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



FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.

Commission File No. 0-13295

CATERPILLAR FINANCIAL SERVICES CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

37-1105865
(IRS Employer I.D. No.)

2120 West End Ave., Nashville, Tennessee
(Address of principal executive offices)

37203-0001
(Zip Code)

Registrant's telephone number, including area code: (615) 341-1000

The Registrant is a wholly-owned subsidiary of Caterpillar Inc. and meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K, and is therefore filing this Form with the reduced disclosure format.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

5.125% Medium Term Notes Series F
due October, 2011

**Name of each exchange
on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of February 19, 2009, one share of common stock of the Registrant was outstanding, which is owned by Caterpillar Inc.

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PART I

Item 1. Business.

General

Caterpillar Financial Services Corporation was organized in 1981 in the State of Delaware (together with its subsidiaries, "Cat Financial," "the Company," "we" or "our"). We are a wholly-owned finance subsidiary of Caterpillar Inc. (together with its other subsidiaries, "Caterpillar" or "Cat").

Nature of Operations

Our primary business is to provide retail financing and wholesale alternatives for Caterpillar products to customers around the world. Such retail financing is primarily comprised of financing of Caterpillar equipment, machinery, and engines. In addition, we also provide financing for vehicles, power generation facilities, and marine vessels that, in most cases, incorporate Caterpillar products. We also provide wholesale financing to Caterpillar dealers and purchase short-term dealer receivables from Caterpillar. A significant portion of our activities is conducted in North America. However, we have additional offices and subsidiaries in Asia-Pacific, Europe and Latin America. We have more than 25 years of experience in providing financing for Caterpillar products, contributing to our knowledge of asset values, industry trends, product structuring and customer needs.

The Company's retail leases and installment sale contracts (totaling 60 percent*) include:

- Tax leases that are classified as either operating or finance leases for financial accounting purposes, depending on the characteristics of the lease. For tax purposes, we are considered the owner of the equipment (17 percent*).
- Finance (non-tax) leases, where the lessee for tax purposes is considered to be the owner of the equipment during the term of the lease, that either require or allow the customer to purchase the equipment for a fixed price at the end of the term (21 percent*).
- Installment sale contracts, which are equipment loans that enable customers to purchase equipment with a down payment or trade-in and structure payments over time (21 percent*).
- Governmental lease-purchase plans in the U.S. that offer low interest rates and flexible terms to qualified non-federal government agencies (1 percent*).

The Company's wholesale notes receivable, finance leases and installment sale contracts (totaling 13 percent*) include:

- Inventory/rental programs, which provide assistance to dealers by financing their new Caterpillar inventory and rental fleets (5 percent*).
- Short-term dealer receivables we purchase from Caterpillar at a discount (8 percent*).

The Company's retail notes receivable (27 percent*) include:

- Loans that allow customers and dealers to use their Caterpillar equipment as collateral to obtain financing.

*Indicates the percentage of total portfolio as of December 31, 2008. We define total portfolio as total finance receivables (net of unearned income and allowance for credit losses) plus equipment on operating leases, less accumulated depreciation. For more information on the above and our concentration of credit risk, please refer to Note 6 of Notes to Consolidated Financial Statements.

Competitive Environment

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Our competitors include Wells Fargo Equipment Finance Inc., General Electric Capital Corporation and various banks and finance companies. In addition, many of the manufacturers that compete with Caterpillar, such as Volvo Financial Services, Komatsu Financial L.P. and John Deere Credit Corporation, use below-market interest rate programs (subsidized by the manufacturer) to assist machine sales. We work with Caterpillar to provide a broad array of financial merchandising programs around the world to meet these competitive offers.

We continue in our efforts to respond quickly to customers and improve internal processing efficiencies. We believe our web-based Cat FinancExpressSM transaction processing and information tool, currently available in the U.S., Australia, Canada and France, is an important part of these efforts. Cat FinancExpressSM is an on-line tool that provides finance quotes, credit decisions and the ability to print the appropriate financial documents for end-user signature, all in a reasonably short time frame.

We provide financing only when acceptable criteria are met. Credit decisions are based upon, among other factors, the customer's credit history, financial strength and intended use of equipment. We typically maintain a security interest in retail financed equipment and require physical damage insurance coverage on financed equipment.

In certain instances, our operations are subject to supervision and regulation by state, federal and various foreign government authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things, (i) regulate credit granting activities and the administration of loans, (ii) establish maximum interest rates, finance charges and other charges, (iii) require disclosures to customers, (iv) govern secured transactions, (v) set collection, foreclosure, repossession and other trade practices and (vi) regulate the use and reporting of information related to a borrower's credit experience. Our ability to comply with these governmental and legal requirements and restrictions affects our operations.

We continue to finance a significant portion of Caterpillar dealers' sales and inventory of Caterpillar products throughout the world (see Note 16 of Notes to Consolidated Financial Statements for more information regarding our segments and geographic areas). Our competitive position is improved by marketing programs offered by Caterpillar and/or Caterpillar dealers, which allow us to offer below-market interest rates. Under these programs, Caterpillar, or the dealer, subsidizes an amount at the outset of the transaction, which we then recognize as revenue over the term of the financing.

We also have agreements with Caterpillar that are significant to our operation. These agreements provide for financial support, certain funding, employee benefits and corporate services, among other things. For more information on these agreements, please refer to Note 14 of Notes to Consolidated Financial Statements.

Employment

As of December 31, 2008, there were 1,714 full-time employees, an increase of 7 percent from December 31, 2007.

Available Information

The Company files electronically with the Securities and Exchange Commission (SEC) required reports on Form 8-K, Form 10-Q and Form 10-K. The public may read and copy any materials the Company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished with the SEC are available free of charge through our Internet site (www.catfinancial.com) as soon as reasonably practicable after filing with the SEC. Copies may also be obtained free of charge by writing to: Legal Dept., Caterpillar Financial Services Corporation, 2120 West End Ave., Nashville, Tennessee 37203-0001. In addition, the public may obtain more detailed information about our parent company, Caterpillar Inc. (together with its subsidiaries, "Caterpillar" or "Cat") by visiting its Internet site (www.cat.com). None of the information contained at any time on either our Internet site or Caterpillar's Internet site is incorporated by reference into this document.

Item 1A. Risk Factors.

The following discussion of risk factors may contain "forward looking statements" that are subject to cautionary statement under the caption "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS" in Item 7 of this report. The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in this report. The risks described below are not the only ones we face. Additional risks that are currently unknown to us or that we currently consider to be immaterial may also impair our business or adversely affect our financial condition or results of operations. If any of the following risks actually occurs, our business, financial condition or results of operation could be adversely affected.

Demand for Caterpillar's Products

Our business is largely dependent upon the demand for Caterpillar's products and customers' willingness to enter into financing or leasing agreements. As a result, a significant and prolonged decrease in demand could have a material adverse effect on our business, financial condition, results of operations and cash flows. Our primary business is to provide retail and wholesale financing alternatives for Caterpillar products to customers and Caterpillar dealers. The demand for Caterpillar's products and our products and services are influenced by a number of factors, including:

- General world economic conditions and the level of mining, construction and manufacturing activity;
- Fluctuations in demand and prices for certain commodities;
- Fluctuations in currency exchange rates and interest rates;
- Changes and uncertainties in the monetary and fiscal policies of various governmental and regulatory entities;

- The ability of Caterpillar dealers to sell Caterpillar products and their practices regarding inventory control;
- The ability of Caterpillar to compete successfully;
- Changes in pricing policies by Caterpillar or its competitors;
- Political, economic and legislative changes; and
- Natural disasters, wars, embargoes, acts of terrorism and other catastrophic events.

Any significant changes to these factors could negatively impact our results.

Marketing, Operational and Administrative Support from Caterpillar

We participate in certain marketing programs sponsored by Caterpillar and/or Caterpillar dealers that allow us to offer financing to customers at interest rates that are below-market rates through subsidies from Caterpillar and/or Caterpillar dealers. These marketing programs provide us with a significant competitive advantage in financing Caterpillar products. Any elimination of these marketing programs or reduction in our ability to offer competitively priced financing to customers could reduce the percentage of Caterpillar products financed by us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Caterpillar also provides us with other types of operational and administrative support, such as the administration of employee benefit plans, which is integral to the conduct of our business. Any changes in the levels of support from Caterpillar could also negatively impact our results.

Increases in Delinquencies, Repossessions and Net Losses

Our business is significantly influenced by the credit risk associated with our customers. The creditworthiness of each customer and the rate of delinquencies, repossessions and net losses on customer obligations are directly impacted by several factors, including, but not limited to, relevant industry and economic conditions and the availability of capital. Any increase in delinquencies, repossessions and net losses on customer obligations could have a material adverse effect on our earnings and cash flows.

In addition, although we evaluate and adjust our allowance for credit losses related to past due and non-performing receivables on a regular basis, adverse economic conditions or other factors that might cause deterioration of the financial health of our customers could change the timing and level of payments received and thus necessitate an increase in our estimated losses, which could also have a material adverse effect on our earnings and cash flows. We experienced an increase in past dues over 30 days and write-offs as of December 31, 2008, compared to December 31, 2007, and expect past dues and write-offs to likely be higher in 2009 compared to 2008, as further described under "Management's Discussion and Analysis of Financial Condition and Results of Operation."

Interest Rates, Foreign Currency Exchange Rates and Market Liquidity Conditions

Changes in interest rates, foreign currency exchange rates and market liquidity conditions could have a materially adverse effect on our earnings and cash flows. Because a significant amount of loans made by us are made at fixed interest rates, our business is subject to fluctuations in interest rates. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and/or cash flows. In addition, since we make a significant amount of loans in currencies other than the U.S. dollar, fluctuations in foreign currency exchange rates could also reduce our earnings and cash flows. We also rely on a number of diversified global debt capital markets and funding programs to provide liquidity for our global operations, including commercial

paper, medium term notes, retail notes, variable denomination floating rate demand notes, asset-backed securitizations and bank loans. Significant changes in market liquidity conditions could impact our access to funding and the associated funding cost and reduce our earnings and cash flows.

Although we manage interest rate, foreign currency exchange rate and market liquidity risks with a variety of techniques, including a match funding program, the selective use of derivatives and a broadly diversified funding program, there can be no assurance that fluctuations in interest rates, currency exchange rates and market liquidity conditions will not have a material adverse effect on our earnings and cash flows. If any of the variety of instruments and strategies we use to hedge our exposure to these various types of risk are ineffective, we may incur losses.

Equipment Financing

Declines in the residual value of equipment financed by us may reduce our earnings. We recognize the residual value of leased equipment, which is the estimated future wholesale market value of leased equipment at the time of the expiration of the lease term. We estimate the residual value of leased equipment at the inception of the lease based on a number of factors, including historical wholesale market sales prices, past remarketing experience and any known significant market/product trends. If estimated future market values significantly decline due to economic factors, obsolescence or other adverse circumstances, we may not realize such residual value, which could reduce our earnings, either through an increase in depreciation expense or a decrease in finance revenue.

Changes in Our Competitive Environment

The retail financing business is highly competitive, with financing for users of Caterpillar equipment available through a variety of sources, principally commercial banks and finance and leasing companies. Increasing competition may adversely affect our business if we are unable to match the products and services of our competitors. Also, as noted above, any elimination of the marketing programs sponsored by Caterpillar and/or Caterpillar dealers, which allow us to offer financing to customers at interest rates that are below-market rates, could have a materially adverse effect on our business.

Market Volatility and Difficult Market Conditions

The global equity markets have been very volatile and credit markets globally have been disrupted, which has resulted in reduced levels of liquidity and increased credit spreads in many markets. We have maintained access to most medium term note and commercial paper markets, but there can be no assurance that such markets will continue to be a reliable source of financing. If current levels of market disruption and volatility were to worsen, we could face materially higher financing costs, become unable to access adequate funding to operate and grow our business and could be required to draw upon contractually committed lending agreements primarily provided by global banks and/or by seeking other funding sources. However, under extreme market conditions, there can be no assurance that such agreements and other funding sources would be available or sufficient. The extent of any impact on our ability to meet funding or liquidity needs will depend on several factors, including our operating cash flows, the duration of any market disruption, the effects of governmental programs such as the FDIC's Temporary Liquidity Guarantee Program ("TLGP"), general credit conditions, the volatility of equity markets, our credit ratings and credit capacity, the cost of financing and other general economic and business conditions. Should levels of market disruption and volatility worsen, we may also face a number of other risks in connection with these events, including:

- Market developments that may affect customer confidence levels and may cause declines in credit applications and adverse changes in payment patterns, causing increases in delinquencies and default rates, which could impact our write-offs and provision for credit losses.
- The process we use to estimate losses inherent in our credit exposure requires a high degree of management's judgment regarding numerous subjective qualitative factors, including forecasts of economic conditions and how

economic predictors might impair the ability of our borrowers to repay their loans. Ongoing financial market disruption and volatility may impact the accuracy of these judgments.

- Our ability to engage in routine funding transactions or borrow from other financial institutions on acceptable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- Since our counterparties are primarily financial institutions, their ability to perform in accordance with any of our underlying agreements could be adversely affected by market volatility and/or disruptions in the equity and credit markets.

Covenants in Our Debt Instruments May Adversely Affect Us

Cat Financial and our subsidiaries have agreements under which we borrow or have the ability to borrow funds for use in our respective businesses and are utilized primarily to support our commercial paper program and other general corporate purposes. Certain of these agreements include covenants relating to our financial performance. The two most significant financial covenants are a leverage ratio covenant that requires us to maintain a ratio of consolidated debt to consolidated net worth of not greater than 10.0 to 1 and an interest coverage ratio that requires us to maintain a ratio of earnings before income taxes and interest expense to interest expense of not less than 1.15 to 1. In addition to the foregoing financial covenants, there is a requirement in a number of these agreements that prohibits us from terminating, amending or modifying our support agreement with Caterpillar. The trust indentures entered into in connection with some of our debt programs contain covenants that further impact the operation of our business such as a negative pledge clause that limits our ability to incur secured indebtedness, as well as covenants that limit our ability to consolidate, merge and sell assets. Similarly, we are also bound by covenants in various agreements that involve Caterpillar and its obligation to maintain a consolidated net worth of not less than an amount equal to 75 percent of consolidated net worth at the end of any given year.

While we do not believe any of these credit covenants to which we are subject presently materially restrict our operations, our ability to meet any one particular financial covenant can be affected by events beyond our control and could result in material adverse consequences that could negatively impact our business, results of operations and financial condition. Such adverse consequences could include defaults under our credit agreements, indentures or other treasury programs, the acceleration of repayment of amounts outstanding under certain of our credit agreements, triggering of an obligation to redeem certain Debt Securities, termination of existing unused commitments by our lenders, refusal by our lenders to extend further credit under one or more of the Facilities or new Facilities, or the lowering or modification of our credit ratings or those of one or more of our subsidiaries. We cannot provide assurance that we will continue to comply with each credit covenant, particularly if we continue to experience challenging and volatile market conditions, and given that we are required to measure our compliance with our interest coverage covenant on a quarter-by-quarter basis. We recently received lender consent to our interest coverage ratio for the fourth quarter of 2008 and agreed to an increase in the upper range of interest rates applicable to certain amounts that may be drawn by us under certain of our credit facilities, as further described under "Management's Discussion and Analysis of Financial Condition and Results of Operation."

Governmental Programs Designed to Support Credit Markets

A number of governmental programs designed to support the global financial system were implemented in 2008. While we generally support these programs, there have been unintended consequences of these programs that have impacted us and other companies that do not qualify to participate in them. As an example, in the United States, some of our competitors in the banking and manufacturing sectors have participated in the TLGP. The TLGP was created to strengthen confidence and encourage liquidity in the banking system by providing a government guaranty of certain qualifying newly issued senior unsecured debt of banks, thrifts and certain holding companies. Despite the FDIC's intent to support the banking system through the TLGP, some of our competitors in the manufacturing sector have been permitted to

participate in this program and issue senior unsecured debt with governmental guarantees at rates significantly below those capable of being achieved by us. Likewise, our ability to issue debt at rates that are competitive with those offered by our banking competitors has been further disadvantaged and accentuated at times by their participation in governmental programs such as the TLGP. The TLGP, as well as other governmental initiatives, have effectively created below-market government subsidized financing for such competitors. This program and other similar governmental programs in various jurisdictions have disadvantaged us and other non-qualifying companies. The TLGP is currently set to expire on June 30, 2009, although the FDIC has indicated that it plans to extend the program at least through October 31, 2009. Other governmental programs may not have clear expiration dates. Should the TLGP or any other governmental program that disadvantages us be extended or expanded by its respective government, we could continue to be negatively impacted in our ability to issue senior unsecured debt at rates that are comparable to those offered by our competition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in Nashville, Tennessee. We maintain forty-three offices in total, of which six are located in North America (five in the U.S. and one in Canada), twenty-one are in Europe, one is in the Middle East, ten are in Asia-Pacific and five are in Latin America (see Note 16 of Notes to Consolidated Financial Statements for more information regarding our segments and geographic areas). All of our offices are leased.

Item 3. Legal Proceedings.

We are involved in unresolved legal actions that arise in the normal course of business. The majority of these unresolved actions involve claims to recover collateral, claims pursuant to customer bankruptcies and the pursuit of deficiency amounts. Although it is not possible to predict with certainty the outcome of our unresolved legal actions or the range of probable loss, we believe that these unresolved legal actions will neither individually nor in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our stock is not publicly traded. Caterpillar Inc. is the owner of our one outstanding share. A cash dividend was not declared or paid in 2008. Cash dividends of \$250 million and \$350 million were paid to Caterpillar in 2007 and 2006, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW: 2008 VS. 2007

We reported record revenues of \$2.999 billion for 2008, an increase of \$1 million, compared with 2007. Profit after tax was \$385 million, a \$109 million, or 22 percent, decrease from 2007.

- Of the increase in revenues for the year, \$346 million resulted from the impact of continued growth of earning assets (finance receivables and operating leases at constant interest rates). This increase was partially offset by a \$240 million decrease from the impact of lower interest rates on new and existing finance receivables and a \$105 million net decrease in various other net revenue items.
- On a pre-tax basis, profit was down \$223 million for the year, or 31 percent, compared with 2007. The decrease was principally due to a \$105 million impact from decreased net yield on average earning assets and a higher provision expense of \$95 million primarily related to deteriorating global economic conditions. In addition, interest rate volatility, primarily in the fourth quarter, resulted in a \$50 million impact from mark-to-market adjustments on interest rate derivative contracts. The remaining decrease was due to a \$36 million increase in General, operating and administrative expense, a \$28 million net decrease in various other net revenue items and a \$27 million write-down on retained interests related to the securitized asset portfolio due to worse than expected losses. These decreases in pre-tax profit were partially offset by a \$130 million favorable impact from higher average earning assets.
- Provision for income taxes for the year decreased \$114 million, or 49 percent, compared with 2007. The decrease was primarily attributable to lower pre-tax results.
- New retail financing for the year was a record \$15.88 billion, an increase of \$1.80 billion, or 13 percent, from 2007. The increase was the result of increased new retail financing, primarily in our Asia-Pacific and Diversified Services operating segments.
- Past dues over 30 days at December 31, 2008, were 3.88 percent compared to 2.36 percent at December 31, 2007. This increase began with the downturn in the U.S. economy and has spread to other countries. Write-offs, net of recoveries, for the year ended December 31, 2008, were \$121 million (0.48 percent of average retail portfolio) compared to \$68 million (0.31 percent of average retail portfolio) for the year ended December 31, 2007. The increase in write-offs is primarily attributable to North America. The rate of write-offs in 2008 as a percentage of average retail portfolio compares favorably to the most recent period of economic weakness in 2001/2002.
- Our allowance for credit losses totaled \$395 million at December 31, 2008, which is 1.44 percent of net finance receivables at December 31, 2008, compared with 1.39 percent at December 31, 2007.

2008 VS. 2007

REVENUES

Retail and wholesale revenue for 2008 was \$2.0 billion, an increase of \$35 million from 2007. The increase was principally due to a 12 percent increase in the average portfolio balance outstanding, partially offset by a 72 basis point decrease in the yield on average finance receivables. The annualized average yield was 7.40 percent for 2008 compared to 8.12 percent for 2007.

Operating lease revenue for 2008 was \$931 million, or \$67 million higher than 2007 primarily due to portfolio growth.

Other revenues for 2008 were \$68 million, a decrease of \$101 million from 2007. The decrease was primarily due to a \$50 million impact from mark-to-market adjustments on interest rate swaps as a result of fourth quarter interest rate volatility, a \$27 million write-down on retained interests related to the securitized asset portfolio due to worse than expected losses and a \$21 million impact from net currency exchange gains and losses. Other revenues items for the years ended December 31, included:

(Millions of dollars)		
	<u>2008</u>	<u>2007</u>
Finance receivable and operating lease fees (including late charges)	\$ 68	\$ 64
Currency exchange gain/(loss)	(38)	105
Net gain/(loss) on undesignated foreign exchange contracts (including forward points)	33	(89)
Gain on sales of receivables and securities*	30	19
Miscellaneous other revenues, net	15	12
Service fee income on sold receivables	13	13
Net gain on returned or repossessed equipment	8	22
Partnership/dividend income	3	7
Income/(loss) related to retained interests in securitized retail receivables	(20)	10
Net gain/(loss) from interest rate derivatives	<u>(44)</u>	<u>6</u>
Total Other revenues	<u>\$ 68</u>	<u>\$169</u>

*See Note 1(K) and Note 4 of Notes to Consolidated Financial Statements for information on gain on sale of receivables and securities.

EXPENSES

Interest expense for 2008 was \$1.159 billion, an increase of \$27 million from 2007. This increase was primarily due to the impact of a 13 percent increase in average borrowings to fund growth in finance receivables and operating leases, partially offset by a 43 basis point decrease in the average cost of borrowing from 4.90 percent for 2007 to 4.47 percent for 2008.

Depreciation expense on equipment leased to others was \$724 million, up \$53 million over 2007 due to portfolio growth.

General, operating and administrative expenses were \$391 million during 2008 compared to \$355 million in 2007. The increase primarily resulted from an increase in labor costs.

The Provision for credit losses increased from \$97 million in 2007 to \$192 million in 2008, primarily related to deteriorating global economic conditions. The allowance for credit losses was 1.44 percent of finance receivables (excluding the Notes receivable from Caterpillar), net of unearned income, as of December 31, 2008, compared to 1.39 percent as of December 31, 2007.

The effective tax rate decreased from 32 percent in 2007 to 24 percent for 2008. The decrease is primarily attributable to a favorable geographic mix of pre-tax results and non-recurring U.S. income tax benefits associated with certain of our non-U.S. entities, partially offset by the absence in 2008 of net income tax benefits related to changes of income tax laws of certain non-U.S. jurisdictions that occurred in 2007.

PROFIT

As a result of the performance discussed above, we had profit of \$385 million for 2008, down \$109 million, or 22 percent, from 2007.

FOURTH QUARTER 2008 VS. FOURTH QUARTER 2007

CONSOLIDATED STATEMENTS OF PROFIT

(Unaudited)

(Dollars in Millions)

	Three Months Ended December 31,	
	<u>2008</u>	<u>2007</u>
Revenues:		
Retail finance	\$ 412	\$ 400
Operating lease	227	229
Wholesale finance	77	110
Other	<u>(55)</u>	<u>41</u>
Total revenues	<u>661</u>	<u>780</u>
Expenses:		
Interest	304	294
Depreciation on equipment leased to others	177	178
General, operating and administrative	97	92
Provision for credit losses	80	38
Other	<u>13</u>	<u>6</u>
Total expenses	<u>671</u>	<u>608</u>
Profit before income taxes	(10)	172
Provision for income taxes	<u>(23)</u>	<u>59</u>
Profit	<u>\$ 13</u>	<u>\$ 113</u>

REVENUES

Retail and wholesale revenue for the fourth quarter of 2008 was \$489 million, a decrease of \$21 million from the fourth quarter of 2007. The decrease was principally due to a 101 basis point decrease in the yield on average finance receivables, partially offset by an 8 percent increase in the average portfolio balance outstanding. The annualized average yield was 7.19 percent for the fourth quarter of 2008 compared to 8.20 percent for the fourth quarter of 2007.

Operating lease revenue for the fourth quarter of 2008 was \$227 million, or \$2 million lower than the fourth quarter of 2007.

Other revenues for the fourth quarter of 2008 were a \$55 million net loss, compared to a fourth quarter 2007 net revenue of \$41 million, which resulted in a \$96 million decrease. The decrease was primarily due to a \$47 million impact

from mark-to-market adjustments on interest rate swaps as a result of fourth quarter interest rate volatility, a \$31 million impact from net currency exchange gains and losses (which includes \$7 million of forward points) and a \$15 million write-down on retained interests related to the securitized asset portfolio due to worse than expected losses. Other revenue items for the quarter ended December 31, included:

(Millions of dollars)		
	<u>2008</u>	<u>2007</u>
Finance receivable and operating lease fees (including late charges)	\$ 16	\$ 16
Miscellaneous other revenues, net	9	1
Gain on sales of receivables and securities*	8	5
Service fee income on sold receivables	3	4
Partnership/dividend income	-	2
Net gain/(loss) on returned or repossessed equipment	(7)	4
Net loss on undesignated foreign exchange contracts (including forward points)	(12)	(36)
Currency exchange gain/(loss)	(16)	39
Income/(loss) related to retained interests in securitized retail receivables	(13)	2
Net gain/(loss) from interest rate derivatives	<u>(43)</u>	<u>4</u>
Total Other revenues/(loss)	<u>\$ (55)</u>	<u>\$ 41</u>

*See Note 1(K) and Note 4 of Notes to Consolidated Financial Statements for information on gain on sale of receivables and securities.

EXPENSES

Interest expense for the fourth quarter of 2008 was \$304 million, an increase of \$10 million from the fourth quarter of 2007. This increase was primarily due to the impact of a 12 percent increase in average borrowings to fund growth in finance receivables and operating leases, partially offset by a 36 basis point decrease in the average cost of borrowing from 4.93 percent for the fourth quarter of 2007 to 4.57 percent for the fourth quarter of 2008.

Depreciation expense on equipment leased to others was \$177 million, down \$1 million from the fourth quarter of 2007.

General, operating and administrative expenses were \$97 million during the fourth quarter of 2008 compared to \$92 million in the fourth quarter of 2007. The increase primarily resulted from indirect (non-income) tax benefits recognized in the fourth quarter of 2007, upon completion of an audit in a non-U.S. tax jurisdiction, which did not recur in the fourth quarter of 2008.

The Provision for credit losses increased from \$38 million in the fourth quarter of 2007 to \$80 million in the fourth quarter of 2008, related to deteriorating global economic conditions. The allowance for credit losses was 1.44 percent of finance receivables (excluding the Notes receivable from Caterpillar), net of unearned income, as of December 31, 2008, compared to 1.41 percent for the quarter ended September 30, 2008.

Provision for income taxes decreased \$82 million, or 139 percent, compared with the fourth quarter of 2007. The decrease was primarily attributable to lower pre-tax results.

PROFIT

As a result of the performance discussed above, we had profit of \$13 million for the fourth quarter of 2008, down \$100 million, or 88 percent, from the fourth quarter of 2007.

ASSETS

Total assets were \$33.082 billion as of December 31, 2008, an increase of \$3.653 billion, or 12.4 percent, over December 31, 2007, principally due to a growth in the retail finance receivables portfolio and to provide a cash position appropriate for current market conditions.

During 2008, we financed record new retail business of \$15.879 billion, a 13 percent increase over the \$14.074 billion in 2007. This increase of \$1.805 billion was related to increased new retail financing primarily in our Asia-Pacific and Diversified Services operating segments.

Total Off-Balance Sheet Managed Assets

We manage and service receivables and leases that have been transferred through securitization or sale. These transactions provide a source of liquidity and allow us to mitigate the concentration of credit risk with certain customers. These receivables/leases are not available to pay our creditors.

Off-balance sheet managed assets as of December 31, were as follows:

(Millions of dollars)		
	<u>2008</u>	<u>2007</u>
Securitized Retail Installment Sale Contracts and Finance Leases		
Installment sale contracts securitized	\$ 877	\$1,105
Finance leases securitized	32	54
Less: Retained interests (included in Other assets)	<u>(52)</u>	<u>(49)</u>
Off-balance sheet securitized retail receivables	<u>857</u>	<u>1,110</u>
Sales of Interests in Wholesale Receivables		
Wholesale receivables	240	240
Other Managed Assets		
Retail installment sale contracts	283	122
Retail finance leases	198	155
Operating leases	122	128
Retail notes receivable	<u>30</u>	<u>36</u>
Other managed receivables/leases	<u>633</u>	<u>441</u>
Total off-balance sheet managed assets	<u>\$1,730</u>	<u>\$1,791</u>

TOTAL PAST DUE FINANCE AND RENTS RECEIVABLE

Finance receivables (excluding Notes receivable from Caterpillar) plus rents receivable for operating leases (included in Other assets) that were past due over 30 days were 3.88 percent of the aggregate total of these receivables as of December 31, 2008, compared to 2.36 percent as of December 31, 2007. This increase began with the downturn in the U.S. economy and has spread to other countries.

2007 COMPARED WITH 2006

REVENUES

Retail and wholesale revenue for 2007 was \$1.965 billion, an increase of \$159 million from 2006. The increase was principally due to a 4 percent increase in average receivables outstanding and a 40 basis point increase in the average yield

to 8.12 percent for 2007 from 7.72 percent for 2006. The yield was positively impacted from an increase in earned discounts on certain non-North American Caterpillar Dealer trade receivables ("NACD") purchased wholesale receivables due primarily to increased prepayments on current receivables and collections on past due receivables. Prepayment and past due collection activities in 2007 contributed \$17 million to wholesale revenues, or 7 basis points to yield.

Operating lease revenue for 2007 was \$864 million, or \$58 million higher than 2006 primarily due to portfolio growth.

Other revenues for 2007 were \$169 million, an increase of \$18 million from 2006. The increase is largely due to the absence of a 2006 write-down of a repossessed marine vessel of \$16 million. Other revenues items for the years ended December 31, included:

(Millions of dollars)		
	<u>2007</u>	<u>2006</u>
Currency exchange gain	\$105	\$ 31
Net loss on undesignated foreign exchange contracts (including forward points)	(89)	(20)
Finance receivable and operating lease fees (including late charges)	64	63
Net gain on returned or repossessed equipment	22	14
Gain on sales of receivables and securities*	19	21
Service fee income on sold receivables	13	14
Miscellaneous other revenues, net	12	13
Income related to retained interests in securitized retail receivables	10	17
Partnership/dividend income	7	4
Net gain/(loss) from interest rate derivatives	<u>6</u>	<u>(6)</u>
Total Other revenues	<u>\$169</u>	<u>\$151</u>

*See Note 1(K) and Note 4 of Notes to Consolidated Financial Statements for information on gain on sale of receivables and securities.

EXPENSES

Interest expense for 2007 was \$1.132 billion, an increase of \$103 million from 2006. This increase was primarily due to the increase in the average cost of borrowing to 4.90 percent for 2007, up from 4.61 percent for 2006, and the impact of a 3.07 percent increase in average debt levels to fund growth in finance receivables and operating leases.

Depreciation expense on equipment leased to others was \$671 million, up \$40 million over 2006 due to portfolio growth.

General, operating and administrative expenses were \$355 million during 2007 compared to \$337 million in 2006. The increase primarily resulted from an increase in labor costs.

The Provision for credit losses increased from \$68 million in 2006 to \$97 million in 2007, primarily as a result of the softening of the U.S. housing industry. The allowance for credit losses was 1.39 percent of finance receivables (excluding the Notes receivable from Caterpillar), net of unearned income, as of December 31, 2007, compared to 1.33 percent as of December 31, 2006. The increase in the allowance as a percentage of finance receivables is primarily due to the decrease in wholesale receivables (which historically experience very low credit losses) relative to the overall portfolio. This decrease is primarily due to a Caterpillar initiative to reduce trade receivables and inventory.

The effective tax rate increased from 31 percent in 2006 to 32 percent for 2007. The increase from 2006 was primarily due to reduced tax benefits related to the U.S. domestic production activities deduction.

PROFIT

As a result of the performance discussed above, we had profit of \$494 million for 2007, up \$21 million, or 4 percent, from 2006.

ASSETS

Total assets were \$29.429 billion as of December 31, 2007, an increase of \$2.093 billion, or 7.7 percent, over December 31, 2006, principally due to growth in retail finance receivables.

During 2007, we financed record new retail business of \$14.074 billion, a 16 percent increase over the \$12.164 billion in 2006. This increase of \$1.910 billion was related to increased new retail financing primarily in our Europe, Diversified Services and Asia-Pacific operating segments.

Total Off-Balance Sheet Managed Assets

We manage and service receivables and leases that have been transferred through securitization or sale. These transactions provide a source of liquidity and allow us to mitigate the concentration of credit risk with certain customers. These receivables/leases are not available to pay our creditors. Off-balance sheet managed assets as of December 31, were as follows:

(Millions of dollars)

	<u>2007</u>	<u>2006</u>
Securitized Retail Installment Sale Contracts and Finance Leases		
Installment sale contracts securitized	\$1,105	\$1,174
Finance leases securitized	54	53
Less: Retained interests (included in Other assets)	<u>(49)</u>	<u>(68)</u>
Off-balance sheet securitized retail receivables	<u>1,110</u>	<u>1,159</u>
Sales of Interests in Wholesale Receivables		
Wholesale receivables	240	240
Other Managed Assets		
Retail finance leases	155	90
Retail installment sale contracts	122	111
Operating leases	128	119
Retail notes receivable	<u>36</u>	<u>42</u>
Other managed receivables/leases	<u>441</u>	<u>362</u>
Total off-balance sheet managed assets	<u>\$1,791</u>	<u>\$1,761</u>

TOTAL PAST DUE FINANCE AND RENTS RECEIVABLES

Finance receivables (excluding Notes receivable from Caterpillar) plus rents receivable for operating leases (included in Other assets) that were past due over 30 days were 2.36 percent of the aggregate total of these receivables as of December 31, 2007, compared to 1.71 percent as of December 31, 2006, primarily due to the softening of the U.S. housing industry.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts. The most significant estimates include those related to the residual values for leased assets and for our allowance for credit losses. Actual results may differ from these estimates.

Residual Value

The residual value, which is based upon the estimated wholesale market value of leased equipment at the time of the expiration of the lease, represents a careful analysis of historical wholesale market sales prices, projected forward on a level trend line without consideration for inflation or possible future pricing action. At the inception of the lease, residual values are derived from consideration of the following critical factors: market size and demand, any known significant market/product trends, total expected hours of usage, machine configuration, application, location, model changes, quantities and past re-marketing experience, third-party residual guarantees and contractual customer purchase options. Many of these factors are gathered in an application survey that is completed prior to quotation. The lease agreement also clearly defines applicable return conditions and remedies for non-compliance, to ensure that the leased equipment will be in good operating condition upon return. Model changes and updates, as well as market strength and product acceptance, are monitored and residual adjustments are made to residual values in accordance with the significance of any such changes. Remarketing sales staff works closely with customers and dealers to manage the sale of lease returns and the recovery of residual exposure.

During the term of the leases, residual amounts are monitored. If estimated market values reflect a non-temporary impairment due to economic factors, obsolescence or other adverse circumstances, the residuals are adjusted to the lower estimated values by a charge to earnings. For equipment on operating leases, the charge is recognized through depreciation expense. For finance leases, it is recognized through a reduction of finance revenue.

Allowance for Credit Losses

Management's ongoing evaluation of the adequacy of the allowance for credit losses considers both impaired and unimpaired finance receivables and takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions. In estimating probable losses, we review accounts that are past due, non-performing, in bankruptcy or otherwise identified as at-risk for potential credit loss. Accounts are identified as at-risk for potential credit loss using information available about the customer, such as financial statements, news reports and published credit ratings as well as general information regarding industry trends and the general economic environment.

The allowance for credit losses attributable to specific accounts is based on the most probable source of repayment, which is normally the liquidation of collateral. In determining collateral value, we estimate the current fair market value of the collateral and factor in credit enhancements such as additional collateral and third party guarantees. The allowance for credit losses attributable to the remaining accounts is a general allowance based upon the risk in the portfolio primarily using probabilities of default and an estimate of associated losses. In addition, qualitative factors not able to be fully captured in previous analysis including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

While management believes it has exercised prudent judgment and applied reasonable assumptions, which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance

that in the future, changes in economic conditions or other factors might cause changes in the financial health of our customers, which could change the timing and level of payments received, and thus result in losses greater than the estimated losses or necessitate a change to our estimated losses.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources and liquidity provide us with the ability to meet its financial obligations on a timely basis. Maintaining and managing adequate capital and liquidity resources includes management of funding sources and their utilization based on current, future and contingent needs. We do not generate material funding through structured finance transactions.

Despite recent credit market conditions, we continued to have access to liquidity, although at increased credit spreads on new term debt issuance. We were able to issue commercial paper throughout the year. U.S. commercial paper issuance experienced consistent demand and attractive pricing although with shorter than customary maturities as the year drew to a close. Throughout the year, demand and liquidity varied in non-U.S. markets and certain non-U.S. credit markets were periodically closed to us and similarly situated issuers as a result of the volatile credit market conditions in 2008, particularly in the second half of the year. Our potential to access some non-U.S. markets has improved as market conditions reflect an increased investor demand evidenced by recent medium-term notes issuance. As the global liquidity situation evolves, we will continue to monitor and adapt our funding approach accordingly. Certain rating agencies have increased their focus on the extent to which we have cash and cash equivalents and unused credit lines available to meet short-term debt requirements. We have been taking this focus into account when planning for 2009 liquidity needs. This focus may result in higher cash balances and corresponding increases in the net cost of funds.

Due to generally deteriorating economic conditions, our 2009 outlook and the condition of credit markets increase the risk of a ratings change. In the event that we, or any of our debt securities, experience a credit rating downgrade it would likely result in an increase in our borrowing costs and make access to certain credit markets more difficult.

If global conditions deteriorate so significantly that access to debt markets becomes unavailable, we would rely on cash flow from our existing retail portfolio of approximately \$1 billion per month, utilization of existing cash balances (\$1.08 billion at year-end 2008), access to our revolving credit facilities and other credit line facilities held by us and potentially borrowing from Caterpillar.

BORROWINGS

Borrowings consist primarily of medium-term notes, commercial paper, variable denomination floating rate demand notes and bank borrowings, the combination of which is used to manage interest rate risk and funding requirements. We also utilize additional funding sources including securitizations of retail installment contracts and finance leases, and wholesale receivable commercial paper conduits. (Please refer to Notes 4, 7, 8, 9 and 10 of Notes to Consolidated Financial Statements for additional discussion.)

Total borrowings outstanding as of December 31, 2008, were \$28.146 billion, an increase of \$3.510 billion over December 31, 2007, due to financing a higher amount of assets and to provide for a cash position appropriate for current market conditions. Outstanding borrowings as of December 31, consisted of:

(Millions of dollars)		
	<u>2008</u>	<u>2007</u>
Medium-term notes, net of unamortized discount	\$19,647	\$17,322
Commercial paper, net of unamortized discount	5,717	4,935
Bank borrowings – short-term	817	550
Bank borrowings – long-term	755	615
Variable denomination floating rate demand notes	543	699
Notes payable to Caterpillar	435	275
Deposit obligation	232	232
Loans from a company-owned partnership	<u>-</u>	<u>8</u>
Total outstanding borrowings	<u>\$28,146</u>	<u>\$24,636</u>

Medium-term notes

We regularly issue medium-term unsecured notes through securities dealers or underwriters in the U.S., Canada, Europe, Australia and Japan to both retail and institutional investors. These notes are offered in several currencies and with a variety of maturities. These notes are senior obligations of the Company.

Commercial paper

We issue unsecured commercial paper in the U.S., Europe and other international capital markets. These short-term promissory notes are issued on a discounted basis and are payable at maturity.

Revolving credit facilities

We have three global credit facilities with a syndicate of banks totaling \$6.85 billion available in the aggregate to both Caterpillar and us to support commercial paper programs in the event the programs become unavailable to us. During 2008, based on management's allocation decision, which can be revised at any time, the portion of the credit facility allocated to us was increased from \$5.55 billion to \$5.85 billion.

- The five-year facility of \$1.62 billion expires in September 2012.
- The five-year facility of \$2.98 billion expires in September 2011.
- The 364-day facility was increased from \$1.95 billion to \$2.25 billion and will expire in September 2009.

As part of the 2008 global credit facilities renewal, the year-end and six-month moving average leverage covenants have been increased from 8.5:1 to 10:1.

In 2008, we entered into a new 364-day facility of \$300 million with a syndicate of banks, which expires in July 2009. The overall increase in the credit facilities was to support portfolio growth.

At December 31, 2008, there were no borrowings under these lines.

At December 31, 2008, our quarterly interest coverage ratio for the fourth quarter dropped below the level that would have been required, absent lender consent, in the revolving credit facilities ("Credit Facilities"). The Credit Facilities provide that, absent lender consent, we shall maintain an interest coverage ratio of earnings before interest expense and

income taxes to interest expense, of not less than 1.15 to 1 for each fiscal quarter. The ratio was negatively impacted in the fourth quarter by, among other things, deteriorating economic conditions.

In addition, the Credit Facilities provide that, absent lender consent, Caterpillar shall maintain at all times during each fiscal year a consolidated net worth of not less than 75 percent of the consolidated net worth as of the end of its immediately preceding fiscal year. Caterpillar's annual consolidated net worth as of December 31, 2008 dropped below the level that would have been required, absent lender consent, in the Credit Facilities. The decrease was largely driven by a significant decline in pension asset returns, resulting in a \$3.4 billion year-end charge to other comprehensive income.

The bank group under the Credit Facilities consented to our lower quarterly interest coverage ratio of 0.97 as of December 31, 2008, and to Caterpillar's lower annual consolidated net worth of \$6.087 billion as of December 31, 2008. The bank group also agreed that any failure to comply with the interest coverage ratio and consolidated net worth requirements stipulated in the Credit Facilities would not constitute an actual or potential event of default under the Credit Facilities. In consideration of these agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under the Credit Facilities was increased by approximately 1.00 to 1.50 percent.

The interest coverage ratio and consolidated net worth requirements are also included in other loan agreements entered into by us and two of our subsidiaries. The lenders under those loan agreements have agreed that Cat Financial, Caterpillar and the affected subsidiaries shall not be required to comply with the interest coverage ratio and consolidated net worth requirements of those loan agreements for the fourth quarter of 2008. In consideration of those agreements, the upper range of the interest rates applicable to certain amounts that may be drawn by us under those loan agreements were increased by approximately 1.00 percent.

As noted above, the actions by the bank group and the other lenders only apply to the fourth quarter of 2008. Any failure by us or Caterpillar to comply with one or both of these covenants in the future could result in the suspension of the Credit Facilities and the immediate acceleration of the outstanding amounts under the other loan agreements. At December 31, 2008, there were no outstanding borrowings under the Credit Facilities.

Bank borrowings

Credit lines with banks total \$2.72 billion and will be eligible for renewal at various future dates or have no specified expiration date. They are used by our subsidiaries for local funding requirements and are generally guaranteed by us. At December 31, 2008, we had \$1.57 billion outstanding against these credit lines compared to \$1.17 billion as of December 31, 2007.

Variable denomination floating rate demand notes

We obtain funding from the sale of variable denomination floating rate demand notes, which may be redeemed at any time at the option of the holder without any material restriction. We do not hold reserves to fund the payment of the demand notes. The notes are offered on a continuous basis by prospectus only.

Deposit obligation

A deposit obligation of \$232 million has a corresponding security deposit, which is included in Other assets in the Consolidated Statements of Financial Position as of December 31, 2008, and December 31, 2007. This deposit obligation and corresponding security deposit relates to a financing arrangement, which provides us a return. This arrangement requires that we commit to a certain long-term obligation and provide a security deposit, which will fulfill this obligation when it becomes due in 2009.

Notes payable to Caterpillar

Under our variable amount lending agreements with Caterpillar, we may borrow up to \$2.3 billion from Caterpillar, and Caterpillar may borrow up to \$1.2 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. We had notes payable of \$435 million and notes receivable of \$81 million outstanding as of December 31, 2008, compared to notes payable of \$275 million and notes receivable of \$74 million as of December 31, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

We lease all of our facilities. In addition, we currently have guarantees with third parties. Please refer to Notes 11 and 15 of Notes to Consolidated Financial Statements.

Sales of finance receivables

To maintain an alternative funding source, we periodically (generally once a year) sell certain finance receivables relating to our retail installment sale contracts and finance leases. In each of these transactions, the applicable finance receivables are sold to a special purpose entity (SPE). The SPEs have limited purposes and generally are only permitted to purchase the finance receivables, issue asset-backed securities and make payments on the securities. The SPEs only issue a single series of securities and generally are dissolved when those securities have been paid in full. The SPEs, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and thus, in accordance with Statement of Financial Accounting Standard No. 140 (SFAS 140), "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from us. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay our creditors or any other of our affiliates. For bankruptcy analysis purposes, we have sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities. The investors and the securitization trusts have no recourse to us for failure of debtors to pay when due. The QSPEs held total assets of \$909 million related to these securitizations as of December 31, 2008 (\$1.159 billion as of December 31, 2007). We use QSPEs in a manner consistent with conventional practices in the securitization industry to isolate these finance receivables, which are secured by new and used equipment, for the benefit of securitization investors.

The use of the QSPEs enables us to access the U.S. securitization market for the sale of these types of financial assets. The amounts of funding from securitizations reflect such factors as capital market accessibility, relative costs of funding sources and assets available for securitization. In 2008, we had cash proceeds from initial sales of these receivables of \$600 million (\$650 million in 2007) and recognized a pre-tax gain of \$12 million (\$4 million in 2007). The fair value of the retained interests in all securitizations of retail finance receivables outstanding, totaling \$52 million as of December 31, 2008 (\$49 million in 2007), are included in Other assets.

In addition, we have sold interests in wholesale receivables to third-party commercial paper conduits, asset-backed commercial paper issuers that are SPEs of the sponsor bank and are not consolidated by us. As of December 31, 2008 and 2007 the outstanding principal balance of the NACD Receivables sold to the conduits was \$240 million. In accordance with SFAS 140, these transfers to the third-party commercial paper conduits are accounted for as sales. See Note 4 of Notes to Consolidated Financial Statements for more information.

We also sell individual loans and leases where the purchasers have limited or no recourse to us (See Note 11 of Notes to Consolidated Financial Statements for more information related to one limited indemnity related to the sale of certain retail leases). In 2008, we received \$379 million (\$245 million in 2007) of cash proceeds from the sale of such contracts.

CONTRACTUAL OBLIGATIONS

We have committed cash outflow related to long-term debt, operating lease agreements and purchase obligations. Minimum payments for these obligations are:

(Millions of dollars)	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>After 2013</u>	<u>Total</u>
Long-term debt	\$5,036	\$4,734	\$2,326	\$1,562	\$1,800	\$5,176	\$20,634
Operating leases	14	13	12	11	10	65	125
Purchase obligations ⁽¹⁾	6	-	-	-	-	-	6
Interest payable on long-term debt	<u>745</u>	<u>514</u>	<u>415</u>	<u>355</u>	<u>303</u>	<u>1,320</u>	<u>3,652</u>
Total contractual obligations	<u>\$5,801</u>	<u>\$5,261</u>	<u>\$2,753</u>	<u>\$1,928</u>	<u>\$2,113</u>	<u>\$6,561</u>	<u>\$24,417</u>

⁽¹⁾ Represents contractual obligations for contracted services at December 31, 2008. These represent short-term obligations made in the ordinary course of business.

These contractual obligations do not include unused commitments and lines of credit for dealers and customers discussed in Note 11 of Notes to Consolidated Financial Statements.

We adopted FIN 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) as of January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions, including positions impacting only the timing of tax benefits, was \$30 million. However, the net obligation to taxing authorities under FIN 48 was \$22 million. The difference relates primarily to outstanding refund claims. The timing of payments will depend on the progress of examinations with tax authorities. We do not expect a significant tax payment related to these obligations within the next year. The liability at December 31, 2008 was not materially different from the liability at the date of adoption. See Note 12 of Notes to Consolidated Financial Statements for more information related to income taxes.

CASH FLOWS

Operating cash flow for 2008 was \$1.08 billion compared with \$857 million for 2007. Net cash used in investing activities was \$3.80 billion compared to \$1.03 billion for 2007. This increased use of cash was primarily due to the growth in finance receivables and the absence of higher collections in 2007 related to reduced terms for trade receivables purchased from Caterpillar. Net cash provided by financing activities in 2008 was \$3.63 billion compared with \$211 million for 2007. This increase was primarily due to increased funding requirements related to portfolio growth, as well as to provide a cash position appropriate for current market conditions.

OUTLOOK

It is not our practice to provide full year profit guidance, and we do not plan to make it part of our long-term disclosure practice. However, we are in unprecedented times, and some discussion around our outlook for 2009 is appropriate at this time.

The financial and banking crisis accelerated in the fourth quarter of 2008 and has significantly impacted economic growth around the globe. We expect 2009 will be the weakest year for economic growth in the postwar period. We are expecting recessionary conditions to persist in most of the world throughout the year, with no growth in the world economy.

As a result, for 2009, we expect our profit before tax to decline by about half as a result of higher liquidity costs, such as costs for additional credit facilities, maintaining a higher cash balance and higher borrowing rates, resulting in lower spreads between the cost of borrowing and our lending rates.

As we expect further weakening of the global economy, we expect past dues and write-offs will likely be higher in 2009 compared with 2008. In response, we increased the Allowance for credit losses to \$395 million, or 1.44 percent of net finance receivables at the end of 2008. Should economic conditions worsen beyond expectations, additional increases to our Allowance for credit losses may be needed. Furthermore, we have initiated several actions aimed at reducing costs including employment reductions and other general, operating and administrative expenses.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K may be considered "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may relate to future events or our future financial performance, which may involve known and unknown risks and uncertainties and other factors that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by any forward-looking statements. In this context, words such as "believes," "expects," "estimates," "anticipates," "will," "should" and similar words or phrases often identify forward-looking statements made on behalf of Cat Financial. These statements are only predictions. Actual events or results may differ materially due to factors that affect international businesses, including changes in economic conditions and ongoing significant challenges and disruptions in the global financial and credit markets, and change in laws and regulations and political stability, as well as factors specific to Cat Financial and the markets we serve, including the market's acceptance of the Company's products and services, the creditworthiness of customers, interest rate and currency rate fluctuations and estimated residual values of leased equipment. Those risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. We cannot predict these new risk factors, nor can we assess the impact, if any, of these new risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K could cause results to differ materially from those projected in the forward-looking statements. We do not undertake to update our forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We use derivative financial instruments to prudently manage foreign currency exchange rate and interest rate exposure that we encounter as a part of our normal business. Our Risk Management Policy prevents us from using these instruments for speculative purposes.

Interest rate risk

We have a match funding policy whereby the interest rate profile (fixed or floating rate) of our debt portfolio is matched to the interest rate profile of our earning asset portfolio (finance receivables and operating leases) within certain parameters. In connection with that policy, we use interest rate swap agreements to modify the debt structure. Match funding assists us in maintaining our interest rate spreads, regardless of the direction interest rates move.

In order to properly manage our sensitivity to changes in interest rates, we measure the potential impact of different interest rate assumptions on pre-tax earnings. All on-balance sheet positions, including derivative financial instruments, are included in the analysis. The primary assumptions used in the analysis are that there are no new fixed rate assets or liabilities, the proportion of fixed rate debt to fixed rate assets remains unchanged and the level of floating rate assets and debt remain constant. An analysis of the December 31, 2008 balance sheet, using these assumptions, estimates the impact of a 100 basis point immediate and sustained parallel rise in interest rates to be a \$28 million decrease to pre-tax earnings for 2008.

This analysis does not necessarily represent our current outlook of future market interest rate movement, nor does it consider any actions management could undertake in response to changes in interest rates. Accordingly, no assurance can be given that actual results would be consistent with the results of our analysis.

Foreign exchange rate risk

In managing foreign currency risk, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our policy allows the use of foreign currency forward and option contracts to offset the risk of currency mismatch between our assets and liabilities. An analysis of the December 31, 2008 balance sheet estimates the impact of a 20 percent change in the value of the U.S. dollar relative to all other currencies to be an \$11 million decrease (given an appreciation in the U.S. dollar) or a \$8 million increase (given a depreciation in the U.S. dollar) to pre-tax earnings.

This analysis does not necessarily represent our current outlook for the U.S. dollar relative to all other currencies, nor does it consider any actions management could undertake in response to changes in the foreign currency markets. Accordingly, no assurance can be given that actual results would be consistent with the results of our analysis.

Fair value of retained interests

We retain interests in the retail finance receivables that are sold through our asset-backed securitization program. Retained interests include subordinated certificates, an interest in future cash flows (excess) and reserve accounts. To estimate the impact on income due to changes to the key economic assumptions used to estimate the fair value of residual cash flows in retained interests from retail finance receivable securitizations, we compute a "shocked" fair value of retained interests. The difference between the current fair value and the "shocked" fair value is an estimate of our sensitivity to a change in the assumptions. We determine the "shocked" fair value by applying 10 percent and 20 percent adverse changes to individual assumptions used to calculate the fair value. This estimate does not adjust for other variations that may occur should one of the assumptions actually change. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate. The effect of a variation in a particular assumption on the fair value of residual interest in securitization transactions was calculated without changing any other assumptions and changes in one factor may

result in changes in another. Our sensitivity analysis indicated that the impact of a 20 percent adverse change in individual assumptions used to calculate the fair value of all our retained interests as of December 31, 2008 would be \$8 million or less.

Item 8. Financial Statements and Supplementary Data.

Information required by Item 8 is included following the Report of Independent Registered Public Accounting Firm.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Management's Report on Internal Control

The management of Cat Financial is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on our assessment we concluded that, as of December 31, 2008, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears immediately following Management's Report on Internal Control over Financial Reporting.

Changes in Internal Control Over Financial Reporting

There has been no significant change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 14. Principal Accountant Fees and Services.

As a wholly-owned subsidiary of Caterpillar Inc., our principal accountant fees and services are subject to Caterpillar Inc.'s Audit Committee pre-approval policies and procedures described in its Proxy Statement. This Proxy Statement can be located at Caterpillar Inc.'s Internet site (www.cat.com), under About Cat, Investor Information, SEC filings. Other than these policies and procedures, the information contained at that Internet site is not incorporated by reference in this filing. During 2008, all services provided by the external auditor were pre-approved by Caterpillar's Audit Committee in accordance with such policy.

Fees paid to Cat Financial auditor's firm were comprised of the following:

(Millions of dollars)	<u>2008</u>	<u>2007</u>
Audit fees	\$3.6	\$3.6
Audit-related fees ⁽¹⁾	.7	.4
Tax fees ⁽²⁾	.8	.6
All other fees ⁽³⁾	<u>-</u>	<u>.1</u>
Total	<u>\$5.1</u>	<u>\$4.7</u>

⁽¹⁾ "Audit-related fees" principally include agreed upon procedures for securitizations and accounting consultations.

⁽²⁾ "Tax fees" include, among other things, statutory tax return preparation and review and advising on the impact of changes in local tax laws.

⁽³⁾ "All other fees" principally include translation services and attendance at training classes/seminars.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report.

1. Financial Statements

- Management's Report on Internal Control Over Financial Reporting
- Report of Independent Registered Public Accounting Firm
- Report of Independent Auditors
- Consolidated Statements of Profit
- Consolidated Statements of Financial Position
- Consolidated Statements of Changes in Stockholder's Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

(b) Exhibits

- 3.1 Certificate of Incorporation of the Company, as amended (incorporated by reference from Exhibit 3.1 to the Company's Form 10 for the year ended December 31, 1984).
- 3.2 Bylaws of the Company, as amended (incorporated by reference from Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, for the quarter ended June 30, 2005).
- 4.1 Indenture, dated as of April 15, 1985, between the Company and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3, Commission File No. 33-2246).
- 4.2 First Supplemental Indenture, dated as of May 22, 1986, amending the Indenture dated as of April 15, 1985, between the Company and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q, for the quarter ended June 20, 1986).
- 4.3 Second Supplemental Indenture, dated as of March 15, 1987, amending the Indenture dated as of April 15, 1985, between the Company and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K, dated April 24, 1987).
- 4.4 Third Supplemental Indenture, dated as of October 2, 1989, amending the Indenture dated as of April 15, 1985, between the Company and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K, dated October 16, 1989).
- 4.5 Fourth Supplemental Indenture, dated as of October 1, 1990, amending the Indenture dated April 15, 1985, between the Company and Morgan Guaranty Trust Company of New York, as Trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K, dated October 29, 1990).
- 4.6 Indenture, dated as of July 15, 1991, between the Company and Continental Bank, National Association, as Trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K, dated July 25, 1991).
- 4.7 First Supplemental Indenture, dated as of October 1, 2005, amending the Indenture dated as of July 15, 1991, between the Company and U.S. Bank Trust National Association (as successor to the former Trustee)(incorporated by reference from Exhibit 4.3 to Amendment No. 5 to the Company's Registration Statement on Form S-3 filed October 20, 2005, Commission File No. 333-114075).
- 4.8 Support Agreement, dated as of December 21, 1984, between the Company and Caterpillar (incorporated by reference from Exhibit 10.2 to the Company's amended Form 10, for the year ended December 31, 1984).
- 4.9 First Amendment to the Support Agreement dated June 14, 1995, between the Company and Caterpillar (incorporated by reference from Exhibit 4 to the Company's Current Report on Form 8-K, dated June 14, 1995).

- 10.1 Tax Sharing Agreement, dated as of June 21, 1984, between the Company and Caterpillar (incorporated by reference from Exhibit 10.3 to the Company's amended Form 10, for the year ended December 31, 1984).
- 10.2 Five-Year Credit Agreement, dated as of September 21, 2006 (2006 Five-Year Credit Agreement), among the Company, Caterpillar, Caterpillar International Finance plc, Caterpillar Finance Corporation, certain other financial institutions named therein and Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc, ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K, filed September 27, 2006, Commission File No. 0-11241).
- 10.3 Japan Local Currency Addendum to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K, filed September 27, 2006).
- 10.4 Amendment No. 1 to Japan Local Currency Addendum to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.5 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 10.5 Local Currency Addendum to the 2006 Five-Year Credit Agreement among the Company, Caterpillar International Finance p.l.c., the Local Currency Banks named therein, Citibank, N.A. and Citibank International plc (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K, filed September 27, 2006).
- 10.6 Amendment No. 1 to Local Currency Addendum to the 2006 Five-Year Credit Agreement among the Company, Caterpillar International Finance p.l.c., the Local Currency Banks named therein, Citibank, N.A. and Citibank International plc (incorporated by reference from Exhibit 99.4 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 10.7 Amendment No. 1 to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation and Caterpillar International Finance p.l.c., the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed October 31, 2008).
- 10.8 Omnibus Amendment and Waiver Agreement (Amendment No. 2) to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation, Caterpillar International Finance p.l.c., the Banks and Local Currency Banks named therein, Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed October 31, 2008).
- 10.9 Amendment No. 3 to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation and Caterpillar International Finance Limited (f/k/a Caterpillar International Finance p.l.c.), the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 99.4 to the Company's Current Report on Form 8-K, filed September 23, 2008).
- 10.10 Amendment No. 4 to the 2006 Five-Year Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation and Caterpillar International Finance Limited (f/k/a Caterpillar International Finance p.l.c.), the Banks, Japan Local Currency Banks and Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citibank International plc and Citibank, N.A. (incorporated by reference from Exhibit 99.3 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 10.11 Five-Year Credit Agreement, dated as of September 20, 2007 (2007 Five-Year Credit Agreement), among the Company, Caterpillar, Caterpillar Finance Corporation, certain financial institutions named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K, filed September 26, 2007).
- 10.12 Japan Local Currency Addendum to the 2007 Five-Year Credit Agreement among the Company, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K, filed September 26, 2007).
- 10.13 Amendment No. 1 to Japan Local Currency Addendum to the 2007 Five-Year Credit Agreement among the Company, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.6 to the Company's Current Report on Form 8-K, filed January 26, 2009).

- 10.14 Amendment No. 1 to the 2007 Five-Year Credit Agreement among the Company, Caterpillar and Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.3 to the Company's Current Report on Form 8-K, filed September 23, 2008).
- 10.15 Amendment No. 2 to the 2007 Five-Year Credit Agreement among the Company, Caterpillar and Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A. (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 10.16 364-Day Credit Agreement dated September 18, 2008 (2008 364-Day Credit Agreement) among the Company, Caterpillar, Caterpillar Finance Corporation, the Banks named therein, Citibank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., ABN AMRO Bank N.V., Bank of America, N.A., Barclays Bank PLC, J.P. Morgan Securities, Inc., Société Générale and Citigroup Global Markets Inc. (incorporated by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K, filed September 23, 2008).
- 10.17 Amendment No. 1 to the 2008 364-Day Credit Agreement among the Company, Caterpillar, Caterpillar Finance Corporation, the Banks and Japan Local Currency Banks named therein, The Bank of Tokyo Mitsubishi UFJ, Ltd. (as Japan local currency agent and bank), and Citibank, N.A. (as agent) (incorporated by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 10.18 Japan Local Currency Addendum to the 2008 364-Day Credit Agreement among the Company, Caterpillar Finance Corporation, the Japan Local Currency Banks named therein, Citibank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (incorporated by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K, filed September 23, 2008).
- 10.19 364-Day Credit Agreement dated July 15, 2008, among the Company, the financial institutions named therein and Société Générale (incorporated by reference from Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q, filed October 31, 2008).
- 10.20 Amendment No. 1 to the 364-Day Credit Agreement dated July 15, 2008, among the Company, the financial institutions named therein and Société Générale (incorporated by reference from Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q, filed October 31, 2008).
- 10.21 Amendment No. 2 to the 364-Day Credit Agreement dated July 15, 2008, among the Company, the financial institutions named therein and Société Générale (incorporated by reference from Exhibit 99.7 to the Company's Current Report on Form 8-K, filed January 26, 2009).
- 12 Computation of Ratio of Profit to Fixed Charges
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Kent M. Adams, President, Director and Chief Executive Officer of Caterpillar Financial Services Corporation, of Caterpillar Financial Services Corporation, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of James A. Duensing, Executive Vice President and Chief Financial Officer of Caterpillar Financial Services Corporation, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of Kent M. Adams, President, Director and Chief Executive Officer of Caterpillar Financial Services Corporation, and James A. Duensing, Executive Vice President and Chief Financial Officer of Caterpillar Financial Services Corporation, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Caterpillar Financial Services Corporation
(Registrant)

Dated: February 20, 2009

By: /s/ Michael G. Sposato
Michael G. Sposato, Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Date</u>	<u>Signature</u>	<u>Title</u>
February 20, 2009	<u>/s/ Kent M. Adams</u> Kent M. Adams	President, Director and Chief Executive Officer
February 20, 2009	<u>/s/ Edward J. Rapp</u> Edward J. Rapp	Director
February 20, 2009	<u>/s/ James A. Duensing</u> James A. Duensing	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
February 20, 2009	<u>/s/ Steven R. Elsesser</u> Steven R. Elsesser	Controller (Principal Accounting Officer)

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Cat Financial is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on our assessment we concluded that, as of December 31, 2008, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their report appears immediately following Management's Report on Internal Control over Financial Reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Caterpillar Financial Services Corporation:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of profit, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of Caterpillar Financial Services Corporation and its subsidiaries (the "Company") at December 31, 2008, 2007, and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1M to the consolidated financial statements, effective January 1, 2008 the Company adopted Statement of Financial Accounting Standards No.157, "Fair Value Measurements."

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP
Peoria, Illinois
February 19, 2009

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF PROFIT
For the Years Ended December 31,
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Retail finance	\$1,654	\$1,535	\$1,315
Operating lease	931	864	806
Wholesale finance	346	430	491
Other	<u>68</u>	<u>169</u>	<u>151</u>
Total revenues	<u>2,999</u>	<u>2,998</u>	<u>2,763</u>
Expenses:			
Interest	1,159	1,132	1,029
Depreciation on equipment leased to others	724	671	631
General, operating, and administrative	391	355	337
Provision for credit losses	192	97	68
Other	<u>28</u>	<u>15</u>	<u>10</u>
Total expenses	<u>2,494</u>	<u>2,270</u>	<u>2,075</u>
Profit before income taxes	505	728	688
Provision for income taxes (Note 12)	<u>120</u>	<u>234</u>	<u>215</u>
Profit	<u>\$ 385</u>	<u>\$ 494</u>	<u>\$ 473</u>

See Notes to Consolidated Financial Statements.

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
At December 31,
(Dollars in Millions, except share data)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Cash and cash equivalents	\$1,080	\$ 185	\$ 136
Finance receivables (Notes 2 and 3)			
Retail notes receivable	8,209	5,887	5,021
Wholesale notes receivable	3,483	3,570	5,098
Notes receivable from Caterpillar (Note 14)	81	74	75
Finance leases and installment sale contracts - Retail	16,912	17,287	15,269
Finance leases and installment sale contracts - Wholesale	<u>610</u>	<u>649</u>	<u>420</u>
	29,295	27,467	25,883
Less: Unearned income	(1,817)	(2,022)	(1,874)
Less: Allowance for credit losses	<u>(395)</u>	<u>(353)</u>	<u>(319)</u>
Total net finance receivables	27,083	25,092	23,690
Equipment on operating leases, less accumulated depreciation (Note 5)	3,028	2,989	2,562
Deferred and refundable income taxes (Note 12)	127	69	40
Other assets	<u>1,764</u>	<u>1,094</u>	<u>908</u>
Total assets	<u>\$33,082</u>	<u>\$29,429</u>	<u>\$27,336</u>
Liabilities and stockholder's equity:			
Payable to dealers and others	\$ 255	\$ 310	\$ 286
Payable to Caterpillar – other (Note 14)	60	33	34
Accrued expenses	476	263	257
Income taxes payable	36	81	98
Payable to Caterpillar – borrowings (Note 14)	435	275	87
Short-term borrowings (Note 8)	7,077	6,184	5,398
Current maturities of long-term debt (Note 9)	5,036	4,947	4,038
Long-term debt (Note 9)	15,598	13,230	13,521
Deferred income taxes and other liabilities (Note 12)	<u>598</u>	<u>435</u>	<u>379</u>
Total liabilities	<u>29,571</u>	<u>25,758</u>	<u>24,098</u>
Commitments and contingent liabilities (Note 11)			
Common stock - \$1 par value			
Authorized: 2,000 shares; Issued and outstanding: one share (at paid-in amount)	745	745	745
Retained earnings	2,803	2,418	2,177
Accumulated other comprehensive income/(loss)	<u>(37)</u>	<u>508</u>	<u>316</u>
Total stockholder's equity	<u>3,511</u>	<u>3,671</u>	<u>3,238</u>
Total liabilities and stockholder's equity	<u>\$33,082</u>	<u>\$29,429</u>	<u>\$27,336</u>

See Notes to Consolidated Financial Statements.

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
For the Years Ended December 31,
(Dollars in Millions)

	<u>2008</u>		<u>2007</u>		<u>2006</u>
Common stock – one share (at paid-in amount):					
Balance at beginning of year	\$ 745		\$ 745		\$ 745
Balance at year-end	<u>745</u>		<u>745</u>		<u>745</u>
Retained earnings:					
Balance at beginning of year	2,418		2,177		2,054
Adjustment to adopt FIN 48	-		(3)		-
Profit	385	\$385	494	\$494	473
Dividend paid to Cat Inc.	-		(250)		(350)
Balance at year-end	<u>2,803</u>		<u>2,418</u>		<u>2,177</u>
Accumulated other comprehensive income/(loss):					
Foreign currency translation adjustment					
Balance at beginning of year, net of tax of:					
2008 – \$ -; 2007 – \$ -; 2006 – \$ -	517		295		141
Aggregate adjustment for year, net of tax of:					
2008 – \$133; 2007 – \$ -; 2006 – \$ -	<u>(477)</u>	(477)	<u>222</u>	222	<u>154</u>
Balance at year-end, net of tax of:					
2008 – \$133; 2007 – \$ -; 2006 – \$ -	<u>40</u>		<u>517</u>		<u>295</u>
Interest rate derivative instruments (Notes 1G and 10)					
Balance at beginning of year net of tax of:					
2008 – \$8; 2007 – \$9; 2006 – \$13	(11)		16		22
Net gains/(losses) deferred during year net of tax of:					
2008 – \$38; 2007 – \$7; 2006 – \$5	(75)	(75)	(11)	(11)	6
Net (gains)/losses reclassified to earnings during year net of tax of: 2008 – \$8; 2007 – \$10; 2006 – \$9	<u>16</u>	16	<u>(16)</u>	(16)	<u>(12)</u>
Balance at year-end net of tax of:					
2008 – \$38; 2007 – \$8; 2006 – \$9	<u>(70)</u>		<u>(11)</u>		<u>16</u>
Retained interests					
Balance at beginning of year, net of tax of:					
2008 – \$1; 2007 – \$3; 2006 – \$2	2		5		4
Aggregate adjustment for year, net of tax of:					
2008 – \$5; 2007 – \$2; 2006 – \$1	<u>(9)</u>	(9)	<u>(3)</u>	(3)	<u>1</u>
Balance at year-end, net of tax of:					
2008 – \$4; 2007 – \$1; 2006 – \$3	<u>(7)</u>		<u>2</u>		<u>5</u>
Total accumulated other comprehensive income/(loss)	<u>(37)</u>		<u>508</u>		<u>316</u>
Comprehensive income/(loss)		<u>\$ (160)</u>		<u>\$686</u>	<u>\$622</u>
Total stockholder's equity	<u>\$3,511</u>		<u>\$3,671</u>		<u>\$3,238</u>

See Notes to Consolidated Financial Statements.

Caterpillar Financial Services Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,
(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:			
Profit	\$ 385	\$ 494	\$ 473
Adjustments for non-cash items:			
Depreciation and amortization	755	702	654
Amortization of receivables purchase discount	(243)	(327)	(386)
Provision for credit losses	192	97	68
Gain on sales of receivables and securities	(30)	(19)	(21)
Other, net	83	(20)	(20)
Changes in assets and liabilities:			
Receivables from others	(107)	(95)	5
Other receivables/payables with Caterpillar	82	(30)	(5)
Payable to dealers and others	(63)	9	59
Accrued interest payable	112	51	(23)
Accrued expenses and other liabilities, net	59	9	(32)
Income taxes receivable/payable	(140)	(18)	26
Other assets, net	<u>(7)</u>	<u>4</u>	<u>2</u>
Net cash provided by operating activities	<u>1,078</u>	<u>857</u>	<u>800</u>
Cash flows from investing activities:			
Expenditures for equipment on operating leases and for non-leased equipment	(1,608)	(1,366)	(1,152)
Proceeds from disposals of equipment	952	775	818
Additions to finance receivables	(37,811)	(36,251)	(35,561)
Collections of finance receivables	32,135	33,456	32,670
Proceeds from sales of receivables	2,459	2,378	2,110
Net change in Notes receivable from Caterpillar	27	2	14
Other, net	<u>49</u>	<u>(23)</u>	<u>76</u>
Net cash used in investing activities	<u>(3,797)</u>	<u>(1,029)</u>	<u>(1,025)</u>
Cash flows from financing activities:			
Payable to Caterpillar – borrowings and other	168	177	(123)
Proceeds from debt issued (original maturities greater than three months)	16,257	10,815	9,814
Payments on debt issued (original maturities greater than three months)	(14,139)	(10,285)	(9,531)
Short-term borrowings, net (original maturities three months or less)	1,337	(256)	457
Dividend paid to Cat Inc.	-	(250)	(350)
Other	<u>3</u>	<u>10</u>	<u>4</u>
Net cash provided by financing activities	<u>3,626</u>	<u>211</u>	<u>271</u>
Effect of exchange rate changes on cash	<u>(12)</u>	<u>10</u>	<u>3</u>
Increase in cash and cash equivalents	895	49	49
Cash and cash equivalents at beginning of year	<u>185</u>	<u>136</u>	<u>87</u>
Cash and cash equivalents at end of year	<u>\$1,080</u>	<u>\$ 185</u>	<u>\$ 136</u>
Cash paid for interest	\$1,163	\$1,127	\$1,009
Cash paid for taxes	\$ 155	\$ 228	\$ 197

See Notes to Consolidated Financial Statements.

All short-term investments, which consist primarily of highly liquid investments with original maturities of less than three months, are considered to be cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of operations

Caterpillar Financial Services Corporation, a Delaware corporation organized in 1981 (together with its subsidiaries, "Cat Financial," "the Company," "we" and "our"), is a wholly-owned finance subsidiary of Caterpillar Inc. (together with its other subsidiaries, "Caterpillar" or "Cat"). Our primary business is to provide retail and wholesale financing alternatives for Caterpillar products to customers around the world. Such retail financing is primarily comprised of financing of Caterpillar equipment, machinery and engines. In addition, we also provide financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. We also provide wholesale financing to Caterpillar dealers and purchase short-term dealer receivables from Caterpillar.

B. Basis of consolidation

The financial statements include the accounts of Cat Financial. Investments in companies that are owned 20 percent to 50 percent or are less than 20 percent owned and for which we have significant influence are accounted for by the equity method. Investments in companies that are less than 20 percent owned and for which we do not have significant influence are accounted for by the cost method. All material intercompany balances have been eliminated. The assets of Cat Financial are not available to pay creditors of any of its affiliates.

We consolidate all variable interest entities where we are the primary beneficiary. For variable interest entities, we assess whether we are the primary beneficiary as prescribed by FASB Interpretation 46R, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46R). The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns or both. Please refer to Note 11 for more information.

Certain amounts for prior periods have been reclassified to conform to the current period presentation.

C. Recognition of earned income

- Retail finance revenue on finance leases and installment sale contracts is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on retail notes is recognized based on the daily balance of retail receivables outstanding and the applicable interest rate.
- Operating lease revenue is recorded on a straight-line basis in the period earned over the life of the contract.
- Wholesale revenue on installment sale contracts and finance leases related to financing dealer inventory and rental fleets is recognized over the term of the contract at a constant rate of return on the scheduled outstanding principal balance. Revenue on wholesale notes is recognized based on the daily balance of wholesale receivables outstanding and the applicable effective interest rate.
- Loan origination and commitment fees are deferred and then amortized to revenue using the interest method over the life of the finance receivables.

Recognition of income is suspended when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed. Cash receipts on impaired finance

receivables are first recorded against the receivable and then to any unrecognized income. A finance receivable is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan or finance lease.

D. Depreciation

Depreciation for equipment on operating leases is recognized using the straight-line method over the lease term, typically one to seven years. The depreciable basis is the original cost of the equipment less the estimated residual value of the equipment at the end of the lease term.

E. Residual values

The residuals for leases classified as operating leases, in accordance with Statement of Financial Accounting Standards No. 13 (SFAS 13), "Accounting for Leases," are included in Equipment on operating leases. The residuals for leases classified as capital leases, in accordance with SFAS 13, are included in Finance leases and installment sale contracts.

During the term of the leases, residual amounts are monitored. If estimated market values significantly decline due to economic factors, obsolescence or other adverse circumstances, the residuals are adjusted to the lower estimated values by a charge to earnings. For equipment on operating leases, the charge is recognized through depreciation expense. For finance leases, it is recognized through a reduction of finance revenue.

F. Debt issuance costs

Debt issuance costs are capitalized and amortized to Interest expense over the contractual term of the debt issue.

G. Derivative financial instruments

Our earnings and cash flow are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. Our Risk Management Policy (Policy) allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate and interest rate exposure. Our Policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts and interest rate swaps. Our derivative activities are subject to the management, direction and control of our financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Caterpillar Board of Directors at least annually.

All derivatives are recognized on the Consolidated Statements of Financial Position at their fair value. All derivatives in a net receivable position are included in Other assets, and those in a net liability position are included in Accrued expenses. On the date the derivative contract is entered, we designate the derivative as (1) a hedge of the fair value of a recognized liability ("fair value" hedge); (2) a hedge of a forecasted transaction or the variability of cash flow to be paid ("cash flow" hedge); or (3) an "undesignated" instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the forecasted transaction or the variability of cash flow and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statements of Cash Flows. Cash flows from undesignated derivative financial instruments are included in the investing category on the Consolidated Statements of Cash Flows.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all

derivatives that are designated as fair value hedges to specific liabilities on the Consolidated Statements of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively, in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." Please refer to Note 10 for more information on derivatives, including the methods used to account for them.

H. Allowance for credit losses

The allowance for credit losses is evaluated on a regular basis and adjusted based upon management's best estimate of probable losses inherent in our finance receivables. Uncollectible receivable balances, including accrued interest, are written off against the allowance for credit losses when the underlying collateral is repossessed or when we determine that it is probable that the receivable balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance for credit losses when received.

I. Income taxes

The provision for income taxes is determined using the asset and liability approach for accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

When appropriate, we combine certain of our income tax filings with those of Caterpillar. In such instances, we pay to or receive from Caterpillar our allocated share of income taxes or credits, in accordance with our tax sharing agreement with Caterpillar.

J. Foreign currency translation

Assets and liabilities of foreign subsidiaries (the majority of which use the local currency as their functional currency) are translated at current exchange rates. The effects of translation adjustments are reported as a separate component of Accumulated other comprehensive income entitled "Foreign currency translation adjustment." Gains and losses resulting from the translation of foreign currency amounts to functional currency are included in Other revenues on the Consolidated Statements of Profit.

K. Sales and servicing of finance receivables

We periodically sell certain finance receivables relating to our retail installment sale contracts and finance leases as part of our asset-backed securitization program. We retain interests in the retail finance receivables that are sold through this program. Retained interests include subordinated certificates, an interest in future cash flows (excess), reserve accounts and servicing rights. The retained interests are recorded in Other assets at fair value. We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, pre-payment rates and discount rates. Gains or losses are recorded in Other revenues at the time of sale and are based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs.

In addition, we have sold interests in wholesale receivables to third-party commercial paper conduits, where we retain the remaining interests in the receivables and servicing rights. The carrying value of the remaining interests approximates fair value due to the short-term nature of these receivables and is included in Wholesale notes receivable. Gains or losses included in Other revenues are principally the difference between the unearned discount on the sold portion, less the related costs.

We also sell individual loans and leases to third parties to mitigate the concentration of credit risk with certain customers. We generally retain servicing rights related to the sold assets.

Please refer to Note 4 for more information on sales and servicing of finance receivables.

L. Use of estimates in the preparation of financial statements

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts. The more significant estimates are the allowance for credit losses and residual values for leased assets. Other significant estimates are the assumptions used to determine the fair value of derivatives and retained interests in securitizations. Actual results may differ from these estimates.

M. New accounting pronouncements

SFAS 155 – In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155 (SFAS 155), "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to separate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. This new accounting standard was effective January 1, 2007. The adoption of SFAS 155 did not have a material impact on our financial statements.

SFAS 156 – In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 (SFAS 156), "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." SFAS 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. In addition, this Statement permits an entity to choose between two measurement methods (amortization method or fair value measurement method) for each class of separately recognized servicing assets and liabilities. This new accounting standard was effective January 1, 2007. The adoption of SFAS 156 did not have a material impact on our financial statements.

FIN 48 – In June 2006, the FASB issued FIN 48 "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The following table summarizes the effect of the initial adoption of FIN 48. See Note 12 for additional information.

Initial adoption of FIN 48	January 1, 2007		January 1, 2007
	Prior to FIN 48 Adjustment	FIN 48 Adjustment	Post FIN 48 Adjustment
(Millions of dollars)			
Income taxes payable	\$ 98	\$ 15	\$ 113
Deferred income taxes and other liabilities	379	(12)	367
Retained earnings	2,177	(3)	2,174

SFAS 157 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), "Fair Value Measurements." SFAS 157 provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the Statement expands disclosures about fair value measurements. In February 2008, the FASB issued final Staff Positions that (1) deferred the effective date of this Statement for one year for certain nonfinancial assets and nonfinancial liabilities (see below) and (2) removed certain leasing transactions from the scope of the Statement. We applied this new accounting standard to all other fair value measurements effective January 1, 2008. The application of SFAS 157 resulted in a decrease to Other revenues in the Consolidated Statements of Profit of \$27 million for 2008. See Note 13 for additional information.

FSP 157-2 – In February 2008, the FASB issued FASB Staff Position on Statement 157 "Effective Date of FASB Statement No. 157", (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed on a recurring basis, to fiscal years beginning after November 15, 2008. We do not have significant nonfinancial assets and liabilities that could be impacted by this deferral. The adoption of FSP 157-2 is not expected to have a material impact on our financial statements.

FSP 157-3 – In October 2008, the FASB issued FASB Staff Position on Statement 157, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies how SFAS 157 should be applied when valuing securities in markets that are not active by illustrating key considerations in determining fair value. It also reaffirms the notion of fair value as the exit price as of the measurement date. FSP 157-3 was effective upon issuance, which included periods for which financial statements have not yet been issued. This new accounting standard has been adopted for our financial statements starting July 1, 2008. The adoption of FSP 157-3 did not have a material impact on our financial statements.

SFAS 158 – In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the company's fiscal year-end. We adopted the balance sheet recognition provisions at December 31, 2006, and adopted the year-end measurement date effective January 1, 2008 using the "one measurement" approach. Under the one measurement approach, net periodic benefit cost for the period between any early measurement date and the end of the fiscal year that the measurement provisions are applied are allocated proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic benefit cost for the fiscal year. Previously, we used a November 30th measurement date for our U.S. pension and other postretirement benefit plans and September 30th for our non-U.S. plans. The adoption of SFAS 158 did not have a material impact to our Statements of Financial Position since Cat Financial is considered a participant in the Caterpillar retirement plan for which we are charged a share of plan expenses, but are not required to record assets or liabilities of the plan.

SFAS 159 – In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of SFAS No. 115." SFAS 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. We adopted this new accounting standard on January 1, 2008. We have not elected to measure any financial assets or financial liabilities at fair value which were not previously required to be measured at fair value. Therefore, the adoption of SFAS 159 did not have a material impact on our financial statements.

SFAS 141R and SFAS 160 – In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), "Business Combinations," and No. 160 (SFAS 160), "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141R also changes the accounting for

acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. SFAS 141R and SFAS 160 will become effective for fiscal years beginning after December 15, 2008. We will adopt these new accounting standards on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

SFAS 161 – In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. SFAS 161 will become effective for fiscal years beginning after November 15, 2008. We will adopt this new accounting standard on January 1, 2009. We do not expect the adoption to have a material impact on our financial statements.

SFAS 162 – In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS 162 was effective November 16, 2008. This statement did not result in a change in our current practice.

FSP FAS 140-4 and FIN 46(R)-8 – In December 2008, the FASB issued FASB Staff Position on Statement 140 and FIN 46(R) "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" (FSP FAS 140-4 and FIN 46(R)-8). This FSP expands the disclosure requirements in SFAS 140 and FIN 46(R) by requiring additional information about companies' involvement with variable interest entities (VIEs) and their continuing involvement with transferred financial assets. This new accounting standard has been adopted for our financial statements ended December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a material impact on our financial statements.

FSP EITF 99-20-1 – In January 2009, the FASB issued FASB Staff Position on EITF Issue No. 99-20, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" (FSP EITF 99-20-1). FSP EITF 99-20-1 aligns the impairment guidance in EITF Issue No. 99-20 with that in Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." It changes how companies determine whether an other-than-temporary impairment exists for certain beneficial interests by allowing management to exercise more judgment. This new accounting standard has been adopted for our financial statements ended December 31, 2008. The adoption of FSP EITF 99-20-1 did not have a material impact on our financial statements.

NOTE 2 – RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

The contractual maturities and future scheduled payments of outstanding receivables, as of December 31, 2008, were:

(Millions of dollars)							
<u>Amounts due in</u>	<u>Retail Installment Sale Contracts</u>	<u>Wholesale Installment Sale Contracts</u>	<u>Retail Finance Leases</u>	<u>Wholesale Finance Leases</u>	<u>Retail Notes</u>	<u>Wholesale Notes</u>	<u>Total</u>
2009	\$2,950	\$210	\$3,374	\$114	\$2,937	\$3,122	\$12,707
2010	1,989	10	2,397	50	1,481	204	6,131
2011	1,249	15	1,450	32	1,095	143	3,984
2012	642	13	652	6	729	12	2,054
2013	241	24	239	2	743	1	1,250
Thereafter	<u>129</u>	<u>-</u>	<u>213</u>	<u>1</u>	<u>1,224</u>	<u>1</u>	<u>1,568</u>
	7,200	272	8,325	205	8,209	3,483	27,694
Residual value	-	-	1,387	133	-	-	1,520
Less: Unearned income	<u>(674)</u>	<u>(7)</u>	<u>(953)</u>	<u>(15)</u>	<u>(108)</u>	<u>(60)</u>	<u>(1,817)</u>
Total	<u>\$6,526</u>	<u>\$265</u>	<u>\$8,759</u>	<u>\$323</u>	<u>\$8,101</u>	<u>\$3,423</u>	\$27,397
Add: Notes receivable from Caterpillar							81
Less: Allowance for credit losses							<u>(395)</u>
Total net finance receivables							<u>\$27,083</u>

Receivables generally may be repaid or refinanced without penalty prior to contractual maturity, and we also sell receivables. Accordingly, this presentation should not be regarded as a forecast of future cash collections.

Impaired loans or finance leases

A loan or finance lease is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan or finance lease.

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Impaired loans/finance leases for which there is a related allowance for credit losses (related allowance of \$59 ⁽¹⁾ million, \$35 million and \$26 million, respectively)	\$258 ⁽¹⁾	\$166	\$133
Impaired loans/finance leases for which there is no related allowance for credit losses (due to sufficient collateral value)	<u>221</u>	<u>53</u>	<u>60</u>
Total investment in impaired loans/finance leases as of December 31,	<u>\$479</u>	<u>\$219</u>	<u>\$193</u>
Average investment in impaired loans/finance leases	\$306	\$200	\$168

⁽¹⁾ Includes impaired loans of \$108 million primarily reflecting the fair value of the loan's associated collateral. See Note 13 for more information.

Non-accrual and past due loans or leases

We consider an account past due if any portion of an installment is due and unpaid for more than 30 days. Recognition of income is suspended and the account is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Accrual is resumed, and previously suspended income is recognized, when the receivable becomes contractually current and/or collection doubts are removed.

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Investment in loans/leases on non-accrual status as of December 31,	\$422	\$232	\$190
Investment in loans/leases past due over 90 days and still accruing	\$119	\$ 47	\$ 18

In estimating the allowance for credit losses, we review accounts that are past due, non-performing or in bankruptcy.

Allowance for credit losses activity for the year ended December 31,

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 353	\$ 319	\$ 302
Provision for credit losses	192	97	68
Receivables written off	(144)	(91)	(63)
Recoveries on receivables previously written off	23	23	16
Adjustment due to securitization of receivables	(13)	(9)	(13)
Foreign currency translation adjustment	<u>(16)</u>	<u>14</u>	<u>9</u>
Balance at end of year	<u>\$ 395</u>	<u>\$ 353</u>	<u>\$ 319</u>
Allowance for credit losses as a percent of finance receivables (excluding Notes receivable from Caterpillar), net of unearned income	1.44%	1.39%	1.33%

NOTE 3 – FINANCE LEASES

The components of finance leases as of December 31, were as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total minimum lease payments receivable	\$8,530	\$8,046	\$6,757
Estimated residual value of leased assets:			
Guaranteed	791	799	572
Unguaranteed	<u>729</u>	<u>747</u>	<u>676</u>
	10,050	9,592	8,005
Less: Unearned income	<u>(968)</u>	<u>(959)</u>	<u>(820)</u>
Net finance leases	<u>\$9,082</u>	<u>\$8,633</u>	<u>\$7,185</u>

NOTE 4 – SALES AND SERVICING OF FINANCE RECEIVABLES

We sell certain finance receivables relating to our retail installment sale contracts and finance leases as part of our asset-backed securitization program. In addition, we have sold interests in wholesale receivables to third-party commercial paper conduits. These transactions provide a source of liquidity and allow for better management of our balance sheet capacity. Included in our other managed assets are individual loans and leases that have been sold to third parties to mitigate the concentration of credit risk with certain customers. None of the receivables that are directly or indirectly sold to third parties in any of the foregoing transactions are available to pay our creditors.

Securitized Retail Installment Sales Contracts and Finance Leases

We periodically sell certain finance receivables relating to our retail installment sale contracts and finance leases to special purpose entities (SPEs) as part of our asset-backed securitization program. The SPEs have limited purposes and generally are only permitted to purchase the finance receivables, issue asset-backed securities and make payments on the securities. The SPEs only issue a single series of securities and generally are dissolved when those securities have been paid in full. The SPEs, typically trusts, are considered to be qualifying special-purpose entities (QSPEs) and thus, in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," (SFAS 140) are not consolidated. The QSPEs issue debt to pay for the finance receivables they acquire from us. The primary source for repayment of the debt is the cash flows generated from the finance receivables owned by the QSPEs. The assets of the QSPEs are legally isolated and are not available to pay our creditors or any other of our affiliates. For bankruptcy analysis purposes, Cat Financial has sold the finance receivables to the QSPEs in a true sale and the QSPEs are separate legal entities. The investors and the securitization trusts have no recourse to any of our other assets for failure of debtors to pay when due.

We retain interests in the retail finance receivables that are sold through our asset-backed securitization program. Retained interests include subordinated certificates, an interest in future cash flows (excess) and reserve accounts. Retained interests in securitized assets are classified as available-for-sale securities and are included in Other assets in our Consolidated Statements of Financial Position at fair value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We estimate fair value based on the present value of future expected cash flows using key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on our historical experience, market trends and anticipated performance relative to the particular assets securitized. We periodically review the key assumptions and estimates used in determining the fair value of our retained interests with unrealized gains and losses recorded in the Consolidated Statements of Financial Position as part of Accumulated other comprehensive income. If based on current information and events, it is probable that there has been an adverse change in estimated cash flows, an "other-than-temporary" impairment is recorded and included in profit to write down the retained interest to estimated fair value. We retain credit risk in the retail finance receivables that are sold through our asset-backed securitizations because our retained interests are subordinate to the investors' interests. Any credit losses in the pool of securitized assets would be limited to our retained interests.

During 2008, 2007 and 2006, we sold certain finance receivables relating to our retail installment sale contracts and finance leases to a SPE as part of our asset-backed securitization program. A net gain of \$12 million in 2008 (\$4 million in 2007 and \$7 million in 2006) was recorded in Other revenues in our Consolidated Statements of Profit at the time of the sale and was based on the estimated fair value of the assets sold and retained and liabilities incurred, net of transaction costs. Retained interests include subordinated certificates with an initial fair value of \$27 million in 2008 (\$- in 2007 and \$4 million in 2006), an interest in future cash flows (excess) with an initial fair value of \$8 million in 2008 (\$2 million in 2007

and \$3 million in 2006) and reserve accounts with an initial fair value of \$9 million in 2008 (\$9 million in 2007 and \$10 million in 2006).

Significant assumptions used to estimate the fair value of the retained interests at the time of the transaction were:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Discount rate	7.2%	8.4%	11.2%
Weighted-average prepayment rate	14.5%	14.0%	14.0%
Expected credit losses	1.6%	1.5%	1.5%

During 2008, the assumptions used to determine the fair value of our retained interests in the securitization transactions were reviewed. The most significant change was an increase in the credit loss assumption due to the continued softening of industries related to the U.S. housing market. This resulted in a \$27 million impairment charge to the retained interests for the year ended December 31, 2008. The impairment charge was recorded in Other revenues on our Consolidated Statements of Profit.

To maintain competitiveness in the capital markets and to have effective and efficient use of alternative funding sources, we may from time to time provide additional reserve support to previously issued asset-backed securitizations. During the third quarter of 2008, we deposited \$19 million into a supplemental reserve account for the 2007 securitization transaction to maintain the credit ratings assigned to the transaction, as loss experiences have been higher than anticipated primarily due to the softening of industries related to the U.S. housing market. This resulted in an increase in our retained interests.

During 2008, 2007 and 2006, we also retained servicing responsibilities and received a fee of approximately one percent of the remaining value of the finance receivables for our servicing responsibilities. We generally do not record a servicing asset or liability since the servicing fee is considered fair market compensation. Servicing income is included in Other revenues on our Consolidated Statements of Profit.

As of December 31, 2008, 2007 and 2006, the fair value of the retained interests in all securitizations of retail finance receivables outstanding totaled \$52 million, \$49 million and \$68 million, respectively. Key assumptions used to determine the fair value of the retained interests as of such dates were:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash flow weighted average discount rates on retained interests	16.7% to 23.3%	8.3% to 11.5%	5.9% to 9.1%
Weighted-average maturity in months	28	30	31
Expected prepayment rate	19.0%	14.0%	14.0%
Expected credit losses	1.7% to 3.1%	0.6% to 1.3%	0.5% to 1.3%

To estimate the impact on income due to changes to the key economic assumptions used to estimate the fair value of residual cash flows in retained interests from retail finance receivable securitizations, we compute a "shocked" fair value of retained interests. The difference between the current fair value and the "shocked" fair value is an estimate of our sensitivity to a change in the assumptions. We determine the "shocked" fair value by applying 10 percent and 20 percent adverse changes to individual assumptions used to calculate the fair value. This estimate does not adjust for other variations that may occur should one of the assumptions actually change. Accordingly, no assurance can be given that actual results would be consistent with the results of our estimate. The effect of a variation in a particular assumption on the fair value of residual interest in securitization transactions was calculated without changing any other assumptions and changes in one factor may result in changes in another. Our sensitivity analysis indicated that the impact of a 20 percent

adverse change in individual assumptions used to calculate the fair value of all our retained interests as of December 31, 2008, 2007 and 2006 would be \$8 million or less, \$2 million or less and \$3 million or less, respectively.

Characteristics of securitized retail receivables

(Millions of dollars)	2008	2007	2006
Total securitized principal balance at December 31,	\$ 909	\$1,159	\$1,227
Average securitized principal balance for the year ended December 31,	\$1,147	\$1,064	\$1,162
Loans > 30 days past due at year ended December 31,	\$ 98	\$ 65	\$ 34
Net credit losses during the year	\$ 23	\$ 9	\$ 5

Cash flows from retail securitizations

(Millions of dollars)	2008	2007	2006
Cash proceeds from initial sales of receivables	\$600	\$650	\$947
Purchases of contracts through clean-up calls	\$ 81	\$ 64	\$ 63
Servicing fees received	\$ 12	\$ 11	\$ 12
Other cash flows received on retained interests	\$ 25	\$ 35	\$ 41

Sale of Interests in Wholesale Receivables

We purchase "NACD Receivables" at a discount. The discount is an estimate of the amount of financing revenue that would be earned at a market rate on the NACD Receivables over their expected life. We have sold interests in the NACD Receivables through a revolving structure to third-party commercial paper conduits, asset-backed commercial paper issuers that are SPEs of the sponsor bank and are not consolidated by us. In accordance with SFAS 140, the transfers to the conduits are accounted for as sales. The gain, included in Other revenues on our Consolidated Statements of Profit, is principally the difference between the unearned discount on the NACD Receivables sold to the third-party commercial paper conduits less related costs incurred over their remaining term. Expected credit losses are assumed to be zero because dealer receivables have historically had no losses and none are expected in the future. We receive an annual servicing fee of approximately 0.5 percent of the average outstanding principal balance of the interests in the NACD Receivables sold to the third-party commercial paper conduits. We generally do not record a servicing asset or liability since the servicing fee is considered fair market compensation. During 2008, 2007 and 2006, we recognized a pre-tax gain on the sale of wholesale receivables of \$6 million, \$9 million and \$4 million, respectively. As of December 31, 2008, 2007 and 2006, the outstanding principal balance of the NACD Receivables sold to the conduits was \$240 million.

The NACD Receivables not sold to the third-party commercial paper conduits as of December 31, 2008, 2007 and 2006, of \$1.432 billion, \$1.233 billion and \$2.718 billion, respectively, are included in Wholesale notes receivable in our Consolidated Statements of Financial Position. The discount on these NACD Receivables is amortized on an effective yield basis over the life of the NACD Receivables and recognized as Wholesale finance revenue. Because the receivables are short-term in nature, the carrying amount approximates the fair value.

The cash collections from the NACD Receivables are first applied to satisfy any obligations to the third-party commercial paper conduits. The third-party commercial paper conduits have no recourse to our assets, other than the NACD Receivables that we continue to hold.

Cash flows from sale of interests in wholesale receivables

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash proceeds from sales of receivables to conduit	\$ 1,510	\$ 1,512	\$ 1,043
Servicing fees received	\$ 1	\$ 1	\$ 1
Cash flows received on the interests that continue to be held	\$11,270	\$13,680	\$15,168

In addition to the NACD Receivables, we purchase other trade receivables from Caterpillar entities at a discount. The discount is an estimate of the amount of financing revenue that would be earned at a market rate on these trade receivables over their expected life. The discount is amortized into revenue on an effective yield basis over the life of the receivables and recognized as Wholesale finance revenue. Amortized discounts for the NACD and other trade receivables were \$243 million, \$327 million and \$386 million for the year ended December 31, 2008, 2007 and 2006, respectively. In the Consolidated Statements of Cash Flows, collection of the discount is included in investing activities as the receivables are collected.

Other Managed Assets

We also sell individual leases and finance receivables to third parties with limited or no recourse to us in order to either reduce our concentration of credit risk related to certain customers or as an additional source of liquidity. In accordance with SFAS 140, the transfers to the third parties are accounted for as sales. In 2008, 2007 and 2006, we received \$379 million, \$245 million and \$173 million, respectively, of cash proceeds and recognized pre-tax gains of \$12 million, \$7 million and \$6 million, respectively from the sale of such contracts. We maintain servicing for these third-party assets, which totaled \$633 million, \$441 million and \$362 million as of December 31, 2008, 2007 and 2006, respectively. Since we do not receive a servicing fee for these assets, a servicing liability is recorded at fair value. As of December 31, 2008, 2007 and 2006 this liability was not significant.

Total off-balance sheet managed assets as of December 31,

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Securitized Retail Installment Sale Contracts and Finance Leases			
Installment sale contracts securitized	\$ 877	\$1,105	\$1,174
Finance leases securitized	32	54	53
Less: Retained interests (included in Other assets)	<u>(52)</u>	<u>(49)</u>	<u>(68)</u>
Off-balance sheet securitized retail receivables	<u>857</u>	<u>1,110</u>	<u>1,159</u>
Sales of Interests in Wholesale Receivables			
Wholesale receivables	240	240	240
Other Managed Assets			
Retail installment sale contracts	283	122	111
Retail finance leases	198	155	90
Operating leases	122	128	119
Retail notes receivable	<u>30</u>	<u>36</u>	<u>42</u>
Other managed receivables/leases	<u>633</u>	<u>441</u>	<u>362</u>
Total off-balance sheet managed assets	<u>\$1,730</u>	<u>\$1,791</u>	<u>\$1,761</u>

NOTE 5 – EQUIPMENT ON OPERATING LEASES

Components of equipment on operating leases, less accumulated depreciation as of December 31, were as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Equipment on operating leases, at cost	\$4,421	\$4,466	\$3,833
Less: Accumulated depreciation	<u>(1,393)</u>	<u>(1,477)</u>	<u>(1,271)</u>
Equipment on operating leases, net	<u>\$3,028</u>	<u>\$2,989</u>	<u>\$2,562</u>

At December 31, 2008, scheduled minimum rental payments for operating leases were as follows:

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>
\$710	\$523	\$321	\$170	\$70	\$27	\$1,821

NOTE 6 – CONCENTRATION OF CREDIT RISK

Our portfolio is primarily comprised of receivables under installment sale contracts, receivables arising from leasing transactions, notes receivable and wholesale financing. Percentages of the total value of our portfolio (total net finance receivables, plus equipment on operating leases, less accumulated depreciation) represented by each financing plan as of December 31, were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Retail Financing:			
Installment sale contracts	21%	25%	25%
Customer loans	21%	18%	16%
Finance (non-tax) leases	21%	20%	17%
Tax leases (operating or finance)	17%	18%	17%
Wholesale financing	13%	15%	21%
Dealer loans	6%	3%	3%
Government lease-purchase contracts	1%	1%	1%

Receivables from customers in construction-related industries made up approximately 40 percent of our total portfolio as of December 31, 2008, 2007 and 2006. Approximately 50 percent of construction-related receivables relates to customers in North America. No single customer or dealer represented a significant concentration of credit risk. We typically maintain a security interest in retail financed equipment and require physical damage insurance coverage on all financed equipment. See Note 16 for further information concerning business segments.

Regarding our derivative instruments, collateral is not generally required of the counterparties or of our Company. We do not anticipate nonperformance by us or any of the counterparties. Our exposure to credit loss in the event of nonperformance by the counterparties is limited to only those gains that we have recorded, but have not yet received cash payment. As of December 31, 2008, 2007 and 2006, the exposure to credit loss was \$639 million, \$98 million and \$62 million, respectively. The significant 2008 increase is a result of favorable interest rate movement on interest rate swaps. See Note 10 for further information concerning derivatives.

NOTE 7 – CREDIT COMMITMENTS

Revolving credit facilities

We have three global credit facilities with a syndicate of banks totaling \$6.85 billion available in the aggregate to both Caterpillar and us to support commercial paper programs in the event the programs become unavailable to us. During 2008, based on management's allocation decision, which can be revised at any time, the portion of the credit facility allocated to us was increased from \$5.55 billion to \$5.85 billion.

- The five-year facility of \$1.62 billion expires in September 2012.
- The five-year facility of \$2.98 billion expires in September 2011.
- The 364-day facility was increased from \$1.95 billion to \$2.25 billion and will expire in September 2009.

As part of the 2008 global credit facilities renewal, the year-end and six-month moving average leverage covenants have been increased from 8.5:1 to 10:1.

In 2008, we entered into a new 364-day facility of \$300 million with a syndicate of banks, which expires in July 2009. The overall increase in the credit facilities was to support portfolio growth.

At December 31, 2008, there were no borrowings under these lines.

At December 31, 2008, our quarterly interest coverage ratio for the fourth quarter dropped below the level that would have been required, absent lender consent, in the revolving credit facilities ("Credit Facilities"). The Credit Facilities provide that, absent lender consent, we shall maintain an interest coverage ratio of earnings before interest expense and income taxes to interest expense, of not less than 1.15 to 1 for each fiscal quarter. The ratio was negatively impacted in the fourth quarter by, among other things, deteriorating economic conditions.

In addition, the Credit Facilities provide that, absent lender consent, Caterpillar shall maintain at all times during each fiscal year a consolidated net worth of not less than 75 percent of the consolidated net worth as of the end of its immediately preceding fiscal year. Caterpillar's annual consolidated net worth as of December 31, 2008 dropped below the level that would have been required, absent lender consent, in the Credit Facilities. The decrease was largely driven by a significant decline in pension asset returns, resulting in a \$3.4 billion year-end charge to other comprehensive income.

The bank group under the Credit Facilities consented to our lower quarterly interest coverage ratio of 0.97 as of December 31, 2008, and to Caterpillar's lower annual consolidated net worth of \$6.087 billion as of December 31, 2008. The bank group also agreed that any failure to comply with the interest coverage ratio and consolidated net worth requirements stipulated in the Credit Facilities would not constitute an actual or potential event of default under the Credit Facilities. In consideration of these agreements, the upper range of interest rate applicable to certain amounts that may be drawn by us under the Credit Facilities was increased by approximately 1.00 to 1.50 percent.

The interest coverage ratio and consolidated net worth requirements are also included in other loan agreements entered into by us and two of our subsidiaries. The lenders under those loan agreements have agreed that Cat Financial, Caterpillar and the affected subsidiaries shall not be required to comply with the interest coverage ratio and consolidated net worth requirements of those loan agreements for the fourth quarter of 2008. In consideration of those agreements, the upper range of the interest rates applicable to certain amounts that may be drawn by us under those loan agreements were increased by approximately 1.00 percent.

As noted above, the actions by the bank group and the other lenders only apply to the fourth quarter of 2008. Any failure by us or Caterpillar to comply with one or both of these covenants in the future could result in the suspension of the Credit Facilities and the immediate acceleration of the outstanding amounts under the other loan agreements. At December 31, 2008, there were no outstanding borrowings under the Credit Facilities.

Bank borrowings

Credit lines with banks total \$2.72 billion and will be eligible for renewal at various future dates or have no specified expiration date. They are used by our subsidiaries for local funding requirements and are generally guaranteed by us. At December 31, 2008, we had \$1.57 billion outstanding against these credit lines compared to \$1.17 billion as of December 31, 2007.

Variable denomination floating rate demand notes

We obtain funding from the sale of variable denomination floating rate demand notes, which may be redeemed at any time at the option of the holder without any material restriction. We do not hold reserves to fund the payment of the demand notes. The notes are offered on a continuous basis by prospectus only.

Deposit obligation

A deposit obligation of \$232 million has a corresponding security deposit, which is included in Other assets in the Consolidated Statements of Financial Position as of December 31, 2008, and December 31, 2007. This deposit obligation and corresponding security deposit relates to a financing arrangement, which provides us a return. This arrangement requires that we commit to a certain long-term obligation and provide a security deposit, which will fulfill this obligation when it becomes due in 2009.

Notes payable to Caterpillar

Under our variable amount lending agreements with Caterpillar, we may borrow up to \$2.3 billion from Caterpillar, and Caterpillar may borrow up to \$1.2 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. We had notes payable of \$435 million and notes receivable of \$81 million outstanding as of December 31, 2008, compared to notes payable of \$275 million and notes receivable of \$74 million as of December 31, 2007.

NOTE 8 – SHORT-TERM BORROWINGS

Short-term borrowings outstanding as of December 31, were comprised of the following:

(Millions of dollars)	2008		2007		2006	
	<u>Balance</u>	<u>Avg. Rate</u>	<u>Balance</u>	<u>Avg. Rate</u>	<u>Balance</u>	<u>Avg. Rate</u>
Commercial paper, net	\$5,717	2.4%	\$4,935	4.3%	\$4,557	4.4%
Variable denomination floating rate demand notes	543	3.6%	699	5.1%	590	5.4%
Bank borrowings	<u>817</u>	7.9%	<u>550</u>	7.4%	<u>251</u>	6.0%
Total	<u>\$7,077</u>		<u>\$6,184</u>		<u>\$5,398</u>	

NOTE 9 – LONG-TERM DEBT

During 2008, we issued \$7.218 billion of medium-term notes, of which \$5.857 billion were at fixed interest rates and \$1.361 billion were at floating interest rates, primarily indexed to LIBOR. At December 31, 2008, the outstanding medium-term notes had remaining maturities ranging up to 20 years.

Long-term debt outstanding as of December 31, was comprised of the following:

(Millions of dollars)	2008		2007		2006	
	<u>Balance</u>	<u>Avg. Rate</u>	<u>Balance</u>	<u>Avg. Rate</u>	<u>Balance</u>	<u>Avg. Rate</u>
Medium-term notes	\$19,656	4.2%	\$17,325	4.7%	\$16,899	4.6%
Unamortized discount	<u>(9)</u>		<u>(3)</u>		<u>(5)</u>	
Medium-term notes, net	19,647		17,322		16,894	
Bank borrowings	755	7.1%	615	8.0%	425	8.9%
Loans from a company-owned partnership	-	-	8	7.0%	8	7.0%
Deposit obligation ⁽¹⁾	<u>232</u>		<u>232</u>		<u>232</u>	
Total	<u>\$20,634</u>		<u>\$18,177</u>		<u>\$17,559</u>	

⁽¹⁾ The deposit obligation has a corresponding security deposit, which is included in Other assets in the Consolidated Statements of Financial Position. This deposit obligation and corresponding security deposit relate to a financing arrangement, which provides us a return. This arrangement requires that we commit to a certain long-term obligation and provide a security deposit, which will fulfill this obligation when it becomes due in 2009.

Long-term debt outstanding as of December 31, 2008, matures as follows:

(Millions of dollars)	
2009	\$ 5,036
2010	4,734
2011	2,326
2012	1,562
2013	1,800
Thereafter	<u>5,176</u>
Total	<u>\$20,634</u>

The above table includes \$2.182 billion of medium-term notes that could be called by us at some point in the future at par value.

NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates and interest rates. Our Risk Management Policy ("Policy") allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate and interest rate exposure. Our Policy specifies that derivatives are not to be used for speculative purposes. Derivatives that we use are primarily foreign currency forward and option contracts and interest rate swaps. Our derivative activities are subject to the management, direction and control of our senior financial officers. Risk management practices, including the use of financial derivative instruments, are presented to the Audit Committee of the Caterpillar Inc. Board of Directors at least annually.

Foreign Currency Exchange Rate Risk

In managing foreign currency risk, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions. Our Policy allows the use of foreign currency forward and option contracts to offset the risk of currency mismatch between our receivables and debt. Due to the long-term nature of our net investments in foreign subsidiaries, all such foreign currency forward and option contracts are undesignated. Accordingly, changes in the fair value of undesignated derivative instruments are reported in current earnings as a part of Other revenues.

Other revenues included gains of \$33 million, and losses of \$89 million and \$20 million on the undesignated contracts for 2008, 2007 and 2006, respectively. The gains and losses on undesignated contracts are designed to offset the balance sheet remeasurement gains or losses.

Interest Rate Risk

Interest rate movements create a degree of risk to our operations by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate swap agreements to manage our exposure to interest rate changes and, in some cases, to lower the cost of borrowed funds.

We have a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of our debt portfolio with the interest rate profile of our receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This match funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move. Our Policy allows us to use fixed-to-floating (fair value hedges), floating-to-fixed and floating-to-floating interest rate swaps (cash flow hedges) to meet our match-funding objective. To support hedge accounting, we designate fixed-to-floating interest rate swaps as fair value hedges of the fair value of our fixed-rate debt at the inception of the swap contract. We designate most floating-to-fixed interest rate swaps as cash flow hedges of the variability of future cash flows at the inception of the swap contract.

Fair value hedges

We liquidated fixed-to-floating interest rate swaps during 2006, 2005 and 2004, which resulted in deferred net gains. These gains (\$4 million remaining as of December 31, 2008) are being amortized to Interest expense ratably over the remaining term of the hedged debt.

Gains/(losses) on designated fixed-to-floating interest rate swaps included in current earnings as of December 31, were as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gain/(loss) on designated interest rate derivatives—including in Other revenues	\$ 471	\$ 103	\$(44)
Gain/(loss) on hedged debt—including in Other revenues	\$ (474)	\$ (103)	\$ 44
Amortization of the net gain on liquidated swaps – included in Interest expense	\$ 1	\$ 2	\$ 6

Cash flow hedges

As of December 31, 2008, \$51 million of deferred net losses included in equity (Accumulated other comprehensive income), related to our floating-to-fixed interest rate swaps, are expected to be reclassified to Interest expense over the next twelve months. The amount of hedge ineffectiveness recognized in Other revenues related to our cash flow hedges for the year ended December 31, 2008 was a loss of \$5 million. The gains or losses recorded in earnings as a result of cash flow hedge ineffectiveness for the years ended December 31, 2007 and 2006 was immaterial.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

We provide loan guarantees to third-party lenders for financing associated with machinery purchased by customers. These guarantees have varying terms and are secured by the machinery. In addition, we participate in standby letters of credit issued to third parties on behalf of our customers. These standby letters of credit have varying terms and beneficiaries and are secured by customer assets.

We have provided a limited indemnity to a third-party bank for \$25 million resulting from the assignment of certain leases to that bank. The indemnity is for the possibility that the insurers of these leases would become insolvent. The indemnity expires December 15, 2012 and is unsecured.

No loss has been experienced or is anticipated under any of these guarantees or the limited indemnity. At December 31, 2008, the recorded liability for these guarantees was \$2 million, compared to \$7 million as of December 31, 2007 and \$9 million as of December 31, 2006. The maximum potential amount of future payments (undiscounted and without reduction for any amount that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees and the limited indemnity are as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Guarantees with customers	\$119	\$ 46	\$ 37
Limited indemnity	25	30	35
Guarantees with Caterpillar dealers	-	250	362
Guarantees – other	<u>-</u>	<u>-</u>	<u>3</u>
Total guarantees	<u>\$144</u>	<u>\$326</u>	<u>\$437</u>

We provide guarantees to repurchase certain loans of Caterpillar dealers from a financial Trust ("Trust") that qualifies as a variable interest entity under FIN 46R. The purpose of the Trust is to provide short-term working capital loans to Caterpillar dealers. This Trust issues commercial paper and uses the proceeds to fund its loan program. We have a loan purchase agreement with the Trust that obligates us to purchase certain loans that are not paid at maturity. We receive a fee

for providing this guarantee, which provides a source of liquidity for the Trust. Prior to December 2008, the loan purchase agreement was treated as a guarantee and disclosed in the table above as Guarantees with Caterpillar dealers. At December 31, 2008, we determined that we were the primary beneficiary of the Trust as our guarantee would require us to absorb a majority of the entity's expected losses, and therefore consolidated the financial position of the Trust. The Trust's assets of \$477 million are primarily comprised of loans to dealers and the liabilities of \$477 million are primarily comprised of commercial paper. No loss has been experienced or is anticipated under this loan purchase agreement. Our assets are not available to pay creditors of the Trust, except to the extent we may be obligated to perform under the guarantee, and assets of the Trust are not available to pay our creditors.

We are party to agreements in the normal course of business with selected customers and Caterpillar dealers in which we commit to provide a set dollar amount of financing on a pre-approved basis. We also provide lines of credit to selected customers and Caterpillar dealers, of which a portion remains unused as of the end of the period. Commitments and lines of credit generally have fixed expiration dates or other termination clauses. It has been our experience that not all commitments and lines of credit will be used. Management applies the same credit policies when making commitments and granting lines of credit as it does for any other financing. We do not require collateral for these commitments/lines, but if credit is extended, collateral may be required upon funding. The amount of the unused commitments and lines of credit for dealers as of December 31, 2008, was \$9.128 billion compared to \$8.341 billion as of December 31, 2007, and \$6.587 billion as of December 31, 2006. The amount of the unused commitments and lines of credit for customers as of December 31, 2008 was \$3.085 billion compared to \$3.001 billion as of December 31, 2007, and \$2.279 billion as of December 31, 2006.

We are involved in unresolved legal actions that arise in the normal course of business. The majority of these unresolved actions involve claims to recover collateral, claims pursuant to customer bankruptcies and the pursuit of deficiency amounts. Although it is not possible to predict with certainty the outcome of our unresolved legal actions or the range of probable loss, we believe that these unresolved legal actions will neither individually nor in the aggregate have a material adverse effect on our consolidated financial position, liquidity or results of operations.

NOTE 12 – INCOME TAXES

The components of Profit before income taxes for the years ended December 31, were as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
U.S.	\$204	\$413	\$417
Non-U.S.	<u>301</u>	<u>315</u>	<u>271</u>
Total	<u>\$505</u>	<u>\$728</u>	<u>\$688</u>

Profit before income taxes, as shown above, is based on the location of the entity to which such earnings are attributable. Where an entity's earnings are subject to taxation, however, may not correlate solely to where an entity is located. Thus, the income tax provision shown below as U.S. or non-U.S. may not correspond to the earnings shown above.

The components of the provision for income taxes were as follows for the years ended December 31:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current income tax provision (credit):			
U.S.	\$ (28)	\$ 93	\$153
Non-U.S.	60	106	65
State (U.S.)	<u>-</u>	<u>6</u>	<u>6</u>
	<u>32</u>	<u>205</u>	<u>224</u>
Deferred income tax provision (credit):			
U.S.	39	50	(20)
Non-U.S.	49	(23)	10
State (U.S.)	<u>-</u>	<u>2</u>	<u>1</u>
	<u>88</u>	<u>29</u>	<u>(9)</u>
Total Provision for income taxes	<u>\$120</u>	<u>\$234</u>	<u>\$215</u>

Current income tax provision is the amount of income taxes reported or expected to be reported on our income tax returns. Under our tax sharing agreement with Caterpillar, we have paid to or received from (or will pay to or will receive from) Caterpillar, our allocated share of certain income tax liabilities or credits.

The actual Provision for income taxes differs from the Provision for income taxes that would result from applying the U.S. statutory rate to Profit before income taxes for the years ended December 31, for the reasons set forth in the following reconciliation:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Taxes computed at U.S. statutory rates	\$177	\$257	\$242
(Decreases) increases in taxes resulting from:			
Subsidiaries' results subject to tax rates other than U.S. statutory rates	(56)	(29)	(22)
Other, net	<u>(1)</u>	<u>6</u>	<u>(5)</u>
Provision for income taxes	<u>\$120</u>	<u>\$234</u>	<u>\$215</u>

We have recorded income tax expense at U.S. tax rates on all profits, except for undistributed profits of non-U.S. subsidiaries, which are considered indefinitely reinvested. Determination of the amount of unrecognized deferred income tax liability related to indefinitely reinvested profits is not feasible.

Differences between accounting rules and income tax laws cause differences between the bases of certain assets and liabilities for financial reporting and income tax purposes. The income tax effects of these differences, to the extent they are temporary, are recorded as deferred income tax assets and liabilities netted by tax jurisdiction and taxpayer.

Our consolidated deferred income taxes consisted of the following components as of December 31:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Deferred tax assets:			
Allowance for credit losses	\$ 108	\$ 88	\$ 70
Tax credit carryforwards	14	6	36
Deferred income taxes on derivative instruments and retained interests	42	7	-
Net operating loss carryforwards	<u>56</u>	<u>24</u>	<u>26</u>
	<u>220</u>	<u>125</u>	<u>132</u>
Deferred income tax liabilities - primarily lease basis differences	(575)	(435)	(414)
Valuation allowance for deferred income tax assets	(5)	(4)	(6)
Deferred income tax on translation adjustment	(133)	-	-
Deferred income taxes on derivative instruments and retained interests	<u>-</u>	<u>-</u>	<u>(12)</u>
	<u>(713)</u>	<u>(439)</u>	<u>(432)</u>
Deferred income taxes – net	<u><u>\$(493)</u></u>	<u><u>\$(314)</u></u>	<u><u>\$(300)</u></u>

SFAS 109 requires individual tax-paying entities of the company to offset deferred income tax assets and liabilities within each particular tax jurisdiction and present them as a single amount in the Consolidated Statements of Financial Position. Amounts in different tax jurisdictions cannot be offset against each other. The amount of deferred income taxes at December 31, included in the following lines in our Consolidated Statements of Financial Position were:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Deferred and refundable income taxes	\$ 36	\$ 69	\$ 40
Liabilities:			
Deferred income taxes and other liabilities	<u>(529)</u>	<u>(383)</u>	<u>(340)</u>
Deferred income taxes - net	<u><u>\$(493)</u></u>	<u><u>\$(314)</u></u>	<u><u>\$(300)</u></u>

As of December 31, 2008, amounts and expiration dates of U.S. foreign tax credits available to carry forward were:

(Millions of dollars)	<u>2009-2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
	\$-	\$-	\$-	\$-	\$5	\$5

As of December 31, 2008, amounts and expiration dates of net operating loss ("NOL") carryforwards in various non-U.S. taxing jurisdictions were:

(Millions of dollars)						
<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 - 2023</u>	<u>Unlimited</u>	<u>Total</u>
\$-	\$1	\$1	\$-	\$106	\$109	\$217

Valuation allowances totaling \$3 million have been recorded at certain non-U.S. subsidiaries that have not yet demonstrated consistent and/or sustainable profitability to support the recognition of net deferred income tax assets.

As of December 31, 2008, amounts and expiration dates of NOL carryforwards in various U.S. state taxing jurisdictions were:

(Millions of dollars)					
<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013-2028</u>	<u>Total</u>
\$-	\$-	\$-	\$-	\$76	\$76

The gross deferred income tax asset associated with these NOL carryforwards is \$6 million as of December 31, 2008, partially offset by a valuation allowance of \$2 million. The valuation allowance arises as a result of the uncertainty whether the carryforwards will be used.

In some U.S. state income tax jurisdictions, we join with other Caterpillar entities in filing combined income tax returns. In other U.S. state income tax jurisdictions, we file on a separate, stand-alone basis.

We adopted FIN 48 as of January 1, 2007. A reconciliation of the beginning and ending amounts of gross unrecognized income tax benefits for uncertain income tax positions, including positions impacting only the timing of income tax benefits is as follows:

Reconciliation of unrecognized income tax benefits⁽¹⁾:

(Millions of dollars)	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 16	\$ 30
Increases/(decreases) for income tax positions related to prior year	<u>5</u>	<u>(14)</u>
Balance at end of year	<u>\$ 21</u>	<u>\$ 16</u>

⁽¹⁾ Foreign currency translation amounts are included within each line as applicable.

At adoption, the amount of unrecognized income tax benefits that, if recognized, would impact the effective tax rate was \$5 million. That amount remains unchanged.

We classify interest and penalties on income tax uncertainties as a component of the provision for income taxes. The Company recognized approximately \$1 million in interest and penalties during the year ended December 31, 2008 compared to \$2 million during the year ended December 31, 2007. The total amount of interest and penalties accrued at December 31, 2008 was \$6 million compared to \$5 million at December 31, 2007.

It is expected that the amount of unrecognized income tax benefits will change in the next 12 months. However, we do not expect the change to have a significant impact on our results of operations or financial position.

The Internal Revenue Service is currently examining our U.S. income tax returns for 2005 and 2006, and completed its field examination of our U.S. income tax returns for 1992 to 2004 as part of the overall Caterpillar examination. For tax years 1992 to 1994, Caterpillar expects to litigate issues unrelated to us. Caterpillar also expects the appeals process for tax years 1995 to 1999 will be settled within the next 12 months. Caterpillar has also entered into the appeals process for tax years 2000 to 2004. The ultimate disposition of all matters related to each of the aforementioned audit cycles is not expected to have a material impact on our results of operations or financial position.

In our major non-U.S. jurisdictions, tax years are typically subject to examination for three to six years.

NOTE 13 – FAIR VALUE DISCLOSURES

A. Fair Value Measurements

We adopted SFAS 157, "Fair Value Measurements" as of January 1, 2008. See Note 1M for additional information. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally-developed market assumptions.

In accordance with SFAS 157, fair value measurements are classified under the following hierarchy:

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

We make use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

SFAS 157 expanded the definition of fair value to include the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or us) will not be fulfilled. For our financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), our fair value calculations have been adjusted accordingly. The impact of incorporating the nonperformance risk in the fair value measurements resulted in a decrease to Other revenues in the Consolidated Statements of Profit of \$27 million for 2008.

Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on models that utilize the appropriate market-based forward swap curves and zero-coupon interest rates to determine the discounted cash flows. The fair value of foreign currency forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

Securitized retained interests

The fair value of securitized retained interests is based upon a valuation model that calculates the present value of future expected cash flows using key assumptions for credit losses, prepayment rates and discount rates. These assumptions are based on our historical experience, market trends and anticipated performance relative to the particular assets securitized.

Guarantees

The fair value of guarantees is based upon the premium we would require to issue the same guarantee in a stand-alone arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally-developed models that utilize current market-based assumptions.

Assets and liabilities measured at fair value included in our Consolidated Statements of Financial Position as of December 31, 2008 are summarized below:

(Millions of dollars)				Total Assets/Liabilities, at Fair Value
Assets	Level 1	Level 2	Level 3	
Derivative financial instruments	\$ -	\$331	\$ -	\$331
Securitized retained interests	-	-	52	52
Total Assets	<u>\$ -</u>	<u>\$331</u>	<u>\$52</u>	<u>\$383</u>
Liabilities				
Guarantees	\$ -	\$ -	\$ 2	\$ 2
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the year ended December 31, 2008. These instruments were valued using pricing models that, in management's judgment, reflect the assumptions a marketplace participant would use.

(Millions of dollars)	Securitized Retained Interests	Guarantees
Balance as of December 31, 2007	\$49	\$ 7
Total gains or losses (realized/unrealized)		
Included in earnings	(21)	-
Included in other comprehensive income	(13)	-
Purchases, issuances and settlements	37	(5)
Balance as of December 31, 2008	<u>\$52</u>	<u>\$ 2</u>

The amount of unrealized losses on securitized retained interests recognized in earnings for the year ended December 31, 2008 related to assets still held at December 31, 2008 were \$23 million. These losses were reported in Other revenues in the Consolidated Statements of Profit.

Gains or losses included in earnings are reported in Other revenues.

In addition to the amounts above, we have impaired loans of \$108 million as of December 31, 2008. A loan is considered impaired when management determines that collection of future income is not probable. In these cases, an allowance for loan losses is established based primarily on the fair value of associated collateral. As the collateral's fair value is based on observable market prices and/or current appraised values, the impaired loans are classified as Level 2 measurements. See Note 2 for further details.

B. Fair Values of Financial Instruments

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair Value Measurements section above, we used the following methods and assumptions to estimate the fair value of our financial instruments as required by Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Values of Financial Instruments."

Cash and cash equivalents – carrying amount approximated fair value.

Finance receivables, net – fair value is estimated by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

Short-term borrowings – carrying amount approximated fair value.

Long-term debt – fair value on fixed-rate debt was estimated based on quoted market prices. Floating-rate notes and commercial paper carrying amounts were considered a reasonable estimate of fair value. For deposit obligations, carrying value approximated fair value.

The estimated fair values of financial instrument assets and (liabilities) as of December 31 are as follows:

(Millions of dollars)	2008		2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,080	\$ 1,080	\$ 185	\$ 185	\$ 136	\$ 136
Foreign currency contracts:						
In a receivable position	\$ 70	\$ 70	\$ 8	\$ 8	\$ 9	\$ 9
In a payable position	\$ (113)	\$ (113)	\$ (27)	\$ (27)	\$ (6)	\$ (6)
Finance receivables, net (excluding finance leases ⁽¹⁾)	\$ 18,051	\$ 17,089	\$ 16,506	\$ 16,407	\$ 16,524	\$ 16,506
Short-term borrowings	\$ (7,077)	\$ (7,077)	\$ (6,184)	\$ (6,184)	\$ (5,398)	\$ (5,398)
Long-term debt	\$ (20,634)	\$ (19,759)	\$ (18,177)	\$ (18,322)	\$ (17,559)	\$ (17,441)
Interest rate swaps:						
In a net receivable position	\$ 501	\$ 501	\$ 75	\$ 75	\$ 52	\$ 52
In a net payable position	\$ (127)	\$ (127)	\$ (46)	\$ (46)	\$ (98)	\$ (98)
Securitized retained interests	\$ 52	\$ 52	\$ 49	\$ 49	\$ 68	\$ 68
Guarantees	\$ (2)	\$ (2)	\$ (7)	\$ (7)	\$ (9)	\$ (9)

⁽¹⁾ Represents finance leases with a net carrying value of \$8.951 billion, \$8.511 billion and \$7.091 billion as of December 31, 2008, 2007 and 2006, respectively.

NOTE 14 – TRANSACTIONS WITH RELATED PARTIES

We have a Support Agreement with Caterpillar, which provides that Caterpillar will (1) remain, directly or indirectly, our sole owner; (2) cause us to maintain a net worth of at least \$20 million; and (3) ensure that we maintain a ratio of profit before income taxes and interest expense to interest expense calculated on an annual basis (as defined by the Support Agreement) of not less than 1.15 to 1. In 2008, 2007 and 2006, Caterpillar did not make any significant capital contributions. Although this agreement can be modified or terminated by either party, any modification or termination which would adversely affect holders of our debt is required to be approved by holders of 66-2/3 percent of the aggregate outstanding debt. Caterpillar's obligation under this agreement is not directly enforceable by any of our creditors and does not constitute a guarantee of any of our obligations. No cash dividends were declared or paid in 2008. There were cash dividends in the amount of \$250 million and \$350 million paid to Caterpillar in 2007 and 2006, respectively.

The rates/prices for our transactions with Caterpillar are set based on arms-length transactions.

We have variable amount lending agreements with Caterpillar. Under these agreements, we may borrow up to \$2.3 billion from Caterpillar, and Caterpillar may borrow up to \$1.2 billion from us. The agreements are in effect for indefinite periods of time and may be changed or terminated by either party with 30 days notice. Information concerning these agreements is as follows:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Notes payable as of December 31,	\$435	\$275	\$87
Notes receivable as of December 31,	\$ 81	\$ 74	\$75
Interest expense	\$ 10	\$ 5	\$ 9
Interest earned	\$ 4	\$ 8	\$13

We have agreements with Caterpillar to purchase, at a discount, certain receivables generated by sales of products to Caterpillar dealers and customers. Under these programs, we use a portion of collections each week to purchase additional receivables. Information pertaining to these purchases is as below:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Purchases made	\$22,056	\$20,822	\$23,998
Discounts earned	\$ 243	\$ 327	\$ 386
Servicing fees paid, net	\$ -	\$ -	\$ 1
Balance as of December 31,	\$ 2,456	\$ 2,559	\$ 4,227
Effective interest rate for receivable purchases as of December 31,	6.96%	7.83%	8.17%

We participate in certain marketing programs sponsored by Caterpillar by providing financing to customers at rates below standard rates. Under these programs, Caterpillar subsidizes an amount at the outset of the transaction, which we then recognize as revenue over the term of the financing. During 2008, we received \$253 million relative to such programs, compared with \$336 million in 2007 and \$314 million in 2006.

We participate in various benefit plans, which are administered by Caterpillar. These plans include employee medical plans and postretirement benefit plans. We reimburse Caterpillar for these charges, which amounted to \$26 million in 2008, \$24 million in 2007 and \$21 million in 2006. In addition, we participate in the Caterpillar stock incentive plans. Effective January 1, 2006, Caterpillar expensed the cost related to stock options and allocated Cat Financial \$7 million, \$5 million and \$4 million in 2008, 2007 and 2006, respectively. In addition, Caterpillar provides operational and administrative support, which is integral to the conduct of our business. These operational and support charges for which we reimburse Caterpillar amounted to \$25 million in 2008, \$23 million in 2007 and \$24 million in 2006.

We provide administrative support services to certain Caterpillar subsidiaries. Caterpillar reimburses us for these charges, which amounted to \$12 million in 2008, \$11 million in 2007 and \$12 million in 2006.

When appropriate, we combine certain income tax filings with those of Caterpillar. In such instances, we pay to or receive from Caterpillar our allocated share of income taxes or credits, in accordance with our tax sharing agreement with Caterpillar.

NOTE 15 – LEASES

We lease our offices and other property through operating leases. Rental expense is charged to operations as incurred. Total rental expense for operating leases was \$17 million for 2008, \$18 million for 2007 and \$19 million for 2006. At December 31, 2008, minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

(Millions of dollars)	
2009	\$ 14
2010	13
2011	12
2012	11
2013	10
Thereafter	<u>65</u>
Total	<u><u>\$125</u></u>

NOTE 16 – SEGMENT INFORMATION

Our segment data is based on disclosure requirements of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", which requires that financial information be reported on the basis that is used internally for measuring segment performance. Internally, we report information for operating segments based on management responsibility. Our five operating segments offer primarily the same types of services within each of the respective segments.

The five operating segments are as follows:

- North America: We have offices in the United States and Canada that serve local dealers and customers.
- Europe: We have offices in Europe to serve European dealers and customers. This segment also includes our office in Russia, which serves dealers and customers in the Commonwealth of Independent States, and Dubai, which primarily serves dealers and customers in the Middle East.
- Diversified Services: Included is our Marine Services Division, which primarily finances marine vessels with Caterpillar engines for all countries; and our offices in Latin America that serve local dealers and customers.
- Asia-Pacific: We have offices in Australia, New Zealand, China, Japan, South Korea and Southeast Asia that serve local dealers and customers, as well as mining customers worldwide. This segment also provides project financing in various countries.
- Cat Power Finance: This segment primarily provides debt financing for Caterpillar electrical power generation, gas compression and co-generation systems, as well as non-Caterpillar equipment that is powered by these systems, for all countries.

On January 1, 2008, \$394 million of Inter-segment assets were reclassified to the Asia-Pacific segment from the Diversified Services segment. In addition, assets in the amount of \$119 million were transferred to the Asia-Pacific and Diversified Services segments from the North America segment. These reclassifications were made in order to maintain alignment with management responsibility. Prior year data has been reclassified to conform to the new structure.

Debt and other expenses are allocated from the North America segment to other segments based on their respective portfolios. The related interest expense is calculated based on the amount of allocated debt and the rates associated with that debt. The provision for credit losses included in each segment's profit is based on each segment's share of the Company's allowance for credit losses. Inter-segment revenues result from lending activities between segments, and are based on the amount of the respective Inter-segment loans and the rates associated with those loans.

As noted above, the segment information is presented on a management reporting basis. Unlike financial reporting, there is no authoritative guidance for management reporting equivalent to generally accepted accounting principles.

(Millions of dollars)						
2008	North America	Europe	Asia- Pacific	Diversified Services	Cat Power Finance	Total
External revenue	\$ 1,572	534	442	381	70	\$ 2,999
Inter-segment revenue	\$ 93	-	-	-	-	\$ 93
Profit	\$ 132	85	75	80	13	\$ 385
Interest expense	\$ 647	224	153	194	34	\$ 1,252
Depreciation and amortization expense	\$ 522	120	95	17	1	\$ 755
Provision for income taxes	\$ 60	(16)	38	34	4	\$ 120
Assets as of December 31,	\$21,272	5,877	5,106	5,413	1,195	\$38,863
Expenditures for equipment on operating leases and for non- leased equipment	\$ 957	231	344	69	7	\$ 1,608

(Millions of dollars)

<u>2007</u>	<u>North America</u>	<u>Europe</u>	<u>Asia- Pacific</u>	<u>Diversified Services</u>	<u>Cat Power Finance</u>	<u>Total</u>
External revenue	\$ 1,793	442	326	342	95	\$ 2,998
Inter-segment revenue	\$ 82	-	-	-	-	\$ 82
Profit	\$ 233	86	56	76	43	\$ 494
Interest expense	\$ 730	156	125	173	30	\$ 1,214
Depreciation and amortization expense	\$ 517	106	63	14	2	\$ 702
Provision for income taxes	\$ 146	14	32	32	10	\$ 234
Assets as of December 31,	\$18,513	6,273	3,607	3,928	814	\$33,135
Expenditures for equipment on operating leases and for non- leased equipment	\$ 907	269	117	71	2	\$ 1,366

(Millions of dollars)

<u>2006</u>	<u>North America</u>	<u>Europe</u>	<u>Asia- Pacific</u>	<u>Diversified Services</u>	<u>Cat Power Finance</u>	<u>Total</u>
External revenue	\$ 1,756	355	304	265	83	\$ 2,763
Inter-segment revenue	\$ 53	-	-	-	-	\$ 53
Profit	\$ 268	78	58	45	24	\$ 473
Interest expense	\$ 690	99	118	141	34	\$ 1,082
Depreciation and amortization expense	\$ 488	91	63	10	2	\$ 654
Provision for income taxes	\$ 146	24	19	18	8	\$ 215
Assets as of December 31,	\$17,827	4,860	3,051	3,114	926	\$29,778
Expenditures for equipment on operating leases and for non- leased equipment	\$ 818	155	87	89	3	\$ 1,152

Reconciliation:

<u>(Millions of dollars)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest expense			
Interest expense from segments	\$1,252	\$1,214	\$1,082
Less: Inter-segment Interest expense	<u>(93)</u>	<u>(82)</u>	<u>(53)</u>
Total	<u>\$1,159</u>	<u>\$1,132</u>	<u>\$1,029</u>

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Assets from segments	\$38,863	\$33,135	\$29,778
Less: Investment in subsidiaries	(1,027)	(1,011)	(967)
Less: Inter-segment balances	<u>(4,754)</u>	<u>(2,695)</u>	<u>(1,475)</u>
Total	<u>\$33,082</u>	<u>\$29,429</u>	<u>\$27,336</u>

Inside and outside the United States:

(Millions of dollars)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue			
Inside U.S.	\$1,632	\$1,833	\$1,831
Inside Canada	393	358	298
Outside U.S. and Canada	<u>974</u>	<u>807</u>	<u>634</u>
Total	<u>\$2,999</u>	<u>\$2,998</u>	<u>\$2,763</u>
Equipment on Operating Leases and Non-Leased Equipment (included in Other Assets), Net	<u>2008</u>	<u>2007</u>	<u>2006</u>
Inside U.S.	\$1,446	\$1,453	\$1,538
Inside Canada	820	901	603
Outside U.S. and Canada	<u>876</u>	<u>763</u>	<u>563</u>
Total	<u>\$3,142</u>	<u>\$3,117</u>	<u>\$2,704</u>

NOTE 17 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Millions of dollars)				
<u>2008</u>	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
Total revenues	\$779	\$785	\$774	\$661
Profit before taxes	\$183	\$176	\$156	\$ (10)
Profit	\$124	\$130	\$118	\$ 13
<u>2007</u>				
Total revenues	\$713	\$747	\$758	\$780
Profit before taxes	\$182	\$187	\$187	\$172
Profit	\$125	\$123	\$133	\$113
<u>2006</u>				
Total revenues	\$657	\$676	\$723	\$707
Profit before taxes	\$173	\$155	\$192	\$168
Profit	\$118	\$106	\$132	\$117

NOTE 18 – SUBSEQUENT EVENT

On February 12, 2009, we issued \$350 million of 5.75 percent notes due in 2012, \$1.65 billion of 6.125 percent notes due in 2014 and \$1.0 billion of 7.15 percent notes due in 2019. The net proceeds from the issuance will be used to reduce short-term debt and for general corporate purposes.

EXHIBIT 12

CATERPILLAR FINANCIAL SERVICES CORPORATION AND SUBSIDIARIES**COMPUTATION OF RATIO OF PROFIT TO FIXED CHARGES**

YEARS ENDED DECEMBER 31,

(Unaudited)

(Dollars in Millions)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Profit	\$ 385	\$ 494	\$ 473	\$ 364	\$ 287
Add:					
Provision for income taxes	120	234	215	173	137
Deduct:					
Partnership income	<u>(3)</u>	<u>(7)</u>	<u>(4)</u>	<u>(6)</u>	<u>(3)</u>
Profit before income taxes and partnership income	<u>\$ 502</u>	<u>\$ 721</u>	<u>\$ 684</u>	<u>\$ 531</u>	<u>\$ 421</u>
Fixed charges:					
Interest expense	\$1,159	\$1,132	\$1,029	\$ 783	\$ 532
Rentals at computed interest*	<u>6</u>	<u>5</u>	<u>6</u>	<u>5</u>	<u>5</u>
Total fixed charges	<u>\$1.165</u>	<u>\$1.137</u>	<u>\$1.035</u>	<u>\$ 788</u>	<u>\$ 537</u>
Profit before income taxes plus fixed charges	<u>\$1.667</u>	<u>\$1.858</u>	<u>\$1.719</u>	<u>\$1.319</u>	<u>\$ 958</u>
Ratio of profit before income taxes plus fixed charges to fixed charges	<u>1.43</u>	<u>1.63</u>	<u>1.66</u>	<u>1.67</u>	<u>1.78</u>

*Those portions of rent expense that are representative of interest cost.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-142550 and 333-150218) of Caterpillar Financial Services Corporation of our report dated February 19, 2009 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

Peoria, Illinois
February 19, 2009

SECTION 302 CERTIFICATIONS

I, Kent M. Adams, certify that:

1. I have reviewed this annual report on Form 10-K of Caterpillar Financial Services Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2009

By: /s/ Kent M. Adams

Kent M. Adams, President, Director and Chief Executive Officer

SECTION 302 CERTIFICATIONS

I, James A. Duensing, certify that:

6. I have reviewed this annual report on Form 10-K of Caterpillar Financial Services Corporation;
7. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
8. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
9. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - e) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - f) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - g) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - h) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
10. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent function):
 - c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - a) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2009

By: /s/ James A. Duensing

James A. Duensing, Executive Vice President and Chief
Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Caterpillar Financial Services Corporation (the "Company") on Form 10K for the period ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 20, 2009

/s/ Kent M. Adams

Kent M. Adams

President, Director and Chief Executive Officer

Date: February 20, 2009

/s/ James A. Duensing

James A. Duensing

Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided by the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.