

CATERPILLAR INC.

**CHARTER OF THE
COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS**

(adopted by the Board of Directors on December 8, 2004)

I. PURPOSE AND GENERAL RESPONSIBILITIES

The primary function of the Compensation Committee is to assist the Board of Directors in fulfilling its responsibilities in connection with the compensation of Company directors, officers and employees. It performs this function by:

- establishing and overseeing compensation programs, including both long and short term incentive compensation plans, for employees of the Company in salary grades 26 and above;
- recommending to the Board the compensation of directors who are not officers of the Company;
- administering the Company's Stock Option Plans, both those in existence at the time of the adoption of this Charter and those created thereafter, including the granting of options and restricted stock grants thereunder;
- issuing an annual report on executive compensation in accordance with applicable rules and regulations of the Securities and Exchange Commission for inclusion in the Company's proxy statement; and
- performing such general oversight and investigation functions related to Company compensation inherent to the responsibilities designated herein or set forth in future resolutions of the Board

The Committee has no authority with respect to the granting of options to directors eligible to receive stock options under the 1996 Stock Option Plan of the Company. The authority of the Committee with respect to any future stock option plan of the Company may be limited by the provisions of such plans as adopted by the Board and/or approved by the stockholders of the Company.

The Committee may form and delegate authority to subcommittees when appropriate. The Committee may request, at its sole discretion, reports on matters related to its authority or duties described in this Charter or on any subject that it deems appropriate to its responsibilities. All employees of the Company are expected to cooperate as requested by the Committee. The Committee is empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibilities. The Committee shall recommend to the Board appropriate extensions or changes in the authority or duties of the Committee.

II. COMPOSITION

The Compensation Committee shall have a Chairman appointed by the Board. The Compensation Committee shall consist of that number of directors as the Board shall determine from time to time, such number not to be less than two members in accordance with Article III, Section 5 of the bylaws of the Company. 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 Compensation Committee shall have a relationship to Caterpillar that may interfere with the exercise of his or her 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.

III. MEETING ATTENDANCE AND MINUTES

The Compensation Committee shall meet at such times as the Chairman of the Committee shall designate and notice of such meetings shall be given to Committee members in accordance with the bylaws of the Company. Directors not on the Committee may attend meetings at their discretion. At the invitation of the Chairman, members of management and outside consultants shall attend Compensation Committee meetings. 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.

The Committee shall report to the Board periodically or as required by the nature of its duties on any of its activities and shall make such recommendations to the Board as the Committee decides are appropriate. 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

Compensation Committee Charter

The Compensation Committee shall review this charter periodically for adequacy and recommend to the Board any necessary changes.

CEO Performance and Compensation

The full Board shall participate in the evaluation of the Chief Executive Officer, since this is deemed to be one of the Board’s most significant oversight functions. Both objective and subjective criteria will be used, including but not limited to: (a) the company’s financial performance; (b) accomplishment of Caterpillar’s long-term strategic objectives; and (c) the development of Caterpillar’s top management team. The Chief Executive Officer shall not attend full Board meetings discussing his or her evaluation.

The Compensation Committee shall review the full Board's assessment of the corporate goals and objectives relevant to the CEO's compensation, evaluate the performance of the Company's Chief Executive Officer in light of these goals and objectives and make recommendations to the full Board as to his or her compensation based on this assessment.

Employee and Management Compensation

The Committee shall review the Company's salaried and management compensation practices, including the methodologies for setting employee and officer salaries, and shall fix the salary and other compensation of all officers of the Company. The Committee shall also ensure that compensation is competitive and rewards performance, taking into account compensation levels and practices at comparable companies, but not being constrained by them in exercising its independent judgment.

Compensation Plans and Programs

The Committee shall approve, and recommend standards for, the Company's compensation programs and plans, including, but not limited to, the Company's various incentive compensation, retirement and other benefit plans.

Director Compensation

Caterpillar management will periodically review with the Committee the status of independent director compensation relative to comparable companies. The Committee shall recommend to the Board the compensation for outside directors.

Stock Option Plans

The Committee shall administer the Company's stock option plans in accordance with the responsibilities assigned to the Committee under any and all such plans.

Reports to the Board

The Committee shall report to the Board periodically or as required by the nature of its duties on all of its activities and shall make such recommendations to the Board as the Committee decides are appropriate.

Committee Evaluation

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

q:bod/committees/compensation/charter/120804final.doc