistics Services in France held workshops with employees to find solutions for potential hazards. A new layout was implemented in the outbound area of the facility to avoid excessive moves and traffic crossings. A ramp was also built for loading of vans, eliminating manual loading. As a result, the facility experienced 356 days without a recordable injury.

Fostering a culture of safe work in East Peoria, Ill.

A manufacturing team developed and implemented a standard process for recognizing, evaluating and controlling potential injury risks for assembly, test and paint processes at the Integrated Manufacturing Operations Division, East Peoria, Ill., facility. Employees were trained to identify and prioritize safety risks and implement best practices. Eleven procedures were implemented to address potential risks associated with climbing/working on ladders and tractors, operating vehicles, pedestrian vehicle avoidance, torque tool usage, hammer/mallet usage, positioning tool usage, walking and working on floor surfaces, crane usage and rigging, manual material handling, environmental management and personal protection equipment usage.

Health and Safety

Fostering a culture of safe work in Brazil

Employees are involved in making the rules that keep them safe. Caterpillar Brazil selected a team to investigate ways to reduce employees' exposure to noise in the manufacturing areas. The team identified a number of solutions, including replacement of defective and outdated tools, elimination of loud and unnecessary cleaning tasks and removal of pneumatic hammers from welding stations. Color-coded visual aid boards were also implemented for quick and easy reference of methods and tolerances.

Improvement initiatives and new designs reduce potential ergonomic risks

A competitive spirit is helping improve safety at the Decatur, Ill., facility where employees compete among themselves to win "Ergonomic Improvement of the Month." The initiative increases awareness about ergonomics issues and ensures reference materials and illustrations are easily accessible. Implemented solutions to potential risks compete for monthly recognition and sharing of the best practices.

Converting to a powder coat paint system at the Sanford, N.C., facility yielded significant ergonomic gains. The new system uses automated electrostatic paint guns to coat approximately 80 percent of surfaces, greatly reducing manual painting time and potentially risky postures for painters.

Potential ergonomic risks were avoided at the Torreón, Mexico, facility. Lift trucks replaced manual material handling. Material racks were placed at comfortable heights for the operators. To avoid back and neck strain, a fixture was designed to accommodate welding while sitting. The improvements contributed to zero recordable injuries and lost days due to ergonomic issues in selected work areas during 2010.

The Hosur, India, facility avoided operator fatigue and repetitive walking, bending and reaching by designing a common fixture to replace six different fixtures in a machining operation. The common fixture also resulted in a 78 percent reduction in machine setup time.

The Pondicherry, India, facility altered its generator assembly process from a manual process to a mechanical process. The mechanical process eliminated lifting and improved production capacity by 10 percent.

The York, Penn., facility redesigned its loading area to reduce ergonomic risks to workers unloading inbound trucks. Tables were installed to allow easy handling of boxes, and conveyers were placed at comfortable heights.

Health and Safety

Goals	Performance Summary	Progress	Commentary
Products, Services and Solutions Goal Provide leadership in the safety of people in, on and around our products.		Operator and jobsite health and safety is promoted at SAFETY.CAT.COM™. This dedicated website – in English, French, Spanish and Portuguese – helps our customers use our products safely and improves their safety performance.	Caterpillar offers a suite of safety services to customers either individually or as part of a Fleet Management Services agreement and remains committed to expanding the availability of safety information and materials.

Designing safe equipment

Caterpillar works to ensure that its equipment is designed to enhance operator safety under all site conditions.

We work with the Earth Moving Equipment Safety Round Table (EMESRT), a group of mining companies who advise manufacturers on how to design equipment to reduce health and safety risks for workers.

EMESRT targets priority design topics such as access and exit, working at heights, noise, vibration, fire, parking, visibility and collision detection, tires and rims, confined space and manual materials handling.

Caterpillar hosts waste industry safety event

Caterpillar is committed to helping its customers stay safe in, on and around its job sites and machines. We participate in many industry associations, listen to our customers and spread our safety message throughout the industries we serve.

Caterpillar recently hosted the Environmental Industry Association (EIA) and its sub-associations, the National Solid Wastes Management Association (NSWMA) and the Waste Equipment Technology Association (WASTEC) at a symposium on safety in the waste industry.

One of the biggest challenges faced by the organizations is protecting waste industry employees who work within the public right of way. During the symposium, members reviewed fatality and injury data, discussed regulations and enforcement trends and shared best practices in safety.

Health and Safety

Diagonal stairway retrofit

Caterpillar is committed to providing customers with the safest and most reliable products and services available. One key area of focus is preventing slips, trips and falls when mounting or dismounting a piece of equipment. The access system upgrade for Cat® 785 and 789 large off-highway trucks provides a diagonal stairway for improved entry and exit from the platform and the cab.

↓25% Greenhouse Gas Emissions

Goals

Operational Goal
Reduce absolute greenhouse gas emissions from existing facilities by 25%

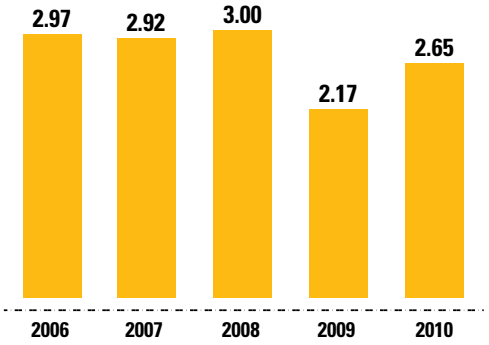
Note: Data does not include facilities acquired after June 1, 2009.

Previously reported data has been restated due to: a) acquisitions, b) data updates realized from improved accuracy.

Performance Summary

2.65 Absolute million metric tons of CO_2e

(Baseline: 2006)



Progress

The 2010 result is 6% better than our 2010 target of 2.8. The increase from 2009 is due to an increase in production and demand and sales volumes in 2010.

Commentary

Caterpillar continued its focus on cost reduction and energy conservation projects in 2010.

Solar Turbines reduces fuel use in engine testing

Testing turbine engines uses significant amounts of fuel, but is necessary to demonstrate that products meet customer requirements in power, efficiency, emissions and safety. A byproduct of burning natural gas and diesel fuel during testing is the output of nitrogen oxide (NOx) emissions.

The Solar Turbines, San Diego, Calif., facility targeted an aggressive goal to reduce fuel consumption by 10 percent during engine testing. Fuel consumption was reduced by 26 percent, far exceeding the 10 percent goal. The improvement resulted in annual savings of more than $2M and reduction in greenhouse gas emissions of 5,600 MT CO_2e.

Sustainable operations at corporate headquarters

Sustainable operations at Caterpillar corporate headquarters in Peoria, Ill., not only achieved Leadership in Energy and Environmental Design (LEED) Gold certification but also achieved energy reductions of approximately 48 percent, resulting in greenhouse gas reductions of approximately 44 percent. Other improvements included reducing water consumption, improving air quality, conserving materials and minimizing chemicals used to clean the facility.

The sustainable improvements achieved by corporate headquarters will serve as a benchmark for other Caterpillar facilities. A Caterpillar Guide to LEED for Existing Buildings was developed, and a website created, to provide reference information for other facilities.

↓20% Customer Greenhouse Gas Emissions

Goals	Performance Summary	Progress	Commentary
Products, Services and Solutions Goal Reduce customer greenhouse gas emissions by 20%		Customers are demanding greater fuel efficiency and using our technology to help them reduce GHG emissions.	We want to help our customers achieve their emissions reductions goals, too. Their needs provide potentially valuable business opportunities for us.

Cat® wheel loader offers high lift option for more efficient loading

The new Extended High Lift (EHL) option for the Cat® 994F wheel loader enables the popular mining machine to load trucks more efficiently, saving time and reducing emissions. The EHL option provides nearly a meter more dump clearance or additional lift height and is designed to reduce operator fatigue, decrease loading time and improve daily production. In a loading test using the new option, cycle time decreased five and a half percent resulting in a five percent increase in production.

Greenhouse gas emissions reduction with retrofits

Retrofits can provide the latest electronic fuel system technology for Cat® D3600 generator sets without requiring replacement of the generator set. Generator sets can be retrofit from mechanical to electronic fuel injection technology, providing fuel savings and the associated reduction in greenhouse gas emissions.

Caterpillar offers a wide range of options to upgrade older diesel- and gas-powered Cat® 3500 and 3600 engines to updated fuel and air system technologies. Retrofits enable machines to be productive longer. Retrofits and upgrades provide additional options for customers looking to increase efficiency and extend machine life.

Water

Goals

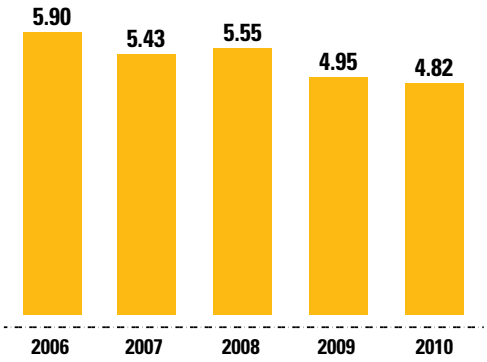
Operational Goal
Hold water consumption flat

Note: Data does not include facilities acquired after June 1, 2009.

Previously reported data has been restated due to: a) acquisitions, b) data updates realized from improved accuracy.

Performance Summary

4.82 Absolute billion gallons used
(Baseline: 2006)



Progress

The 2010 result is 18% better than our 2010 target.

Commentary

In 2010, we continued to execute the water plan and tools developed in 2008. Mapping of the true cost of water use is in progress for our three largest water use facilities. We continue to look for replication opportunities at other sites.

Closed recooling system saves water

To save water, the Kiel, Germany, facility tackled one of the facility's largest water consumers, the inductive hardening machine. Used for heat treatment of valve stems for diesel engines, the machine requires large amounts of water to cool its coils. The original open circuit made it difficult to control the amount of water being used. A new closed system was installed which is controllable and demand-driven, saving 12,000 cubic meters (12 million liters) of water annually.

Solar Turbines Kearny Mesa facility conserves water in response to severe shortage

Dramatic water savings at Solar Turbines, San Diego, Calif., facility have been achieved by innovative changes to the management of its land.

By tackling landscape irrigation, the Kearny Mesa facility reduced its water use by 83 percent, reducing consumption by approximately five million gallons (approximately 45,000 cubic meters) within two years. The facility optimized landscape irrigation practices and transformed more than 90,000 square feet (more than 8,600 square meters) of thirsty turf grass into a low-water use landscape design.

Waste

Goals

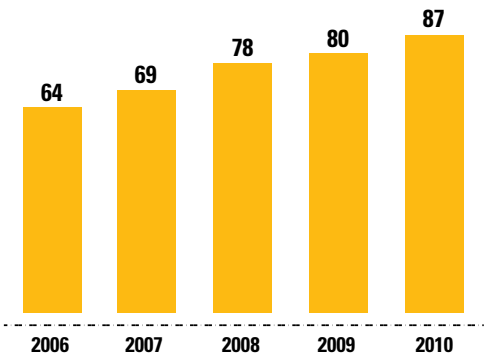
Operational Goal
Eliminate waste by reducing waste generation and reusing or recycling all that remains

Note: Data does not include facilities acquired after June 1, 2009.

Previously reported data has been restated due to: a) acquisitions, b) data updates realized from improved accuracy.

Performance Summary

87 Percent recycled
(absolute pounds recycled waste/absolute pounds total waste) x 100



Progress

The 2010 result is 7% better than our 2010 target. Sustained improvement was made from 2009 to 2010. If metals are included, our recycling rate in 2010 was 94.1%.

This metric does include energy recovery from waste to energy incineration. Achieving such a high percentage on this metric will allow us to look at unique opportunities to further increase our material efficiency.

Commentary

We continue to eliminate waste through active support from Caterpillar employees throughout the world. Caterpillar employees are embracing the recycling efforts on a global basis. We reduce the generation of waste as much as possible and, for the remainder, find types of beneficial reuse (such as waste to energy) or recycle. Ninety-four facilities are recycling at 90% or greater. If metals are included, 162 facilities are recycling at 90% or greater.

Miami distribution center exceeds recycling target

In less than two years, the Caterpillar distribution center in Miami, Fla., increased recycling from 76 percent to more than 90 percent, reducing waste sent to landfill and associated costs.

In 2008, the facility sent in excess of 44,000 pounds (approximately 20 metric tons) of waste to landfill each month at a cost of $154,000 annually. A goal was set to increase the recycling rate to over 85 percent by improving the recyclable material sorting process, identifying alternate methods for recycling wood shipping gates and pallets and increased reuse of materials where possible.

Recycling proceeds to charity

The East Peoria, Ill., facility has worked in recent years not only to increase the facility's percentage-recycled value, but also to decrease waste management costs year-over-year and increase revenues from recycled commodities. One program resulting from the efforts is a charitable donations program made possible by revenues generated from recycling.

Proceeds from the recycling of materials that require separation at the shop floor level are accumulated in a common account; donations are then made to local charities on behalf of the Caterpillar East Peoria employees. In 2010, $55,000 was donated to local charitable organizations, which surpassed the $50,000 in combined donations from 2006 to 2009.

Waste

Cat Logistics U.K. celebrates first anniversary of zero-waste-to-landfill

In October 2010, Cat Logistics in Desford, U.K., celebrated a full year with zero waste sent to landfill and 100 percent recycling. Devised in 2008, a zero-waste-to-landfill initiative led to a complete overhaul of waste management practices at the site. The facility dramatically boosted recycling and generated income by collaborating with recycling vendors.

In their journey to zero-waste-to-landfill, Desford identified methods that could be applied to other Caterpillar facilities, such as baling waste to decrease transportation costs, improving waste segregation and using waste-to-energy technology. Two other U.K. facilities replicated the methods.

↑20% Customer Materials Efficiency

Goals	Performance Summary	Progress	Commentary
Products, Services and Solutions Goal Increase customer materials efficiency by 20%		We are working to conserve and reuse resources.	Remanufactured, rebuilt and certified used parts provide cost savings to our customers and help us achieve our goal of using materials more efficiently. Retrofits and upgrades provide significant customer benefits through the avoidance of obsolescence of older generation parts.

Cat® machines help customer recycle concrete at Zurich airport

Eberhard Company used Cat® machines to demolish an old airport control tower and break it into recyclable pieces. At Zurich Airport, a fleet of Cat® equipment – including Cat® 325C and 325D hydraulic excavators and a Cat® 972G medium-size wheel loader – processed 10,391 cubic meters of concrete debris, chopped 1,800 metric tons of scrap into manageable pieces for recycling, peeled off 1,421 cubic meters of blacktop and loaded 1,676 cubic meters of brick waste. Eighty percent of the demolition debris will be recycled.

Caterpillar cleans up at WasteExpo

Responding to customer needs for efficiency and productivity, Caterpillar displayed an array of new products at the annual WasteExpo trade show in Atlanta, Ga. – North America's largest solid waste and recycling trade show. These included:

- A Cat® 836H landfill compactor featuring a new smooth belly guard to keep trash from catching under the machine, which enhances productivity.
- A remanufactured Cat® 836H landfill compactor wheel, showcasing Caterpillar's remanufacturing capabilities and commitment to sustainability.
- An updated Product Link system, which allows owners and operators to increase jobsite efficiency by monitoring information from remote locations, such as precise machine location, productivity data and health of individual machine systems.

20% Alternative/Renewable Energy

Goals

Operational Goal
Use alternative/ renewable sources to meet 20% of our energy needs

Note: Data does not include facilities acquired after June 1, 2009.

Performance Summary

13.8 Percent renewable energy
(Renewable electrical energy use/total electrical energy use) x 100

Alternative Energy:
Caterpillar is defining alternative energy sources and the calculation methodology

Renewable Energy:
Energy resources that are naturally replenishing over a short period of time and virtually inexhaustible such as:

- wind power
- solar power
- hydro power
- geothermal power
- tidal power
- wave power
- biomass power
- anaerobic digestion

Progress

An enterprise-level energy Strategic Improvement Project was completed in 2010. The project team proposed an initial energy management strategy and organization.

Commentary

Utilizing 6 Sigma, operational definitions have been established.

Individual projects will be launched as identified through research and analysis.

Perkins Engines significantly improves energy and resource efficiency

One of the largest U.K. facilities, Perkins Engines, Peterborough, focused on three environmental improvements – energy usage (and therefore CO_2 produced), water usage and waste generation from machining, assembly, test and finish activities. The site reduced CO_2 emissions by 16,546 metric tons in three years, a 25 percent absolute reduction from a 2006 baseline.

The improvements included:

- Replacing steam boilers with more efficient gas radiant heaters
- Installing automated lighting controls
- Replacing inefficient roof-mounted lighting with localized high-efficiency fluorescent lighting
- Implementing an intelligent building energy management system which 'learns' and applies the most energy-efficient heating, cooling and lighting sequencing
- Regenerative energy
- Enhanced thermal building materials
- Visible energy utilization meters

The improvement team is exploring wind technology and developed a multi-generational process plan for alternative/renewable energy for the facility.

In addition, facility water consumption was reduced by approximately 46.5 million liters, and recycling was increased to 92.5 percent from 71 percent, both from a 2006 baseline.

↑25% Energy Efficiency

Goals

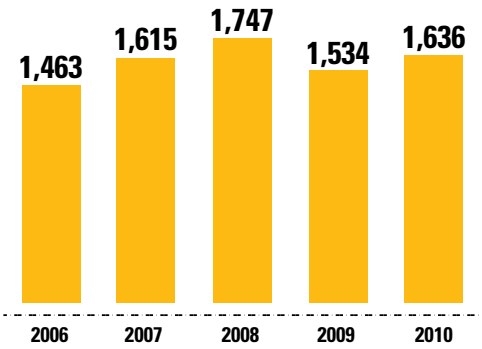
Operational Goal
Increase energy efficiency by 25%

Note: Data does not include facilities acquired after June 1, 2009.

Previously reported data has been restated due to: a) acquisitions, b) data updates realized from improved accuracy.

Performance Summary

1,636 Dollars of revenue/absolute gigajoules energy use
(Baseline: 2006)



Progress

An enterprise-level energy Strategic Improvement Project was completed in 2010. The project team proposed an initial energy management strategy and organization.

Commentary

Energy efficiency is a continually evolving field, and we will evaluate our metric in the future if standards become available.

2010 Energy Stars

Caterpillar Corporate Headquarters in Peoria, Ill., and the Cat Financial Center in Nashville, Tenn., have both earned the U.S. Environmental Protection Agency's (EPA's) prestigious ENERGY STAR, the U.S. national symbol for protecting the environment through superior energy efficiency.

Commercial buildings that earn the ENERGY STAR use an average of 35 percent less energy than typical buildings and release 35 percent less carbon dioxide into the atmosphere. The EPA's energy performance scale helps organizations assess how efficiently their buildings use energy relative to similar buildings nationwide. A building that scores a 75 or higher on the EPA's 100-point scale signifies that the building performs in the top 25 percent of commercial buildings in the nation with regard to energy performance for energy efficiency.

Caterpillar is committed to demonstrating that sustainability is good business. Through the ENERGY STAR achievements, we are delivering significant environmental benefits and lowering our energy costs.

Efficient heating reduces energy and cost

The tractor assembly building in the East Peoria, Ill., facility boosted its energy efficiency by converting steam heating equipment to radiant heat from natural gas. The resulting energy cost saving is nearly $1 million per year, and the greenhouse gas emissions reduction is approximately 25,700 metric tons per year, both from a 2006 baseline. Similar results are expected in other buildings within the facility as improvements are replicated in the future.

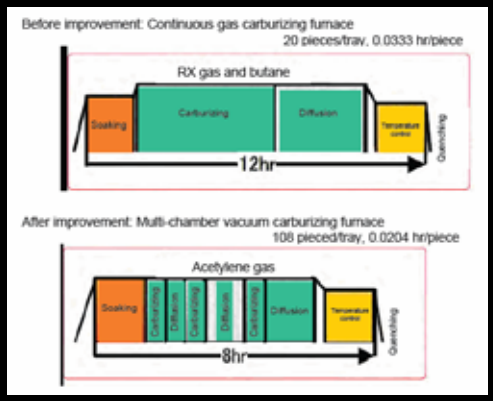
↑25% Energy Efficiency

Turning out the lights saves energy in China

Caterpillar Xuzhou in China dramatically reduced energy consumption by improving the building's lighting system. The facility:

- Installed 700 skylights in the roof, increasing natural light and reducing dependence on electric light
- Set automatic timers to switch off lighting when lighting is not required
- Divided the system into small sub-zones to allow the occupant to only turn on necessary lights

These improvements resulted in annual savings of more than one million KWh of energy, 860 MT CO_2e and approximately $145,000.



Manufacturing improvements lead to energy efficiency

Caterpillar Japan Ltd. Sagami facility boosted its energy efficiency by implementing improvements in its manufacturing operations.

High-efficiency automatic machining units were installed resulting in annual savings of 635 MWh. Compared to the conventional production process, the new machining units tripled running speed, improved cutting conditions, reduced pallet changeover time and improved machining swarf capture. The improved process resulted in a 50 percent reduction in machining time.

A multi-chamber vacuum carburizing furnace replacement reduced start-up and processing time by allowing for a variation in conditions per component carburized. The resulting emissions reduction was 2100 MT CO_2e.

↑20% Customer Energy Efficiency

Goals	Performance Summary	Progress	Commentary
Products, Services and Solutions Goal Increase customer energy efficiency by 20%		Efficiency gains will vary by product, application and segment. We continue to work with our product groups and customers to define applicable metrics.	We collaborate with our dealers to deliver highly customized and site-specific solutions that result in optimized use of our equipment and an improved bottom line for our customers. We offer training to our customer operators on how to use our products more efficiently.

Efficient track-type tractors

New Cat® D6T, D7E and D8T models from Caterpillar build on the solid, proven designs of their predecessors with new features that increase fuel efficiency and productivity while reducing operating costs. The D6T, D7E and D8T each offer optional Key Off Regeneration, as well as a delayed engine shutdown timer and an engine idle shutdown timer.

All three models also offer Product Link, which allows remote monitoring of equipment to improve overall fleet-management effectiveness. Product Link is integrated into machine systems and transmits events and diagnostic codes, as well as hours, fuel, idle time and other detailed information that can then be used to enable the most efficient use of the equipment.

AccuGrade™ boosts energy efficiency and productivity

The AccuGrade™ Grade Control System increases productivity while saving fuel and reducing site costs dramatically. The revolutionary Caterpillar solution is factory integrated, sensor-independent and features a suite of products that includes cross slope, sonic, laser, GPS and ATS technology.

We understand that productivity and our customer's bottom line depend on moving material accurately, quickly and safely the first time. Maintaining consistent grade is difficult, labor intensive and challenging for even the most experienced operators. By combining digital design data, in-cab operator guidance features and automatic blade controls, our AccuGrade Grade Control System actually enhances grading accuracy and virtually eliminates the need for survey stakes.

↑20% Customer Energy Efficiency

IPLOCA Environmental Award

Eco Operator Training℠ is a Caterpillar or dealer delivered one-day training to help operators learn to run equipment to maximize fuel efficiency, lower emissions and maintain high productivity. Customers can experience fuel savings up to 20 percent in some applications.

Eco Operator Training is the winner of the 2010 International Pipeline & Offshore Contractors Association Environmental (IPLOCA) award sponsored by Shell. IPLOCA named Eco Operator Training the winner based on the following criteria:

- the focus on the behaviors of operators
- the reduction in fuel consumption and carbon emitted
- clear and simple illustration on the way diesel converts to carbon emitted into the environment
- the benefits to owners and users of heavy plant machinery, not the manufacturers
- the teaching of skills applicable to all types and manufacturers

LEED Leadership in Energy and Environmental Design

Goals	Performance Summary	Progress	Commentary
Operational Goal Design all new construction to meet Leadership in Energy and Environmental Design (LEED) or comparable green building criteria	**25** Buildings/projects designed to LEED criteria	The total of 25 buildings/projects consists of 23 new construction and 2 existing buildings. In 2010: – 1 facility attained Greenmark Gold Plus certification – 4 facilities attained LEED Gold certification – 2 facilities attained LEED Silver certification	Varying degrees of certification or certifiable status were attained or sought in accordance with either the U.S. Green Building Council's New Construction, Existing Buildings or Commercial Interiors certification processes, or the Singapore Greenmark Certification process.

Caterpillar facilities received certification in 2010

The following facility received certification in accordance with Singapore's Greenmark certification process:

- GOLD PLUS – Singapore, Remanufacturing Facility

The following facilities received certification in accordance with the U.S. Green Building Council's LEED-NC (Leadership in Energy and Environmental Design – New Construction) certification process:

- GOLD – Suzhou, China, Medium Wheel Loader/Motor Grader Facility
- GOLD – Wuxi, China, Research & Development Facility
- GOLD – Tianjin, China, Genset Facility
- GOLD – Washington, Ill., Instrument Applications Center
- SILVER – Wuxi, China, Perkins Shibaura Engines Facility

The following facility received certification in accordance with the U.S. Green Building Council's LEED-CI (Leadership in Energy and Environmental Design – Commercial Interiors) certification process:

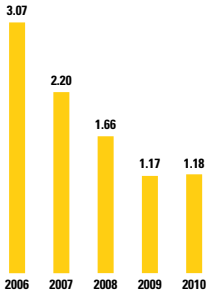
- SILVER – Beijing, China, Interiors Beijing Office

Performance at a Glance

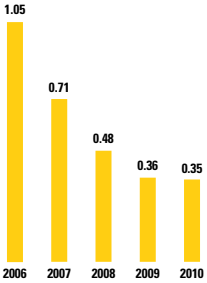
These graphs provide a snapshot of performance for key indicators.

WORKPLACE SAFETY

Recordable Injury Frequency (RIF)
(Recordable injuries per 200,000 hours worked)



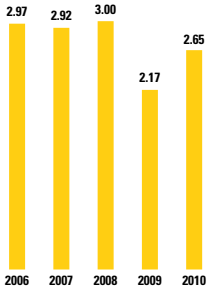
Lost-Time Case Frequency (LTCFR)
(Lost-time injuries per 200,000 hours worked)



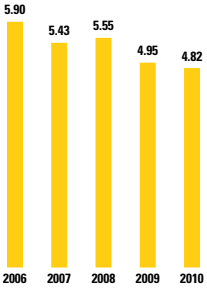
1. Data does not include facilities acquired after June 1, 2009.
2. Data prior to 2010 has been restated due to: a) acquisitions, b) data updates realized from improved accuracy.
3. Percent recycled waste excludes the weight of metal, which is 100 percent recycled. Including metal raises the level to 94.1% in 2010.
4. Based only on renewable energy. Alternative energy will be included in the future.
5. Data does not include Progress Rail operations.

ENVIRONMENTAL IMPACT [1, 2]

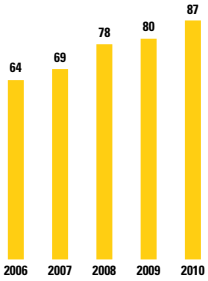
Absolute GHG
(Absolute million metric tons of CO_2e)
(Baseline: 2006)



Water Use
(Absolute billion gallons used)
(Baseline: 2006)

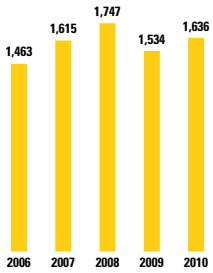


Percent Recycled [3]
(Absolute pounds recycled waste/ absolute pounds total waste) x 100



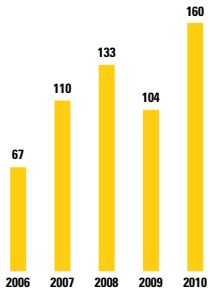
Percent Alternate/ Renewable Sources [4]
(Renewable electrical energy use/total electrical energy use) x 100

Energy Efficiency
(Dollars of revenue/absolute gigajoules energy use)
(Baseline: 2006)

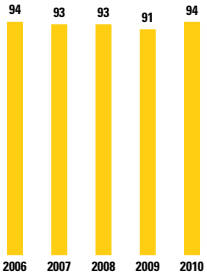


REMANUFACTURING (REMAN) [5]

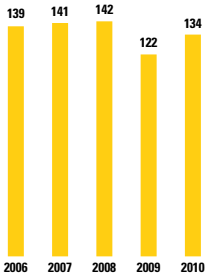
Reman Business Growth
(Percent revenue increase over 2001 base)



Reman End-of-Life "Take Back" Percent
(Actual end-of-life returns/eligible returns) x 100

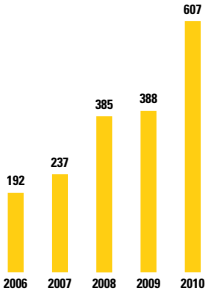


Reman End-of-Life "Take Back" by Weight
(Millions of pounds of end-of-life material received)



CAT CERTIFIED REBUILD [2, 5]

Cat Certified Rebuild Business Growth
(Percent revenue increase over 2001 base)



POWERING CHANGE

CONNECTIONS

Caterpillar works with a wide range of individuals and organizations to promote sustainability globally.

Our advisory council of eminent sustainability experts provides us with independent advice and challenges us to continue improving.

EXTERNAL ADVISORS

Our thanks to the advisory council of experts who provided input and guidance to the pages in this report. Inclusion below indicates they provided feedback; it does not indicate they endorse the contents of the report.

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Director, International Network for Environmental Compliance
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ADVISOR COMMENTS

Comments and statements from the members of the advisory council contained in this report reflect the individual opinions of the advisors and not the opinions or policies of Caterpillar, and their inclusion in this report does not indicate that Caterpillar endorses or approves them.

George C. Eads:
Senior Consultant, Charles River Associates

I am pleased to see that one of the synergies from Caterpillar's pending acquisition of Bucyrus is the extension to Bucyrus of Caterpillar Remanufacturing products and services for Bucyrus equipment. This shows yet again that the drive for sustainability has clear business benefits. Equally pleasing is the achievement of the second year of zero-waste-to-landfill and 100 percent recycling at Caterpillar's Desford site in the U.K. I challenge the company to spread the learning to all facilities worldwide – it makes good business and environmental sense.

Margaret Flaherty:
Chief Operating Officer,
World Business Council for Sustainable Development

Caterpillar's business sits at an interesting "pivot point" of various industry sectors, serving, for example, energy, infrastructure and transportation companies. As we increasingly move to more "systems solutions" approaches to many of the world's biggest challenges, this pivot point becomes vital with great opportunities to positively influence growth in a sustainable direction; I think Caterpillar is a strong contender to place at the head of the pack in The Race for Sustainable Development.

Bradley Googins:
Professor, Carroll School of Management
Former Director, Center for Corporate Citizenship, Boston College

As the world economy struggles to define the new normal, Caterpillar, along with other multinational companies, is being thrust, often uncomfortably, onto a new global stage in which business is expected to take a larger and more responsible role in society. Across the globe, the growing band of activists and NGOs, along with the weakened state of the public sector, has thrust business into the spotlight and into new leadership challenges. Key issues from water, persistent poverty, climate change, education and community and economic development are increasingly becoming business issues for companies such as Caterpillar, posing both new risks as well as new business opportunities. The coming years will require Caterpillar to become a significantly more engaged citizen, and more responsive to a broad array of stakeholder expectations. But more importantly, these complex social and environmental issues will require a new leadership from Caterpillar, a leadership that will look for more active engagement with key stakeholders and authentic responses and contributions to society. Caterpillar will be faced with the challenge, the expectation and the opportunity to provide a new and smarter leadership in public policy debate, global governance deliberations and, most of all, in bringing their unique assets of innovation to contribute in resolving these persistently stubborn and complex issues.

ADVISOR COMMENTS *(continued)*

Stephanie Hanford-Hass:
President, Connectivity Consulting LLC

As the world economy continues its recovery, Caterpillar can best serve its stakeholders by further integrating the concept of sustainability into its core business model. By helping its customers become more sustainable and by using sustainability as a platform for growth, Caterpillar can become a model of sustainable production and consumption (Caterpillar Remanufacturing Services is an example) and it can help the world meet its development challenges in a more thoughtful manner. Cat equipment will be needed to help the world adapt to climate change. Despite the woefully inadequate progress in international policy negotiations, Caterpillar would be well served to monitor the impacts of climate change because these will identify the needs of society and the market.

Thomas E. Lovejoy:
Biodiversity Chair
Heinz Center for Science, Economics and the Environment

All environmental problems affect living systems, so biological diversity integrates all environmental impact. As a consequence, the divergence of biological diversity in a particular place from its natural state is the best single measure of environmental impact. The third *Global Biodiversity Outlook*, released in May 2010, shows serious negative trends, although efforts to address the problem are clearly improving. In the end, we need to recognize that our planet works as a biological and physical system linked together, and truly sustainable development is that which works with, not against, the living systems of the planet.

William A. Wallace:
Past President and Member of the Governing Board
Engineers Without Borders – USA

Society has only recently begun to understand that the world's resources and ecological carrying capacity are not only finite, but are being used up faster than they can be replaced, replenished or restored. This situation makes life especially difficult for the poor nations, which do not have sufficient economic means nor the technological wherewithal to meet basic needs. If done well, Caterpillar's global reach combined with cost-efficient product and service offerings can help the poor nations make substantial progress in improving the quality of life of their citizens.

CORPORATE AFFILIATIONS

Dow Jones Sustainability Indexes
Included since 2000; sector leader 2006-2007-2008-2010
sustainability-index.com

Ethisphere –
World's Most Ethical Companies 2007-2008-2009-2010
ethisphere.com

Asia-Pacific Partnership on Clean Development and Climate
asiapacificpartnership.org
Solar Turbines is a task force member for the Asia-Pacific Partnership on Clean Development and Climate, an innovative effort to accelerate the development and deployment of clean energy technologies.

Business Council for Sustainable Energy
bcse.org
Solar Turbines is a member of the Business Council for Sustainable Energy, which promotes clean energy technologies as solutions to economic, environmental and national security challenges.

Business Roundtable
businessroundtable.org
Caterpillar is a member of the Business Roundtable, which supports sustainable development through its task force on environment, technology and the economy that sponsors the S.E.E. Change initiative (Society, Environment, Economy) and through Climate RESOLVE (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts).

Diesel Technology Forum
dieselforum.org
Caterpillar is a member of the Diesel Technology Forum, a leading resource and educator on the importance and unique value of diesel engines, fuels, equipment and emissions control technology.

Energy Technologies Institute
energytechnologies.co.uk
Caterpillar is a member of the Energy Technologies Institute, a U.K.-based public-private organization focused on projects that create affordable, reliable, clean energy for heat, power and transport.

The Nature Conservancy
nature.org
Caterpillar has an active role on the International Leadership Council and became the lead corporate donor in the Great Rivers Partnership Project in 2005.

Opportunity International
opportunity.org
Through the Caterpillar Foundation, Caterpillar partners with Opportunity International to provide microfinance loans, savings, insurance and training to over two million people working their way out of poverty in the developing world.

Tropical Forest Foundation
tropicalforestfoundation.org
Caterpillar became a founding member of the Tropical Forest Foundation in 1990. The Tropical Forest Foundation works to advance environmental stewardship, economic prosperity and social responsibility through sustainable forest management.

CORPORATE AFFILIATIONS *(continued)*

U.S. Green Building Council
usgbc.org
In the U.S., Caterpillar is a member of the U.S. Green Building Council, a nonprofit community of leaders working to make green buildings available to everyone within a generation.

Woody Biomass Coalition
woodybiomass.net
Caterpillar is a member of the Woody Biomass Coalition which provides advocacy, education, information and outreach to public and private entities to promote research, development and funding for sustainable woody biomass utilization and markets in the U.S.

World Business Council for Sustainable Development (WBCSD)
wbcsd.org
Caterpillar is a member of the World Business Council for Sustainable Development, a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development.

World Food Programme
wfp.org
Through the Caterpillar Foundation, Caterpillar partners with the World Food Programme, the world's largest humanitarian agency, to fight hunger worldwide, delivering food wherever and whenever it is needed most.

World Resources Institute
wri.org
Caterpillar's Chairman and CEO is a member of the Board of Directors of the World Resources Institute, an environmental think tank that goes beyond research to find practical ways to protect the earth and improve people's lives.