DEERE & CO
Form 10-K
December 19, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011

Commission file number 1-4121

DEERE & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-2382580**
(State of incorporation)	(IRS Employer Identification No.)

One John Deere Place, Moline, Illinois	**61265**	**(309) 765-8000**
(Address of principal executive offices)	(Zip Code)	(Telephone Number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

Title of each class	Name of each exchange on which registered
Common stock, $1 par value	New York Stock Exchange
8-1/2% Debentures Due 2022	New York Stock Exchange
6.55% Debentures Due 2028	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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. x

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. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No x

The aggregate quoted market price of voting stock of registrant held by non-affiliates at April 30, 2011 was $40,839,142,890. At November 30, 2011, 404,125,788 shares of common stock, $1 par value, of the registrant were outstanding. *Documents Incorporated by Reference*. Portions of the proxy statement for the annual meeting of stockholders to be held on February 29, 2012 are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS.

Products

Deere & Company (the Company) and its subsidiaries (collectively called John Deere) have operations which are categorized into three major business segments.

The *agriculture and turf* segment primarily manufactures and distributes a full line of farm and turf equipment and related service parts including large, medium and utility tractors; loaders; combines, corn pickers, cotton and sugarcane harvesters and related front-end equipment and sugarcane loaders; tillage, seeding and application equipment, including sprayers, nutrient management and soil preparation machinery; hay and forage equipment, including self-propelled forage harvesters and attachments, balers and mowers; turf and utility equipment, including riding lawn equipment and walk-behind mowers, golf course equipment, utility vehicles, and commercial mowing equipment, along with a broad line of associated implements; integrated agricultural management systems technology; precision agricultural irrigation equipment and supplies; landscape and nursery products; and other outdoor power products.

The *construction and forestry* segment primarily manufactures and distributes a broad range of machines and service parts used in construction, earthmoving, material handling and timber harvesting including backhoe loaders; crawler dozers and loaders; four-wheel-drive loaders; excavators; motor graders; articulated dump trucks; landscape loaders; skid-steer loaders; and log skidders, feller bunchers, log loaders, log forwarders, log harvesters and related attachments.

The products and services produced by the segments above are marketed primarily through independent retail dealer networks and major retail outlets.

The *financial services* segment primarily finances sales and leases by John Deere dealers of new and used agriculture and turf equipment and construction and forestry equipment. In addition, the financial services segment provides wholesale financing to dealers of the foregoing equipment, provides operating loans, finances retail revolving charge accounts and offers crop risk mitigation products and extended equipment warranties.

John Deere s worldwide agriculture and turf operations and construction and forestry operations are sometimes referred to as the equipment operations. The financial services segment is sometimes referred to as the financial services operations.

Additional information is presented in the discussion of business segment and geographic area results on page 20. The John Deere enterprise has manufactured agricultural machinery since 1837. The present Company was incorporated under the laws of Delaware in 1958.

The Company s internet address is http://www.JohnDeere.com. Through that address, the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge as soon as reasonably practicable after they are filed with the United States Securities and Exchange Commission (Securities and Exchange Commission or Commission). The information contained on the Company s website is not included in, or incorporated by reference into, this annual report on Form 10-K.

Market Conditions and Outlook

In spite of an unsettled global economy, demand for the Company s products is expected to experience substantial growth in fiscal year 2012 and the Company is forecasting further increases in sales and earnings as a result. Company equipment sales are projected to increase about 15 percent for the year and 16 to 18 percent for the first quarter, compared with the same periods of 2011. Included is a favorable currency translation impact of about 3 percent for the first quarter and about 1 percent for the year. Net income attributable to Deere & Company for the year is anticipated to be approximately $3.2 billion.

Agriculture & Turf. Worldwide sales of the Company s agriculture and turf segment are forecast to increase by about 15 percent for fiscal year 2012, with a favorable currency translation impact of about 1 percent. Farmers in the world s major markets are continuing to experience favorable incomes due to strong demand for agricultural commodities. The Company s sales are expected to benefit as well from advanced new products being launched throughout the world and major expansion projects such as those in emerging markets.

Industry farm machinery sales in the United States (U.S.) and Canada are forecast to increase 5 to 10 percent in 2012, following an increase in 2011. Overall conditions remain positive and demand continues to be strong, especially for high horsepower equipment.

Industry sales in the EU 27 nations of Western and Central Europe are forecast to be approximately the same for 2012 as a result of general economic concerns in the region. Sales in the Commonwealth of Independent States are expected to be moderately higher, after rising substantially in 2011. Sales in Asia are forecast to increase strongly again in 2012. In South America, industry sales for the year are projected to be about the same as the strong levels of 2011.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to increase slightly in 2012.

Construction & Forestry. Worldwide sales of the Company s construction and forestry equipment are forecast to grow by about 16 percent for fiscal year 2012, with a favorable currency translation impact of about 1 percent. The increase reflects slightly improved market conditions and improved activity outside of the U.S., including strength in Canada. Construction equipment sales to independent rental companies are expected to see further gains. The Company s sales also are expected to be supported by a range of advanced new products and by geographic expansion. After considerable growth in 2011, world forestry markets are projected to be about the same in 2012 due to weaker economic conditions in Europe.

Financial Services. Fiscal year 2012 net income attributable to Deere & Company for the financial services operations is expected to be approximately $450 million. The forecast decline from 2011 is primarily due to an increase in the provision for credit losses, which is anticipated to return to a more typical level, as well as higher selling, administrative and general expenses in support of enterprise growth initiatives. Partially offsetting these items is expected growth in the credit portfolio.

2011 Consolidated Results Compared with 2010

Worldwide net income attributable to Deere & Company in 2011 was $2,800 million, or $6.63 per share diluted ($6.71 basic), compared with $1,865 million, or $4.35 per share diluted ($4.40 basic), in 2010. Net sales and revenues increased 23 percent to $32,013 million in 2011, compared with $26,005 million in 2010. Net sales of the equipment operations increased 25 percent in 2011 to $29,466 million from $23,573 million last year. The sales increase, which was primarily due to higher shipment volumes, also included a favorable effect for foreign currency translation of 3 percent and price realization of 3 percent. Net sales in the U.S. and Canada increased 17 percent in 2011. Net sales outside the U.S. and Canada increased by 38 percent in 2011, which included a favorable effect of 7 percent for foreign currency translation.

Worldwide equipment operations had an operating profit of $3,839 million in 2011, compared with $2,909 million in 2010. The higher operating profit was primarily due to higher shipment volumes and improved price realization, partially offset by increased raw material costs, higher manufacturing overhead costs related to new products, higher selling, administrative and general expenses and increased research and development expenses.

The equipment operations net income was $2,329 million in 2011, compared with $1,492 million in 2010. The same operating factors mentioned above and a lower effective tax rate in 2011 affected these results.

Net income of the financial services operations attributable to Deere & Company in 2011 increased to $471 million, compared with $373 million in 2010. The increase was primarily a result of growth in the credit portfolio and a lower provision for credit losses. Additional information is presented in the discussion of the Worldwide Financial Services Operations on page 20.

The cost of sales to net sales ratio for 2011 was 74.4 percent, compared with 73.8 percent last year. The increase was primarily due to increased raw material costs and higher manufacturing overhead costs related to new products, partially offset by improved price realization.

Additional information on 2011 results is presented on pages 19 - 20.

EQUIPMENT OPERATIONS

Agriculture and Turf

The John Deere agriculture and turf segment manufactures and distributes a full line of agricultural and turf equipment and related service parts. The segment s global operating model is designed to enable faster geographic growth and increase the segment s competitiveness. Pursuant to this model, the segment consolidates all markets into four geographical customer focus areas to facilitate comprehensive customer understanding and deliver optimal customer service. As an additional component of the global operating model, the segment s equipment operations are consolidated into five product platforms crop harvesting (combines, corn pickers, cotton and sugarcane harvesters and related front-end equipment and sugarcane loaders); turf and utility (utility vehicles, riding lawn equipment, walk-behind mowers, commercial mowing equipment, golf course equipment, implements for mowing, tilling, snow and debris handling, aerating and many other residential, commercial, golf and sports turf care applications; and other outdoor power products); hay and forage (self-propelled forage harvesters and attachments, balers and mowers); crop care (tillage, seeding and application equipment, including sprayers, nutrient management and soil preparation machinery); and tractors (loaders and large, medium and utility tractors and related attachments). John Deere also purchases certain products from other manufacturers for resale.

Additionally, the segment offers ancillary products and services supporting its agricultural and turf equipment customers. John Deere Landscapes, a unit of the segment, distributes irrigation equipment, nursery products and landscape supplies, including seed, fertilizer and hardscape materials, primarily to landscape service professionals. John Deere Water, also a unit of the agriculture and turf segment, manufactures and distributes precision agricultural irrigation equipment and supplies.

The segment also provides integrated agricultural business and equipment management systems. John Deere has developed a comprehensive agricultural management systems approach using advanced communications, data collection and global satellite positioning technologies to enable farmers to better control input costs and yields, improve soil conservation and minimize chemical use and to gather information. Recently introduced advanced telematics systems remotely connect agricultural equipment owners, business managers and dealers to agricultural equipment in the field, providing real-time alerts and information about equipment location, utilization, performance and maintenance to improve productivity and efficiency.

In addition to the John Deere brand, the agriculture and turf segment purchases and sells a variety of equipment attachments under the Frontier and Green Systems brand names, and manufactures and sells walk-behind mowers and scarifiers in Europe under the SABO brand name and tractors in China under the Benye brand name. John Deere manufactures its agricultural and turf equipment for sale primarily through independent retail dealer networks, and also builds products for sale by mass retailers, including The Home Depot and Lowe s.

Sales of agricultural equipment are affected by total farm cash receipts, which reflect levels of farm commodity prices, acreage planted, crop yields and governmental policies, including the amount and timing of government payments. Sales are also influenced by general economic conditions, farm land prices, farmers debt levels and access to financing, interest and exchange rates, agricultural trends, including the production of and demand for renewable fuels, labor availability and costs, energy costs and other input costs associated with farming. Other important factors affecting new agricultural equipment sales are the value and level of used equipment, including tractors, harvesting equipment, self-propelled sprayers, hay and forage equipment and seeding equipment. Weather and climatic conditions can also affect buying decisions of agricultural equipment purchasers.

Innovations in machinery and technology also influence agricultural equipment purchasing. For example, larger, more productive equipment is well accepted where farmers are striving for more efficiency in their operations. Large, cost-efficient, highly-mechanized agricultural operations account for an important share of worldwide farm output. The large-size agricultural equipment used on such farms has been particularly important to John Deere. A large proportion of the equipment operations total agricultural equipment sales in the U.S. and Canada, and a growing proportion of sales in many countries outside the U.S. and Canada, is comprised of tractors over 100 horsepower, self-propelled combines, self-propelled cotton pickers, self-propelled forage harvesters, self-propelled sprayers and seeding equipment. However, as John Deere expands its business globally, especially in developing countries where demand for smaller equipment is greater, John Deere s sales of small tractors below 100 horsepower are increasing and John Deere offers a number of harvesting solutions to support the development of mechanized harvesting of grain, oilseeds, cotton, sugar and biomass.

Retail sales of lawn and garden tractors, compact utility tractors, residential and commercial mowers, utility vehicles, and golf and turf equipment are influenced by weather conditions, consumer spending patterns and general economic conditions.

Seasonality. Seasonal patterns in retail demand for agricultural equipment result in substantial variations in the volume and mix of products sold to retail customers during various times of the year. Seasonal demand must be estimated in advance, and equipment must be manufactured in anticipation of such demand in order to achieve efficient utilization of manpower and facilities throughout the year. For certain equipment, John Deere offers early order discounts to retail customers. Production schedules are based, in part, on these early order programs. The segment incurs substantial seasonal variation in cash flows to finance production and inventory of agricultural equipment. The segment also incurs costs to finance sales to dealers in advance of seasonal demand. New combine and cotton harvesting equipment has been sold under early order programs with waivers of retail finance charges available to customers who take delivery of machines during off-season periods. In Australia, Canada and the U.S., there are typically several used equipment trade-in transactions for most new agricultural equipment sales. To provide support to the Company s dealers for these used equipment trade-ins, John Deere provides dealers in these countries with a pool of funds, awarded to dealers as a percentage of the dealer cost for certain new eligible equipment sales. Dealers can use these funds to defray the costs of carrying or marketing used equipment inventory or to provide financing incentives to customers purchasing the used equipment.

Retail demand for turf and utility equipment is normally higher in the second and third quarters. John Deere is pursuing a strategy of building and shipping as close to retail demand as possible. Consequently, to increase asset turnover and reduce the average level of field inventories through the year, production and shipment schedules of these product lines will normally be proportionately higher in the second and third quarters of each year, corresponding closely to the seasonal pattern of retail sales.

Construction and Forestry

John Deere construction, earthmoving, material handling and forestry equipment includes a broad range of backhoe loaders, crawler dozers and loaders, four-wheel-drive loaders, excavators, motor graders, articulated dump trucks, landscape loaders, skid-steer loaders, log skidders, log feller bunchers, log loaders, log forwarders, log harvesters and a variety of attachments. John Deere provides the most complete line of forestry machines and attachments available in the world. The segment s forestry machines are distributed under the John Deere brand name and forestry attachments are distributed under the John Deere and Waratah brand names. In addition to the equipment manufactured by the construction and forestry segment, John Deere purchases certain products from other manufacturers for resale. The segment also provides comprehensive fleet management telematics solutions designed to improve customer productivity and efficiency through access to fleet location, utilization and maintenance information.

The prevailing levels of residential, commercial and public construction and the condition of the forest products industry influence retail sales of John Deere construction, earthmoving, material handling and forestry equipment. General economic conditions, the level of interest rates, the availability of credit and certain commodity prices such as those applicable to pulp, paper and saw logs also influence sales.

Pursuant to agreements between John Deere and Bell Equipment Limited (Bell), Bell licenses John Deere to manufacture articulated dump trucks in the U.S. for John Deere s distribution under the John Deere brand name in North, Central and South America. John Deere licenses Bell to manufacture and sell certain John Deere-designed construction equipment in specified territories of Africa. Bell is also the distributor of certain John Deere-manufactured construction equipment under the Bell brand name and forestry equipment under the John Deere brand name in certain territories of Africa. Bell and John Deere are in discussions to terminate the manufacturing and license agreements and retain Bell as a dealer of construction and forestry equipment.

John Deere and Hitachi Construction Machinery Co. (Hitachi) have a joint venture for the manufacture of hydraulic excavators and track log loaders in the U.S. and Canada, and have established a new joint venture for the manufacture of excavators in Brazil. John Deere distributes Hitachi brands of construction and mining equipment in North, Central and South America. John Deere also has supply agreements with Hitachi under which a range of construction, earthmoving, material handling and forestry products manufactured by John Deere in the U.S., Finland and New Zealand are distributed by Hitachi in certain Asian markets.

Outside the U.S. and Canada, the construction and forestry segment has a joint venture in China for the manufacture of hydraulic excavators with Xuzhou Bohui Science & Technology Development CO. Ltd. (Xuzhou) known as Xuzhou XCG John Deere Machinery Manufacturing Co., Ltd. (XCGJD). In India, the construction and forestry segment manufactures construction equipment branded Leyland Deere through its joint venture with Ashok Leyland Limited, known as Ashok Leyland John Deere Construction Equipment Company Private Limited (ALJD). The segment has also established manufacturing capacity for construction and forestry equipment in Russia, and is establishing manufacturing capacity for construction equipment in Brazil and China.

The segment has a number of initiatives in the rent-to-rent, or short-term rental, market for construction, earthmoving and material handling equipment. These include specially designed rental programs for John Deere dealers and expanded cooperation with major, national equipment rental companies.

John Deere also owns Nortrax, Inc. and Nortrax Canada Inc. (collectively called Nortrax). Nortrax is an authorized John Deere dealer for construction, earthmoving, material handling and forestry equipment in a variety of markets in the U.S. and Canada. John Deere also owns a retail construction and forestry sales operation in Russia and owns retail forestry sales operations in Australia, Brazil, Finland, Ireland, New Zealand, Norway, Sweden and the United Kingdom.

Competition

The equipment operations sell products and services into a variety of highly competitive global and regional markets. The principal competitive factors in all markets include product performance, innovation and quality, distribution, customer service and price. In North America and many other parts of the world, John Deere s brand recognition is a competitive factor.

The competitive environment for the agriculture and turf segment includes some global competitors, including AGCO Corporation, CLAAS KGaA mbH, CNH Global N.V., Kubota Tractor Corporation and The Toro Company, and many regional and local competitors. These competitors have varying numbers of product lines competing with the segment s products and each have varying degrees of regional focus. An important part of the competition within the agricultural equipment industry during the past decade has come from a diverse variety of short-line and specialty manufacturers, as well as indigenous regional competitors, with differing manufacturing and marketing methods. Because of industry conditions, including the merger of certain large integrated competitors and the emergence and expanding global capability of many competitors, particularly in emerging and high potential markets such as Brazil, China, India and Russia where John Deere seeks to increase market share, the agricultural equipment business continues to undergo significant change and is becoming even more competitive. John Deere has continued to increase its global manufacturing capacity to compete in these markets. The segment s turf equipment is sold primarily in the highly competitive North American and Western European markets. The agriculture and turf segment s global operating model is designed to enhance the segment s competitive position by reducing complexity, implementing standard processes and increasing customer focus, speed and flexibility while building on the segment s broad global reach and deep understanding of the agriculture and turf care markets.

The construction and forestry segment operates in highly competitive North American and global markets, and is seeking to grow its competitive position in other parts of the world, including Brazil, China, India and Russia. Global competitors of the construction and forestry segment include Caterpillar Inc., Komatsu Ltd., Volvo Construction Equipment (part of Volvo Group AB), CNH Global N.V., Tigercat Industries Inc. and Ponsse Plc. The segment manufactures construction, earthmoving and material handling equipment for over 90 percent of the types of equipment used in North America.

Engineering and Research

John Deere invests heavily in engineering and research to improve the quality and performance of its products, to develop new products and to comply with government regulations. Such expenditures were $1,226 million or 4.2 percent of net sales in 2011, $1,052 million or 4.5 percent in 2010 and $977 million or 4.7 percent in 2009.

Manufacturing

Manufacturing Plants. In the U.S. and Canada, the equipment operations own and operate 19 factory locations and lease and operate another four locations, which contain approximately 27.1 million square feet of floor space. Of these 23 factories, 15 are devoted primarily to agriculture and turf equipment, three to construction and forestry equipment, one to engines, two to engine and component remanufacturing and two to hydraulic and power train components. Outside the U.S. and Canada, the equipment operations own or lease and operate: agriculture and turf equipment factories in Brazil, China, France, Germany, India, Israel, Mexico, the Netherlands, Russia and Spain; a construction and forestry assembly operation in Russia; engine factories in Argentina, France, India and Mexico; and forestry equipment factories in Finland and New Zealand. Construction equipment factories are being added in Brazil and China, and an engine factory is being added in China. In addition, John Deere Water has manufacturing operations outside of North America in Argentina, Australia, Brazil, Chile, France, India, Israel and Spain. These factories and manufacturing operations outside the U.S. and Canada contain approximately 17.8 million square feet of floor space. The engine factories referred to above manufacture non-road, heavy duty diesel engines a majority of which are manufactured for John Deere s equipment operations. The remaining engines are sold to other regional and global original equipment manufacturers.

The equipment operations also have financial interests in other manufacturing organizations, which include agricultural equipment manufacturers in the U.S., an industrial truck manufacturer in South Africa, the Hitachi joint venture that builds hydraulic excavators and track log loaders in the U.S. and Canada and the Hitachi joint venture that will build hydraulic excavators in Brazil, the XCGJD joint venture that builds excavators, the ALJD joint venture that builds backhoes and four-wheel-drive loaders, ventures that manufacture transaxles and transmissions used in certain agriculture and turf segment products and a venture that remanufactures turbochargers, diesel particulate filters and electronics.

John Deere s facilities are well maintained, in good operating condition and are suitable for their present purposes. These facilities, together with both short-term and long-term planned capital expenditures, are expected to meet John Deere s manufacturing needs in the foreseeable future.

Capacity is adequate to satisfy John Deere s current expectations for retail market demand. The equipment operations manufacturing strategy involves the implementation of appropriate levels of technology and automation to allow manufacturing processes to remain profitable at varying production levels. Operations are also designed to be flexible enough to accommodate the product design changes required to meet market conditions and changing customer requirements. Common manufacturing facilities and techniques are employed in the production of components for agriculture and turf equipment and construction and forestry equipment.

In order to utilize manufacturing facilities and technology more effectively, the equipment operations pursue continuous improvements in manufacturing processes. These include steps to streamline manufacturing processes and enhance responsiveness to customers. John Deere has implemented flexible assembly lines that can accommodate a wider product mix and deliver products in line with dealer and customer demand. Additionally, considerable effort is being directed to manufacturing cost reduction through process improvement, product design, advanced manufacturing technology, enhanced environmental management systems, supply management and logistics as well as compensation incentives related to productivity and organizational structure. In recent years, John Deere has experienced volatility in the price of many raw materials. John Deere has responded to cost pressures by implementing the cost-reduction measures described above and increasing prices. Significant cost increases, if they occur, could have an adverse effect on the Company s operating results. The equipment operations also pursue external sales of selected parts and components that can be manufactured and supplied to third parties on a competitive basis.

Capital Expenditures. The equipment operations capital expenditures totaled $1,047 million in 2011, compared with $796 million in 2010 and $772 million in 2009. Provisions for depreciation applicable to these operations property and equipment during these years were $510 million, $477 million and $450 million, respectively. Capital expenditures for the equipment operations in 2012 are currently estimated to be $1,200 million to $1,300 million. The 2012 expenditures will relate primarily to U.S. Tier 4 emission requirements, the modernization and restructuring of key manufacturing facilities, the construction of new manufacturing facilities, and the development of new products. Future levels of capital expenditures will depend on business conditions.

Patents and Trademarks

John Deere owns a significant number of patents, trade secrets, licenses and trademarks related to John Deere products and services, and expects the number to grow as John Deere continues to pursue technological innovations. John Deere s policy is to further its competitive position by filing patent applications in the U.S. and internationally to protect technology and improvements considered important to the business. The Company believes that, in the aggregate, the rights under these patents and licenses are generally important to its operations and competitive position, but does not regard any of its businesses as being dependent upon any single patent or group of patents. However, certain John Deere trademarks, which contribute to John Deere s identity and the recognition of its products and services, including but not limited to the John Deere mark, the leaping deer logo, the Nothing Runs Like a Deere slogan and green and yellow equipment colors, are an integral part of John Deere s business, and their loss could have a material adverse effect on John Deere.

Marketing

In the U.S. and Canada, the equipment operations distribute equipment and service parts through the following facilities: two agriculture and turf equipment sales and administration offices located in Olathe, Kansas and Cary, North Carolina and one sales branch located in Grimsby, Ontario; and one construction, earthmoving, material handling and forestry equipment sales and administration office located in Moline, Illinois. In addition, the equipment operations operate a centralized parts distribution warehouse in coordination with eight regional parts depots and distribution centers in the U.S. and Canada.

Through these U.S. and Canadian facilities, John Deere markets products to approximately 2,496 dealer locations, most of which are independently owned. Of these, approximately 1,546 sell agricultural equipment, while 418 sell construction, earthmoving, material handling and/or forestry equipment. Nortrax owns some of the 418 dealer locations. Turf equipment is sold at most John Deere agricultural equipment locations, a few construction, earthmoving, material handling and forestry equipment locations, and about 532 turf-only locations, many of which also sell dissimilar lines of non-John Deere products. In addition, certain lawn and garden product lines are sold through The Home Depot and Lowe s. John Deere Landscapes operates its business from approximately 423 branch locations throughout the U.S. and Canada.

Outside the U.S. and Canada, John Deere agriculture and turf equipment is sold to distributors and dealers for resale in over 100 countries. Sales and administrative offices are located in Argentina, Australia, Brazil, China, France, Germany, India, Italy, Mexico, Poland, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, Ukraine and the United Kingdom. Associated companies doing business in China also sell agricultural equipment. Turf equipment sales outside the U.S. and Canada occur primarily in Europe and Australia. Construction, earthmoving, material handling and forestry equipment is sold to distributors and dealers primarily by sales offices located in Australia, Brazil, Finland, Ireland, New Zealand, Russia and Singapore. Some of these dealers are independently owned while John Deere owns others. The equipment operations operate centralized parts distribution warehouses in Brazil, Germany and Russia in coordination with regional parts depots and distribution centers in Argentina, Australia, China, India, Mexico, South Africa, Sweden and the United Kingdom.

John Deere Water operates from 24 sales and marketing locations and 26 warehousing locations in 16 countries including Argentina, Australia, Brazil, Chile, China, Ecuador, France, India, Israel, Italy, Mexico, Peru, Russia, Spain, Turkey and the U.S. John Deere Water s products are marketed through approximately 1,500 independent dealers and distributors in over 100 countries.

John Deere engines are marketed worldwide through select sales branches to large original equipment manufacturers and independently owned engine distributors.

Raw Materials

John Deere purchases raw materials and some manufactured components and replacement parts for its equipment, engines and other products from leading suppliers both domestically and internationally. These materials and components include a variety of steel products, steel and iron castings, forgings and ready to assemble components made to certain specifications. John Deere also purchases various goods and services used in production, logistics, offices and research and development processes. John Deere maintains strategic sourcing models to meet its production needs and build upon long-term supplier relationships. John Deere uses a variety of agreements with suppliers intended to drive innovation, ensure availability and delivery of industry-leading quality raw materials and components, manage costs on a globally competitive basis, protect John Deere s intellectual property and minimize other supply-related risks. Supply chain risks monitored by John Deere to minimize the likelihood of the supply base causing business disruption include supplier financial viability, capacity, business continuity, quality and delivery, and weather-related events including natural disasters. In fiscal year 2011, John Deere experienced no significant work stoppages as a result of shortages of raw materials or other commodities.

Backlog Orders

The dollar amount of backlog orders for the agriculture and turf segment believed to be firm was approximately $5.5 billion at October 31, 2011, compared with $4.3 billion at October 31, 2010. The agriculture and turf backlog is generally highest in the second and third quarters due to seasonal buying trends in these industries. John Deere generally produces and ships its construction and forestry equipment on average within approximately 60 days after an order is deemed to become firm. Therefore, no significant amount of construction and forestry backlog orders accumulates during any period.

Trade Accounts and Notes Receivable

Trade accounts and notes receivable arise primarily from sales of goods to independent dealers. Most trade receivables originated by the equipment operations are purchased by the financial services operations. The equipment operations compensate the financial services operations at approximate market rates of interest for these receivables. Additional information appears in Note 12 to the Consolidated Financial Statements.

FINANCIAL SERVICES

U.S. and Canada. The Company s financial services segment primarily provides and administers financing for retail purchases from John Deere dealers of new equipment manufactured by John Deere s agriculture and turf and construction and forestry segments and used equipment taken in trade for this equipment. In the U.S., certain subsidiaries included in the financial services segment also offer crop risk mitigation products and extended equipment warranties.

The Company and John Deere Construction & Forestry Company (a wholly-owned subsidiary of the Company) are referred to as the sales companies. John Deere Capital Corporation (Capital Corporation), a U.S. financial services subsidiary, generally purchases retail installment sales and loan contracts (retail notes) from the sales companies. These retail notes are acquired by the sales companies through John Deere retail dealers in the U.S. John Deere Credit Inc., a Canadian financial services subsidiary, purchases and finances retail notes acquired by John Deere

Canada ULC (formerly John Deere Limited), the Company s Canadian sales branch. The terms of retail notes and the basis on which the financial services operations acquire retail notes from the sales companies are governed by agreements with the sales companies. The financial services segment also finances and services revolving charge accounts, in most cases acquired from and offered through merchants in the agriculture and turf and construction and forestry markets (revolving charge accounts). Further, the financial services operations finance and service operating loans, in most cases offered through and acquired from farm input providers or through direct relationships with agricultural producers or agribusinesses (operating loans). Additionally, the financial services operations provide wholesale financing for inventories of John Deere agriculture and turf equipment and construction and forestry equipment owned by dealers of those products (wholesale notes). The various financing options offered by the financial services operations are designed to enhance sales of John Deere products and generate financing income for the financial services operations.

Retail notes acquired by the sales companies are immediately sold to the financial services operations. The equipment operations are the financial services operations major source of business, but many retail purchasers of John Deere products finance their purchases outside the John Deere organization through a variety of sources, including commercial banks and finance and leasing companies.

The financial services operations offer retail leases to equipment users in the U.S. A small number of leases are executed with units of local government. Leases are usually written for periods of four months to sixty months, and typically contain an option permitting the customer to purchase the equipment at the end of the lease term. Retail leases are also offered in a generally similar manner to customers in Canada through John Deere Credit Inc. and John Deere Canada ULC.

The financial services operations terms for financing equipment retail sales (other than smaller items financed with unsecured revolving charge accounts) provide for retention of a security interest in the equipment financed. The financial services operations guidelines for minimum down payments, which vary with the types of equipment and repayment provisions, are generally 10 percent to 30 percent. Finance charges are sometimes waived for specified periods or reduced on certain John Deere products sold or leased in advance of the season of use or in other sales promotions. The financial services operations generally receive compensation from the sales companies at approximate market interest rates for periods during which finance charges are waived or reduced on the retail notes or leases. The cost is accounted for as a deduction in arriving at net sales by the equipment operations.

The Company has an agreement with Capital Corporation to make payments to Capital Corporation such that its ratio of earnings to fixed charges is not less than 1.05 to 1 for any fiscal quarter. For 2011 and 2010, Capital Corporation s ratios were 2.18 to 1 and 1.89 to 1, respectively, and never less than 1.96 to 1 and 1.61 to 1 for any fiscal quarter of 2011 and 2010, respectively. The Company has also committed to continue to own at least 51 percent of the voting shares of capital stock of Capital Corporation and to maintain Capital Corporation s consolidated tangible net worth at not less than $50 million. The Company s obligations to make payments to Capital Corporation under the agreement are independent of whether Capital Corporation is in default on its indebtedness, obligations or other liabilities. Further, the Company s obligations under the agreement are not measured by the amount of Capital Corporation s indebtedness, obligations or other liabilities. The Company s obligations to make payments under this agreement are expressly stated not to be a guaranty of any specific indebtedness, obligation or liability of Capital Corporation and are enforceable only by or in the name of Capital Corporation. No payments were required under this agreement in 2011 or 2010.

Outside the U.S. and Canada. The financial services operations also offer financing, primarily for John Deere products, in Australia, China, New Zealand, and in several countries in Europe and in Latin America, and has announced plans to offer lease financing in Russia. In certain areas, financing is offered through cooperation agreements or joint ventures. The manner in which the financial services operations offer financing in these countries is affected by a variety of country specific laws, regulations and customs, including those governing property rights and debtor obligations, that are subject to change and that may introduce greater risk to the financial services operations.

The financial services operations also offer to select customers and dealers credit enhanced international export financing for the purchase of John Deere products.

Capital Expenditures. The financial services operations capital expenditures (cost reductions) totaled $2 million in 2011, compared with $(1) million in 2010 and $(5) million in 2009. The capital expenditures for 2010 and 2009 were more than offset by cost reductions due to becoming eligible for government grants for certain wind energy investments related to costs recognized in prior and current periods. Provisions for depreciation applicable to these operations property and equipment during these years were $6 million, $64 million and $62 million, respectively. Capital expenditures for the financial services operations in 2011 are not expected to be significant. The Company sold the wind energy business for approximately $900 million after 2010 fiscal year end (see Note 4).

Additional information on the financial services operations appears on pages 20, 21, 23, 25 and 26.

ENVIRONMENTAL MATTERS

John Deere is subject to a wide variety of local, state and federal environmental laws and regulations in the U.S., as well as the environmental laws and regulations of other countries in which John Deere conducts business. John Deere strives to comply, and believes it is in compliance, in all material respects, with applicable laws and regulations. However, failure to comply with these regulations could lead to fines and other penalties. John Deere is involved in the evaluation and clean-up of a limited number of sites but does not expect that these matters, or other expenses or liabilities John Deere may incur in connection with any noncompliance with environmental laws or regulations or the cleanup of any additional properties, will have a material adverse effect on the consolidated financial position, results of operations, cash flows or competitive position of the Company. With respect to acquired properties and businesses or properties and businesses acquired in the future, John Deere conducts due diligence into potential exposure to environmental liabilities, but cannot be certain that it has identified or will identify all adverse environmental conditions. Compliance with these laws and regulations has added, and will continue to add, to the cost of John Deere products.

The U.S. Environmental Protection Agency has issued increasingly stringent regulations concerning permissible emissions of off-road engines, and governmental agencies throughout the world are similarly enacting more stringent laws to reduce off-road engine emissions. John Deere has achieved, and plans to continue to achieve, compliance with these regulations through significant investments in the development of new engine technologies and after-treatment systems. Compliance with emissions regulations has added, and will continue to add, to the cost of John Deere s products.

EMPLOYEES

At October 31, 2011, John Deere had approximately 61,300 full-time employees, including approximately 32,300 employees in the U.S. and Canada. From time to time, John Deere also retains consultants, independent contractors, and temporary and part-time workers. Unions are certified as bargaining agents for approximately 39 percent of John Deere s U.S. employees. Most of the Company s U.S. production and maintenance workers are covered by a collective bargaining agreement with the United Auto Workers (UAW), with an expiration date of October 1, 2015.

Unions also represent the majority of employees at John Deere manufacturing facilities outside the U.S.

EXECUTIVE OFFICERS OF THE REGISTRANT

Following are the names and ages of the executive officers of the Company, their positions with the Company and summaries of their backgrounds and business experience. All executive officers are elected or appointed by the Board of Directors and hold office until the annual meeting of the Board of Directors following the annual meeting of stockholders in each year.

Name, age and office (at December 1, 2011), and year elected to office				**Principal occupation during last five years other than office of the Company currently held**
Samuel R. Allen	58	Chairman and Chief Executive Officer	2010	August 2009-February 2010 President and Chief Executive Officer; June 2009-August 2009 President and Chief Operating Officer; 2005-2009 President, Worldwide Construction & Forestry Division and John Deere Power Systems
David C. Everitt	59	President, Agriculture & Turf Division-North America, Asia, Australia, Sub-Saharan and South Africa, and Global Tractor and Turf Products	2009	January 2006-May 2009 President, Agricultural Division - North America, Australia, Asia and Global Tractor & Implement Sourcing
James M. Field	48	Senior Vice President and Chief Financial Officer	2009	2007-2009 President, Worldwide Commercial & Consumer Equipment Division; 2002-2007 Vice President and Comptroller
Jean H. Gilles	54	Senior Vice President John Deere Power Systems, Worldwide Parts Services, Advanced Technology and Engineering and Global Supply Management and Logistics	2010	June 2009-June 2010 Senior Vice President, John Deere Power Systems, John Deere Intelligent Solutions Group and Advanced Technology and Engineering; 2005-2009 Senior Vice President, John Deere Power Systems
James A. Israel	55	President, Worldwide Financial Services Division	2006	Has held this position for the last five years
James R. Jenkins	66	Senior Vice President and General Counsel	2000	Has held this position for the last five years
Michael J. Mack, Jr.	55	President, Worldwide Construction & Forestry Division	2009	2006-2009 Senior Vice President and Chief Financial Officer; 2004-2006

				Vice President and Treasurer
Markwart von Pentz	48	President, Agriculture & Turf Division-Europe, CIS, Northern Africa, Middle East, Latin America, and Global Harvesting, Crop Care, Hay & Forage Products	2009	2007-2009 President, Agricultural Division - Europe, Africa, South America and Global Harvesting Equipment Sourcing; 2006-2007 Senior Vice President Marketing and Product Support - Europe, Africa and Middle East; 2005-2006 Vice President Agricultural Marketing U.S. & Canada

ITEM 1A. RISK FACTORS.

The following risks are considered the most significant to John Deere s business based upon current knowledge, information and assumptions. This discussion of risk factors should be considered closely in conjunction with Management s Discussion and Analysis beginning on page 19 and, specifically, the risks and uncertainties described in the Safe Harbor Statement on pages 21 and 22. These risk factors and other forward-looking statements that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the Company s businesses. Although each risk is discussed separately, many are interrelated. The Company, except as required by law, undertakes no obligation to update or revise this risk factors discussion.

International, national and regional trade laws, regulations and policies (particularly those related to or restricting global trade) and government farm programs and policies, could significantly impair John Deere s profitability and growth prospects.

International, national and regional laws, regulations and policies directly or indirectly related to or restricting trade, including protectionist policies in particular jurisdictions or for the benefit of favored industries or sectors, could harm John Deere s multinational business. John Deere s profitability and growth prospects are tied directly to the global marketplace. Restricted access to global markets impairs John Deere s ability to export goods and services from its various manufacturing locations around the world, and limits the ability to access raw materials and high quality parts and components at competitive prices on a timely basis. While trade agreements may expand opportunities, trade restrictions could limit John Deere s ability to capitalize on current and future growth opportunities in international markets and impair John Deere s ability to expand the business by offering new technologies, products and services. Furthermore, the ability to export agricultural and forestry commodities is critical to John Deere s agricultural and forestry customers. Policies impacting exchange rates and commodity prices or those limiting the export or import of commodities, including the outcome of the global negotiations under the auspices of the World Trade Organization, could have a material adverse effect on the international flow of agricultural and other commodities which may result in a corresponding negative effect on the demand for agricultural and forestry equipment in many areas of the world. John Deere s agricultural equipment sales could be especially harmed because farm income strongly influences sales of agricultural equipment around the world. Furthermore, trade restrictions could impede those in developing countries from achieving a higher standard of living, which could negatively impact John Deere s future growth opportunities arising from increasing global demand for food, fuel and infrastructure. Furthermore, changes in government farm program and policies, including direct payment and other subsidies, can significantly influence demand for agricultural equipment.

Changes in government banking, monetary and fiscal policies could have a negative effect on John Deere.

Policies of the U.S. and other governments regarding banking, monetary and fiscal policies intended to promote or maintain liquidity and/or stabilize financial markets may not be effective and could have a material impact on John Deere s customers and markets. John Deere s operations and results could also be impacted by financial regulatory reform which could have an adverse affect on the financial services segment and John Deere s customers by limiting their ability to finance purchases of John Deere products. Governmental policies on taxes and spending can also affect John Deere, especially the construction and forestry segment due to the impact of government spending on infrastructure development.

Changing worldwide demand for food and for different forms of bio-energy could have an effect on the price of farm commodities and consequently the demand for certain John Deere equipment and could also result in higher research and development costs related to changing machine fuel requirements.

Changing worldwide demand for farm outputs to meet the world s growing food and bio-energy demands, driven in part by government policies and a growing world population, are likely to result in fluctuating agricultural commodity prices, which directly affect sales of agricultural equipment. While higher commodity prices will benefit John Deere s crop producing agricultural equipment customers, higher commodity prices also result in greater feed costs for livestock and poultry producers which in turn may result in lower levels of equipment purchased by these customers. Furthermore, changing bio-fuel demands may cause farmers to change the types or quantities of the crops they raise, with corresponding changes in equipment demands. Finally, changes in governmental policies regulating bio-fuel utilization could affect demand for John Deere s gasoline- or diesel-fueled equipment and result in higher research and development costs related to equipment fuel standards.

As John Deere seeks to expand its business globally, growth opportunities may be impacted by greater political, economic and social uncertainty and the continuing and accelerating globalization of businesses could significantly change the dynamics of John Deere s competition, customer base and product offerings.

John Deere s efforts to grow its businesses depend to a large extent upon access to, and its success in developing market share and operating profitably in, additional geographic markets including but not limited to Brazil, China, India and Russia. In some cases, these countries have greater political and economic volatility, greater vulnerability to infrastructure and labor disruptions and differing local customer product preferences and requirements than John Deere s other markets. Operating and seeking to expand business in a number of different regions and countries exposes John Deere to multiple and potentially conflicting cultural practices, business practices and legal and regulatory requirements that are subject to change, including those related to tariffs and trade barriers, investments, property ownership rights, taxation and repatriation of earnings and advanced technologies. Expanding business operations globally also increases exposure to currency fluctuations which can materially affect the Company s financial results. As these emerging geographic markets become more important to John Deere, its competitors are also seeking to expand their production capacities and sales in these same markets. While John Deere maintains a positive corporate image and the John Deere brand is widely recognized and valued in its traditional markets, the brand is less well known in some emerging markets which could impede John Deere s efforts to successfully compete in these markets. Although John Deere is taking measures to adapt to these changing circumstances, John Deere s reputation and/or business results could be negatively affected should these efforts prove unsuccessful.

Negative economic conditions and outlook can materially weaken demand for John Deere s equipment and services, limit access to funding and result in higher funding costs.

The demand for John Deere s products and services can be significantly reduced in an economic environment characterized by high unemployment, cautious consumer spending, lower corporate earnings and lower business investment. Negative or uncertain economic conditions causing John Deere s customers to lack confidence in the general economic outlook can significantly reduce their propensity to purchase John Deere s equipment. Sustained or negative economic conditions and outlook affect housing starts and other construction which dampens demand for certain construction equipment. John Deere s turf operations and its construction and forestry segment are dependent on construction activity and general economic conditions. Sustained low levels or decreases in construction activity and housing starts could have a material adverse effect on the Company s results of operations. If negative economic conditions affect the overall farm economy, there could be a similar effect on John Deere s agricultural equipment sales. In addition, negative or uncertain economic conditions and outlook can cause significant changes in capital market liquidity conditions. Such changes could impact access to funding and associated funding costs, which could reduce the Company s earnings and cash flows. Additionally, the Company s investment management activities could be adversely affected by changes in the equity and bond markets, which would negatively affect earnings.

Concerns regarding the European debt crisis and market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the euro entirely, could adversely affect John Deere s business, results of operations and financing.

As a result of the debt crisis with respect to countries in Europe, in particular most recently in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the EFSF) and the European Financial Stability Mechanism (the EFSM) to provide funding to countries using the euro as their currency (the Eurozone) that are in financial difficulty and seek such support.

In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent financial stability mechanism, the European Stability Mechanism (the ESM), which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Eurozone countries.

These concerns could lead to the re-introduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Company s euro- denominated assets and obligations. In addition, concerns over the effect of this financial crisis on financial institutions in Europe and globally could have an adverse impact on the capital markets generally, and more specifically on the ability of the Company and John Deere s customers, suppliers and lenders to finance their respective businesses, to access liquidity at acceptable financing costs, if at all, on the availability of supplies and materials and on the demand for John Deere products.

The Company s consolidated financial results are reported in U.S. dollars while certain assets and other reported items are denominated in the currencies of other countries, creating currency translation risk.

The reporting currency for the Company s consolidated financial statements is the U.S. dollar. Certain of the Company s assets, liabilities, expenses and revenues are denominated in other countries currencies. Those assets, liabilities, expenses and revenues are translated into U.S. dollars at the applicable exchange rates to prepare the Company s consolidated financial statements. Therefore, increases or decreases in exchange rates between the U.S. dollar and those other currencies affect the value of those items as reflected in the Company s consolidated financial statements, even if their value remains unchanged in their original currency. Substantial fluctuations in the value of the U.S. dollar could have a significant impact on the Company s results.

Because the financial services segment provides financing for a significant portion of John Deere sales worldwide, John Deere s operations and financial results could be impacted materially should negative economic conditions affect the financial industry.

In recent years, negative economic conditions have frequently had an adverse effect on the financial industry in which the financial services segment operates. The financial services segment provides financing for a significant portion of John Deere s sales worldwide. The financial services segment s inability to access funds or to access funds at cost effective rates to support its financing activities to John Deere s customers could have a material adverse effect on John Deere s business. The financial services segment s liquidity and ongoing profitability depend largely on timely access to capital to meet future cash flow requirements and fund operations and the costs associated with engaging in diversified funding activities. Additionally, negative market conditions could reduce customer confidence levels, resulting in declines in credit applications and increases in delinquencies and default rates, which could materially impact the financial services segment s write-offs and provisions for credit losses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Act), and the regulations implementing the Act, could impose additional supervisory, financial and reporting requirements and compliance costs on the Company and the Company s financial services operations and could therefore adversely affect the Company and its financial services segment.

The Act was enacted on July 21, 2010 to broadly reform practices in the financial services industry, including equipment financing and securitizations. The Act directs federal agencies, including the Consumer Financial Protection Bureau, the Federal Reserve, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation and others, to adopt rules to regulate depository institutions, non-bank financial institutions, thrift holding companies, the consumer finance industry and the capital markets, including certain commercial transactions such as derivatives contracts. Although the effects of the Act on the capital markets and the financial industry are largely unknown until regulations have been finalized and implemented, the Act and its regulations could impose additional reporting requirements, leverage, capital and other supervisory and financial standards and restrictions that increase regulatory-related compliance costs for the Company and the Company s financial services operations and could adversely affect the Company and its financial services segment s funding activities, liquidity, structure (including relationships with affiliates), operations and performance.

John Deere s business results depend largely on its ability to understand its customers specific preferences and requirements, and to develop, manufacture and market products that meet customer demand.

John Deere s ability to match new product offerings to diverse global customers anticipated preferences for different types and sizes of equipment and various equipment features and functionality, at affordable prices, is critical to its success. This requires a thorough understanding of John Deere s existing and potential customers on a global basis, particularly in potential high growth markets, including Brazil, China, India and Russia. Failure to deliver quality products that meet customer needs at competitive prices ahead of competitors could have a significant adverse effect on John Deere s business.

John Deere s business may be directly and indirectly affected by unfavorable weather conditions or natural disasters that reduce agricultural production and demand for agricultural and turf equipment.

Poor or unusual weather conditions, particularly during the planting and early growing season, can significantly affect the purchasing decisions of John Deere s customers, particularly the purchasers of agriculture and turf equipment. The timing and quantity of rainfall are two of the most important factors in agricultural production. Insufficient levels of rain prevent farmers from planting new crops and may cause growing crops to die or result in lower yields. Excessive rain or flooding can also prevent planting from occurring at optimal times, and may cause crop loss through increased disease or mold growth. Temperatures outside normal ranges can also cause crop failure or decreased yields, and may also affect disease incidence. Temperature affects the rate of growth, crop maturity and crop quality. Natural calamities such as regional floods, hurricanes or other storms, and droughts can have significant negative effects on agricultural production. The resulting negative impact on farm income can strongly affect demand for agricultural equipment. Sales of turf equipment, particularly during the important spring selling season, can be dramatically impacted by weather. Adverse weather conditions in a particular geographic region may adversely affect sales of some turf equipment. Drought conditions can adversely affect sales of certain mowing equipment and unusually rainy weather can similarly cause lower sales volumes.

Changes in the availability and price of certain raw materials, components and whole goods could result in production disruptions or increased costs and lower profits on sales of John Deere products.

John Deere requires access to various raw materials, components and whole goods at competitive prices to manufacture and distribute its products. Changes in the availability and price of these raw materials, components and whole goods, which have fluctuated significantly in the past and which are more likely to occur during times of economic volatility, can significantly increase the costs of production which could have a material negative effect on the profitability of the business, particularly if John Deere, due to pricing considerations or other factors, was unable to recover the increased costs from its customers. Supply chain disruptions due to supplier financial viability, capacity constraints, business continuity, quality, delivery, or disruptions due to weather related or natural disaster events could similarly affect John Deere s operations and profitability.

John Deere s equipment operations and financial services segment are subject to interest rate risks. Changes in interest rates can reduce demand for equipment, adversely affect interest margins and limit the ability to access capital markets while increasing borrowing costs.

Rising interest rates could have a dampening effect on overall economic activity and/or the financial condition of John Deere s customers, either or both of which could negatively affect customer demand for John Deere equipment and customers ability to repay obligations to John Deere. In addition, credit market dislocations, including as a result of Eurozone concerns, could have an impact on funding costs which are very important to the Company s financial services segment because such costs affect the segment s ability to offer customers competitive financing rates. In addition, changing interest rates could have an adverse effect on the Company s net interest rate margin the difference between the yield the Company earns on its assets and the interest rates the Company pays for funding, which could in turn affect the Company s net interest income and earnings. Actions by credit rating agencies, such as downgrades or negative changes to ratings outlooks, can affect the availability and cost of funding for the Company and can increase the Company s cost of capital and hurt its competitive position.

John Deere s operations are subject to and affected by increasingly rigorous environmental, health and safety laws and regulations of federal, state and local authorities in the U.S. and various regulatory authorities with jurisdiction over John Deere s international operations. In addition, private civil litigation on these subjects has increased, primarily in the U.S.

Enforcement actions arising from violations of environmental, health and safety laws or regulations can lead to investigation and defense costs, and result in significant fines or penalties. In addition, new or more stringent requirements of governmental authorities could prevent or restrict John Deere s operations, require significant expenditures to achieve compliance and/or give rise to civil or criminal liability. There can be no assurance that violations of such legislation and/or regulations, or private civil claims for damages to property or personal injury arising from the environmental, health or safety impacts of John Deere s operations, would not have consequences that result in a material adverse effect on John Deere s business, financial condition or results of operations.

Increasingly stringent engine emission standards could impact John Deere s ability to manufacture and distribute certain engines or equipment which could negatively affect business results.

John Deere s equipment operations must meet new and increasingly stringent engine emission reduction standards, including Interim Tier 4, Final Tier 4 and Stage IIIb non-road diesel emission requirements applicable to many engines manufactured by John Deere and used in many models of John Deere agricultural and construction and forestry equipment. In order to meet these standards, John Deere has incurred and continues to incur substantial research and development costs and is introducing many new equipment models, largely due to the implementation of these more rigorous standards. While John Deere has developed and is executing comprehensive plans to meet these requirements, and does not currently foresee significant obstacles that would prevent timely compliance, these plans are subject to many variables that could delay or otherwise affect John Deere s ability to manufacture and distribute certain equipment or engines, which could negatively impact business results.

John Deere may incur increased costs due to new or more stringent greenhouse gas emission standards designed to address climate change and could be further impacted by physical effects attributed to climate change on its facilities, suppliers and customers.

There is a growing political and scientific consensus that emissions of greenhouse gases (GHG) continue to alter the composition of the global atmosphere in ways that are affecting and are expected to continue to affect the global climate. These considerations may lead to international, national, regional or local legislative or regulatory responses in the near future. Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, as well as companies in many business sectors, including John Deere, are considering ways to reduce GHG emissions. The regulation of GHG emissions from certain stationary or mobile sources could result in additional costs to John Deere in the form of taxes or emission allowances, facilities improvements and energy costs (which would increase John Deere s operating costs through higher utility, transportation and materials costs). The regulation of GHG emissions from non-road sources could require further changes to the design of John Deere s engines and equipment. Increased input costs, such as fuel and fertilizer, and compliance-related costs could also impact customer operations and demand for John Deere equipment. Because the impact of any future GHG legislative, regulatory or product standard requirements on John Deere s global businesses and products is dependent on the timing and design of the mandates or standards, John Deere is unable to predict its significance at this time.

Furthermore, the potential physical impacts of climate change on John Deere s facilities, suppliers and customers, and therefore on John Deere s operations, are highly uncertain, and will be particular to the circumstances developing in various geographical regions. These may include changes in weather patterns (including drought and rainfall levels), water availability, storm patterns and intensities, and temperature levels. These potential physical effects may adversely impact the cost, production, sales and financial performance of John Deere s operations.

The reallocation of radio frequency spectrums could disrupt or degrade the reliability of John Deere s high precision augmented Global Positioning System (GPS) technology, which could impair John Deere s ability to develop and market GPS-based technology solutions as well as significantly reduce agricultural and construction customers profitability.

John Deere s current and planned integrated agricultural business and equipment management systems, as well as its fleet management telematics solutions for construction equipment, depend upon the use of GPS signals and augmented GPS services which link equipment, operations, owners, dealers and technicians. These services depend on satellite and radio frequency allocations governed by international and local agencies. Any international or local reallocation of radio frequency bands, including frequency bands segmentation and band spectrum sharing, or other modifications of the permitted uses of frequency bands, could significantly disrupt or degrade the utility and reliability of John Deere s GPS-based products, which could negatively affect John Deere s ability to develop and market GPS-based technology solutions. For John Deere s agricultural customers, the inability to use high-precision augmented GPS services could result in lower crop yields and higher equipment maintenance, seed, fertilizer, fuel and wage costs. For construction customers, disrupting GPS applications could result in higher fuel and equipment maintenance costs, as well as lower construction design and project management efficiencies. These cost increases could significantly reduce customers profitability and demand for John Deere products.

Security breaches and other disruptions to the Company s information technology infrastructure could interfere with the Company s operations, and could compromise the Company s and its customers and suppliers information, exposing the Company to liability which would cause the Company s business and reputation to suffer.

In the ordinary course of business, the Company relies upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including supply chain, manufacturing, distribution, invoicing, and collection of payments from dealers or other purchasers of John Deere equipment and from customers of the Company s financial services operations. The Company uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. Additionally, the Company collects and stores sensitive data, including intellectual property, proprietary business information, the propriety business information of our customers and suppliers, as well as personally identifiable information of the Company s customers and employees, in data centers and on information technology networks. The secure operation of these information technology networks, and the processing and maintenance of this information is critical to the Company s business operations and strategy. Despite security measures and business continuity plans, the Company s information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise the Company s networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage the Company s reputation, which could adversely affect the Company s business.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

See Manufacturing in Item 1.

The equipment operations own or lease nine facilities housing one centralized parts distribution center and eight regional parts depots and distribution centers throughout the U.S. and Canada. These facilities contain approximately 4.8 million square feet of floor space. Outside the U.S. and Canada the equipment operations also own or lease and occupy buildings housing three centralized parts distribution centers in Brazil, Germany and Russia and regional parts depots and distribution centers in Argentina, Australia, China, India, Mexico, South Africa, Sweden and the United Kingdom. These facilities contain approximately 2.8 million square feet of floor space. John Deere also owns facilities for the manufacture and distribution of other brands of replacement parts containing approximately 1.1 million square feet. John Deere has announced plans to increase parts facilities floor space in Argentina, Germany and South Africa.

The Company s administrative offices and research facilities, all of which are owned by John Deere, together contain about 2.7 million square feet of floor space and miscellaneous other facilities total 1.7 million square feet.

Overall, John Deere owns approximately 52.3 million square feet of facilities and leases approximately 16 million additional square feet in various locations.

ITEM 3. LEGAL PROCEEDINGS.

John Deere is subject to various unresolved legal actions which arise in the normal course of its business, the most prevalent of which relate to product liability (including asbestos-related liability), retail credit, software licensing, patent, trademark and environmental matters. John Deere believes the reasonably possible range of losses for these unresolved legal actions in addition to the amounts accrued would not have a material effect on its financial statements.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) The Company s common stock is listed on the New York Stock Exchange. See the information concerning quoted prices of the Company s common stock, the number of stockholders and the data on dividends declared and paid per share in Notes 29 and 30.

(b) Not applicable.

(c) The Company s purchases of its common stock during the fourth quarter of 2011 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) (thousands)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1) (millions)
Aug 1 to Aug 31	1,782	$ 72.76	1,782	59.5
Sept 1 to Sept 30	2,867	75.82	2,867	56.7
Oct 1 to Oct 31	3,346	67.75	3,346	53.7
Total	7,995		7,995	

(1) The Company has a share repurchase plan that was announced in May 2008 to purchase up to $5,000 million of the Company s common stock. The maximum number of shares above that may yet be purchased under this plan is based on the October 31, 2011 closing share price of $75.90 per share. At October 31, 2011, $4,074 million of common stock remain to be purchased under the plan.

ITEM 6. SELECTED FINANCIAL DATA.

Financial Summary

(Millions of dollars except per share amounts)	2011	2010	2009*	2008*	2007
For the Year Ended October 31:					
Total net sales and revenues	$ 32,013	$ 26,005	$ 23,112	$ 28,438	$ 24,082
Income from continuing operations and net income attributable to Deere & Company	$ 2,800	$ 1,865	$ 873	$ 2,053	$ 1,822
Net income per share basic**	$ 6.71	$ 4.40	$ 2.07	$ 4.76	$ 4.05
Net income per share diluted**	$ 6.63	$ 4.35	$ 2.06	$ 4.70	$ 4.00
Dividends declared per share**	$ 1.52	$ 1.16	$ 1.12	$ 1.06	$ .91
At October 31:					
Total assets	$ 48,207	$ 43,267	$ 41,133	$ 38,735	$ 38,576
Long-term borrowings	$ 16,960	$ 16,815	$ 17,392	$ 13,899	$ 11,798

* In 2009, the Company had a goodwill impairment charge of $274 million after-tax, or $.65 per share, voluntary employee separation expenses of $58 million after tax, or $.13 per share, and special charges related to Welland, Ontario, Canada of $30 million after tax, or $.07 per share. In 2008, the Company had special charges of $31 million after-tax, or $.07 per share, related to closing a facility in Welland.

**Adjusted for two-for-one stock split effected in the form of a 100 percent stock dividend in November 2007.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

See the information under the caption Management s Discussion and Analysis on pages 19 - 28.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to a variety of market risks, including interest rates and currency exchange rates. The Company attempts to actively manage these risks. See the information under Management s Discussion and Analysis on page 28 and in Note 27 to the Consolidated Financial Statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Consolidated Financial Statements and notes thereto and supplementary data on pages 29 - 63.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company s principal executive officer and its principal financial officer have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) were effective as of October 31, 2011, based on the evaluation of these controls and procedures required by Rule 13a-15(b) or 15d-15(b) of the Exchange Act. During the fourth quarter, there were no changes that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company s internal control over financial reporting as of October 31, 2011, using the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management believes that, as of October 31, 2011, the Company s internal control over financial reporting was effective.

The Company s independent registered public accounting firm has issued an audit report on the effectiveness of the Company s internal control over financial reporting. That report is included herein.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information regarding directors in the proxy statement expected to be filed January 13, 2012 but no later than February 12, 2012 (proxy statement), under the captions Election of Directors, Directors Continuing in Office, and in the third paragraph under the caption Committees - The Audit Review Committee, is incorporated herein by reference. Information regarding executive officers is presented in Item 1 of this report under the caption Executive Officers of the Registrant.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics and the Company s corporate governance policies are posted on the Company s website at http://www.JohnDeere.com. The Company intends to satisfy disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the Audit Review, Corporate Governance and Compensation committees of the Company s Board of Directors are available on the Company s website as well. This information is also available in print free of charge to any person who requests it.

ITEM 11. EXECUTIVE COMPENSATION.

The information in the proxy statement under the captions Compensation of Directors, Compensation Discussion & Analysis, Compensation Committee Report, and Executive Compensation Tables is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

(a) *Securities authorized for issuance under equity compensation plans.*

Equity compensation plan information in the proxy statement under the caption Equity Compensation Plan Information is incorporated herein by reference.

(b) *Security ownership of certain beneficial owners.*

The information on the security ownership of certain beneficial owners in the proxy statement under the caption Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference.

(c) *Security ownership of management.*

The information on shares of common stock of the Company beneficially owned by, and under option to (i) each director, (ii) certain named executive officers and (iii) the directors and officers as a group, contained in the proxy statement under the captions Security Ownership of Certain Beneficial Owners and Management, and Executive Compensation Tables - Outstanding Equity Awards at Fiscal 2011 Year-End is incorporated herein by reference.

(d) *Change in control.*

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information in the proxy statement under the captions Corporate Governance Policies, Director Independence, and Review and Approval of Related Person Transactions is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information in the proxy statement under the caption Fees Paid to the Independent Registered Public Accounting Firm is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

		Page
(1)	*Financial Statements*	
	Statement of Consolidated Income for the years ended October 31, 2011, 2010 and 2009	29
	Consolidated Balance Sheet as of October 31, 2011 and 2010	30
	Statement of Consolidated Cash Flows for the years ended October 31, 2011, 2010 and 2009	31
	Statement of Changes in Consolidated Stockholders Equity for the years ended October 31, 2009, 2010 and 2011	32
	Notes to Consolidated Financial Statements	33
(2)	*Schedule to Consolidated Financial Statements*	
	Schedule II - Valuation and Qualifying Accounts for the years ended October 31, 2011, 2010 and 2009	68
(3)	*Exhibits*	

See the Index to Exhibits on pages 69 - 71 of this report

Certain instruments relating to long-term borrowings, constituting less than 10 percent of registrant s total assets, are not filed as exhibits herewith pursuant to Item 601(b)4(iii)(A) of Regulation S-K. Registrant agrees to file copies of such instruments upon request of the Commission.

Financial Statement Schedules Omitted

The following schedules for the Company and consolidated subsidiaries are omitted because of the absence of the conditions under which they are required: I, III, IV and V.

MANAGEMENT S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS FOR THE YEARS ENDED OCTOBER 31, 2011, 2010 AND 2009

OVERVIEW

Organization

The company s equipment operations generate revenues and cash primarily from the sale of equipment to John Deere dealers and distributors. The equipment operations manufacture and distribute a full line of agricultural equipment; a variety of commercial, consumer and landscapes equipment and products; and a broad range of equipment for construction and forestry. The company s financial services primarily provide credit services, which mainly finance sales and leases of equipment by John Deere dealers and trade receivables purchased from the equipment operations. In addition, financial services offer crop risk mitigation products and extended equipment warranties. The information in the following discussion is presented in a format that includes information grouped as consolidated, equipment operations and financial services. The company s operating segments consist of agriculture and turf, construction and forestry, and financial services. The previous credit segment and the Other segment were combined into the financial services segment at the beginning of the first quarter of 2011 (see Note 28). The Other segment consisted of an insurance business related to extended warranty policies for equipment that did not meet the materiality threshold of reporting. The following discussions of operating segment results and liquidity ratios have been revised to conform to the current segments.

Trends and Economic Conditions

Industry farm machinery sales in the U.S. and Canada for 2012 are forecast to be up approximately 5 to 10 percent, compared to 2011. Industry sales in the EU 27 nations of Western and Central Europe are forecast to be about the same in 2012, while sales in the Commonwealth of Independent States are expected to be moderately higher. Sales in Asia are forecast to increase strongly again in 2012. South American industry sales are projected to be approximately the same as 2011. Industry sales of turf and utility equipment in the U.S. and Canada are expected to increase slightly. The company s agriculture and turf equipment sales increased 21 percent in 2011 and are forecast to increase by about 15 percent for 2012. Construction equipment markets are forecast to slightly improve, while global forestry markets are expected to be about the same in 2012. The company s construction and forestry sales increased 45 percent in 2011 and are forecast to increase by about 16 percent in 2012. Net income of the company s financial services operations attributable to Deere & Company in 2012 is forecast to be approximately $450 million.

Items of concern include the uncertainty of the global economic recovery, the impact of sovereign and state debt, capital market disruptions, the availability of credit for the company s customers and suppliers, the effectiveness of governmental actions in respect to monetary policies, general economic conditions and financial regulatory reform. Significant volatility in the price of many commodities could also impact the company s results, while the availability of certain components that could impact the company s ability to meet production schedules continues to be monitored. Designing and producing products with engines that continue to meet high performance standards and increasingly stringent emissions regulations is one of the company s major priorities.

Supported by record 2011 performance, the company remains well positioned to implement its growth plans and capitalize on positive long-term economic trends. The company s strong levels of cash flow are funding growth throughout the world and are being shared with investors in the form of dividends and share repurchases.

2011 COMPARED WITH 2010

CONSOLIDATED RESULTS

Worldwide net income attributable to Deere & Company in 2011 was $2,800 million, or $6.63 per share diluted ($6.71 basic), compared with $1,865 million, or $4.35 per share diluted ($4.40 basic), in 2010. Net sales and revenues increased 23 percent to $32,013 million in 2011, compared with $26,005 million in 2010. Net sales of the equipment operations increased 25 percent in 2011 to $29,466 million from $23,573 million last year. The sales increase,which was primarily due to higher shipment volumes, also included a favorable effect for foreign currency translation of 3 percent and price realization of 3 percent. Net sales in the U.S. and Canada increased 17 percent in 2011. Net sales outside the U.S. and Canada increased by 38 percent in 2011, which included a favorable effect of 7 percent for foreign currency translation.

Worldwide equipment operations had an operating profit of $3,839 million in 2011, compared with $2,909 million in 2010. The higher operating profit was primarily due to higher shipment volumes and improved price realization, partially offset by increased raw material costs, higher manufacturing overhead costs related to new products, higher selling, administrative and general expenses and increased research and development expenses.

The equipment operations net income was $2,329 million in 2011, compared with $1,492 million in 2010. The same operating factors mentioned above and a lower effective tax rate in 2011 affected these results.

Net income of the financial services operations attributable to Deere & Company in 2011 increased to $471 million, compared with $373 million in 2010. The increase was primarily a result of growth in the credit portfolio and a lower provision for credit losses. Additional information is presented in the following discussion of the Worldwide Financial Services Operations.

The cost of sales to net sales ratio for 2011 was 74.4 percent, compared with 73.8 percent last year. The increase was primarily due to increased raw material costs and higher manufacturing overhead costs related to new products, partially offset by improved price realization.

Finance and interest income increased this year due to a larger average credit portfolio, partially offset by lower financing rates. Other income increased primarily as a result of higher insurance premiums and fees earned on crop insurance, largely offset by lower service revenues due to the sale of the wind energy business (see Note 4). Research and development expenses increased primarily as a result of increased spending in support of new products and Interim and Final Tier 4 emission requirements. Selling, administrative and general expenses increased primarily due to growth and higher sales commissions. Interest expense decreased due to lower average borrowing rates, partially offset by higher average borrowings. Other operating expenses decreased primarily due to lower depreciation expenses this year due to the sale of the wind energy business and the write-down of the related assets held for sale at the end of last year, partially offset by higher crop insurance claims and expenses this year. The effective tax rate for the provision for income taxes was lower this year primarily due to the effect of the tax expense related to the enactment of health care legislation in 2010 (see Note 8).

The company has several defined benefit pension plans and defined benefit health care and life insurance plans. The company s postretirement benefit costs for these plans in 2011 were $603 million, compared with $658 million in 2010. The long-term expected return on plan assets, which is reflected in these costs, was an expected gain of 8.0 percent in 2011 and 8.2 percent in 2010, or $906 million in 2011 and $883 million in 2010. The actual return was a gain of $695 million in 2011 and $1,273 million in 2010. In 2012, the expected return will be approximately 8.0 percent. The company expects postretirement benefit costs in 2012 to be approximately the same as 2011. The company makes any required contributions to the plan assets under applicable regulations and voluntary contributions from time to time based on the company s liquidity and ability to make tax-deductible contributions. Total company contributions to the plans were $122 million in 2011 and $836 million in 2010, which include direct benefit payments for unfunded plans. These contributions also included voluntary contributions to plan assets of $650 million in 2010. Total company contributions in 2012 are expected to be approximately $466 million, which include direct benefit payments. The company has no required significant contributions to pension plan assets in 2012 under applicable funding regulations. See the following discussion of Critical Accounting Policies for more information about postretirement benefit obligations.

BUSINESS SEGMENT AND GEOGRAPHIC AREA RESULTS

The following discussion relates to operating results by reportable segment and geographic area. Operating profit is income before certain external interest expense, certain foreign exchange gains or losses, income taxes and corporate expenses. However, operating profit of the financial services segment includes the effect of interest expense and foreign currency exchange gains or losses.

Worldwide Agriculture and Turf Operations

The agriculture and turf segment had an operating profit of $3,447 million in 2011, compared with $2,790 million in 2010. Net sales increased 21 percent this year primarily due to higher shipment volumes. Sales also increased due to improved price realization and foreign currency translation. The increase in operating profit was largely due to increased shipment volumes and improved price realization, partially offset by increased raw material costs, higher manufacturing overhead costs related to new products, higher selling, administrative and general expenses and increased research and development expenses.

Worldwide Construction and Forestry Operations

The construction and forestry segment had an operating profit of $392 million in 2011, compared with $119 million in 2010. Net sales increased 45 percent for the year primarily due to higher shipment volumes. Sales also increased due to improved price realization. The operating profit improvement in 2011 was primarily due to higher shipment and production volumes and improved price realization, partially offset by increased raw material costs, higher selling, administrative and general expenses and increased research and development expenses.

Worldwide Financial Services Operations

The operating profit of the financial services segment was $725 million in 2011, compared with $499 million in 2010. The increase in operating profit was primarily due to growth in the credit portfolio and a lower provision for credit losses, partially offset by narrower financing spreads. Last year s results were also affected by the write-down of wind energy assets that were held for sale (see Note 4). Total revenues of the financial services operations, including intercompany revenues, increased 3 percent in 2011, primarily reflecting the larger portfolio. The average balance of receivables and leases financed was 13 percent higher in 2011, compared with 2010. Interest expense decreased 7 percent in 2011 as a result of lower average borrowing rates, partially offset by higher average borrowings. The financial services operations ratio of earnings to fixed charges was 2.22 to 1 in 2011, compared with 1.77 to 1 in 2010.

Equipment Operations in U.S. and Canada

The equipment operations in the U.S. and Canada had an operating profit of $2,898 million in 2011, compared with $2,302 million in 2010. The increase was due to higher shipment volumes and improved price realization, partially offset by increased raw material costs, higher manufacturing overhead costs related to new products, increased selling, administrative and general expenses and higher research and development expenses. Net sales increased 17 percent primarily due to higher shipment volumes and improved price realization. The physical volume of sales increased 12 percent, compared with 2010.

Equipment Operations outside U.S. and Canada

The equipment operations outside the U.S. and Canada had an operating profit of $941 million in 2011, compared with $607 million in 2010. The increase was primarily due to the effects of higher shipment volumes and improved price realization, partially offset by higher raw material costs, higher manufacturing overhead costs related to new products, increased selling, administrative and general expenses and higher research and development costs. Net sales were 38 percent higher primarily reflecting increased volumes and the effect of foreign currency translation. The physical volume of sales increased 30 percent, compared with 2010.

MARKET CONDITIONS AND OUTLOOK

In spite of an unsettled global economy, demand for the company s products is expected to experience substantial growth in fiscal year 2012 and the company is forecasting further increases in sales and earnings as a result. Company equipment sales are projected to increase about 15 percent for the year and 16 to 18 percent for the first quarter, compared with the same periods of 2011. Included is a favorable currency translation impact of about 3 percent for the first quarter and about 1 percent for the year. Net income attributable to Deere & Company for the year is anticipated to be approximately $3.2 billion.

Agriculture and Turf. Worldwide sales of the company s agriculture and turf segment are forecast to increase by about 15 percent for fiscal year 2012, with a favorable currency translation impact of about 1 percent. Farmers in the world s major markets are continuing to experience favorable incomes due to strong demand for agricultural commodities. The company s sales are expected to benefit as well from advanced new products being launched throughout the world and major expansion projects such as those in emerging markets.

Industry farm machinery sales in the U.S. and Canada are forecast to increase 5 to 10 percent in 2012, following an increase in 2011. Overall conditions remain positive and demand continues to be strong, especially for high horsepower equipment.

Industry sales in the EU 27 nations of Western and Central Europe are forecast to be approximately the same for 2012 as a result of general economic concerns in the region. Sales in the Commonwealth of Independent States are expected to be moderately higher, after rising substantially in 2011. Sales in Asia are forecast to increase strongly again in 2012. In South America, industry sales for the year are projected to be about the same as the strong levels of 2011.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to increase slightly in 2012.

Construction and Forestry. Worldwide sales of the company s construction and forestry equipment are forecast to grow by about 16 percent for fiscal year 2012, with a favorable currency translation impact of about 1 percent. The increase reflects slightly improved market conditions and improved activity outside of the U.S., including strength in Canada. Construction equipment sales to independent rental companies are expected to see further gains. The company s sales also are expected to be supported by a range of advanced new products and by geographic expansion. After considerable growth in 2011, world forestry markets are projected to be about the same in 2012 due to weaker economic conditions in Europe.

Financial Services. Fiscal year 2012 net income attributable to Deere & Company for the financial services operations is expected to be approximately $450 million. The forecast decline from 2011 is primarily due to an increase in the provision for credit losses, which is anticipated to return to a more typical level, as well as higher selling, administrative and general expenses in support of enterprise growth initiatives. Partially offsetting these items is expected growth in the credit portfolio.

SAFE HARBOR STATEMENT

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under Overview, Market Conditions and Outlook and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company s businesses.

The company s agricultural equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers confidence. These factors include worldwide economic conditions, demand for agricultural products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions, harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, Russia and the U.S.), international reaction to such programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company s turf and utility equipment include general economic conditions, consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

General economic conditions, consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company s construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company s construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company s businesses and its reported results are affected by general economic conditions in the global markets in which the company operates, especially material changes in economic activity in these markets; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. General economic conditions can affect demand for the company s equipment as well.

Customer and company operations and results could be affected by changes in weather patterns (including the effects of dry weather in parts of the U.S. and wet weather in parts of Eastern and Western Europe); the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could reduce the company s earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company s products and customer confidence and purchase decisions; borrowing and repayment practices; and the number and size of customer loan delinquencies and defaults. The sovereign debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, customers, and company operations and results. State debt crises also could negatively impact customers, suppliers, demand for equipment, and company operations and results. The company s investment management activities could be impaired by changes in the equity and bond markets, which would negatively affect earnings.

Additional factors that could materially affect the company s operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine emissions (in particular Interim Tier 4 and Final Tier 4 emission requirements), carbon emissions, noise and the risk of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations; compliance with U.S. and foreign laws when expanding to new markets; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company s supply chain due to weather, natural disasters or financial hardship or the loss of liquidity by suppliers; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; oil and energy prices and supplies; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; labor relations; acquisitions and divestitures of businesses, the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; changes in company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets and the level of interest rates, which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation (Capital Corporation) and other credit subsidiaries depend largely on timely access to capital to meet future cash flow requirements and fund operations and the costs associated with engaging in diversified funding activities and to fund purchases of the company s products. If market uncertainty increases and general economic conditions worsen, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The company s outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company s financial results, is included in other filings with the SEC.

2010 COMPARED WITH 2009

CONSOLIDATED RESULTS

Worldwide net income attributable to Deere & Company in 2010 was $1,865 million, or $4.35 per share diluted ($4.40 basic), compared with $873 million, or $2.06 per share diluted ($2.07 basic), in 2009. Included in net income for 2009 were charges of $381 million pretax ($332 million after-tax), or $.78 per share diluted and basic, related to impairment of goodwill and voluntary employee separation expenses (see Note 5). Net sales and revenues increased 13 percent to $26,005 million in 2010, compared with $23,112 million in 2009. Net sales of the equipment operations increased 14 percent in 2010 to $23,573 million from $20,756 million in 2009. The sales increase was primarily due to higher shipment volumes. The increase also included a favorable effect for foreign currency translation of 3 percent and a price increase of 2 percent. Net sales in the U.S. and Canada increased 14 percent in 2010.

Net sales outside the U.S. and Canada increased by 14 percent in 2010, which included a favorable effect of 5 percent for foreign currency translation.

Worldwide equipment operations had an operating profit of $2,909 million in 2010, compared with $1,365 million in 2009. The higher operating profit was primarily due to higher shipment and production volumes, improved price realization, the favorable effects of foreign currency exchange and lower raw material costs, partially offset by increased postretirement costs and higher incentive compensation expenses. The results in 2009 were also affected by a goodwill impairment charge and voluntary employee separation expenses.

The equipment operations net income was $1,492 million in 2010, compared with $677 million in 2009. The same operating factors mentioned above affected these results.

Net income of the company s financial services operations attributable to Deere & Company in 2010 increased to $373 million, compared with $203 million in 2009. The increase was primarily a result of improved financing spreads and a lower provision for credit losses. Additional information is presented in the following discussion of the Worldwide Financial Services Operations.

The cost of sales to net sales ratio for 2010 was 73.8 percent, compared with 78.3 percent in 2009. The decrease was primarily due to higher shipment and production volumes, improved price realization, favorable effects of foreign currency exchange and lower raw material costs. A larger goodwill impairment charge and voluntary employee separation expenses affected the ratio in 2009.

Finance and interest income decreased in 2010 due to lower financing rates, partially offset by a larger average portfolio. Other income increased primarily as a result of an increase in wind energy income, higher commissions from crop insurance and higher service revenues. Research and development expenses increased primarily as a result of increased spending in support of new products including designing and producing products with engines to meet more stringent emissions regulations. Selling, administrative and general expenses increased primarily due to increased incentive compensation expenses, higher postretirement benefit costs and the effect of foreign currency translation. Interest expense decreased due to lower average borrowing rates and lower average borrowings. Other operating expenses increased primarily due to the write-down of wind energy assets classified as held for sale in 2010 (see Note 4). The equity in income of unconsolidated affiliates increased as a result of higher income from construction equipment manufacturing affiliates due to increased levels of construction activity.

The company has several defined benefit pension plans and defined benefit health care and life insurance plans. The company s postretirement benefit costs for these plans in 2010 were $658 million, compared with $312 million in 2009, primarily due to a decrease in discount rates. The long-term expected return on plan assets, which is reflected in these costs, was an expected gain of 8.2 percent in 2010 and 2009, or $883 million in 2010 and $857 million in 2009. The actual return was a gain of $1,273 million in 2010 and $1,142 million in 2009. Total company contributions to the plans were $836 million in 2010 and $358 million in 2009, which include direct benefit payments for unfunded plans. These contributions also included voluntary contributions to total plan assets of approximately $650 million in 2010 and $150 million in 2009.

BUSINESS SEGMENT AND GEOGRAPHIC AREA RESULTS

Worldwide Agriculture and Turf Operations

The agriculture and turf segment had an operating profit of $2,790 million in 2010, compared with $1,448 million in 2009. Net sales increased 10 percent in 2010 primarily due to higher production and shipment volumes. Sales also increased due to foreign currency translation and improved price realization. The increase in operating profit was due to increased shipment and production volumes, improved price realization, the favorable effects of foreign currency exchange and lower raw material costs, partially offset by higher postretirement benefit costs and increased incentive compensation expenses. The results in 2009 were affected by a goodwill impairment charge and voluntary employee separation expenses.

Worldwide Construction and Forestry Operations

The construction and forestry segment had an operating profit of $119 million in 2010, compared with a loss of $83 million in 2009. Net sales increased 41 percent in 2010 due to higher shipment and production volumes. The operating profit improvement in 2010 was primarily due to higher shipment and production volumes, partially offset by higher postretirement benefit costs and increased incentive compensation expenses.

Worldwide Financial Services Operations

The operating profit of the financial services segment was $499 million in 2010, compared with $242 million in 2009. The increase in operating profit was primarily due to improved financing spreads and a lower provision for credit losses. Total revenues of the financial services operations, including intercompany revenues, increased 1 percent in 2010, primarily reflecting the larger portfolio. The average balance of receivables and leases financed was 5 percent higher in 2010, compared with 2009. Interest expense decreased 28 percent in 2010 as a result of lower borrowing rates and lower average borrowings. The financial services operations ratio of earnings to fixed charges was 1.77 to 1 in 2010, compared with 1.26 to 1 in 2009.

Equipment Operations in U.S. and Canada

The equipment operations in the U.S. and Canada had an operating profit of $2,302 million in 2010, compared with $1,129 million in 2009. The increase was due to higher shipment and production volumes, improved price realization and lower raw material costs, partially offset by increased postretirement benefit costs and higher incentive compensation expenses. The operating profit in 2009 was affected by a goodwill impairment charge and voluntary employee separation expenses. Net sales increased 14 percent primarily due to higher volumes and improved price realization. The physical volume increased 10 percent, compared with 2009.

Equipment Operations outside U.S. and Canada

The equipment operations outside the U.S. and Canada had an operating profit of $607 million in 2010, compared with $236 million in 2009. The increase was primarily due to the effects of higher shipment and production volumes, the favorable effects of foreign currency exchange rates, improved price realization and decreases in raw material costs, partially offset by higher incentive compensation expenses. Net sales were 14 percent higher primarily reflecting increased volumes and the effect of foreign currency translation. The physical volume increased 8 percent, compared with 2009.

CAPITAL RESOURCES AND LIQUIDITY

The discussion of capital resources and liquidity has been organized to review separately, where appropriate, the company s consolidated totals, equipment operations and financial services operations.

CONSOLIDATED

Positive cash flows from consolidated operating activities in 2011 were $2,326 million. This resulted primarily from net income adjusted for non-cash provisions, an increase in accounts payable and accrued expenses and an increase in the net retirement benefits liability, which were partially offset by an increase in inventories and trade receivables. Cash outflows from investing activities were $2,621 million in 2011, primarily due to the cost of receivables (excluding receivables related to sales) and equipment on operating leases exceeding the collections of receivables and the proceeds from sales of equipment on operating leases by $1,746 million, purchases of property and equipment of $1,057 million and purchases exceeding maturities and sales of marketable securities by $555 million, partially offset by proceeds from the sales of businesses of $911 million (see Note 4). Cash inflows from financing activities were $140 million in 2011 primarily due to an increase in borrowings of $2,208 million and proceeds from issuance of common stock of $170 million (resulting from the exercise of stock options), partially offset by repurchases of common stock of $1,667 million and dividends paid of $593 million. Cash and cash equivalents decreased $143 million during 2011.

Over the last three years, operating activities have provided an aggregate of $6,593 million in cash. In addition, increases in borrowings were $2,977 million, proceeds from sales of businesses were $946 million, proceeds from issuance of common stock were $316 million and proceeds from maturities and sales of marketable securities exceeded purchases by $216 million. The aggregate amount of these cash flows was used mainly to acquire receivables (excluding receivables related to sales) and equipment on operating leases that exceeded collections and the proceeds from sales of equipment on operating leases by $3,029 million, purchase property and equipment of $2,725 million, repurchase common stock of $2,029 million, pay dividends to stockholders of $1,550 million and acquire businesses for $156 million. Cash and cash equivalents increased $1,436 million over the three-year period.

Given the continued uncertainty in the global economy, there has been a reduction in liquidity in some global markets that continues to affect the funding activities of the company. However, the company has access to most global markets at a reasonable cost and expects to have sufficient sources of global funding and liquidity to meet its funding needs. Sources of liquidity for the company include cash and cash equivalents, marketable securities, funds from operations, the issuance of commercial paper and term debt, the securitization of retail notes (both public and private markets) and committed and uncommitted bank lines of credit. The company s commercial paper outstanding at October 31, 2011 and 2010 was $1,279 million and $2,028 million, respectively, while the total cash and cash equivalents and marketable securities position was $4,435 million and $4,019 million, respectively. The amount of the total cash and cash equivalents and marketable securities held by foreign subsidiaries, in which earnings are considered indefinitely reinvested, was $720 million and $611 million at October 31, 2011 and 2010, respectively.

Lines of Credit. The company also has access to bank lines of credit with various banks throughout the world. Worldwide lines of credit totaled $5,080 million at October 31, 2011, $3,721 million of which were unused. For the purpose of computing unused credit lines, commercial paper and short-term bank borrowings, excluding secured borrowings and the current portion of long-term borrowings, were primarily considered to constitute utilization. Included in the total credit lines at October 31, 2011 was a long-term credit facility agreement of $2,750 million, expiring in April 2015, and a long-term credit facility agreement of $1,500 million, expiring in April 2013. These credit agreements require Capital Corporation to maintain its consolidated ratio of earnings to fixed charges at not less than 1.05 to 1 for each fiscal quarter and the ratio of senior debt, excluding securitization indebtedness, to capital base (total subordinated debt and stockholder s equity excluding accumulated other comprehensive income (loss)) at not more than 11 to 1 at the end of any fiscal quarter. The credit agreements also require the equipment operations to maintain a ratio of total debt to total capital (total debt and stockholders equity excluding accumulated other comprehensive income (loss)) of 65 percent or less at the end of each fiscal quarter. Under this provision, the company s excess equity capacity and retained earnings balance free of restriction at October 31, 2011 was $8,503 million. Alternatively under this provision, the equipment operations had the capacity to incur additional debt of $15,791 million at October 31, 2011. All of these requirements of the credit agreements have been met during the periods included in the consolidated financial statements.

Debt Ratings. To access public debt capital markets, the company relies on credit rating agencies to assign short-term and long-term credit ratings to the company s securities as an indicator of credit quality for fixed income investors. A security rating is not a recommendation by the rating agency to buy, sell or hold company securities. A credit rating agency may change or withdraw company ratings based on its assessment of the company s current and future ability to meet interest and principal repayment obligations. Each agency s rating should be evaluated independently of any other rating. Lower credit ratings generally result in higher borrowing costs, including costs of derivative transactions, and reduced access to debt capital markets. The senior long-term and short-term debt ratings and outlook currently assigned to unsecured company securities by the rating agencies engaged by the company are as follows:

	Senior Long-Term	Short-Term	Outlook
Moody s Investors Service, Inc.	A2	Prime-1	Stable
Standard & Poor s	A	A-1	Stable

Trade accounts and notes receivable primarily arise from sales of goods to independent dealers. Trade receivables decreased by $170 million in 2011. The ratio of trade accounts and notes receivable at October 31 to fiscal year net sales was 11 percent in 2011 and 15 percent in 2010. Total worldwide agriculture and turf receivables decreased $311 million and construction and forestry receivables increased $141 million. The collection period for trade receivables averages less than 12 months. The percentage of trade receivables outstanding for a period exceeding 12 months was 3 percent at October 31, 2011 and 2010.

Deere & Company s stockholders equity was $6,800 million at October 31, 2011, compared with $6,290 million at October 31, 2010. The increase of $510 million resulted primarily from net income attributable to Deere & Company of $2,800 million and an increase in common stock of $145 million, which were partially offset by an increase in treasury stock of $1,503 million, dividends declared of $634 million and a change in the retirement benefits adjustment of $338 million.

EQUIPMENT OPERATIONS

The company s equipment businesses are capital intensive and are subject to seasonal variations in financing requirements for inventories and certain receivables from dealers. The equipment operations sell a significant portion of their trade receivables to financial services. To the extent necessary, funds provided from operations are supplemented by external financing sources.

Cash provided by operating activities of the equipment operations during 2011, including intercompany cash flows, was $2,998 million primarily due to net income adjusted for non-cash provisions, an increase in accounts payable and accrued expenses and an increase in the net retirement benefits liability, partially offset by an increase in inventories and trade receivables.

Over the last three years, these operating activities, including intercompany cash flows, have provided an aggregate of $6,968 million in cash.

Trade receivables held by the equipment operations increased by $94 million during 2011. The equipment operations sell a significant portion of their trade receivables to financial services (see previous consolidated discussion).

Inventories increased by $1,308 million in 2011 primarily reflecting the increase in production and sales. Most of these inventories are valued on the last-in, first-out (LIFO) method. The ratios of inventories on a first-in, first-out (FIFO) basis (see Note 15), which approximates current cost, to fiscal year cost of sales were 27 percent and 26 percent at October 31, 2011 and 2010, respectively.

Total interest-bearing debt of the equipment operations was $3,696 million at the end of 2011, compared with $3,414 million at the end of 2010 and $3,563 million at the end of 2009. The ratio of total debt to total capital (total interest-bearing debt and stockholders equity) at the end of 2011, 2010 and 2009 was 35 percent, 35 percent and 43 percent, respectively.

Property and equipment cash expenditures for the equipment operations in 2011 were $1,054 million, compared with $736 million in 2010. Capital expenditures in 2012 are estimated to be $1,200 million to $1,300 million.

FINANCIAL SERVICES

The financial services operations rely on their ability to raise substantial amounts of funds to finance their receivable and lease portfolios. Their primary sources of funds for this purpose are a combination of commercial paper, term debt, securitization of retail notes, equity capital and from time to time borrowings from Deere & Company.

The cash provided by operating activities and financing activities was used for investing activities. Cash flows from the financial services operating activities, including intercompany cash flows, were $1,065 million in 2011. Cash used by investing activities totaled $3,231 million in 2011, primarily due to the cost of receivables (excluding trade and wholesale) and cost of equipment on operating leases exceeding collections of these receivables and the proceeds from sales of equipment on operating leases by $2,580 million and an increase in trade receivables and wholesale notes of $562 million. Cash provided by financing activities totaled $2,170 million in 2011, representing primarily an increase in external borrowings of $1,920 million and borrowings from Deere & Company of $553 million, partially offset by $340 million of dividends paid to Deere & Company. Cash and cash equivalents increased $17 million.

Over the last three years, the financial services operating activities, including intercompany cash flows, have provided $3,236 million in cash. In addition, an increase in total borrowings of $2,798 million and capital investment from Deere & Company of $173 million provided cash inflows. These amounts have been used mainly to fund receivables (excluding trade and wholesale) and equipment on operating lease acquisitions, which exceeded collections and the proceeds from sales of equipment on operating leases by $4,564 million, fund an increase in trade receivables and wholesale notes of $1,552 million, pay dividends to Deere & Company of $557 million and fund purchases of property and equipment of $147 million. Cash and cash equivalents decreased $717 million over the three-year period.

Receivables and equipment on operating leases increased by $2,945 million in 2011, compared with 2010. Total acquisition volumes of receivables (excluding trade and wholesale notes) and cost of equipment on operating leases increased 12 percent in 2011, compared with 2010. The volumes of financing leases, retail notes, operating leases and revolving charge accounts increased approximately 20 percent, 14 percent, 12 percent, and 10 percent, respectively, while operating loans decreased 9 percent. The amount of wholesale notes increased 33 percent and trade receivables decreased 6 percent during 2011.

At October 31, 2011 and 2010, net receivables and leases administered, which include receivables administered but not owned, were $27,918 million and $25,029 million, respectively.

Total external interest-bearing debt of the financial services operations was $22,894 million at the end of 2011, compared with $20,935 million at the end of 2010 and $20,988 million at the end of 2009. Total external borrowings have changed generally corresponding with the level of the receivable and lease portfolio, the level of cash and cash equivalents and the change in payables owed to Deere & Company. The financial services operations ratio of total interest-bearing debt to total stockholder s equity was 7.5 to 1 at the end of 2011, 7.1 to 1 at the end of 2010 and 7.2 to 1 at the end of 2009.

At October 31, 2011, Capital Corporation had a revolving credit agreement to utilize bank conduit facilities to securitize retail notes with a total capacity, or financing limit, of up to $2,000 million of secured financings at any time. After a three-year revolving period, unless the banks and Capital Corporation agree to renew, Capital Corporation would liquidate the secured borrowings over time as payments on the retail notes are collected. At October 31, 2011, $1,384 million of secured short-term borrowings was outstanding under the agreement. During November 2011, the agreement was renewed and the capacity of the agreement was increased to $2,750 million.

In April 2011, the financial services operations entered into a $1,106 million public retail note securitization transaction. During 2011, the financial services operations also issued $5,586 million and retired $3,209 million of long-term borrowings, which were primarily medium-term notes.

OFF-BALANCE-SHEET ARRANGEMENTS

At October 31, 2011, the company had approximately $230 million of guarantees issued primarily to banks outside the U.S. related to third-party receivables for the retail financing of John Deere equipment. The company may recover a portion of any required payments incurred under these agreements from repossession of the equipment collateralizing the receivables. The maximum remaining term of the receivables guaranteed at October 31, 2011 was approximately five years.

AGGREGATE CONTRACTUAL OBLIGATIONS

The payment schedule for the company s contractual obligations at October 31, 2011 in millions of dollars is as follows:

	Total	Less than 1year	2&3 years	4&5 years	More than 5 years
On-balance-sheet					
Debt*					
Equipment operations	$ 3,666	$ 528	$ 990	$ 42	$ 2,106
Financial services**	22,478	7,720	8,500	3,073	3,185
Total	26,144	8,248	9,490	3,115	5,291
Interest relating to debt	3,740	748	798	590	1,604

Accounts payable	2,942	2,819	83	36	4
Capital leases	30	5	8	3	14
Off-balance-sheet					
Purchase obligations	3,703	3,672	21	10	
Operating leases	435	139	164	73	59
Total	$ 36,994	$ 15,631	$ 10,564	$ 3,827	$ 6,972

* Principal payments.

** Notes payable of $2,777 million classified as short-term on the balance sheet related to the securitization of retail notes are included in this table based on the expected payment schedule (see Note 18).

The previous table does not include unrecognized tax benefit liabilities of approximately $199 million at October 31, 2011 since the timing of future payments is not reasonably estimable at this time (see Note 8). For additional information regarding pension and other postretirement employee benefit obligations, short-term borrowings, long-term borrowings and lease obligations, see Notes 7, 18, 20 and 21, respectively.

CRITICAL ACCOUNTING POLICIES

The preparation of the company s consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Changes in these estimates and assumptions could have a significant effect on the financial statements. The accounting policies below are those management believes are the most critical to the preparation of the company s financial statements and require the most difficult, subjective or complex judgments. The company s other accounting policies are described in the Notes to the Consolidated Financial Statements.

Sales Incentives

At the time a sale to a dealer is recognized, the company records an estimate of the future sales incentive costs for allowances and financing programs that will be due when the dealer sells the equipment to a retail customer. The estimate is based on historical data, announced incentive programs, field inventory levels and retail sales volumes. The final cost of these programs and the amount of accrual required for a specific sale are fully determined when the dealer sells the equipment to the retail customer. This is due to numerous programs available at any particular time and new programs that may be announced after the company records the sale. Changes in the mix and types of programs affect these estimates, which are reviewed quarterly.

The sales incentive accruals at October 31, 2011, 2010 and 2009 were $1,122 million, $879 million and $806 million, respectively. The increases in 2011 and 2010 were primarily due to higher sales volumes.

The estimation of the sales incentive accrual is impacted by many assumptions. One of the key assumptions is the historical percent of sales incentive costs to retail sales from dealers. Over the last five fiscal years, this percent has varied by an average of approximately plus or minus .6 percent, compared to the average sales incentive costs to retail sales percent during that period. Holding other assumptions constant,

if this estimated cost experience percent were to increase or decrease .6 percent, the sales incentive accrual at October 31, 2011 would increase or decrease by approximately $35 million.

Product Warranties

At the time a sale to a dealer is recognized, the company records the estimated future warranty costs. The company generally determines its total warranty liability by applying historical claims rate experience to the estimated amount of equipment that has been sold and is still under warranty based on dealer inventories and retail sales. The historical claims rate is primarily determined by a review of five-year claims costs and consideration of current quality developments. Variances in claims experience and the type of warranty programs affect these estimates, which are reviewed quarterly.

The product warranty accruals, excluding extended warranty unamortized premiums, at October 31, 2011, 2010 and 2009 were $662 million, $559 million and $513 million, respectively. The changes were primarily due to higher sales volumes in 2011 and 2010.

Estimates used to determine the product warranty accruals are significantly affected by the historical percent of warranty claims costs to sales. Over the last five fiscal years, this percent has varied by an average of approximately plus or minus .05 percent, compared to the average warranty costs to sales percent during that period. Holding other assumptions constant, if this estimated cost experience percent were to increase or decrease .05 percent, the warranty accrual at October 31, 2011 would increase or decrease by approximately $20 million.

Postretirement Benefit Obligations

Pension obligations and other postretirement employee benefit (OPEB) obligations are based on various assumptions used by the company s actuaries in calculating these amounts. These assumptions include discount rates, health care cost trend rates, expected return on plan assets, compensation increases, retirement rates, mortality rates and other factors. Actual results that differ from the assumptions and changes in assumptions affect future expenses and obligations.

The pension liabilities, net of pension assets, recognized on the balance sheet at October 31, 2011, 2010 and 2009 were $1,373 million, $693 million and $1,307 million, respectively. The OPEB liabilities, net of OPEB assets, on these same dates were $5,193 million, $4,830 million and $4,652 million, respectively. The increase in pension net liabilities in 2011 was primarily due to a decrease in discount rates, partially offset by the return on plan assets. The decrease in the pension net liabilities in 2010 was primarily due to the return on plan assets and company contributions, partially offset by a decrease in discount rates. The increases in the OPEB net liabilities in 2011 and 2010 were primarily due to the decreases in discount rates.

The effect of hypothetical changes to selected assumptions on the company s major U.S. retirement benefit plans would be as follows in millions of dollars:

Assumptions	Percentage Change	October 31, 2011 Increase (Decrease) PBO/APBO*	2012 Increase (Decrease) Expense
Pension			
Discount rate**	+/-.5	$ (502)/530	$ (22)/21
Expected return on assets	+/-.5		(45)/45
OPEB			
Discount rate**	+/-.5	(397)/421	(54)/56
Expected return on assets	+/-.5		(6)/6
Health care cost trend rate**	+/-1.0	886/(683)	199/(152)

* Projected benefit obligation (PBO) for pension plans and accumulated postretirement benefit obligation (APBO) for OPEB plans.

** Pretax impact on service cost, interest cost and amortization of gains or losses.

Goodwill

Goodwill is not amortized and is tested for impairment annually and when events or circumstances change such that it is more likely than not that the fair value of a reporting unit is reduced below its carrying amount. The end of the third quarter is the annual measurement date. To test for goodwill impairment, the carrying value of each reporting unit is compared with its fair value. If the carrying value of the goodwill is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the implied fair value of the goodwill.

An estimate of the fair value of the reporting unit is determined through a combination of comparable market values for similar businesses and discounted cash flows. These estimates can change significantly based on such factors as the reporting unit s financial performance, economic conditions, interest rates, growth rates, pricing, changes in business strategies and competition.

Based on this testing, the company identified one reporting unit in 2010 and one reporting unit in 2009 for which the goodwill was impaired. None were impaired in 2011. In the fourth quarter of 2010 and 2009, the company recorded a non-cash pretax charge in cost of sales of $27 million ($25 million after-tax) and $289 million ($274 million after-tax), respectively. The charges were related to write-downs of the goodwill associated with reporting units included in the agriculture and turf operating segment. The key factor contributing to the impairments was a decline in the reporting units forecasted financial performance (see Note 5).

A 10 percent decrease in the estimated fair value of the company s reporting units would have had no impact on the carrying value of goodwill at the annual measurement date in 2011.

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the losses expected from the company s receivable portfolio. The level of the allowance is based on many quantitative and qualitative factors, including historical loss experience by product category, portfolio duration, delinquency trends, economic conditions and credit risk quality. The adequacy of the allowance is assessed quarterly. Different assumptions or changes in economic conditions would result in changes to the allowance for credit losses and the provision for credit losses.

The total allowance for credit losses at October 31, 2011, 2010 and 2009 was $269 million, $296 million and $316 million, respectively. The decreases in 2011 and 2010 were primarily due to decreases in loss experience.

The assumptions used in evaluating the company s exposure to credit losses involve estimates and significant judgment. The historical loss experience on the receivable portfolio represents one of the key assumptions involved in determining the allowance for credit losses. Over the last five fiscal years, this percent has varied by an average of approximately plus or minus .18 percent, compared to the average loss experience percent during that period. Holding other assumptions constant, if this estimated loss experience on the receivable portfolio were to increase or decrease .18 percent, the allowance for credit losses at October 31, 2011 would increase or decrease by approximately $50 million.

Operating Lease Residual Values

The carrying value of equipment on operating leases is affected by the estimated fair values of the equipment at the end of the lease (residual values). Upon termination of the lease, the equipment is either purchased by the lessee or sold to a third party, in which case the company may record a gain or a loss for the difference between the estimated residual value and the sales price. The residual values are dependent on current economic conditions and are reviewed quarterly. Changes in residual value assumptions would affect the amount of depreciation expense and the amount of investment in equipment on operating leases.

The total operating lease residual values at October 31, 2011, 2010 and 2009 were $1,425 million, $1,276 million and $1,128 million, respectively. The changes in 2011 and 2010 were primarily due to the increasing levels of operating leases.

Estimates used in determining end of lease market values for equipment on operating leases significantly impact the amount and timing of depreciation expense. If future market values for this equipment were to decrease 10 percent from the company s present estimates, the total impact would be to increase the company s annual depreciation for equipment on operating leases by approximately $50 million.

FINANCIAL INSTRUMENT MARKET RISK INFORMATION

The company is naturally exposed to various interest rate and foreign currency risks. As a result, the company enters into derivative transactions to manage certain of these exposures that arise in the normal course of business and not for the purpose of creating speculative positions or trading. The company s financial services manage the relationship of the types and amounts of their funding sources to their receivable and lease portfolio in an effort to diminish risk due to interest rate and foreign currency fluctuations, while responding to favorable financing opportunities. Accordingly, from time to time, these operations enter into interest rate swap agreements to manage their interest rate exposure. The company also has foreign currency exposures at some of its foreign and domestic operations related to buying, selling and financing in currencies other than the local currencies. The company has entered into agreements related to the management of these foreign currency transaction risks.

Interest Rate Risk

Quarterly, the company uses a combination of cash flow models to assess the sensitivity of its financial instruments with interest rate exposure to changes in market interest rates. The models calculate the effect of adjusting interest rates as follows. Cash flows for financing receivables are discounted at the current prevailing rate for each receivable portfolio. Cash flows for marketable securities are primarily discounted at the applicable benchmark yield curve plus market credit spreads. Cash flows for unsecured borrowings are discounted at the applicable benchmark yield curve plus market credit spreads for similarly rated borrowers. Cash flows for securitized borrowings are discounted at the swap yield curve plus a market credit spread for similarly rated borrowers. Cash flows for interest rate swaps are projected and discounted using forward rates from the swap yield curve at the repricing dates. The net loss in these financial instruments fair values which would be caused by increasing the interest rates by 10 percent from the market rates at October 31, 2011 would have been approximately $42 million. The net loss from decreasing the interest rates by 10 percent at October 31, 2010 would have been approximately $3 million.

Foreign Currency Risk

In the equipment operations, the company s practice is to hedge significant currency exposures. Worldwide foreign currency exposures are reviewed quarterly. Based on the equipment operations anticipated and committed foreign currency cash inflows, outflows and hedging policy for the next twelve months, the company estimates that a hypothetical 10 percent strengthening of the U.S. dollar relative to other currencies through 2012 would decrease the 2012 expected net cash inflows by $19 million. At October 31, 2010, a hypothetical 10 percent weakening of the U.S. dollar under similar assumptions and calculations indicated a potential $15 million adverse effect on the 2011 net cash inflows.

In the financial services operations, the company s policy is to hedge the foreign currency risk if the currency of the borrowings does not match the currency of the receivable portfolio. As a result, a hypothetical 10 percent adverse change in the value of the U.S. dollar relative to all other foreign currencies would not have a material effect on the financial services cash flows.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED INCOME

For the Years Ended October 31, 2011, 2010 and 2009

(In millions of dollars and shares except per share amounts)

	2011	2010	2009
Net Sales and Revenues			
Net sales	$ 29,466.1	$ 23,573.2	$ 20,756.1
Finance and interest income	1,922.6	1,825.3	1,842.1
Other income	623.8	606.1	514.2
Total	32,012.5	26,004.6	23,112.4
Costs and Expenses			
Cost of sales	21,919.4	17,398.8	16,255.2
Research and development expenses	1,226.2	1,052.4	977.0
Selling, administrative and general expenses	3,168.7	2,968.7	2,780.6
Interest expense	759.4	811.4	1,042.4
Other operating expenses	716.0	748.1	718.0
Total	27,789.7	22,979.4	21,773.2
Income of Consolidated Group before Income Taxes	4,222.8	3,025.2	1,339.2
Provision for income taxes	1,423.6	1,161.6	460.0
Income of Consolidated Group	2,799.2	1,863.6	879.2
Equity in income (loss) of unconsolidated affiliates	8.6	10.7	(6.3)
Net Income	2,807.8	1,874.3	872.9
Less: Net income (loss) attributable to noncontrolling interests	7.9	9.3	(.6)
Net Income Attributable to Deere & Company	$ 2,799.9	$ 1,865.0	$ 873.5
Per Share Data			
Basic	$ 6.71	$ 4.40	$ 2.07
Diluted	$ 6.63	$ 4.35	$ 2.06
Dividends declared	$ 1.52	$ 1.16	$ 1.12
Average Shares Outstanding			
Basic	417.4	424.0	422.8
Diluted	422.4	428.6	424.4

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

CONSOLIDATED BALANCE SHEET

As of October 31, 2011 and 2010

(In millions of dollars except per share amounts)

	2011	2010
ASSETS		
Cash and cash equivalents	$ 3,647.2	$ 3,790.6
Marketable securities	787.3	227.9
Receivables from unconsolidated affiliates	48.0	38.8
Trade accounts and notes receivable - net	3,294.5	3,464.2
Financing receivables - net	19,923.5	17,682.2
Financing receivables securitized - net	2,905.0	2,238.3
Other receivables	1,330.6	925.6
Equipment on operating leases - net	2,150.0	1,936.2
Inventories	4,370.6	3,063.0
Property and equipment - net	4,352.3	3,790.7
Investments in unconsolidated affiliates	201.7	244.5
Goodwill	999.8	998.6
Other intangible assets - net	127.4	117.0
Retirement benefits	30.4	146.7
Deferred income taxes	2,858.6	2,477.1
Other assets	1,180.5	1,194.0
Assets held for sale		931.4
Total Assets	$ 48,207.4	$ 43,266.8
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Short-term borrowings	$ 6,852.3	$ 5,325.7
Short-term securitization borrowings	2,777.4	2,208.8
Payables to unconsolidated affiliates	117.7	203.5
Accounts payable and accrued expenses	7,804.8	6,481.7
Deferred income taxes	168.3	144.3
Long-term borrowings	16,959.9	16,814.5
Retirement benefits and other liabilities	6,712.1	5,784.9
Total liabilities	41,392.5	36,963.4
Commitments and contingencies (Note 22)		
STOCKHOLDERS EQUITY		
Common stock, $1 par value (authorized 1,200,000,000 shares; issued 536,431,204 shares in 2011 and 2010), at paid-in amount	3,251.7	3,106.3
Common stock in treasury, 130,361,345 shares in 2011 and 114,250,815 shares in 2010, at cost	(7,292.8)	(5,789.5)
Retained earnings	14,519.4	12,353.1
Accumulated other comprehensive income (loss):		
Retirement benefits adjustment	(4,135.4)	(3,797.0)
Cumulative translation adjustment	453.8	436.0
Unrealized loss on derivatives	(8.3)	(29.2)
Unrealized gain on investments	11.9	10.6
Accumulated other comprehensive income (loss)	(3,678.0)	(3,379.6)
Total Deere & Company stockholders equity	6,800.3	6,290.3

Noncontrolling interests		14.6		13.1
Total stockholders equity		6,814.9		6,303.4
Total Liabilities and Stockholders Equity	$	48,207.4	$	43,266.8

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

STATEMENT OF CONSOLIDATED CASH FLOWS

For the Years Ended October 31, 2011, 2010 and 2009

(In millions of dollars)

	2011	2010	2009
Cash Flows from Operating Activities			
Net income	$ 2,807.8	$ 1,874.3	$ 872.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful receivables	13.5	106.4	231.8
Provision for depreciation and amortization	914.9	914.8	873.3
Goodwill impairment charges		27.2	289.2
Share-based compensation expense	69.0	71.2	70.5
Undistributed earnings of unconsolidated affiliates	11.1	(2.2)	7.0
Provision (credit) for deferred income taxes	(168.0)	175.0	171.6
Changes in assets and liabilities:			
Trade, notes and financing receivables related to sales	(808.9)	(1,100.6)	481.8
Inventories	(1,730.5)	(1,052.7)	452.5
Accounts payable and accrued expenses	1,287.0	1,057.7	(1,168.3)
Accrued income taxes payable/receivable	1.2	22.1	(234.2)
Retirement benefits	495.3	(154.1)	(27.9)
Other	(566.1)	343.1	(35.4)
Net cash provided by operating activities	2,326.3	2,282.2	1,984.8
Cash Flows from Investing Activities			
Collections of receivables (excluding receivables related to sales)	12,151.4	11,047.1	11,252.0
Proceeds from maturities and sales of marketable securities	32.4	38.4	825.1
Proceeds from sales of equipment on operating leases	683.4	621.9	477.3
Government grants related to property and equipment		92.3	
Proceeds from sales of businesses, net of cash sold	911.1	34.9	
Cost of receivables acquired (excluding receivables related to sales)	(13,956.8)	(12,493.9)	(11,234.2)
Purchases of marketable securities	(586.9)	(63.4)	(29.5)
Purchases of property and equipment	(1,056.6)	(761.7)	(906.7)
Cost of equipment on operating leases acquired	(624.2)	(551.1)	(401.4)
Acquisitions of businesses, net of cash acquired	(60.8)	(45.5)	(49.8)
Other	(113.7)	(28.1)	10.2
Net cash used for investing activities	(2,620.7)	(2,109.1)	(57.0)
Cash Flows from Financing Activities			
Increase (decrease) in total short-term borrowings	(226.1)	756.0	(1,384.8)
Proceeds from long-term borrowings	5,655.0	2,621.1	6,282.8
Payments of long-term borrowings	(3,220.8)	(3,675.7)	(3,830.3)
Proceeds from issuance of common stock	170.0	129.1	16.5
Repurchases of common stock	(1,667.0)	(358.8)	(3.2)
Dividends paid	(593.1)	(483.5)	(473.4)
Excess tax benefits from share-based compensation	70.1	43.5	4.6
Other	(48.5)	(41.4)	(141.9)
Net cash provided by (used for) financing activities	139.6	(1,009.7)	470.3
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11.4	(24.5)	42.2
Net Increase (Decrease) in Cash and Cash Equivalents	(143.4)	(861.1)	2,440.3

Cash and Cash Equivalents at Beginning of Year		3,790.6		4,651.7		2,211.4
Cash and Cash Equivalents at End of Year	$	3,647.2	$	3,790.6	$	4,651.7

The notes to consolidated financial statements are an integral part of this statement.

DEERE & COMPANY

STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS EQUITY

For the Years Ended October 31, 2009, 2010 and 2011

(In millions of dollars)

			Deere & Company Stockholders				
	Total Stockholders Equity	**Comprehensive Income (Loss)**	**Common Stock**	**Treasury Stock**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interests**
Balance October 31, 2008	$ 6,537.2		$ 2,934.0	$ (5,594.6)	$ 10,580.6	$ (1,387.3)	$ 4.5
Net income (loss)	872.9	$ 873.5			873.5		(.6)
Other comprehensive income (loss)							
Retirement benefits adjustment	(2,536.6)	(2,536.6)				(2,536.6)	
Cumulative translation adjustment	327.4	326.8				326.8	.6
Unrealized loss on derivatives	(4.0)	(4.0)				(4.0)	
Unrealized gain on investments	7.8	7.8				7.8	
Total comprehensive income	(1,332.5)	$ (1,332.5)					
Repurchases of common stock	(3.2)			(3.2)			
Treasury shares reissued	33.1			33.1			
Dividends declared	(473.6)				(473.6)		
Stock options and other	61.8		62.2				(.4)
Balance October 31, 2009	4,822.8		2,996.2	(5,564.7)	10,980.5	(3,593.3)	4.1
Net income	1,874.3	$ 1,865.0			1,865.0		9.3
Other comprehensive income (loss)							
Retirement benefits adjustment	158.0	158.0				158.0	
Cumulative translation adjustment	35.7	35.8				35.8	(.1)
Unrealized gain on derivatives	14.9	14.9				14.9	
Unrealized gain on investments	5.0	5.0				5.0	
Total comprehensive income	2,087.9	$ 2,078.7					9.2
Repurchases of common stock	(358.8)			(358.8)			
Treasury shares reissued	134.0			134.0			
Dividends declared	(492.7)				(492.3)		(.4)
Stock options and other	110.2		110.1		(.1)		.2
Balance October 31, 2010	6,303.4		3,106.3	(5,789.5)	12,353.1	(3,379.6)	13.1
Net income	2,807.8	$ 2,799.9			2,799.9		7.9
Other comprehensive income (loss)							
Retirement benefits adjustment	(338.4)	(338.4)				(338.4)	
Cumulative translation adjustment	17.8	17.8				17.8	
Unrealized gain on derivatives	20.9	20.9				20.9	
Unrealized gain on investments	1.3	1.3				1.3	
Total comprehensive income	2,509.4	$ 2,501.5					7.9
Repurchases of common stock	(1,667.0)			(1,667.0)			
Treasury shares reissued	163.7			163.7			
Dividends declared	(638.0)				(633.5)		(4.5)
Stock options and other	143.4		145.4		(.1)		(1.9)
Balance October 31, 2011	$ 6,814.9		$ 3,251.7	$ (7,292.8)	$ 14,519.4	$ (3,678.0)	$ 14.6

The notes to consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND CONSOLIDATION

Structure of Operations

The information in the notes and related commentary are presented in a format which includes data grouped as follows:

Equipment Operations Includes the company s agriculture and turf operations and construction and forestry operations with financial services reflected on the equity basis.

Financial Services Includes the company s financial services operations, which consist of the previous credit segment and the Other segment that was combined at the beginning of fiscal year 2011 into the financial services segment. The Other segment consisted of an insurance business that did not meet the materiality threshold of reporting. It was previously included as a separate segment in Financial Services (see Note 28).

Consolidated Represents the consolidation of the equipment operations and financial services. References to Deere & Company or the company refer to the entire enterprise.

Principles of Consolidation

The consolidated financial statements represent primarily the consolidation of all companies in which Deere & Company has a controlling interest. Certain variable interest entities (VIEs) are consolidated since the company has both the power to direct the activities that most significantly impact the VIEs economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs. Deere & Company records its investment in each unconsolidated affiliated company (generally 20 to 50 percent ownership) at its related equity in the net assets of such affiliate (see Note 10). Other investments (less than 20 percent ownership) are recorded at cost.

Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2011 financial statement presentation. Short-term securitization borrowings have been shown separately from other short-term borrowings on the Consolidated Balance Sheet as a result of the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2009-17 (see Note 3). In the Supplemental Consolidating Data in Note 31, the costs and collections of trade receivables and wholesale notes for the financial services statement of cash flows investing activities have been presented on a net basis. These receivables have short durations with a high turnover rate. The total cash flows for the financial services investing activities have not changed. The presentation of these receivables on the Statement of Consolidated Cash Flows has also not changed and continues to be shown as an adjustment to net income in the operating activities since they are related to sales.

Variable Interest Entities

The company is the primary beneficiary of and consolidates a VIE based on a cost sharing supply contract. The company has both the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. No additional support beyond what was previously contractually required has been provided during any periods presented. The VIE produces blended fertilizer and other lawn care products for the agriculture and turf segment.

The assets and liabilities of this supplier VIE consisted of the following at October 31 in millions of dollars:

		2011		2010
Cash and cash equivalents	$	11	$	5
Intercompany receivables		14		10
Inventories		30		32
Property and equipment net		3		4
Other assets		3		6
Total assets	$	61	$	57
Accounts payable and accrued expenses	$	56	$	55
Total liabilities	$	56	$	55

The VIE is financed primarily through its own liabilities. The assets of the VIE can only be used to settle the obligations of the VIE. The creditors of the VIE do not have recourse to the general credit of the company.

The company previously consolidated certain wind energy entities that were VIEs, which invested in wind farms that own and operate turbines to generate electrical energy. In December 2010, the company sold John Deere Renewables, LLC, which included these VIEs and other wind energy entities. The assets of these VIEs were classified as held for sale at October 31, 2010 (see Note 4). No additional support to the VIEs beyond what was previously contractually required has been provided during any periods presented.

The assets and liabilities of these wind energy VIEs consisted of the following at October 31 in millions of dollars:

		2010
Total assets held for sale*	$	133
Intercompany borrowings	$	50
Accounts payable and accrued expenses		5
Total liabilities	$	55

* Included $129 million property and equipment and $4 million other assets.

The VIEs were financed primarily through intercompany borrowings and equity. The VIEs   assets were pledged as security interests for the intercompany borrowings. The remaining creditors of the VIEs did not have recourse to the general credit of the company.

See Note 13 for VIEs related to securitization of financing receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are significant accounting policies in addition to those included in other notes to the consolidated financial statements.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ from those estimates.

Revenue Recognition

Sales of equipment and service parts are recorded when the sales price is determinable and the risks and rewards of ownership are transferred to independent parties based on the sales agreements in effect. In the U.S. and most international locations, this transfer occurs primarily when goods are shipped. In Canada and some other international locations, certain goods are shipped to dealers on a consignment basis under which the risks and rewards of ownership are not transferred to the dealer. Accordingly, in these locations, sales are not recorded until a retail customer has purchased the goods. In all cases, when a sale is recorded by the company, no significant uncertainty exists surrounding the purchaser s obligation to pay. No right of return exists on sales of equipment. Service parts returns are estimable and accrued at the time a sale is recognized. The company makes appropriate provisions based on experience for costs such as doubtful receivables, sales incentives and product warranty.

Financing revenue is recorded over the lives of related receivables using the interest method. Insurance premiums recorded in other income are generally recognized in proportion to the costs expected to be incurred over the contract period. Deferred costs on the origination of financing receivables are recognized as a reduction in finance revenue over the expected lives of the receivables using the interest method. Income and deferred costs on the origination of operating leases are recognized on a straight-line basis over the scheduled lease terms in finance revenue.

Sales Incentives

At the time a sale is recognized, the company records an estimate of the future sales incentive costs for allowances and financing programs that will be due when a dealer sells the equipment to a retail customer. The estimate is based on historical data, announced incentive programs, field inventory levels and retail sales volumes.

Product Warranties

At the time a sale is recognized, the company records the estimated future warranty costs. These costs are usually estimated based on historical warranty claims (see Note 22).

Sales Taxes

The company collects and remits taxes assessed by different governmental authorities that are both imposed on and concurrent with revenue producing transactions between the company and its customers. These taxes may include sales, use, value-added and some excise taxes. The company reports the collection of these taxes on a net basis (excluded from revenues).

Shipping and Handling Costs

Shipping and handling costs related to the sales of the company s equipment are included in cost of sales.

Advertising Costs

Advertising costs are charged to expense as incurred. This expense was $163 million in 2011, $154 million in 2010 and $175 million in 2009.

Depreciation and Amortization

Property and equipment, capitalized software and other intangible assets are stated at cost less accumulated depreciation or amortization. These assets are depreciated over their estimated useful lives generally using the straight-line method. Equipment on operating leases is depreciated over the terms of the leases using the straight-line method. Property and equipment expenditures for new and revised products, increased capacity and the replacement or major renewal of significant items are capitalized. Expenditures for maintenance, repairs and minor renewals are generally charged to expense as incurred.

Securitization of Receivables

Certain financing receivables are periodically transferred to special purpose entities (SPEs) in securitization transactions (see Note 13). These securitizations qualify as collateral for secured borrowings and no gains or losses are recognized at the time of securitization. The receivables remain on the balance sheet and are classified as Financing receivables securitized - net. The company recognizes finance income over the lives of these receivables using the interest method.

Receivables and Allowances

All financing and trade receivables are reported on the balance sheet at outstanding principal adjusted for any charge-offs, the allowance for credit losses and doubtful accounts, and any deferred fees or costs on originated financing receivables. Allowances for credit losses and doubtful accounts are maintained in amounts considered to be appropriate in relation to the receivables outstanding based on collection experience, economic conditions and credit risk quality. Receivables are written-off to the allowance when the account is considered uncollectible.

Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets

The company evaluates the carrying value of long-lived assets (including property and equipment, goodwill and other intangible assets) when events or circumstances warrant such a review. Goodwill and intangible assets with indefinite lives are tested for impairment annually at the end of the third fiscal quarter each year, or more often if events or circumstances indicate a reduction in the fair value below the carrying value. Goodwill is allocated and reviewed for impairment by reporting units, which consist primarily of the operating segments and certain other reporting units. The goodwill is allocated to the reporting unit in which the business that created the goodwill resides. To test for goodwill impairment, the carrying value of each reporting unit is compared with its fair value. If the carrying value of the goodwill or long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset (see Note 5).

Derivative Financial Instruments

It is the company s policy that derivative transactions are executed only to manage exposures arising in the normal course of business and not for the purpose of creating speculative positions or trading. The company s financial services manage the relationship of the types and amounts of their funding sources to their receivable and lease portfolio in an effort to diminish risk due to interest rate and foreign currency fluctuations, while responding to favorable financing opportunities. The company also has foreign currency exposures at some of its foreign and domestic operations related to buying, selling and financing in currencies other than the functional currencies.

All derivatives are recorded at fair value on the balance sheet. Cash collateral received or paid is not offset against the derivative fair values on the balance sheet. Each derivative is designated as either a cash flow hedge, a fair value hedge, or remains undesignated. Changes in the fair value of derivatives that are designated and effective as cash flow hedges are recorded in other comprehensive income and reclassified to the income statement when the effects of the item being hedged are recognized in the income statement. Changes in the fair value of derivatives that are designated and effective as fair value hedges are recognized currently in net income. These changes are offset in net income to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. Changes in the fair value of undesignated hedges are recognized currently in the income statement. All ineffective changes in derivative fair values are recognized currently in net income.

All designated hedges are formally documented as to the relationship with the hedged item as well as the risk-management strategy. Both at inception and on an ongoing basis the hedging instrument is assessed as to its effectiveness. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedged transaction is no longer likely to occur, or the hedge designation is removed, or the derivative is terminated, the hedge accounting discussed above is discontinued (see Note 27).

Foreign Currency Translation

The functional currencies for most of the company s foreign operations are their respective local currencies. The assets and liabilities of these operations are translated into U.S. dollars at the end of the period exchange rates. The revenues and expenses are translated at weighted-average rates for the period. The gains or losses from these translations are recorded in other comprehensive income. Gains or losses from transactions denominated in a currency other than the functional currency of the subsidiary involved and foreign exchange forward contracts are included in net income. The pretax net losses for foreign exchange in 2011, 2010 and 2009 were $121 million, $75 million and $68 million, respectively.

3. NEW ACCOUNTING STANDARDS

New Accounting Standards Adopted

In the first quarter of 2011, the company adopted FASB ASU No. 2009-16, Accounting for Transfers of Financial Assets, which amends Accounting Standards Codification (ASC) 860, Transfers and Servicing (FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140). This ASU eliminates the qualifying special purpose entities from the consolidation guidance and clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. It requires additional disclosures about the risks from continuing involvement in transferred financial assets accounted for as sales. The adoption did not have a material effect on the company s consolidated financial statements.

In the first quarter of 2011, the company adopted FASB ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which amends ASC 810, Consolidation (FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)). This ASU requires a qualitative analysis to determine the primary beneficiary of a VIE. The analysis identifies the primary beneficiary as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The adoption did not have a material effect on the company s consolidated financial statements.

In the first quarter of 2011, the company adopted FASB ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables. This ASU requires disclosures related to financing receivables and the allowance for credit losses by portfolio segment. The ASU also requires disclosures of information regarding the credit quality, aging, nonaccrual status and impairments by class of receivable. A portfolio segment is the level at which a creditor develops a systematic methodology for determining its credit allowance. A receivable class is a subdivision of a portfolio segment with similar measurement attributes, risk characteristics and common methods to monitor and assess credit risk. The adoption did not have a material effect on the company s consolidated financial statements.

In the fourth quarter of 2011, the company adopted FASB ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends ASC 310, Receivables. This ASU states that a troubled debt restructuring occurs when a creditor grants a concession it would not otherwise consider to a debtor that is experiencing financial difficulties. Certain disclosures are required for transactions that qualify as troubled debt restructurings. The adoption did not have a material effect on the company s consolidated financial statements.

New Accounting Standards to be Adopted

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends ASC 820, Fair Value Measurements and Disclosures. This ASU requires disclosures of transfers into and out of Levels 1 and 2, more detailed roll forward reconciliations of Level 3 recurring fair value measurements on a gross basis, fair value information by class of assets and liabilities, and descriptions of valuation techniques and inputs for Level 2 and 3 measurements.

The effective date was the second quarter of fiscal year 2010 except for the roll forward reconciliations, which are required in the first quarter of fiscal year 2012. The adoption in 2010 did not have a material effect and the future adoption will not have a material effect on the company s consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends ASC 820, Fair Value Measurement. This ASU requires the categorization by level for items that are required to be disclosed at fair value and information about transfers between Level 1 and Level 2 and additional disclosure for Level 3 measurements. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The effective date will be the second quarter of fiscal year 2012. The adoption will not have a material effect on the company s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which amends ASC 220, Comprehensive Income. This ASU requires the presentation of total comprehensive income, total net income and the components of net income and comprehensive income either in a single continuous statement or in two separate but consecutive statements. The requirements do not change how earnings per share is calculated or presented. The effective date will be the first quarter of fiscal year 2013 and must be applied retrospectively. The adoption will not have a material effect on the company s consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment, which amends ASC 350, Intangibles - Goodwill and Other. This ASU gives an entity the option to first assess qualitative factors to determine if goodwill is impaired. The entity may first determine based on qualitative factors if it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If that assessment indicates no impairment, the first and second steps of the quantitative goodwill impairment test are not required. The effective date will be the first quarter of fiscal year 2013 with early adoption permitted. The adoption will not have a material effect on the company s consolidated financial statements.

4. ACQUISITIONS AND DISPOSITIONS

In December 2010, the company acquired the remaining 64 percent ownership interest in A&I Products, Inc., a manufacturer and wholesale distributor of replacement parts, for approximately $48 million. The fair values assigned to the total assets and liabilities related to the acquired entity were approximately $8 million of receivables, $52 million of inventories, $22 million of property and equipment, $18 million of identifiable intangible assets, $3 million of other assets, $8 million of accounts payable and accrued expenses, $4 million of short-term borrowings, $9 million of deferred tax liabilities and $11 million of long-term borrowings. The goodwill generated in the transaction was not significant. The identifiable intangibles were primarily related to customer lists and relationships, which have amortization periods with a weighted average of six years. The fair value at acquisition date of the original equity interest was $23 million. The remeasurement of the equity interest from the previous carrying value to fair value was not significant. The entity was consolidated and the results of these operations have been included in the company s consolidated financial statements in the agriculture and turf segment since the date of the acquisition. The pro forma results of operations as if the acquisition had occurred at the beginning of the current or comparative fiscal year would not differ significantly from the reported results.

In December 2010, the company sold John Deere Renewables, LLC, its wind energy business for approximately $900 million. The company had concluded that its resources were best invested in growing its core businesses. These assets were reclassified as held for sale and written down to fair value less cost to sell at October 31, 2010 (see Note 26). The asset write-down in the fourth quarter of 2010 was $35 million pretax and included in Other operating expenses. The assets classified as held for sale after the write-down consisted of $908 million of wind energy investments previously included in property and equipment and $23 million of other miscellaneous assets. At October 31, 2010, the liabilities to be sold, which were recorded in accounts payable and accrued expenses, totaled $35 million and the related noncontrolling interest was $2 million.

5. SPECIAL ITEMS

Restructuring

In September 2008, the company announced it would close its manufacturing facility in Welland, Ontario, Canada, and transfer production to company operations in Horicon, Wisconsin, U.S., and Monterrey and Saltillo, Mexico. The Welland factory manufactured utility vehicles and attachments for the agriculture and turf business. The factory discontinued manufacturing in the fourth quarter of 2009. The move supported ongoing efforts aimed at improved efficiency and profitability.

The closure resulted in total expenses recognized in cost of sales in millions of dollars as follows:

	2008	2009	2010	Total
Pension and other postretirement benefits	$ 10	$ 27	$ 6	$ 43
Property and equipment impairments	21	3	1	25
Employee termination benefits	18	7		25
Other expenses		11	8	19
Total	$ 49	$ 48	$ 15	$ 112

All expenses were included in the agriculture and turf operating segment. The pretax cash expenditures associated with this closure through 2010 were approximately $60 million. The expenditures in 2011 were not significant. The annual pretax increase in earnings and cash flows due to this restructuring was approximately $40 million in 2011. Property and equipment impairment values were based primarily on market appraisals. The remaining liability for employee termination benefits at October 31, 2011 was not significant.

Voluntary Employee Separations

The company combined the agricultural equipment segment and the commercial and consumer equipment segment into the agriculture and turf segment effective at the beginning of the third quarter of 2009. Voluntary employee separations related to the new organizational structure resulted in pretax expenses of $91 million in 2009. The expenses were approximately 60 percent cost of sales and 40 percent selling, administrative and general expenses.

Goodwill Impairment

In the fourth quarter of 2010, the company recorded a non-cash charge in cost of sales for the impairment of goodwill of $27 million pretax, or $25 million after-tax. The charge was associated with the company s John Deere Water reporting unit, which is included in the agriculture and turf operating segment. The goodwill impairment was due to a decline in the forecasted financial performance as a result of the global economic downturn and more complex integration activities.

In the fourth quarter of 2009, the company recorded a non-cash charge in cost of sales for the impairment of goodwill of $289 million pretax, or $274 million after-tax. The charge was associated with the company s John Deere Landscapes reporting unit, which is included in the agriculture and turf operating segment. The key factor contributing to the goodwill impairment was a decline in the reporting unit s forecasted financial performance as a result of weak economic conditions.

The methods for determining the fair value of the reporting units to measure the fair value of the goodwill included a combination of discounted cash flows and comparable market values for similar businesses (see Note 26).

6. CASH FLOW INFORMATION

For purposes of the statement of consolidated cash flows, the company considers investments with purchased maturities of three months or less to be cash equivalents. Substantially all of the company s short-term borrowings, excluding the current maturities of long-term borrowings, mature or may require payment within three months or less.

The equipment operations sell a significant portion of their trade receivables to financial services. These intercompany cash flows are eliminated in the consolidated cash flows.

All cash flows from the changes in trade accounts and notes receivable (see Note 12) are classified as operating activities in the statement of consolidated cash flows as these receivables arise from sales to the company s customers. Cash flows from financing receivables that are related to sales to the company s customers (see Note 12) are also included in operating activities. The remaining financing receivables are related to the financing of equipment sold by independent dealers and are included in investing activities.

The company had the following non-cash operating and investing activities that were not included in the statement of consolidated cash flows. The company transferred inventory to equipment on operating leases of $449 million, $405 million and $320 million in 2011, 2010 and 2009, respectively. The company also had accounts payable related to purchases of property and equipment of $135 million, $135 million and $81 million at October 31, 2011, 2010 and 2009, respectively.

Cash payments (receipts) for interest and income taxes consisted of the following in millions of dollars:

	2011	2010	2009
Interest:			
Equipment operations	$ 370	$ 378	$ 388
Financial services	616	679	878
Intercompany eliminations	(231)	(229)	(273)
Consolidated	$ 755	$ 828	$ 993
Income taxes:			
Equipment operations	$ 1,379	$ 639	$ 170
Financial services	336	(63)	(73)
Intercompany eliminations	(266)	51	109
Consolidated	$ 1,449	$ 627	$ 206

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

The company has several defined benefit pension plans covering its U.S. employees and employees in certain foreign countries. The company has several postretirement health care and life insurance plans for retired employees in the U.S. and Canada. The company uses an October 31 measurement date for these plans.

The components of net periodic pension cost and the assumptions related to the cost consisted of the following in millions of dollars and in percents:

	2011	2010	2009
Pensions			
Service cost	$ 197	$ 176	$ 124
Interest cost	492	510	563
Expected return on plan assets	(793)	(761)	(739)
Amortization of actuarial losses	148	113	1
Amortization of prior service cost	46	42	25
Early-retirement benefits			4
Settlements/curtailments	1	24	27
Net cost	$ 91	$ 104	$ 5

Weighted-average assumptions			
Discount rates	5.0%	5.5%	8.1%
Rate of compensation increase	3.9%	3.9%	3.9%
Expected long-term rates of return	8.1%	8.3%	8.3%

The components of net periodic postretirement benefits cost and the assumptions related to the cost consisted of the following in millions of dollars and in percents:

	2011	2010	2009
Health care and life insurance			
Service cost	$ 44	$ 44	$ 28
Interest cost	326	337	344
Expected return on plan assets	(113)	(122)	(118)
Amortization of actuarial losses	271	311	65
Amortization of prior service credit	(16)	(16)	(12)
Early-retirement benefits			1
Settlements/curtailments			(1)
Net cost	$ 512	$ 554	$ 307
Weighted-average assumptions			
Discount rates	5.2%	5.6%	8.2%
Expected long-term rates of return	7.7%	7.8%	7.8%

The above benefit plan costs in net income and other changes in plan assets and benefit obligations in other comprehensive income in millions of dollars were as follows:

		Pensions			Health Care and Life Insurance	
	2011	2010	2009	2011	2010	2009
Net costs	$ 91	$ 104	$ 5	$ 512	$ 554	$ 307
Retirement benefits adjustments included in other comprehensive (income) loss:						
Net actuarial losses (gains)	848	227	2,087	132	(28)	2,024
Prior service cost (credit)	9	14	147			(60)
Amortization of actuarial losses	(148)	(113)	(1)	(271)	(311)	(65)
Amortization of prior service (cost) credit	(46)	(42)	(25)	16	16	12
Settlements/curtailments	(1)	(24)	(27)			1
Total (gain) loss recognized in other comprehensive (income) loss	662	62	2,181	(123)	(323)	1,912
Total recognized in comprehensive (income) loss	$ 753	$ 166	$ 2,186	$ 389	$ 231	$ 2,219

In 2011, the company decided to participate in a prescription drug plan to provide group benefits under Medicare Part D as an alternative to collecting the retiree drug subsidy. This change, which will take effect in 2013, is expected to result in future cost savings to the company greater than the Medicare retiree drug subsidies over time. The change is included in the health care postretirement benefit obligation in 2011. The participants level of benefits will not be affected.

The benefit plan obligations, funded status and the assumptions related to the obligations at October 31 in millions of dollars follow:

	Pensions 2011	Pensions 2010	Health Care and Life Insurance 2011	Health Care and Life Insurance 2010
Change in benefit obligations				
Beginning of year balance	$ (10,197)	$ (9,708)	$ (6,467)	$ (6,318)
Service cost	(197)	(176)	(44)	(44)
Interest cost	(492)	(510)	(326)	(337)
Actuarial losses	(656)	(517)	(113)	(69)
Amendments	(9)	(14)		
Benefits paid	648	681	340	325
Health care subsidy receipts			(14)	(15)
Settlements/curtailments	1	17		
Foreign exchange and other	(23)	30	(28)	(9)
End of year balance	(10,925)	(10,197)	(6,652)	(6,467)
Change in plan assets (fair value)				
Beginning of year balance	9,504	8,401	1,637	1,666
Actual return on plan assets	600	1,054	95	219
Employer contribution	79	763	43	73
Benefits paid	(648)	(681)	(340)	(325)
Settlements	(1)	(17)		
Foreign exchange and other	18	(16)	24	4
End of year balance	9,552	9,504	1,459	1,637
Funded status	$ (1,373)	$ (693)	$ (5,193)	$ (4,830)
Weighted-average assumptions				
Discount rates	4.4%	5.0%	4.4%	5.2%
Rate of compensation increase	3.9%	3.9%		

The amounts recognized at October 31 in millions of dollars consist of the following:

	Pensions 2011	Pensions 2010	Health Care and Life Insurance 2011	Health Care and Life Insurance 2010
Amounts recognized in balance sheet				
Noncurrent asset	$ 30	$ 147		
Current liability	(60)	(55)	$ (23)	$ (27)
Noncurrent liability	(1,343)	(785)	(5,170)	(4,803)
Total	$ (1,373)	$ (693)	$ (5,193)	$ (4,830)
Amounts recognized in accumulated other comprehensive income pretax				
Net actuarial losses	$ 4,473	$ 3,774	$ 2,067	$ 2,206
Prior service cost (credit)	147	184	(64)	(80)
Total	$ 4,620	$ 3,958	$ 2,003	$ 2,126

The total accumulated benefit obligations for all pension plans at October 31, 2011 and 2010 was $10,363 million and $9,734 million, respectively.

The accumulated benefit obligations and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $10,168 million and $9,321 million, respectively, at October 31, 2011 and $1,039 million and $583 million, respectively, at October 31, 2010. The projected benefit obligations and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were $10,784 million and $9,381 million, respectively, at October 31, 2011 and $6,407 million and $5,567 million, respectively, at October 31, 2010.

The amounts in accumulated other comprehensive income that are expected to be amortized as net expense (income) during fiscal 2012 in millions of dollars follow:

	Pensions	Health Care and Life Insurance
Net actuarial losses	$ 201	$ 239
Prior service cost (credit)	42	(15)
Total	$ 243	$ 224

The company expects to contribute approximately $439 million to its pension plans and approximately $27 million to its health care and life insurance plans in 2012, which include direct benefit payments on unfunded plans.

The benefits expected to be paid from the benefit plans, which reflect expected future years of service, and the Medicare subsidy expected to be received are as follows in millions of dollars:

	Pensions	Health Care and Life Insurance	Health Care Subsidy Receipts*
2012	$ 680	$ 360	$ 17
2013	677	375	3
2014	684	391	
2015	680	406	
2016	684	418	
2017 to 2021	3,723	2,244	

* Medicare Part D subsidy.

The annual rates of increase in the per capita cost of covered health care benefits (the health care cost trend rates) used to determine accumulated postretirement benefit obligations were based on the trends for medical and prescription drug claims for pre- and post-65 age groups due to the effects of Medicare. At October 31, 2011, the weighted-average composite trend rates for these obligations were assumed to be a 7.3 percent increase from 2011 to 2012, gradually decreasing to 5.0 percent from 2017 to 2018 and all future years. The obligations at October 31, 2010 and the cost in 2011 assumed a 7.7 percent increase from 2010 to 2011, gradually decreasing to 5.0 percent from 2016 to 2017 and all future years.

An increase of one percentage point in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligations by $900 million and the aggregate of service and interest cost component of net periodic postretirement benefits cost for the year by $55 million. A decrease of one percentage point would decrease the obligations by $695 million and the cost by $43 million.

The discount rate assumptions used to determine the postretirement obligations at October 31, 2011 and 2010 were based on hypothetical AA yield curves represented by a series of annualized individual discount rates. These discount rates represent the rates at which the company s benefit obligations could effectively be settled at the October 31 measurement dates.

Fair value measurement levels in the following tables are defined in Note 26.

The fair values of the pension plan assets by category at October 31, 2011 follow in millions of dollars:

Cash and short-term investments	$ 1,074	$ 179	$ 895	
Equity:				
U.S. equity securities	2,070	2,070		
U.S. equity funds	49	11	38	
International equity securities	1,086	1,086		
International equity funds	319	29	290	
Fixed Income:				
Government and agency securities	543	516	27	
Corporate debt securities	196		196	
Residential mortgage-backed and asset-backed securities	180		180	
Fixed income funds	1,077	54	1,023	
Real estate	505	75	14	$ 416
Private equity/venture capital	1,123			1,123
Hedge funds	608	3	462	143
Other investments	448		448	
Derivative contracts - assets*	787	21	766	
Derivative contracts - liabilities**	(473)	(15)	(458)	
Receivables, payables and other	(40)	(40)		
Securities lending collateral	750		750	
Securities lending liability	(750)		(750)	
Total net assets	$ 9,552	$ 3,989	$ 3,881	$ 1,682

* Includes contracts for interest rates of $742 million, foreign currency of $19 million and other of $26 million.

** Includes contracts for interest rates of $442 million, foreign currency of $17 million and other of $14 million.

The fair values of the health care assets by category at October 31, 2011 follow in millions of dollars:

	Total	Level 1	Level 2	Level 3
Cash and short-term investments	$ 58	$ 7	$ 51	
Equity:				
U.S. equity securities	372	372		
U.S. equity funds	84	84		
International equity securities	64	64		
International equity funds	210		210	
Fixed Income:				
Government and agency securities	250	246	4	
Corporate debt securities	39		39	
Residential mortgage-backed and asset-backed securities	22		22	
Fixed income funds	107		107	
Real estate	57	4	32	$ 21
Private equity/venture capital	55			55
Hedge funds	110		103	7
Other investments	22		22	
Derivative contracts - assets*	12	1	11	
Derivative contracts - liabilities**	(2)	(1)	(1)	
Receivables, payables and other	(1)	(1)		
Securities lending collateral	215		215	
Securities lending liability	(215)		(215)	
Total net assets	$ 1,459	$ 776	$ 600	$ 83

* Includes contracts for interest rates of $10 million, foreign currency of $1 million and other of $1 million.

** Includes contracts for foreign currency of $1 million and other of $1 million.

The fair values of the pension plan assets by category at October 31, 2010 follow in millions of dollars:

	Total	Level 1	Level 2	Level 3
Cash and short-term investments	$ 1,782	$ 347	$ 1,435	
Equity:				
U.S. equity securities	1,991	1,985	6	
U.S. equity funds	40	4	36	
International equity securities	1,208	1,205	3	
International equity funds	381	52	329	
Fixed Income:				
Government and agency securities	792	363	429	
Corporate debt securities	263	1	262	
Residential mortgage-backed and asset-backed securities	197		197	
Fixed income funds	350	39	311	
Real estate	459	87	14	$ 358
Private equity/venture capital	864			864
Hedge funds	499	3	351	145
Other investments	436		436	

Derivative contracts - assets*	900	30	870	
Derivative contracts - liabilities**	(588)	(7)	(581)	
Receivables, payables and other	(70)	(70)		
Securities lending collateral	665		665	
Securities lending liability	(665)		(665)	
Total net assets	$ 9,504	$ 4,039	$ 4,098	$ 1,367

* Includes contracts for interest rates of $820 million, foreign currency of $52 million and other of $28 million.

** Includes contracts for interest rates of $511 million, foreign currency of $72 million and other of $5 million.

The fair values of the health care assets by category at October 31, 2010 follow in millions of dollars:

	Total	Level 1	Level 2	Level 3
Cash and short-term investments	$ 146	$ 23	$ 123	
Equity:				
U.S. equity securities	515	515		
International equity securities	75	75		
International equity funds	247	1	246	
Fixed Income:				
Government and agency securities	283	255	28	
Corporate debt securities	43		43	
Residential mortgage-backed and asset-backed securities	28		28	
Fixed income funds	74		74	
Real estate	58	5	33	$ 20
Private equity/venture capital	48			48
Hedge funds	86		78	8
Other investments	24		24	
Derivative contracts - assets*	17	2	15	
Derivative contracts - liabilities**	(4)		(4)	
Receivables, payables and other	(3)	(3)		
Securities lending collateral	263		263	
Securities lending liability	(263)		(263)	
Total net assets	$ 1,637	$ 873	$ 688	$ 76

* Includes contracts for interest rates of $12 million, foreign currency of $3 million and other of $2 million.

** Includes contracts for foreign currency of $4 million.

A reconciliation of Level 3 pension and health care asset fair value measurements in millions of dollars follows:

[redacted]

October 31, 2009*	$ 1,233	$ 336	$ 716	$ 181
Realized gain	21	16	4	1
Change in unrealized gain (loss)	90	(13)	97	6

Purchases, sales and settlements - net		99		39		95		(35)
October 31, 2010*		1,443		378		912		153
Realized gain		33				32		1
Change in unrealized gain		192		48		141		3
Purchases, sales and settlements - net		97		11		93		(7)
October 31, 2011*	$	1,765	$	437	$	1,178	$	150

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* Health care Level 3 assets represent approximately 5 percent of the reconciliation amounts.

Fair values are determined as follows:

Cash and Short-Term Investments Includes accounts and cash funds that are valued based on the account value, which approximates fair value, or on the fund s net asset value (NAV) based on the fair value of the underlying securities. Also included are securities that are valued using a market approach (matrix pricing model) in which all significant inputs are observable or can be derived from or corroborated by observable market data.

Equity Securities and Funds The values are determined primarily by closing prices in the active market in which the equity investment trades, or the fund s NAV, based on the fair value of the underlying securities.

Fixed Income Securities and Funds The securities are valued using either a market approach (matrix pricing model) in which all significant inputs are observable or can be derived from or corroborated by observable market data such as interest rates, yield curves, volatilities, credit risk and prepayment speeds, or they are valued using the closing prices in the active market in which the fixed income investment trades. Fixed income funds are valued using the NAV, based on the fair value of the underlying securities.

Real Estate, Venture Capital and Private Equity The investments, which are structured as limited partnerships, are valued using an income approach (estimated cash flows discounted over the expected holding period), as well as a market approach (the valuation of similar securities and properties). These investments are valued at estimated fair value based on their proportionate share of the limited partnership s fair value that is determined by the general partner. Real estate investment trusts are valued at the closing prices in the active markets in which the investment trades. Real estate investment funds are valued at the NAV, based on the fair value of the underlying securities.

Hedge Funds and Other Investments The investments are valued using the NAV provided by the administrator of the fund, which is based on the fair value of the underlying securities.

Interest Rate, Foreign Currency and Other Derivative Instruments The derivatives are valued using either an income approach (discounted cash flow) using market observable inputs, including swap curves and both forward and spot exchange rates, or a market approach (closing prices in the active market in which the derivative instrument trades).

The primary investment objective for the pension plan assets is to maximize the growth of these assets to meet the projected obligations to the beneficiaries over a long period of time, and to do so in a manner that is consistent with the company s earnings strength and risk tolerance. The primary investment objective for the health care plan assets is to provide the company with the financial flexibility to pay the projected obligations to beneficiaries over a long period of time. The asset allocation policy is the most important decision in managing the assets and it is reviewed regularly. The asset allocation policy considers the company s financial strength and long-term asset class risk/return expectations since the obligations are long-term in nature. The current target allocations for pension assets are approximately 37 percent for equity securities, 39 percent for debt securities, 5 percent for real estate and 19 percent for other investments. The target allocations for health care assets are approximately 50 percent for equity securities, 33 percent for debt securities, 3 percent for real estate and 14 percent for other investments. The allocation percentages above include the effects of combining derivatives with other investments to manage asset allocations and exposures to interest rates and foreign currency exchange. The assets are well diversified and are managed by professional investment firms as well as by investment professionals who are company employees. As a result of the company s diversified investment policy, there were no significant concentrations of risk.

The expected long-term rate of return on plan assets reflects management s expectations of long-term average rates of return on funds invested to provide for benefits included in the projected benefit obligations. The expected return is based on the outlook for inflation and for returns in multiple asset classes, while also considering historical returns, asset allocation and investment strategy. The company s approach has emphasized the long-term nature of the return estimate such that the return assumption is not changed unless there are fundamental changes in capital markets that affect the company s expectations for returns over an extended period of time (i.e., 10 to 20 years). The average annual return of the company s U.S. pension fund was approximately 7.6 percent during the past ten years and approximately 9.6 percent during the past 20 years. Since return premiums over inflation and total returns for major asset classes vary widely even over ten-year periods, recent history is not necessarily indicative of long-term future expected returns. The company s systematic methodology for determining the long-term rate of return for the company s investment strategies supports the long-term expected return assumptions.

The company has created certain Voluntary Employees Beneficiary Association trusts (VEBAs) for the funding of postretirement health care benefits. The future expected asset returns for these VEBAs are lower than the expected return on the other pension and health care plan assets due to investment in a higher proportion of liquid securities. These assets are in addition to the other postretirement health care plan assets that have been funded under Section 401(h) of the U.S. Internal Revenue Code and maintained in a separate account in the company s pension plan trust.

The company has defined contribution plans related to employee investment and savings plans primarily in the U.S. The company s contributions and costs under these plans were $108 million in 2011, $85 million in 2010 and $131 million in 2009. The contribution rate varies primarily based on the company s performance in the prior year and employee participation in the plans.

8. INCOME TAXES

The provision for income taxes by taxing jurisdiction and by significant component consisted of the following in millions of dollars:

	2011	2010	2009
Current:			
U.S.:			