

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

**I. PURPOSE AND GENERAL RESPONSIBILITIES**

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

- serving as an independent and objective party to monitor the integrity of Caterpillar's financial statements, reporting process and internal control system;
- reviewing and assessing audit efforts of Caterpillar's independent auditors and internal auditing department;
- providing an avenue of open communication among Caterpillar's independent auditors, financial and senior management, internal auditing department, and Board of Directors;
- directly appointing, retaining, compensating, evaluating and terminating the company's independent auditors;
- reviewing the qualifications, independence and performance of the independent auditor;
- reviewing the performance of the company's internal audit function; and
- resolving disagreements, if any, between management and the independent auditor.

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

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

## **II. COMPOSITION**

The Audit Committee shall have a Chairman appointed by the Board of Directors. The Board may fill vacancies on the Committee and remove a member of the Committee at any time with or without cause. No member of the Audit Committee shall have a relationship to Caterpillar that may interfere with the exercise of their independent judgment, as such independence is defined by applicable laws and regulations and the New York Stock Exchange. In addition, Committee members shall meet the definition of an “outside director” within the meaning of Section 162(m) of the IRS Code of 1986, as amended. All members of the Audit Committee shall be financially literate as determined by the Board in its business judgment consistent with financial literacy guidelines adopted by the Board. At least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment.

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

## **III. MEETING ATTENDANCE AND MINUTES**

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

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

compliance with legal and regulatory requirements, the performance and independence of the company's auditors and the performance of internal audit.

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

#### **IV. RESPONSIBILITIES AND DUTIES**

##### ***Audit Committee Charter***

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

##### ***Independent Auditor***

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

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

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

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

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

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

### ***Internal Controls***

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

### ***Report of Accounting, Internal Controls or Audit Complaints***

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

### ***Financial Reporting Process***

#### **Annual Process**

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

- the independent auditor shall report on its completion of the annual audit, any significant issues arising, any audit problems or difficulties encountered, management's response to any problems or difficulties, and whether it intends to issue an unqualified opinion on the financials;
- the independent auditor shall express its judgment regarding the quality and appropriateness of Caterpillar's accounting principles as they apply to its financial reporting;
- management shall review the annual consolidated financial statements with the Audit Committee, discussing significant changes from the previous year and the impact of any new accounting pronouncements;
- the Audit Committee shall consider any significant changes to Caterpillar's auditing and accounting practices as suggested by the independent auditor or management;
- the Audit Committee shall review separately with management, the internal audit staff and the independent auditor any significant difficulties encountered during the

course of the audit, including any restrictions on the scope of work or access to required information; and

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

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

### **Quarterly Process – Earnings Releases**

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

### **Quarterly Process – Forms 10-Q**

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

### ***Annual Audit Committee Report***

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

### ***Report of Significant Litigation and Regulatory Matters***

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

### ***Additional Areas of Review***

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

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

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

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

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

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

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

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

### ***Committee Evaluation***

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