

CATERPILLAR INC  
Form 10-Q  
May 02, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-768

CATERPILLAR INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation)

37-0602744  
(IRS Employer I.D. No.)

510 Lake Cook Road, Suite 100, Deerfield, Illinois  
(Address of principal executive offices)

60015  
(Zip Code)

Registrant's telephone number, including area code: (224) 551-4000

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

Indicate by check mark 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At March 31, 2018, 597,904,900 shares of common stock of the registrant were outstanding.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Caterpillar Inc.

Consolidated Statement of Results of Operations

(Unaudited)

(Dollars in millions except per share data)

	Three Months Ended March 31	
	2018	2017
Sales and revenues:		
Sales of Machinery, Energy & Transportation	\$ 12,150	\$ 9,130
Revenues of Financial Products	709	692
Total sales and revenues	12,859	9,822
Operating costs:		
Cost of goods sold	8,566	6,801
Selling, general and administrative expenses	1,276	1,061
Research and development expenses	443	425
Interest expense of Financial Products	166	159
Other operating (income) expenses	300	996
Total operating costs	10,751	9,442
Operating profit	2,108	380
Interest expense excluding Financial Products	101	123
Other income (expense)	127	32
Consolidated profit before taxes	2,134	289
Provision (benefit) for income taxes	472	90
Profit of consolidated companies	1,662	199
Equity in profit (loss) of unconsolidated affiliated companies	5	(5 )
Profit of consolidated and affiliated companies	1,667	194
Less: Profit (loss) attributable to noncontrolling interests	2	2
Profit <sup>1</sup>	\$ 1,665	\$ 192
Profit per common share	\$ 2.78	\$ 0.33
Profit per common share – diluted <sup>2</sup>	\$ 2.74	\$ 0.32
Weighted-average common shares outstanding (millions)		
– Basic	598.0	587.5

– Diluted <sup>2</sup>	608.0	593.2
Cash dividends declared per common share	\$—	\$—

<sup>1</sup> Profit attributable to common shareholders.

<sup>2</sup> Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc. Consolidated Statement of Comprehensive Income (Unaudited) (Dollars in millions)	Three Months Ended March 31	
	2018	2017
Profit of consolidated and affiliated companies	\$1,667	\$194
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2018 - \$15; 2017 - \$7	184	147
Pension and other postretirement benefits:		
Current year prior service credit (cost), net of tax (provision)/benefit of: 2018 - \$1; 2017 - \$(4)	(2)	8
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2018 - \$2; 2017 - \$1	(7)	(4)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - \$(1); 2017 - \$(5)	5	10
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - \$(6); 2017 - \$(22)	18	40
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - \$2; 2017 - \$(6)	(11)	8
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - \$0; 2017 - \$(1)	—	3
Total other comprehensive income (loss), net of tax	187	212
Comprehensive income	1,854	406
Less: comprehensive income attributable to the noncontrolling interests	(2)	(2)
Comprehensive income attributable to shareholders	\$1,852	\$404

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc. Consolidated Statement of Financial Position (Unaudited) (Dollars in millions)	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and short-term investments	\$ 7,888	\$ 8,261
Receivables – trade and other	7,894	7,436
Receivables – finance	8,772	8,757
Prepaid expenses and other current assets	1,856	1,772
Inventories	10,947	10,018
Total current assets	37,357	36,244
Property, plant and equipment – net	13,912	14,155
Long-term receivables – trade and other	1,004	990
Long-term receivables – finance	13,359	13,542
Noncurrent deferred and refundable income taxes	1,687	1,693
Intangible assets	2,163	2,111
Goodwill	6,376	6,200
Other assets	2,156	2,027
Total assets	\$ 78,014	\$ 76,962
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	\$ 7	\$ 1
Financial Products	5,726	4,836
Accounts payable	6,938	6,487
Accrued expenses	3,551	3,220
Accrued wages, salaries and employee benefits	1,474	2,559
Customer advances	1,399	1,426
Dividends payable	—	466
Other current liabilities	1,890	1,742
Long-term debt due within one year:		
Machinery, Energy & Transportation	8	6
Financial Products	6,409	6,188
Total current liabilities	27,402	26,931
Long-term debt due after one year:		
Machinery, Energy & Transportation	7,980	7,929
Financial Products	15,185	15,918
Liability for postemployment benefits	8,233	8,365
Other liabilities	3,942	4,053
Total liabilities	62,742	63,196
Commitments and contingencies (Notes 10 and 13)		
Shareholders' equity		

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Common stock of \$1.00 par value:		
Authorized shares: 2,000,000,000		
Issued shares: (3/31/18 and 12/31/17 – 814,894,624) at paid-in amount	5,640	5,593
Treasury stock (3/31/18 – 216,989,724 shares; 12/31/17 – 217,268,852 shares) at cost	(17,347 )	(17,005 )
Profit employed in the business	27,929	26,301
Accumulated other comprehensive income (loss)	(1,016 )	(1,192 )
Noncontrolling interests	66	69
Total shareholders' equity	15,272	13,766
Total liabilities and shareholders' equity	\$ 78,014	\$ 76,962

See accompanying notes to Consolidated Financial Statements.



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Caterpillar Inc.

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited)

(Dollars in millions)

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
<b>Three Months Ended March 31, 2017</b>						
Balance at December 31, 2016	\$ 5,277	\$(17,478)	\$27,377	\$ (2,039 )	\$ 76	\$13,213
Adjustment to adopt stock-based compensation guidance <sup>1</sup>	—	—	15	—	—	15
Balance at January 1, 2017	\$ 5,277	\$(17,478)	\$27,392	\$ (2,039 )	\$ 76	\$13,228
Profit of consolidated and affiliated companies	—	—	192	—	2	194
Foreign currency translation, net of tax	—	—	—	147	—	147
Pension and other postretirement benefits, net of tax	—	—	—	4	—	4
Derivative financial instruments, net of tax	—	—	—	50	—	50
Available-for-sale securities, net of tax	—	—	—	11	—	11
Distribution to noncontrolling interests	—	—	—	—	(6 )	(6 )
Common shares issued from treasury stock for stock-based compensation: 2,604,284	(106 )	87	—	—	—	(19 )
Stock-based compensation expense	49	—	—	—	—	49
Other	2	—	—	—	—	2
Balance at March 31, 2017	\$ 5,222	\$(17,391)	\$27,584	\$ (1,827 )	\$ 72	\$13,660
<b>Three Months Ended March 31, 2018</b>						
Balance at December 31, 2017	\$ 5,593	\$(17,005)	\$26,301	\$ (1,192 )	\$ 69	\$13,766
Adjustments to adopt new accounting guidance <sup>1</sup>						
Revenue recognition	—	—	(12 )	—	—	\$(12 )
Tax accounting for intra-entity asset transfers	—	—	(35 )	—	—	\$(35 )
Recognition and measurement of financial assets and liabilities	—	—	11	(11 )	—	\$—
Balance at January 1, 2018	\$ 5,593	\$(17,005)	\$26,265	\$ (1,203 )	\$ 69	\$13,719
Profit of consolidated and affiliated companies	—	—	1,665	—	2	1,667
Foreign currency translation, net of tax	—	—	—	184	—	184
Pension and other postretirement benefits, net of tax	—	—	—	(9 )	—	(9 )
Derivative financial instruments, net of tax	—	—	—	23	—	23
Available-for-sale securities, net of tax	—	—	—	(11 )	—	(11 )
Change in ownership from noncontrolling interests	2	—	—	—	(5 )	(3 )
Dividends declared	—	—	(1 )	—	—	(1 )
Common shares issued from treasury stock for stock-based compensation: 3,426,757	(9 )	158	—	—	—	149
Stock-based compensation expense	50	—	—	—	—	50
Common shares repurchased: 3,147,629 <sup>2</sup>	—	(500 )	—	—	—	(500 )
Other	4	—	—	—	—	4

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Balance at March 31, 2018	\$5,640	\$(17,347)	\$27,929	\$ (1,016	) \$ 66	\$15,272
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<sup>1</sup> See Note 2 for additional information.

<sup>2</sup> See Note 11 for additional information.

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc.

Consolidated Statement of Cash Flow

(Unaudited)

(Millions of dollars)

	Three Months Ended March 31	
	2018	2017
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	\$ 1,667	\$ 194
Adjustments for non-cash items:		
Depreciation and amortization	681	710
Other	148	302
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	(326 )	(353 )
Inventories	(803 )	(444 )
Accounts payable	486	732
Accrued expenses	66	132
Accrued wages, salaries and employee benefits	(1,110 )	360
Customer advances	(46 )	234
Other assets – net	165	(261 )
Other liabilities – net	7	(64 )
Net cash provided by (used for) operating activities	935	1,542
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(412 )	(204 )
Expenditures for equipment leased to others	(345 )	(305 )
Proceeds from disposals of leased assets and property, plant and equipment	258	234
Additions to finance receivables	(2,621 )	(2,122 )
Collections of finance receivables	2,671	2,272
Proceeds from sale of finance receivables	69	17
Investments and acquisitions (net of cash acquired)	(340 )	(18 )
Proceeds from sale of businesses and investments (net of cash sold)	12	—
Proceeds from sale of securities	89	89
Investments in securities	(197 )	(65 )
Other – net	16	9
Net cash provided by (used for) investing activities	(800 )	(93 )
Cash flow from financing activities:		
Dividends paid	(467 )	(452 )
Common stock issued, including treasury shares reissued	149	(19 )
Common shares repurchased	(500 )	—
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	—	360
Financial Products	1,541	2,355
Payments on debt (original maturities greater than three months):		
Machinery, Energy & Transportation	(1 )	(4 )
Financial Products	(2,408 )	(1,974 )

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Short-term borrowings – net (original maturities three months or less)	1,151	618
Other – net	(3 )	(6 )
Net cash provided by (used for) financing activities	(538 )	878
Effect of exchange rate changes on cash	10	9
Increase (decrease) in cash and short-term investments and restricted cash	(393 )	2,336
Cash and short-term investments and restricted cash at beginning of period	8,320	7,199
Cash and short-term investments and restricted cash at end of period	\$7,927	\$9,535

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

See accompanying notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. A. Nature of operations

Information in our financial statements and related commentary are presented in the following categories:

Machinery, Energy & Transportation (ME&T) – Represents the aggregate total of Construction Industries, Resource Industries, Energy & Transportation and All Other operating segments and related corporate items and eliminations.

Financial Products – Primarily includes the company’s Financial Products Segment. This category includes Caterpillar Financial Services Corporation (Cat Financial), Caterpillar Insurance Holdings Inc. (Insurance Services) and their respective subsidiaries.

B. Basis of presentation

In the opinion of management, the accompanying unaudited financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the consolidated results of operations for the three months ended March 31, 2018 and 2017, (b) the consolidated comprehensive income for the three months ended March 31, 2018 and 2017, (c) the consolidated financial position at March 31, 2018 and December 31, 2017, (d) the consolidated changes in shareholders’ equity for the three months ended March 31, 2018 and 2017 and (e) the consolidated cash flow for the three months ended March 31, 2018 and 2017. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our company’s annual report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K).

The December 31, 2017 financial position data included herein is derived from the audited consolidated financial statements included in the 2017 Form 10-K but does not include all disclosures required by U.S. GAAP. Certain amounts for prior periods have been reclassified to conform to the current period financial statement presentation. See Note 2 for more information. In addition, deferred revenue of \$233 million was reclassified from Other current liabilities to Customer advances in the December 31, 2017 Consolidated Statement of Financial Position.

Unconsolidated Variable Interest Entities (VIEs)

We have affiliates, suppliers and dealers that are VIEs of which we are not the primary beneficiary. Although we have provided financial support, we do not have the power to direct the activities that most significantly impact the economic performance of each entity.

Our maximum exposure to loss from VIEs for which we are not the primary beneficiary was as follows:

(Millions of dollars)	March 31, December 31,	
	2018	2017
Receivables - trade and other	\$ 30	\$ 34
Receivables - finance	43	42
Long-term receivables - finance	34	38

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Investments in unconsolidated affiliated companies	30	39
Guarantees <sup>1</sup>	—	259
Total	\$ 137	\$ 412

<sup>1</sup> Related contract was terminated during the first quarter of 2018. No payments were made under the guarantee.

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In addition, Cat Financial has end-user customers that are VIEs of which we are not the primary beneficiary. Although we have provided financial support to these entities and therefore have a variable interest, we do not have the power to direct the activities that most significantly impact their economic performance. Our maximum exposure to loss from our involvement with these VIEs is limited to the credit risk inherently present in the financial support that we have provided. These risks are evaluated and reflected in our financial statements as part of our overall portfolio of finance receivables and related allowance for credit losses.

## 2. New accounting guidance

Revenue recognition – In May 2014, the Financial Accounting Standards Board (FASB) issued new revenue recognition guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. Under the new guidance, an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. A five step model has been introduced for an entity to apply when recognizing revenue. The new guidance also includes enhanced disclosure requirements. The guidance was effective January 1, 2018, and was applied to contracts that were not completed at the date of initial application on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of January 1, 2018. The prior period comparative information has not been recasted and continues to be reported under the accounting guidance in effect for those periods.

Under the new guidance, sales of certain turbine machinery units changed to a point-in-time recognition model. Under previous guidance, we accounted for these sales under an over-time model following the percentage-of-completion method as the product was manufactured. In addition, under the new guidance we began to recognize an asset for the value of expected replacement part returns and discontinued lease accounting treatment for certain product sales containing residual value guarantees.

See Note 3 for additional information.

The cumulative effect of initially applying the new revenue recognition guidance to our consolidated financial statements on January 1, 2018 was as follows:

### Consolidated Statement of Financial Position

(Millions of dollars)	Balance as of December 31, 2017	Cumulative Impact from Adopting New Revenue Guidance	Balance as of January 1, 2018
<b>Assets</b>			
Receivables - trade and other	\$ 7,436	\$ (66 )	\$7,370
Prepaid expenses and other current assets	\$ 1,772	\$ 327	\$2,099
Inventories	\$ 10,018	\$ 4	\$10,022
Property, plant and equipment - net	\$ 14,155	\$ (190 )	\$13,965
Noncurrent deferred and refundable income taxes	\$ 1,693	\$ 2	\$1,695
<b>Liabilities</b>			
Accrued expenses	\$ 3,220	\$ 226	\$3,446
Customer advances	\$ 1,426	\$ 46	\$1,472
Other current liabilities	\$ 1,742	\$ (17 )	\$1,725

Other liabilities	\$ 4,053	\$ (166 )	\$3,887
Shareholders' equity			
Profit employed in the business	\$ 26,301	\$ (12 )	\$26,289



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The impact from adopting the new revenue recognition guidance on our consolidated financial statements was as follows:

(Millions of dollars)	Three Months Ended March 31, 2018		
	As Reported	Previous Accounting Guidance	Impact from Adopting New Revenue Guidance
<b>Consolidated Statement of Results of Operations</b>			
Sales of Machinery, Energy & Transportation	\$12,150	\$ 12,145	\$ 5
Cost of goods sold	\$8,566	\$ 8,560	\$ 6
Other operating (income) expenses	\$300	\$ 306	\$ (6 )
Operating profit	\$2,108	\$ 2,103	\$ 5
Consolidated profit before taxes	\$2,134	\$ 2,129	\$ 5
Provision (benefit) for income taxes	\$472	\$ 471	\$ 1
Profit (loss) of consolidated companies	\$1,662	\$ 1,658	\$ 4
Profit (loss) of consolidated and affiliated companies	\$1,667	\$ 1,663	\$ 4
Profit	\$1,665	\$ 1,661	\$ 4
<b>Consolidated Statement of Financial Position</b>			
<b>Assets</b>			
Receivables - trade and other	\$7,894	\$ 7,907	\$ (13 )
Prepaid expenses and other current assets	\$1,856	\$ 1,568	\$ 288
Inventories	\$10,947	\$ 10,956	\$ (9 )
Noncurrent deferred and refundable income taxes	\$1,687	\$ 1,686	\$ 1
<b>Liabilities</b>			
Accrued expenses	\$3,551	\$ 3,325	\$ 226
Customer advances	\$1,399	\$ 1,350	\$ 49
<b>Shareholders' equity</b>			
Profit employed in the business	\$27,929	\$ 27,937	\$ (8 )

Recognition and measurement of financial assets and financial liabilities – In January 2016, the FASB issued accounting guidance that affects the accounting for equity investments, financial liabilities accounted for under the fair value option and the presentation and disclosure requirements for financial instruments. Under the new guidance, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values. For financial liabilities when the fair value option has been elected, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The guidance was effective January 1, 2018, and was applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of January 1, 2018. The adoption did not have a material impact on our financial statements.

Lease accounting – In February 2016, the FASB issued accounting guidance that revises the accounting for leases. Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability for substantially all leases. The new guidance will continue to classify leases as either financing or operating, with classification affecting the pattern of expense recognition. The accounting applied by a lessor under the new guidance will be substantially equivalent to current lease accounting guidance. The new guidance is effective January 1, 2019, with early adoption permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented and provides for certain practical expedients. An implementation team is currently designing new processes and controls and evaluating our population of leased assets to assess the effect of the new guidance on our financial statements. We plan to adopt the new guidance effective January 1, 2019.

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Measurement of credit losses on financial instruments – In June 2016, the FASB issued accounting guidance to introduce a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new guidance will apply to loans, accounts receivable, trade receivables, other financial assets measured at amortized cost, loan commitments and other off-balance sheet credit exposures. The new guidance will also apply to debt securities and other financial assets measured at fair value through other comprehensive income. The new guidance is effective January 1, 2020, with early adoption permitted beginning January 1, 2019. We are in the process of evaluating the effect of the new guidance on our financial statements.

Classification for certain cash receipts and cash payments – In August 2016, the FASB issued accounting guidance related to the presentation and classification of certain transactions in the statement of cash flows where diversity in practice exists. The guidance was effective January 1, 2018, and was applied on a retrospective basis. The adoption did not have a material impact on our financial statements.

Tax accounting for intra-entity asset transfers – In October 2016, the FASB issued accounting guidance that requires the recognition of tax expense from the sales of intra-entity assets in the seller's tax jurisdiction at the time of transfer. The new guidance does not apply to intra-entity transfers of inventory. Under previous guidance, the tax effects of these assets were deferred until the transferred asset was sold to a third party or otherwise recovered through use. The guidance was effective January 1, 2018, and was applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of January 1, 2018. The adoption did not have a material impact on our financial statements.

Classification of restricted cash – In November 2016, the FASB issued accounting guidance related to the presentation and classification of changes in restricted cash on the statement of cash flows where diversity in practice exists. The guidance was effective January 1, 2018, and was applied on a retrospective basis. The adoption did not have a material impact on our financial statements.

Presentation of net periodic pension costs and net periodic postretirement benefit costs – In March 2017, the FASB issued accounting guidance that requires that an employer disaggregate the service cost component from the other components of net benefit cost. Service cost is required to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be reported outside the subtotal for income from operations. Additionally, only the service cost component of net benefit costs is eligible for capitalization. The guidance was effective January 1, 2018. We applied the presentation changes retrospectively and the capitalization change prospectively. The adoption primarily resulted in the reclassification of other components of net periodic benefit cost outside of Operating profit in the Consolidated Statement of Results of Operations.

Consolidated Statement of Results of Operations (Millions of dollars)	Three Months Ended March 31, 2017		
	As Revised	Previously Reported	Effect of Change
Cost of goods sold	\$6,801	\$ 6,758	\$ 43
Selling, general and administrative expenses	\$1,061	\$ 1,045	\$ 16
Research and development expenses	\$425	\$ 418	\$ 7
Other operating (income) expenses	\$996	\$ 1,025	\$ (29 )
Total operating costs	\$9,442	\$ 9,405	\$ 37
Operating profit	\$380	\$ 417	\$ (37 )
Other income (expense)	\$32	\$ (5 )	\$ 37

Premium amortization on purchased callable debt securities – In March 2017, the FASB issued accounting guidance related to the amortization period for certain purchased callable debt securities held at a premium. Securities held at a premium will be required to be amortized to the earliest call date rather than the maturity date. The new standard is required to be applied with a modified retrospective approach through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The guidance is effective January 1, 2019, with early adoption permitted. We do not expect the adoption to have a material impact on our financial statements.

Clarification on stock-based compensation – In May 2017, the FASB issued accounting guidance to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting.

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The guidance was effective January 1, 2018, and was applied prospectively. The adoption did not have a material impact on our financial statements.

Derivatives and hedging – In August 2017, the FASB issued accounting guidance to better align hedge accounting with a company’s risk management activities, simplify the application of hedge accounting and improve the disclosures of hedging arrangements. The new guidance is required to be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to opening retained earnings in the period of adoption. The guidance is effective January 1, 2019, with early adoption permitted. The impact on our financial statements at the time of adoption will primarily be reclassification of our gains (losses) for designated ME&T foreign exchange contracts from Other income (expense) to components of Operating profit in the Consolidated Statement of Results of Operations.

Reclassification of certain tax effects from accumulated other comprehensive income – In February 2018, the FASB issued accounting guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from U.S. tax reform legislation. The new guidance is required to be applied either in the period of adoption or retrospectively to each period affected by U.S. tax reform legislation. The guidance is effective January 1, 2019, with early adoption permitted. We are in the process of evaluating the effect of the new guidance on our financial statements.

### 3. Sales and revenue recognition

#### A. Sales of Machinery, Energy & Transportation

Sales of Machinery, Energy & Transportation are recognized when all the following criteria are satisfied: (i) a contract with an independently owned and operated dealer or an end user exists which has commercial substance; (ii) it is probable we will collect the amount charged to the dealer or end user; and (iii) we have completed our performance obligation whereby the dealer or end user has obtained control of the product. A contract with commercial substance exists once we receive and accept a purchase order under a dealer sales agreement, or once we enter into a contract with an end user. If collectability is not probable, the sale is deferred and not recognized until collection is probable or payment is received. Control of our products typically transfers when title and risk of ownership of the product has transferred to the dealer or end user. Typically, where product is produced and sold in the same country, title and risk of ownership transfer when the product is shipped. Products that are exported from a country for sale typically transfer title and risk of ownership at the border of the destination country.

Our remanufacturing operations are primarily focused on the remanufacture of Cat engines and components and rail related products. In this business, used engines and related components (core) are inspected, cleaned and remanufactured. In connection with the sale of our remanufactured product to dealers, we collect a deposit that is repaid if the dealer returns an acceptable core within a specified time period. Caterpillar owns and has title to the cores when they are returned from dealers. The rebuilt engine or component (the core plus any new content) is then sold as a remanufactured product to dealers and end users. Revenue is recognized pursuant to the same criteria as Machinery, Energy & Transportation sales noted above (title and risk of ownership of the entire remanufactured product passes to the dealer or end user upon sale). At the time of sale, the deposit is recognized in Other current liabilities in the Consolidated Statement of Financial Position, and the core to be returned is recognized as an asset in Prepaid expenses and other current assets in the Consolidated Statement of Financial Position at the estimated replacement cost (based on historical experience with usable cores). Upon receipt of an acceptable core, we repay the deposit and relieve the liability. The returned core is then included in inventory. In the event that the deposit is forfeited (i.e. upon failure by the dealer to return an acceptable core in the specified time period), we recognize the core deposit and the cost of the core in Sales and Cost of goods sold, respectively.

We provide discounts to dealers through merchandising programs. We have numerous programs that are designed to promote the sale of our products. The most common dealer programs provide a discount when the dealer sells a product to a targeted end user. Generally, the cost of these discounts is estimated for each product by model by geographic region based on historical experience and known changes in merchandising programs. The cost of these discounts is reported as a reduction to the transaction price when the product sale is recognized. A corresponding post-sale discount reserve is accrued in the Consolidated Statement of Financial Position, which represents discounts we expect to pay on previously sold units. If discounts paid differ from those estimated, the difference is reported as a change in the transaction price.

Except for replacement parts, no right of return exists on the sale of our products. We estimate replacement part returns based on historical experience and recognize a parts return asset in Prepaid expenses and other current assets in the

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Consolidated Statement of Financial Position, which represents our right to recover replacement parts we expect will be returned. We also recognize a refund liability in Other current liabilities in the Consolidated Statement of Financial Position for the refund we expect to pay for returned parts. If actual replacement part returns differ from those estimated, the difference in the estimated replacement part return asset and refund liability is recognized in Cost of goods sold and Sales, respectively.

Our standard dealer invoice terms are established by marketing region. Our invoice terms for end user sales are established by the responsible business unit. Payments from dealers are due shortly after the time of sale. When a sale is made to a dealer, the dealer is responsible for payment even if the product is not sold to an end user. Dealers and end users must make payment within the established invoice terms to avoid potential interest costs. Interest at or above prevailing market rates may be charged on any past due balance, and generally our practice is to not forgive this interest. In addition, Cat Financial provides wholesale inventory financing for a dealer's purchase of inventory. Wholesale inventory receivables have varying payment terms and are included in Receivables - trade and other and Long-term receivables - trade and other in the Consolidated Statement of Financial Position. Trade receivables from dealers and end users were \$6,821 million and \$6,399 million as of March 31, 2018 and January 1, 2018, respectively, and are recognized in Receivables - trade and other in the Consolidated Statement of Financial Position. Long-term trade receivables from dealers and end users were \$614 million and \$639 million as of March 31, 2018 and January 1, 2018, respectively, and are recognized in Long-term receivables - trade and other in the Consolidated Statement of Financial Position.

We establish a bad debt allowance for Machinery, Energy & Transportation receivables when it becomes probable that the receivable will not be collected. Our allowance for bad debts is not significant.

We invoice in advance of recognizing the sale of certain products. Advanced customer payments are recognized as a contract liability in Customer advances and Other liabilities in the Consolidated Statement of Financial Position. Long-term customer advances recognized in Other liabilities in the Consolidated Statement of Financial Position were \$424 million and \$396 million as of March 31, 2018 and January 1, 2018, respectively. We reduce the contract liability when revenue is recognized. During the three-month period ending March 31, 2018, we recognized \$617 million of revenue that was recorded as a contract liability at the beginning of the period.

We have elected the practical expedient to not adjust the amount of revenue to be recognized under a contract with a dealer or end user for the effects of time value of money when the timing difference between receipt of payment and recognition of revenue is less than one year.

As of March 31, 2018, we have entered into contracts with dealers and end users for which sales have not been recognized as we have not satisfied our performance obligations and transferred control of the products. The dollar amount of unsatisfied performance obligations for contracts with an original duration greater than one year is \$5.5 billion, of which \$2.4 billion is expected to be completed and revenue recognized in the twelve months following March 31, 2018. We have elected the practical expedient to not disclose unsatisfied performance obligations with an original contract duration of one year or less. Contracts with an original duration of one year or less are primarily sales to dealers for machinery, engines and replacement parts.

Sales and other related taxes are excluded from the transaction price. Shipping and handling costs associated with outbound freight after control over a product has transferred are accounted for as a fulfillment cost and are included in Cost of goods sold.

We provide a standard manufacturer's warranty of our products at no additional cost. At the time a sale is recognized, we record estimated future warranty costs. See Note 10 for further discussion of our product warranty liabilities.

See Note 15 for further disaggregated sales and revenues information.

**B. Revenues of Financial Products**

Revenues of Financial Products are generated primarily from finance revenue on finance receivables and rental payments on operating leases. Finance revenue is recorded over the life of the related finance receivable using the interest method, including the accretion of certain direct origination costs that are deferred. Revenue from rental payments received on operating leases is recognized on a straight-line basis over the term of the lease.



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Recognition of finance revenue and rental revenue is suspended and the account is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Recognition is resumed, and previously suspended income is recognized, when the account becomes current and collection of remaining amounts is considered probable. See Note 16 for more information.

Revenues are presented net of sales and other related taxes.

#### 4. Stock-based compensation

Accounting for stock-based compensation requires that the cost resulting from all stock-based payments be recognized in the financial statements based on the grant date fair value of the award. Our stock-based compensation primarily consists of stock options, restricted stock units (RSUs), performance-based restricted stock units (PRSUs) and stock-settled stock appreciation rights (SARs).

Beginning with the 2018 grant, RSU and PRSU awards are credited with dividend equivalent units on each date that a cash dividend is paid to holders of Common Stock. The fair value of the RSU and PRSU awards granted in 2018 was determined as the closing stock price on the date of grant. Prior to 2018, RSU and PRSU awards were not credited with dividend equivalent units and the fair value was determined by reducing the stock price on the date of grant by the present value of the estimated dividends to be paid during the vesting period. The estimated dividends were based on Caterpillar's quarterly dividend per share at the time of grant.

We recognized pretax stock-based compensation expense of \$50 million and \$49 million for the three months ended March 31, 2018 and 2017, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the three months ended March 31, 2018 and 2017, respectively:

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Shares Granted	Weighted-Average Fair Value Per Share	Weighted-Average Grant Date Stock Price	Shares Granted	Weighted-Average Fair Value Per Share	Weighted-Average Grant Date Stock Price
Stock options	1,566,788	\$ 46.18	\$ 151.12	2,701,644	\$ 25.01	\$ 95.66
RSUs	676,228	\$ 151.12	\$ 151.12	906,068	\$ 89.76	\$ 95.63
PRSUs	339,559	\$ 151.12	\$ 151.12	437,385	\$ 86.78	\$ 95.66

The following table provides the assumptions used in determining the fair value of the stock-based awards for the three months ended March 31, 2018 and 2017, respectively:

	Grant Year	
	2018	2017
Weighted-average dividend yield	2.70%	3.42%
Weighted-average volatility	30.2%	29.2%
Range of volatilities	21.5-33.0%	22.1-33.0%
Range of risk-free interest rates	2.02-2.87%	0.81-2.35%
Weighted-average expected lives	8 years	8 years

As of March 31, 2018, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was \$327 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.0 years.

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5. Derivative financial instruments and risk management

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

All derivatives are recognized on the Consolidated Statement of Financial Position at their fair value. On the date the derivative contract is entered into, we designate the derivative as (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), (2) a hedge of a forecasted transaction or the variability of cash flow (cash flow hedge) or (3) an undesignated instrument. Changes in the fair value of a derivative that is qualified, designated and highly effective as a fair value hedge, along with the gain or loss on the hedged recognized asset or liability that is attributable to the hedged risk, are recorded in current earnings. Changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge are recorded in Accumulated other comprehensive income (loss) (AOCI), to the extent effective, on the Consolidated Statement of Financial Position until they are reclassified to earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings. Cash flows from designated derivative financial instruments are classified within the same category as the item being hedged on the Consolidated Statement of Cash Flow. Cash flows from undesignated derivative financial instruments are included in the investing category on the Consolidated Statement of Cash Flow.

We formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the Consolidated Statement of Financial Position and linking cash flow hedges to specific forecasted transactions or variability of cash flow.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the designated derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items. When a derivative is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, we discontinue hedge accounting prospectively, in accordance with the derecognition criteria for hedge accounting.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of sales made and costs incurred in foreign currencies. Movements in foreign currency rates also affect our competitive position as these changes may affect business practices and/or pricing strategies of non-U.S.-based competitors. Additionally, we have balance sheet positions denominated in foreign currencies, thereby creating exposure to movements in exchange rates.

Our Machinery, Energy & Transportation operations purchase, manufacture and sell products in many locations around the world. As we have a diversified revenue and cost base, we manage our future foreign currency cash flow exposure on a net basis. We use foreign currency forward and option contracts to manage unmatched foreign currency cash inflow and outflow. Our objective is to minimize the risk of exchange rate movements that would reduce the U.S. dollar value of our foreign currency cash flow. Our policy allows for managing anticipated foreign currency cash flow

for up to five years. As of March 31, 2018, the maximum term of these outstanding contracts was approximately 51 months.

We generally designate as cash flow hedges at inception of the contract any Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, Indian rupee, Japanese yen, Mexican peso, Singapore dollar or Thailand baht forward or option contracts that meet the requirements for hedge accounting and the maturity extends beyond the current quarter-end. Designation is performed on a specific exposure basis to support hedge accounting. The remainder of Machinery, Energy & Transportation foreign currency contracts are undesignated.

As of March 31, 2018, \$16 million of deferred net gains, net of tax, included in equity (AOCI in the Consolidated Statement of Financial Position), are expected to be reclassified to current earnings (Other income (expense) in the Consolidated Statement of Results of Operations) over the next twelve months when earnings are affected by the hedged

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transactions. The actual amount recorded in Other income (expense) will vary based on exchange rates at the time the hedged transactions impact earnings.

In managing foreign currency risk for our Financial Products operations, our objective is to minimize earnings volatility resulting from conversion and the remeasurement of net foreign currency balance sheet positions, and future transactions denominated in foreign currencies. Our policy allows the use of foreign currency forward, option and cross currency contracts to offset the risk of currency mismatch between our assets and liabilities, and exchange rate risk associated with future transactions denominated in foreign currencies. Our foreign currency forward and option contracts are primarily undesignated. We designate fixed-to-fixed cross currency contracts as cash flow hedges to protect against movements in exchange rates on foreign currency fixed-rate assets and liabilities.

### Interest Rate Risk

Interest rate movements create a degree of risk by affecting the amount of our interest payments and the value of our fixed-rate debt. Our practice is to use interest rate contracts to manage our exposure to interest rate changes.

Our Machinery, Energy & Transportation operations generally use fixed-rate debt as a source of funding. Our objective is to minimize the cost of borrowed funds. Our policy allows us to enter into fixed-to-floating interest rate contracts and forward rate agreements to meet that objective. We designate fixed-to-floating interest rate contracts as fair value hedges at inception of the contract, and we designate certain forward rate agreements as cash flow hedges at inception of the contract.

Financial Products operations has a match-funding policy that addresses interest rate risk by aligning the interest rate profile (fixed or floating rate) of Cat Financial's debt portfolio with the interest rate profile of their receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

Our policy allows us to use fixed-to-floating, floating-to-fixed and floating-to-floating interest rate contracts to meet the match-funding objective. We designate fixed-to-floating interest rate contracts as fair value hedges to protect debt against changes in fair value due to changes in the benchmark interest rate. We designate most floating-to-fixed interest rate contracts as cash flow hedges to protect against the variability of cash flows due to changes in the benchmark interest rate.

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed interest rate contracts at both Machinery, Energy & Transportation and Financial Products. The gains or losses associated with these contracts at the time of liquidation are amortized into earnings over the original term of the previously designated hedged item.

### Commodity Price Risk

Commodity price movements create a degree of risk by affecting the price we must pay for certain raw material. Our policy is to use commodity forward and option contracts to manage the commodity risk and reduce the cost of purchased materials.

Our Machinery, Energy & Transportation operations purchase base and precious metals embedded in the components we purchase from suppliers. Our suppliers pass on to us price changes in the commodity portion of the component cost. In addition, we are subject to price changes on energy products such as natural gas and diesel fuel purchased for operational use.

Our objective is to minimize volatility in the price of these commodities. Our policy allows us to enter into commodity forward and option contracts to lock in the purchase price of a portion of these commodities within a five-year horizon. All such commodity forward and option contracts are undesignated.

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The location and fair value of derivative instruments reported in the Consolidated Statement of Financial Position are as follows:

(Millions of dollars)	Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value March 31, December 31, 2018 2017	
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$24	\$ 8
Machinery, Energy & Transportation	Long-term receivables – trade and other	13	4
Machinery, Energy & Transportation	Accrued expenses	(4 )	(14 )
Machinery, Energy & Transportation	Other liabilities	—	(2 )
Financial Products	Long-term receivables – trade and other	1	7
Financial Products	Accrued expenses	(94 )	(57 )
Interest rate contracts			
Financial Products	Long-term receivables – trade and other	2	3
Financial Products	Accrued expenses	(3 )	(2 )
		\$(61)	\$( 53 )
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$19	\$ 19
Machinery, Energy & Transportation	Accrued expenses	(3 )	(9 )
Financial Products	Receivables – trade and other	14	12
Financial Products	Accrued expenses	(19 )	(9 )
Commodity contracts			
Machinery, Energy & Transportation	Receivables – trade and other	9	21
Machinery, Energy & Transportation	Accrued expenses	(3 )	—
		\$17	\$ 34

The total notional amounts of the derivative instruments are as follows:

(Millions of dollars)	March 31, December 31, 2018 2017	
Machinery, Energy & Transportation	\$ 2,683	\$ 3,190
Financial Products	\$ 5,360	\$ 3,691

The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties. The amounts exchanged by the parties are calculated by reference to the notional amounts and by other terms of the derivatives, such as foreign currency exchange rates, interest rates or commodity prices.

The effect of derivatives designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

Fair Value Hedges

		Three Months		Three Months	
		Ended		Ended	
(Millions of dollars) Classification		March 31, 2018		March 31, 2017	
		Gains	Gains	Gains	Gains
		(Losses)	(Losses)	(Losses)	(Losses)
		on	on	on	on
		Derivatives	Borrowings	Derivatives	Borrowings
Interest rate contracts					
Financial Products	Other income (expense)	\$ (2 )	\$ 2	\$ (1 )	\$ 1
		\$ (2 )	\$ 2	\$ (1 )	\$ 1



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## Cash Flow Hedges

(Millions of dollars)	Three Months Ended March 31, 2018		Recognized in Earnings	
	Amount of Gains (Losses) Recognized in AOCI (Effective Portion)	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)
Foreign exchange contracts				
Machinery, Energy & Transportation	\$39	Other income (expense)	\$ 1	\$ —
Financial Products	(33 )	Other income (expense)	(29 )	—
Financial Products	—	Interest expense of Financial Products	3	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	—	—
Financial Products	—	Interest expense of Financial Products	1	—
	\$6		\$ (24 )	\$ —
	Three Months Ended March 31, 2017		Recognized in Earnings	
Foreign exchange contracts				
Machinery, Energy & Transportation	\$33	Other income (expense)	\$ (39 )	\$ —
Financial Products	(18 )	Other income (expense)	(22 )	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(2 )	—
Financial Products	—	Interest expense of Financial Products	1	—
	\$15		\$ (62 )	\$ —

The effect of derivatives not designated as hedging instruments on the Consolidated Statement of Results of Operations is as follows:

(Millions of dollars)	Classification of Gains (Losses)	Three Months Ended	Three Months Ended
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	March 31, 2018	March 31, 2017
Foreign exchange contracts		
Machinery, Energy & Transportation Other income (expense)	\$ 16	\$ 13
Financial Products Other income (expense)	(7 )	(7 )
Commodity contracts		
Machinery, Energy & Transportation Other income (expense)	(9 )	1
	\$ —	\$ 7

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements within Machinery, Energy & Transportation and Financial Products that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits the company or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. The master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or of our company under the master netting agreements. As of March 31, 2018 and December 31, 2017, no cash collateral was received or pledged under the master netting agreements.

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The effect of the net settlement provisions of the master netting agreements on our derivative balances upon an event of default or termination event is as follows:

		Gross Amounts Not Offset in the Statement of Financial Position				
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets
March 31, 2018						
Derivatives						
Machinery, Energy & Transportation	\$ 65	\$	—\$ 65	\$ (9 )	\$	—\$ 56
Financial Products	17	—	17	(4 )	—	13
Total	\$ 82	\$	—\$ 82	\$ (13 )	\$	—\$ 69
		Gross Amounts Not Offset in the Statement of Financial Position				
March 31, 2018						
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives						
Machinery, Energy & Transportation	\$ (10 )	\$	—\$ (10 )	\$ 9	\$	—\$ (1 )
Financial Products	(116 )	—	(116 )	4	—	(112 )
Total	\$ (126 )	\$	—\$ (126 )	\$ 13	\$	—\$ (113 )
		Gross Amounts Not Offset in the Statement of Financial Position				
December 31, 2017						
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount of Assets

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		Position	Financial Position				
Derivatives							
Machinery, Energy & Transportation	\$ 52	\$	—\$ 52	\$ (22 )	\$	—\$ 30	
Financial Products	22	—	22	(10 )	—	12	
Total	\$ 74	\$	—\$ 74	\$ (32 )	\$	—\$ 42	
				Gross Amounts Not Offset in the Statement of Financial Position			
December 31, 2017							
(Millions of dollars)							
		Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
Derivatives							
Machinery, Energy & Transportation	\$ (25 )	\$	—\$ (25 )	\$ 22	\$	—\$ (3 )	
Financial Products	(68 )	—	(68 )	10	—	(58 )	
Total	\$ (93 )	\$	—\$ (93 )	\$ 32	\$	—\$ (61 )	

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## 6. Inventories

Inventories (principally using the last-in, first-out (LIFO) method) are comprised of the following:

(Millions of dollars)	March 31, 2018	December 31, 2017
Raw materials	\$ 3,179	\$ 2,802
Work-in-process	2,465	2,254
Finished goods	5,114	4,761
Supplies	189	201
Total inventories	\$ 10,947	\$ 10,018

## 7. Intangible assets and goodwill

## A. Intangible assets

Intangible assets are comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	March 31, 2018			Net
		Gross Carrying Amount	Accumulated Amortization		
Customer relationships	15	\$2,527	\$ (1,159)	)	\$1,368
Intellectual property	11	1,569	(878)	)	691
Other	13	197	(93)	)	104
Total finite-lived intangible assets	14	\$4,293	\$ (2,130)	)	\$2,163
		December 31, 2017			
	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization		Net
Customer relationships	15	\$2,441	\$ (1,122)	)	\$1,319
Intellectual property	11	1,538	(851)	)	687
Other	13	198	(93)	)	105
Total finite-lived intangible assets	14	\$4,177	\$ (2,066)	)	\$2,111

During the first quarter of 2018, we acquired finite-lived intangible assets of \$112 million and \$5 million due to the purchase of ECM S.p.A. and Downer Freight Rail, respectively. See Note 20 for details on these acquisitions.

Amortization expense for the three months ended March 31, 2018 and 2017 was \$83 million and \$79 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

Remaining Nine Months of 2018	2019	2020	2021	2022	Thereafter
\$251	\$328	\$317	\$299	\$279	\$689

B. Goodwill

No goodwill was impaired during the three months ended March 31, 2018 or 2017.

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During the first quarter of 2018, we acquired net assets with related goodwill of \$124 million in the Energy & Transportation segment. We recorded goodwill of \$112 million related to the acquisition of ECM S.p.A. and \$12 million related to the acquisition of Downer Freight Rail. See Note 20 for details on these acquisitions.

The changes in carrying amount of goodwill by reportable segment for the three months ended March 31, 2018 were as follows:

(Millions of dollars)	December 31, 2017	Acquisitions <sup>1</sup>	Other Adjustments <sup>2</sup>	March 31, 2018
<b>Construction Industries</b>				
Goodwill	\$ 305	\$ —	\$ 8	\$ 313
Impairments	(22 )	—	—	(22 )
Net goodwill	283	—	8	291
<b>Resource Industries</b>				
Goodwill	4,232	—	24	4,256
Impairments	(1,175 )	—	—	(1,175 )
Net goodwill	3,057	—	24	3,081
<b>Energy &amp; Transportation</b>				
Goodwill	2,806	124	16	2,946
<b>All Other<sup>3</sup></b>				
Goodwill	54	—	4	58
<b>Consolidated total</b>				
Goodwill	7,397	124	52	7,573
Impairments	(1,197 )	—	—	(1,197 )
Net goodwill	\$ 6,200	\$ 124	\$ 52	\$ 6,376

<sup>1</sup> See Note 20 for additional details.

<sup>2</sup> Other adjustments are comprised primarily of foreign currency translation.

<sup>3</sup> Includes All Other operating segments (See Note 15).

## 8. Investments in debt and equity securities

We have investments in certain debt and equity securities, primarily at Insurance Services, which are recorded at fair value and are primarily included in Other assets in the Consolidated Statement of Financial Position.

Debt securities have been classified as available-for-sale and the unrealized gains and losses arising from the revaluation of these debt securities are included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). Realized gains and losses on sales of debt investments are generally determined using the specific identification method and are included in Other income (expense) in the Consolidated Statement of Results of Operations.

Beginning January 1, 2018, we adopted new accounting guidance issued by the FASB resulting in the unrealized gains and losses arising from the revaluation of these equity securities to be included in Other income (expense) in the Consolidated Statement of Results of Operations. Prior to January 1, 2018, the unrealized gains and losses arising from revaluation of the available-for-sale equity securities and the Real Estate Investment Trust were included, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated

Statement of Financial Position). See Note 2 for additional information.



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The cost basis and fair value of debt and equity securities with unrealized gains and losses included in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position) were as follows:

(Millions of dollars)	March 31, 2018			December 31, 2017		
	Cost Basis	Unrealized Pretax Gains (Losses)	Net Fair Value	Cost Basis	Unrealized Pretax Gains (Losses)	Net Fair Value
<b>Government debt</b>						
U.S. treasury bonds	\$ 13	\$ —	\$ 13	\$ 10	\$ —	\$ 10
Other U.S. and non-U.S. government bonds	51	—	51	42	—	42
<b>Corporate bonds</b>						
Corporate bonds	649	(9 )	640	585	(1 )	584
Asset-backed securities	63	—	63	67	—	67
<b>Mortgage-backed debt securities</b>						
U.S. governmental agency	292	(7 )	285	265	(4 )	261
Residential	8	—	8	8	—	8
Commercial	17	(1 )	16	17	—	17
Total debt securities	\$1,093	\$ (17 )	\$1,076	\$994	\$ (5 )	\$989
<b>Equity securities<sup>1</sup></b>						
Large capitalization value				287	(3 )	284
Real estate investment trust (REIT)				104	6	110
Smaller company growth				40	16	56
Total equity securities				\$431	\$ 19	\$450

<sup>1</sup> Beginning January 1, 2018, the unrealized gains and losses arising from the revaluation of the equity securities are included in Other income (expense) in the Consolidated Statement of Results of Operations. See Note 2 for additional information.

Available-for-sale investments in an unrealized loss position that are not other-than-temporarily impaired:

(Millions of dollars)	March 31, 2018					
	Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Corporate bonds</b>						
Corporate bonds	\$501	\$ 9	\$35	\$ 1	\$536	\$ 10
<b>Mortgage-backed debt securities</b>						
U.S. governmental agency	160	3	103	4	263	7
Total	\$661	\$ 12	\$138	\$ 5	\$799	\$ 17

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(Millions of dollars)	December 31, 2017					
	Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	\$312	\$ 2	\$38	\$ —	\$350	\$ 2
Mortgage-backed debt securities						
U.S. governmental agency	129	1	110	3	239	4
Equity securities						
Large capitalization value	129	5	14	2	143	7
Smaller company growth	17	1	1	—	18	1
Total	\$587	\$ 9	\$163	\$ 5	\$750	\$ 14

<sup>1</sup> Indicates the length of time that individual securities have been in a continuous unrealized loss position.

**Corporate Bonds.** The unrealized losses on our investments in corporate bonds relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2018.

**Mortgage-Backed Debt Securities.** The unrealized losses on our investments in U.S. government agency mortgage-backed securities relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. We do not consider these investments to be other-than-temporarily impaired as of March 31, 2018.

The cost basis and fair value of the available-for-sale debt securities at March 31, 2018, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	March 31, 2018	
	Cost Basis	Fair Value
Due in one year or less	\$127	\$127
Due after one year through five years	513	506
Due after five years through ten years	117	115
Due after ten years	19	19
U.S. governmental agency mortgage-backed securities	292	285
Residential mortgage-backed securities	8	8
Commercial mortgage-backed securities	17	16
Total debt securities – available-for-sale	\$1,093	\$1,076

Sales of available-for-sale securities:

Three  
Months  
Ended

	March 31	
(Millions of dollars)	2018	2017
Proceeds from the sale of available-for-sale securities	\$73	\$89
Gross gains from the sale of available-for-sale securities	\$—	\$1
Gross losses from the sale of available-for-sale securities	\$—	\$1

<sup>1</sup> Beginning January 1, 2018, equity securities are no longer classified as available-for-sale securities. See Note 2 for additional information.

For the three months ended March 31, 2018, the net unrealized losses for equity securities with a readily determinable fair value were \$2 million, and there were no realized net gains (losses) recognized on the sale of equity securities with a readily determinable fair value.

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## 9. Postretirement benefits

## A. Pension and postretirement benefit costs

In the first quarter of 2017, we announced the closure of our Gosselies, Belgium, facility. This announcement impacted certain employees that participated in a defined benefit pension plan and resulted in a net loss of \$20 million in the first quarter of 2017 for curtailment and termination benefits. In addition during the first quarter of 2017, we announced the decision to phase out production at our Aurora, Illinois, facility, which resulted in termination benefits of \$9 million for certain hourly employees that participate in our U.S. hourly defined benefit pension plan. See Note 19 for more information on the Gosselies closure.

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	March 31		March 31		March 31	
	2018	2017	2018	2017	2018	2017
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	\$32	\$29	\$22	\$23	\$21	\$19
Interest cost	133	131	25	25	31	33
Expected return on plan assets	(202)	(184)	(56)	(57)	(8)	(9)
Amortization of prior service cost (credit) <sup>1</sup>	—	—	—	—	(9)	(5)
Curtailments and termination benefits	—	9	—	20	—	—
Net periodic benefit cost (benefit) <sup>2</sup>	\$(37)	\$(15)	\$(9)	\$11	\$35	\$38

## Weighted-average assumptions used to determine net cost:

Discount rate used to measure service cost	3.7 %	4.2 %	2.3 %	2.3 %	3.5 %	3.9 %
Discount rate used to measure interest cost	3.2 %	3.3 %	2.2 %	2.3 %	3.2 %	3.3 %
Expected rate of return on plan assets	6.3 %	6.7 %	5.2 %	5.9 %	7.5 %	7.5 %
Rate of compensation increase	4.0 %	4.0 %	4.0 %	4.0 %	4.6 %	4.0 %

Prior service cost (credit) for both pension and other postretirement benefits is generally amortized using the straight-line method over the average remaining service period of active employees expected to receive benefits from the plan. For pension plans in which all or almost all of the plan's participants are inactive and other postretirement benefit plans in which all or almost all of the plan's participants are fully eligible for benefits under the plan, prior service cost (credit) is amortized using the straight-line method over the remaining life expectancy of those participants.

The service cost component of net periodic pension and other postretirement benefits cost (benefit) is included in Operating costs in the Consolidated Statement of Results of Operations. All other components of net periodic pension and other postretirement benefits cost (benefit) are included in Other income (expense) in the Consolidated Statement of Results of Operations.

We made \$152 million of contributions to our pension and other postretirement plans during the three months ended March 31, 2018. We currently anticipate full-year 2018 contributions of approximately \$365 million. We made \$106 million of contributions to our pension and other postretirement plans during the three months ended March 31, 2017.

## B. Defined contribution benefit costs

Total company costs related to our defined contribution plans were as follows:

	Three Months Ended March 31	
(Millions of dollars)	2018	2017
U.S. Plans	\$ 73	\$ 80
Non-U.S. Plans	22	16
	\$ 95	\$ 96

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## 10. Guarantees and product warranty

## Caterpillar dealer performance guarantees

We have provided an indemnity to a third-party insurance company for potential losses related to performance bonds issued on behalf of Caterpillar dealers. The bonds have varying terms and are issued to insure governmental agencies against nonperformance by certain dealers. We also provided guarantees to third-parties related to the performance of contractual obligations by certain Caterpillar dealers. These guarantees have varying terms and cover potential financial losses incurred by the third-parties resulting from the dealers' nonperformance.

In 2016, we provided a guarantee to an end user related to the performance of contractual obligations by a Caterpillar dealer. Under the guarantee, which expires in 2025, non-performance by the Caterpillar dealer could require Caterpillar to satisfy the contractual obligations by providing goods, services or financial compensation to the end user up to an annual designated cap.

## Customer loan guarantees

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

## Supplier consortium performance guarantees

We have provided guarantees to a customer in Brazil and a customer in Europe related to the performance of contractual obligations by supplier consortiums to which our Caterpillar subsidiaries are members. The guarantees cover potential damages incurred by the customers resulting from the supplier consortiums' non-performance. The damages are capped except for failure of the consortiums to meet certain obligations outlined in the contract in the normal course of business. The guarantees will expire when the supplier consortiums perform all their contractual obligations, which are expected to be completed in 2022 for the customer in Europe and 2025 for the customer in Brazil.

## Third party logistics business lease guarantees

We have provided guarantees to third-party lessors for certain properties leased by a third party logistics business, formerly Caterpillar Logistics Services LCC, in which we sold our equity interest in 2015. The guarantees are for the possibility that the third party logistics business would default on real estate lease payments. The guarantees were granted at lease inception and generally will expire at the end of the lease terms.

We have dealer performance guarantees and third party performance guarantees that do not limit potential payment to end users related to indemnities and other commercial contractual obligations. In addition, we have entered into contracts involving industry standard indemnifications that do not limit potential payment. For these unlimited guarantees, we are unable to estimate a maximum potential amount of future payments that could result from claims made.

No significant loss has been experienced or is anticipated under any of these guarantees. At both March 31, 2018 and December 31, 2017, the related liability was \$8 million. The maximum potential amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered under recourse or collateralized provisions) we could be required to make under the guarantees are as follows:

(Millions of dollars)	March 31, 2018	December 31, 2017
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Caterpillar dealer performance guarantees	\$ 1,341	\$ 1,313
Customer loan guarantees	27	40
Supplier consortium performance guarantees	574	565
Third party logistics business lease guarantees	69	69
Other guarantees	123	118
Total guarantees	\$ 2,134	\$ 2,105

Cat Financial provides guarantees to repurchase certain loans of Caterpillar dealers from a special-purpose corporation (SPC) that qualifies as a variable interest entity. The purpose of the SPC is to provide short-term working capital loans

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to Caterpillar dealers. This SPC issues commercial paper and uses the proceeds to fund its loan program. Cat Financial has a loan purchase agreement with the SPC that obligates Cat Financial to purchase certain loans that are not paid at maturity. Cat Financial receives a fee for providing this guarantee, which provides a source of liquidity for the SPC. Cat Financial is the primary beneficiary of the SPC as its guarantees result in Cat Financial having both the power to direct the activities that most significantly impact the SPC's economic performance and the obligation to absorb losses, and therefore Cat Financial has consolidated the financial statements of the SPC. As of March 31, 2018 and December 31, 2017, the SPC's assets of \$1,084 million and \$1,107 million, respectively, were primarily comprised of loans to dealers and the SPC's liabilities of \$1,083 million and \$1,106 million, respectively, were primarily comprised of commercial paper. The assets of the SPC are not available to pay Cat Financial's creditors. Cat Financial may be obligated to perform under the guarantee if the SPC experiences losses. No loss has been experienced or is anticipated under this loan purchase agreement.

Our product warranty liability is determined by applying historical claim rate experience to the current field population and dealer inventory. Generally, historical claim rates are based on actual warranty experience for each product by machine model/engine size by customer or dealer location (inside or outside North America). Specific rates are developed for each product shipment month and are updated monthly based on actual warranty claim experience.

(Millions of dollars)	2018
Warranty liability, January 1	\$1,419
Reduction in liability (payments)	(175 )
Increase in liability (new warranties)	174
Warranty liability, March 31	\$1,418

(Millions of dollars)	2017
Warranty liability, January 1	\$1,258
Reduction in liability (payments)	(860 )
Increase in liability (new warranties)	1,021
Warranty liability, December 31	\$1,419

11. Profit per share

Computations  
of Three Months  
ended  
per March 31  
share:  
(Dollars  
in  
millions  
except  
per  
share  
data)  
2018 2017  
\$ 1,665 \$ 192



Profit  
for  
the  
period  
(A)  
1

Determination  
of  
shares  
(in  
millions):  
Weighted-average  
number  
of  
common  
shares  
outstanding  
(B)

Shares  
issuable  
on  
exercise  
of  
stock  
awards,  
net  
of  
shares  
assumed  
to  
be  
purchased  
out  
of  
proceeds  
at  
average  
market  
price  
598.0 587.5

Average  
common  
shares  
outstanding  
for  
fully  
diluted  
computation  
(C)<sup>2</sup>  
608.0 593.2

Profit  
per  
share

of  
common  
stock:  
Assuming  
no dilution  
(A/B)  
Assuming  
full dilution  
(A/C)<sup>2</sup>  
Shares  
outstanding  
as  
of March  
31  
(in  
millions)

	\$2.78	\$0.33
	\$2.74	\$0.32
	597.9	589.1

<sup>1</sup>  
Profit  
attributable  
to  
common  
shareholders.

<sup>2</sup> Diluted by  
assumed exercise  
of stock-based  
compensation  
awards using the  
treasury stock  
method.

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SARs and stock options to purchase 1,557,275 and 12,644,654 common shares were outstanding for the three months ended March 31, 2018 and 2017, respectively, which were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

In January 2014, the Board authorized the repurchase of up to \$10.0 billion of Caterpillar common stock, which will expire on December 31, 2018. During the first quarter of 2018, a total of 3.1 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of \$500 million. As of March 31, 2018, approximately \$5.0 billion of the \$10.0 billion authorization was spent.

## 12. Accumulated other comprehensive income (loss)

Comprehensive income and its components are presented in the Consolidated Statement of Comprehensive Income. Changes in Accumulated other comprehensive income (loss), net of tax, included in the Consolidated Statement of Changes in Shareholders' Equity, consisted of the following:

(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
<b>Three Months Ended March 31, 2018</b>					
Balance at December 31, 2017	\$(1,205 )	\$ 46	\$ (41 )	\$ 8	\$(1,192)
Adjustment to adopt recognition and measurement of financial assets and liabilities guidance <sup>1</sup>	—	—	—	(11 )	(11 )
Balance at January 1, 2018	(1,205 )	46	(41 )	(3 )	(1,203 )
Other comprehensive income (loss) before reclassifications	183	(2 )	5	(11 )	175
Amounts reclassified from accumulated other comprehensive (income) loss	1	(7 )	18	—	12
Other comprehensive income (loss)	184	(9 )	23	(11 )	187
Balance at March 31, 2018	\$(1,021 )	\$ 37	\$ (18 )	\$ (14 )	\$(1,016)
<b>Three Months Ended March 31, 2017</b>					
Balance at December 31, 2016	\$(1,970 )	\$ 14	\$ (115 )	\$ 32	\$(2,039)
Other comprehensive income (loss) before reclassifications	145	8	10	8	171
Amounts reclassified from accumulated other comprehensive (income) loss	2	(4 )	40	3	41
Other comprehensive income (loss)	147	4	50	11	212
Balance at March 31, 2017	\$(1,823 )	\$ 18	\$ (65 )	\$ 43	\$(1,827)

<sup>1</sup> See Note 2 for additional information.

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The effect of the reclassifications out of Accumulated other comprehensive income (loss) on the Consolidated Statement of Results of Operations is as follows:

(Millions of dollars)	Classification of income (expense)	Three Months Ended March 31	
		2018	2017
Foreign currency translation			
Gain (loss) on foreign currency translation	Other income (expense)	\$ (1 )	\$ (2 )
Tax (provision) benefit		—	—
Reclassifications net of tax		\$ (1 )	\$ (2 )
Pension and other postretirement benefits:			
Amortization of prior service credit (cost)	Other income (expense)	\$ 9	\$ 5
Tax (provision) benefit		(2 )	(1 )
Reclassifications net of tax		\$ 7	\$ 4
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	\$ (28)	\$ (61)
Foreign exchange contracts	Interest expense of Financial Products	3	—
Interest rate contracts	Interest expense excluding Financial Products	—	(2 )
Interest rate contracts	Interest expense of Financial Products	1	1
Reclassifications before tax		(24 )	(62 )
Tax (provision) benefit		6	22
Reclassifications net of tax		\$ (18)	\$ (40)
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	\$ —	\$ (4 )
Tax (provision) benefit		—	1
Reclassifications net of tax		\$ —	\$ (3 )
Total reclassifications from Accumulated other comprehensive income (loss)		\$ (12)	\$ (41)

### 13. Environmental and legal matters

The Company is regulated by federal, state and international environmental laws governing our use, transport and disposal of substances and control of emissions. In addition to governing our manufacturing and other operations, these laws often impact the development of our products, including, but not limited to, required compliance with air emissions standards applicable to internal combustion engines. We have made, and will continue to make, significant research and development and capital expenditures to comply with these emissions standards.

We are engaged in remedial activities at a number of locations, often with other companies, pursuant to federal and state laws. When it is probable we will pay remedial costs at a site, and those costs can be reasonably estimated, the investigation, remediation, and operating and maintenance costs are accrued against our earnings. Costs are accrued based on consideration of currently available data and information with respect to each individual site, including available technologies, current applicable laws and regulations, and prior remediation experience. Where no amount within a range of estimates is more likely, we accrue the minimum. Where multiple potentially responsible parties are involved, we

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consider our proportionate share of the probable costs. In formulating the estimate of probable costs, we do not consider amounts expected to be recovered from insurance companies or others. We reassess these accrued amounts on a quarterly basis. The amount recorded for environmental remediation is not material and is included in Accrued expenses. We believe there is no more than a remote chance that a material amount for remedial activities at any individual site, or at all the sites in the aggregate, will be required.

On January 7, 2015, the Company received a grand jury subpoena from the U.S. District Court for the Central District of Illinois. The subpoena requests documents and information from the Company relating to, among other things, financial information concerning U.S. and non-U.S. Caterpillar subsidiaries (including undistributed profits of non-U.S. subsidiaries and the movement of cash among U.S. and non-U.S. subsidiaries). The Company has received additional subpoenas relating to this investigation requesting additional documents and information relating to, among other things, the purchase and resale of replacement parts by Caterpillar Inc. and non-U.S. Caterpillar subsidiaries, dividend distributions of certain non-U.S. Caterpillar subsidiaries, and Caterpillar SARL and related structures. On March 2-3, 2017, agents with the Department of Commerce, the Federal Deposit Insurance Corporation and the Internal Revenue Service executed search and seizure warrants at three facilities of the Company in the Peoria, Illinois area, including its former corporate headquarters. The warrants identify, and agents seized, documents and information related to, among other things, the export of products from the United States, the movement of products between the United States and Switzerland, the relationship between Caterpillar Inc. and Caterpillar SARL, and sales outside the United States. It is the Company's understanding that the warrants, which concern both tax and export activities, are related to the ongoing grand jury investigation. The Company is continuing to cooperate with this investigation. The Company is unable to predict the outcome or reasonably estimate any potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

On March 20, 2014, Brazil's Administrative Council for Economic Defense (CADE) published a Technical Opinion which named 18 companies and over 100 individuals as defendants, including two subsidiaries of Caterpillar Inc., MGE - Equipamentos e Serviços Ferroviários Ltda. (MGE) and Caterpillar Brasil Ltda. The publication of the Technical Opinion opened CADE's official administrative investigation into allegations that the defendants participated in anticompetitive bid activity for the construction and maintenance of metro and train networks in Brazil. While companies cannot be held criminally liable for anticompetitive conduct in Brazil, criminal charges have been brought against two current employees of MGE and one former employee of MGE involving the same conduct alleged by CADE. The Company has responded to all requests for information from the authorities. The Company is unable to predict the outcome or reasonably estimate the potential loss; however, we currently believe that this matter will not have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

In addition, we are involved in other unresolved legal actions that arise in the normal course of business. The most prevalent of these unresolved actions involve disputes related to product design, manufacture and performance liability (including claimed asbestos and welding fumes exposure), contracts, employment issues, environmental matters, intellectual property rights, taxes (other than income taxes) and securities laws. The aggregate range of reasonably possible losses in excess of accrued liabilities, if any, associated with these unresolved legal actions is not material. In some cases, we cannot reasonably estimate a range of loss because there is insufficient information regarding the matter. However, we believe there is no more than a remote chance that any liability arising from these matters would be material. Although it is not possible to predict with certainty the outcome of these unresolved legal actions, we believe that these actions will not individually or in the aggregate have a material adverse effect on our consolidated results of operations, financial position or liquidity.

14. Income taxes

The provision for income taxes for the first three months of 2018 reflects an estimated annual tax rate of 24 percent, compared to 32 percent for the first three months of 2017, excluding the discrete items discussed in the following paragraph. The decrease is primarily due to the reduction in the U.S. corporate tax rate beginning January 1, 2018, along with other changes in the geographic mix of profits from a tax perspective.

In addition, a discrete tax benefit of \$40 million was recorded in the first three months of 2018, compared to \$17 million in the first three months of 2017, for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense. The provision for income taxes in the first three months of 2017 also included a \$15 million increase to prior year taxes related to non-U.S. restructuring costs.

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Our analysis of U.S. tax reform legislation, updated through March 31, 2018, resulted in no change to the 2017 year-end provisional charge of \$2.371 billion. We will continue to update our calculations as additional required information is prepared and analyzed, interpretations and assumptions are refined, additional guidance is issued, and due to actions we may take as a result of the legislation. These updates could significantly impact the provision for income taxes, the amount of taxes payable and the deferred tax asset and liability balances.

On January 31, 2018, we received a Revenue Agent's Report from the Internal Revenue Service (IRS) indicating the end of the field examination of our U.S. income tax returns for 2010 to 2012. In the audits of 2007 to 2012 including the impact of a loss carryback to 2005, the IRS has proposed to tax in the United States profits earned from certain parts transactions by Caterpillar SARL, based on the IRS examination team's application of the "substance-over-form" or "assignment-of-income" judicial doctrines. We are vigorously contesting the proposed increases to tax and penalties for these years of approximately \$2.3 billion. We believe that the relevant transactions complied with applicable tax laws and did not violate judicial doctrines. We have filed U.S. income tax returns on this same basis for years after 2012. Based on the information currently available, we do not anticipate a significant increase or decrease to our unrecognized tax benefits for this matter within the next 12 months. We currently believe the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

15. Segment information

A. Basis for segment information

Our Executive Office is comprised of a Chief Executive Officer (CEO), five Group Presidents, a General Counsel & Corporate Secretary and a Chief Human Resources Officer. Group Presidents are accountable for a related set of end-to-end businesses that they manage. The General Counsel & Corporate Secretary leads the Law and Public Policy Division. The Chief Human Resources Officer leads the Human Resources Organization. The CEO allocates resources and manages performance at the Group President level. As such, the CEO serves as our Chief Operating Decision Maker and operating segments are primarily based on the Group President reporting structure.

Three of our operating segments, Construction Industries, Resource Industries and Energy & Transportation are led by Group Presidents. One operating segment, Financial Products, is led by a Group President who also has responsibility for Corporate Services. Corporate Services is a cost center primarily responsible for the performance of certain support functions globally and to provide centralized services; it does not meet the definition of an operating segment. One Group President leads two smaller operating segments that are included in the All Other operating segments. The Law and Public Policy Division and the Human Resources Organization are cost centers and do not meet the definition of an operating segment.

Segment information for 2017 has been recast due to our adoption of new accounting guidance issued by the FASB related to the presentation of net periodic pension costs and net period postretirement benefit costs. Prior service cost (credits) is no longer included in segment profit. See Note 2 for additional information.

B. Description of segments

We have six operating segments, of which four are reportable segments. Following is a brief description of our reportable segments and the business activities included in the All Other operating segments:

**Construction Industries:** A segment primarily responsible for supporting customers using machinery in infrastructure, forestry and building construction applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio



includes asphalt pavers, backhoe loaders, compactors, cold planers, compact track and multi-terrain loaders, mini, small, medium and large track excavators, forestry excavators, feller bunchers, harvesters, knuckleboom loaders, motor graders, pipelayers, road reclaimers, site prep tractors, skidders, skid steer loaders, telehandlers, small and medium track-type tractors, track-type loaders, wheel excavators, compact, small and medium wheel loaders and related parts and work tools. Inter-segment sales are a source of revenue for this segment.

Resource Industries: A segment primarily responsible for supporting customers using machinery in mining, quarry and aggregates, waste and material handling applications. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support. The product portfolio includes large track-type tractors, large mining trucks, hard rock vehicles, longwall miners, electric rope shovels, draglines,

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hydraulic shovels, rotary drills, large wheel loaders, off-highway trucks, articulated trucks, wheel tractor scrapers, wheel dozers, landfill compactors, soil compactors, hard rock continuous mining systems, select work tools, machinery components, electronics and control systems and related parts. In addition to equipment, Resource Industries also develops and sells technology products and services to provide customers fleet management, equipment management analytics and autonomous machine capabilities. Resource Industries also manages areas that provide services to other parts of the company, including integrated manufacturing and research and development. Inter-segment sales are a source of revenue for this segment.

**Energy & Transportation:** A segment primarily responsible for supporting customers using reciprocating engines, turbines, diesel-electric locomotives and related parts across industries serving Oil and Gas, Power Generation, Industrial and Transportation applications, including marine and rail-related businesses. Responsibilities include business strategy, product design, product management and development, manufacturing, marketing and sales and product support of turbine machinery and integrated systems and solutions and turbine-related services, reciprocating engine-powered generator sets, integrated systems used in the electric power generation industry, reciprocating engines and integrated systems and solutions for the marine and oil and gas industries; reciprocating engines supplied to the industrial industry as well as Cat machinery; the remanufacturing of Cat engines and components and remanufacturing services for other companies; the business strategy, product design, product management and development, manufacturing, remanufacturing, leasing and service of diesel-electric locomotives and components and other rail-related products and services and product support of on-highway vocational trucks for North America. Inter-segment sales are a source of revenue for this segment.

**Financial Products Segment:** Provides financing alternatives to customers and dealers around the world for Caterpillar products, as well as financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. Financing plans include operating and finance leases, installment sale contracts, working capital loans and wholesale financing plans. The segment also provides insurance and risk management products and services that help customers and dealers manage their business risk. Insurance and risk management products offered include physical damage insurance, inventory protection plans, extended service coverage for machines and engines, and dealer property and casualty insurance. The various forms of financing, insurance and risk management products offered to customers and dealers help support the purchase and lease of our equipment. The segment also earns revenues from Machinery, Energy & Transportation but the related costs are not allocated to operating segments.

**All Other operating segments:** Primarily includes activities such as: business strategy, product management and development, and manufacturing of filters and fluids, undercarriage, ground engaging tools, fluid transfer products, precision seals, and rubber sealing and connecting components primarily for Cat products; parts distribution; integrated logistics solutions, distribution services responsible for dealer development and administration including a wholly owned dealer in Japan, dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; digital investments for new customer and dealer solutions that integrate data analytics with state-of-the-art digital technologies while transforming the buying experience. Results for the All Other operating segments are included as a reconciling item between reportable segments and consolidated external reporting.

### C. Segment measurement and reconciliations

There are several methodology differences between our segment reporting and our external reporting. The following is a list of the more significant methodology differences:

✦ Machinery, Energy & Transportation segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles, accounts payable and customer advances. Liabilities other than accounts payable and customer advances are generally managed at the corporate level and are not included in segment

operations. Financial Products Segment assets generally include all categories of assets.

Segment inventories and cost of sales are valued using a current cost methodology.

Goodwill allocated to segments is amortized using a fixed amount based on a 20 year useful life. This methodology difference only impacts segment assets; no goodwill amortization expense is included in segment profit. In addition, only a portion of goodwill for certain acquisitions made in 2011 or later has been allocated to segments.

The present value of future lease payments for certain Machinery, Energy & Transportation operating leases is included in segment assets. The estimated financing component of the lease payments is excluded.

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Currency exposures for Machinery, Energy & Transportation are generally managed at the corporate level and the effects of changes in exchange rates on results of operations within the year are not included in segment profit. The net difference created in the translation of revenues and costs between exchange rates used for U.S. GAAP reporting and exchange rates used for segment reporting is reported as a methodology difference.

Stock-based compensation expense is not included in segment profit.

- Postretirement benefit expenses are split; segments are generally responsible for service costs, with the remaining elements of net periodic benefit cost included as a methodology difference.

Machinery, Energy & Transportation segment profit is determined on a pretax basis and excludes interest expense and other income/expense items. Financial Products Segment profit is determined on a pretax basis and includes other income/expense items.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 34 to 38 for financial information regarding significant reconciling items. Most of our reconciling items are self-explanatory given the above explanations. For the reconciliation of profit, we have grouped the reconciling items as follows:

Corporate costs: These costs are related to corporate requirements primarily for compliance and legal functions for the benefit of the entire organization.

Restructuring costs: Primarily costs for employee separation, long-lived asset impairments and contract terminations. These costs are included in Other operating (income) expenses except for defined-benefit plan curtailment losses and special termination benefits, which are included in Other income (expense). Restructuring costs also include other exit-related costs primarily for accelerated depreciation, inventory write-downs, equipment relocation and project management costs and LIFO inventory decrement benefits from inventory liquidations at closed facilities, primarily included in Cost of goods sold. A table, Reconciliation of Restructuring costs on page 36, has been included to illustrate how segment profit would have been impacted by the restructuring costs. See Note 18 for more information.

Methodology differences: See previous discussion of significant accounting differences between segment reporting and consolidated external reporting.

Timing: Timing differences in the recognition of costs between segment reporting and consolidated external reporting. For example, certain costs are reported on the cash basis for segment reporting and the accrual basis for consolidated external reporting.

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 Reportable Segments  
 Three Months Ended March 31  
 (Millions of dollars)

	2018						
	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at March 31	Capital expenditures
Construction Industries	\$5,659	\$ 18	\$5,677	\$ 89	\$ 1,117	\$ 4,961	\$ 42
Resource Industries	2,208	101	2,309	116	378	6,172	23
Energy & Transportation	4,276	943	5,219	158	874	8,119	162
Machinery, Energy & Transportation	\$12,143	\$ 1,062	\$13,205	\$ 363	\$ 2,369	\$ 19,252	\$ 227
Financial Products Segment	793	<sup>1</sup> —	793	203	141	35,332	361
Total	\$12,936	\$ 1,062	\$13,998	\$ 566	\$ 2,510	\$ 54,584	\$ 588
	2017						
	External sales and revenues	Inter-segment sales and revenues	Total sales and revenues	Depreciation and amortization	Segment profit	Segment assets at December 31	Capital expenditures
Construction Industries	\$4,091	\$ 9	\$4,100	\$ 102	\$ 634	\$ 4,838	\$ 21
Resource Industries	1,670	91	1,761	127	160	6,403	21
Energy & Transportation	3,356	780	4,136	158	545	7,564	116
Machinery, Energy & Transportation	\$9,117	\$ 880	\$9,997	\$ 387	\$ 1,339	\$ 18,805	\$ 158
Financial Products Segment	760	<sup>1</sup> —	760	208	183	34,893	271
Total	\$9,877	\$ 880	\$10,757	\$ 595	\$ 1,522	\$ 53,698	\$ 429

<sup>1</sup> Includes revenues from Machinery, Energy & Transportation of \$105 million and \$86 million in the first quarter of 2018 and 2017, respectively.

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For the three months ending March 31, 2018, sales and revenues by geographic region reconciled to consolidated sales and revenues were as follows:

## Sales and Revenues by Geographic Region

(Millions of dollars)	North America	Latin America	EAME	Asia/ Pacific	External Sales and Revenues
First Quarter 2018					
Construction Industries	\$ 2,620	\$ 344	\$ 1,067	\$ 1,628	\$ 5,659
Resource Industries	798	360	520	530	2,208
Energy & Transportation	2,225	280	1,092	679	4,276
All Other operating segments	15	—	4	18	37
Corporate Items and Eliminations	(28 )	1	(3 )	—	(30 )
Machinery, Energy & Transportation Sales	5,630	985	2,680	2,855	12,150
Financial Products Segment	512	74	101	106	793
Corporate Items and Eliminations	(49 )	(13 )	(5 )	(17 )	(84 )
Financial Products Revenues	463	61	96	89	709
Consolidated Sales and Revenues	\$ 6,093	\$ 1,046	\$ 2,776	\$ 2,944	\$ 12,859

For the three months ending March 31, 2018, Energy & Transportation segment sales by end user application were as follows:

## Energy &amp; Transportation External Sales

(Millions of dollars)	Three Months Ended March 31, 2018
Oil and gas	\$ 1,215
Power generation	969
Industrial	906
Transportation	1,186
Energy & Transportation External Sales	\$ 4,276

## Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2017				
Total external sales and revenues from reportable segments	\$ 9,117	\$ 760	\$ —	\$ 9,877
All Other operating segments	37	—	—	37
Other	(24 )	17	(85 )	<sup>1</sup> (92 )
Total sales and revenues	\$ 9,130	\$ 777	\$ (85 )	\$ 9,822

<sup>1</sup> Elimination of Financial Products revenues from Machinery, Energy & Transportation.

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## Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Three Months Ended March 31, 2018			
Total profit from reportable segments	\$ 2,369	\$ 141	\$ 2,510
All Other operating segments	57	—	57
Cost centers	27	—	27
Corporate costs	(168)	) —	(168)
Timing	(84)	) —	(84)
Restructuring costs	(69)	) —	(69)
Methodology differences:			
Inventory/cost of sales	(8)	) —	(8)
Postretirement benefit expense	87	—	87
Stock-based compensation expense	(48)	) (2)	(50)
Financing costs	(78)	) —	(78)
Currency	3	—	3
Other income/expense methodology differences	(78)	) —	(78)
Other methodology differences	(13)	) (2)	(15)
Total consolidated profit before taxes	\$ 1,997	\$ 137	\$ 2,134
Three Months Ended March 31, 2017			
Total profit from reportable segments	\$ 1,339	\$ 183	\$ 1,522
All Other operating segments	(14)	) —	(14)
Cost centers	7	—	7
Corporate costs	(115)	) —	(115)
Timing	(38)	) —	(38)
Restructuring costs	(751)	) (1)	(752)
Methodology differences:			
Inventory/cost of sales	(68)	) —	(68)
Postretirement benefit expense	47	—	47
Stock-based compensation expense	(47)	) (2)	(49)
Financing costs	(130)	) —	(130)
Currency	(39)	) —	(39)
Other income/expense methodology differences	(55)	) —	(55)
Other methodology differences	(31)	) 4	(27)
Total consolidated profit before taxes	\$ 105	\$ 184	\$ 289



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## Reconciliation of Restructuring costs:

As noted above, restructuring costs are a reconciling item between Segment profit and Consolidated profit before taxes. Had we included the amounts in the segments' results, the profit would have been as shown below:

## Reconciliation of Restructuring costs:

(Millions of dollars)	Segment profit (loss)	Restructuring costs	Segment profit (loss) with restructuring costs
Three Months Ended March 31, 2018			
Construction Industries	\$ 1,117	\$ (14 )	\$ 1,103
Resource Industries	378	(44 )	334
Energy & Transportation	874	(5 )	869
Financial Products Segment	141	—	141
All Other operating segments	57	(4 )	53
Total	\$ 2,567	\$ (67 )	\$ 2,500
Three Months Ended March 31, 2017			
Construction Industries	\$ 634	\$ (667 )	\$ (33 )
Resource Industries	160	(59 )	101
Energy & Transportation	545	(14 )	531
Financial Products Segment	183	(1 )	182
All Other operating segments	(14 )	(6 )	(20 )
Total	\$ 1,508	\$ (747 )	\$ 761

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## Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
March 31, 2018				
Total assets from reportable segments	\$ 19,252	\$35,332	\$ —	\$ 54,584
All Other operating segments	1,342	—	—	1,342
Items not included in segment assets:				
Cash and short-term investments	7,034	—	—	7,034
Intercompany receivables	1,630	—	(1,630 )	—
Investment in Financial Products	4,225	—	(4,225 )	—
Deferred income taxes	2,116	—	(537 )	1,579
Goodwill and intangible assets	4,572	—	—	4,572
Property, plant and equipment – net and other assets	2,261	—	—	2,261
Operating lease methodology difference	(174 )	—	—	(174 )
Inventory methodology differences	(2,214 )	—	—	(2,214 )
Liabilities included in segment assets	9,657	—	—	9,657
Other	(589 )	(8 )	(30 )	(627 )
Total assets	\$ 49,112	\$35,324	\$ (6,422 )	\$ 78,014
December 31, 2017				
Total assets from reportable segments	\$ 18,805	\$34,893	\$ —	\$ 53,698
All Other operating segments	1,312	—	—	1,312
Items not included in segment assets:				
Cash and short-term investments	7,381	—	—	7,381
Intercompany receivables	1,733	—	(1,733 )	—
Investment in Financial Products	4,064	—	(4,064 )	—
Deferred income taxes	2,166	—	(574 )	1,592
Goodwill and intangible assets	4,210	—	—	4,210
Property, plant and equipment – net and other assets	2,341	—	—	2,341
Operating lease methodology difference	(191 )	—	—	(191 )
Inventory methodology differences	(2,287 )	—	—	(2,287 )
Liabilities included in segment assets	9,352	—	—	9,352
Other	(399 )	(14 )	(33 )	(446 )
Total assets	\$ 48,487	\$34,879	\$ (6,404 )	\$ 76,962

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## Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Three Months Ended March 31, 2018			
Total depreciation and amortization from reportable segments	\$ 363	\$ 203	\$ 566
Items not included in segment depreciation and amortization:			
All Other operating segments	57	—	57
Cost centers	31	—	31
Other	17	10	27
Total depreciation and amortization	\$ 468	\$ 213	\$ 681
Three Months Ended March 31, 2017			
Total depreciation and amortization from reportable segments	\$ 387	\$ 208	\$ 595
Items not included in segment depreciation and amortization:			
All Other operating segments	54	—	54
Cost centers	35	—	35
Other	15	11	26
Total depreciation and amortization	\$ 491	\$ 219	\$ 710

## Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended March 31, 2018				
Total capital expenditures from reportable segments	\$ 227	\$ 361	\$ —	\$ 588
Items not included in segment capital expenditures:				
All Other operating segments	11	—	—	11
Cost centers	14	—	—	14
Timing	175	—	—	175
Other	(104 )	77	(4 )	(31 )
Total capital expenditures	\$ 323	\$ 438	\$ (4 )	\$ 757
Three Months Ended March 31, 2017				
Total capital expenditures from reportable segments	\$ 158	\$ 271	\$ —	\$ 429
Items not included in segment capital expenditures:				
All Other operating segments	20	—	—	20
Cost centers	9	—	—	9
Timing	88	—	—	88
Other	(66 )	32	(3 )	(37 )
Total capital expenditures	\$ 209	\$ 303	\$ (3 )	\$ 509

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16. Cat Financial financing activities

Allowance for credit losses

The allowance for credit losses is an estimate of the losses inherent in Cat Financial's finance receivable portfolio and includes consideration of accounts that have been individually identified as impaired, as well as pools of finance receivables where it is probable that certain receivables in the pool are impaired but the individual accounts cannot yet be identified. In identifying and measuring impairment, management takes into consideration past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions.

Accounts are identified for individual review based on past-due status and information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which Cat Financial's customers operate. The allowance for credit losses attributable to finance receivables that are individually evaluated and determined to be impaired is based on the present value of expected future cash flows discounted at the receivables' effective interest rate, the fair value of the collateral for collateral-dependent receivables or the observable market price of the receivable. In determining collateral value, Cat Financial estimates the current fair market value of the collateral less selling costs. Cat Financial also considers credit enhancements such as additional collateral and contractual third-party guarantees. The allowance for credit losses attributable to the remaining accounts not yet individually identified as impaired is estimated based on loss forecast models utilizing probabilities of default, our estimate of the loss emergence period and the estimated loss given default. In addition, qualitative factors not able to be fully captured in the loss forecast models including industry trends, macroeconomic factors and model imprecision are considered in the evaluation of the adequacy of the allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

Cat Financial's allowance for credit losses is segregated into two portfolio segments:

- Customer - Finance receivables with retail customers.
- Dealer - Finance receivables with Caterpillar dealers.

A portfolio segment is the level at which the company develops a systematic methodology for determining its allowance for credit losses.

Cat Financial further evaluates portfolio segments by the class of finance receivables, which is defined as a level of information (below a portfolio segment) in which the finance receivables have the same initial measurement attribute and a similar method for assessing and monitoring credit risk. Typically, Cat Financial's finance receivables within a geographic area have similar credit risk profiles and methods for assessing and monitoring credit risk. Cat Financial's classes, which align with management reporting for credit losses, are as follows:

- North America - Finance receivables originated in the United States or Canada.
- Europe - Finance receivables originated in Europe, Africa, the Middle East and the Commonwealth of Independent States.
- Asia Pacific - Finance receivables originated in Australia, New Zealand, China, Japan and Southeast Asia.
- Mining - Finance receivables related to large mining customers worldwide and project financing in various countries.
- Latin America - Finance receivables originated in Mexico, and Central and South American countries.
- Caterpillar Power Finance - Finance receivables originated worldwide related to marine vessels with Caterpillar engines and Caterpillar electrical power generation, gas compression and co-generation systems and non-Caterpillar equipment that is powered by these systems.



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An analysis of the allowance for credit losses was as follows:

(Millions of dollars)	March 31, 2018		
	Customer	Dealer	Total
Allowance for Credit Losses:			
Balance at beginning of year	\$353	\$9	\$362
Receivables written off	(40 )	—	(40 )
Recoveries on receivables previously written off	10	—	10
Provision for credit losses	66	—	66
Other	1	—	1
Balance at end of period	\$390	\$9	\$399
Individually evaluated for impairment	\$194	\$—	\$194
Collectively evaluated for impairment	196	9	205
Ending Balance	\$390	\$9	\$399
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	\$971	\$—	\$971
Collectively evaluated for impairment	18,164	3,367	21,531
Ending Balance	\$19,135	\$3,367	\$22,502

(Millions of dollars)	December 31, 2017		
	Customer	Dealer	Total
Allowance for Credit Losses:			
Balance at beginning of year	\$331	\$10	\$341
Receivables written off	(157 )	—	(157 )
Recoveries on receivables previously written off	43	—	43
Provision for credit losses	129	(1 )	128
Other	7	—	7
Balance at end of year	\$353	\$9	\$362
Individually evaluated for impairment	\$149	\$—	\$149
Collectively evaluated for impairment	204	9	213
Ending Balance	\$353	\$9	\$362
Recorded Investment in Finance Receivables:			
Individually evaluated for impairment	\$942	\$—	\$942
Collectively evaluated for impairment	18,226	3,464	21,690
Ending Balance	\$19,168	\$3,464	\$22,632

## Credit quality of finance receivables

At origination, Cat Financial evaluates credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios and other internal metrics. On an ongoing basis, Cat Financial monitors credit quality based on past-due status and collection experience as there is a meaningful correlation between the past-due status of customers and the risk of loss.

In determining past-due status, Cat Financial considers the entire recorded investment in finance receivables past due when any installment is over 30 days past due. The tables below summarize the recorded investment in finance receivables by aging category.

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(Millions of dollars)	March 31, 2018				Total Past Due	Current	Recorded Investment in Finance Receivables	91+ Still Accruing
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due					
Customer								
North America	\$73	\$28	\$38	\$ 139	\$7,934	\$ 8,073	\$ 6	
Europe	20	23	54	97	2,759	2,856	10	
Asia Pacific	23	11	13	47	2,114	2,161	6	
Mining	7	1	12	20	1,755	1,775	1	
Latin America	49	43	143	235	1,460	1,695	3	
Caterpillar Power Finance	41	57	209	307	2,268	2,575	28	
Dealer								
North America	—	—	—	—	1,937	1,937	—	
Europe	—	—	—	—	191	191	—	
Asia Pacific	—	—	—	—	486	486	—	
Mining	—	—	—	—	4	4	—	
Latin America	1	2	73	76	671	747	—	
Caterpillar Power Finance	—	—	—	—	2	2	—	
Total	\$214	\$165	\$542	\$ 921	\$21,581	\$ 22,502	\$ 54	

(Millions of dollars)	December 31, 2017				Total Past Due	Current	Recorded Investment in Finance Receivables	91+ Still Accruing
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due					
Customer								
North America	\$71	\$15	\$42	\$ 128	\$7,950	\$ 8,078	\$ 8	
Europe	21	10	46	77	2,718	2,795	13	
Asia Pacific	13	7	14	34	2,009	2,043	5	
Mining	3	1	60	64	1,751	1,815	9	
Latin America	37	55	142	234	1,531	1,765	—	
Caterpillar Power Finance	20	32	144	196	2,476	2,672	1	
Dealer								
North America	—	—	—	—	1,920	1,920	—	
Europe	—	—	—	—	222	222	—	
Asia Pacific	—	—	—	—	553	553	—	
Mining	—	—	—	—	4	4	—	
Latin America	—	72	—	72	691	763	—	
Caterpillar Power Finance	—	—	—	—	2	2	—	
Total	\$165	\$192	\$448	\$ 805	\$21,827	\$ 22,632	\$ 36	

As of March 31, 2018, Cat Financial had \$221 million of finance receivables classified as held for sale.

Impaired finance receivables



For all classes, a finance receivable is considered impaired, based on current information and events, if it is probable that Cat Financial will be unable to collect all amounts due according to the contractual terms. Impaired finance receivables include finance receivables that have been restructured and are considered to be troubled debt restructurings.

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There were no impaired finance receivables as of March 31, 2018 or December 31, 2017, for the Dealer portfolio segment. Cat Financial's recorded investment in impaired finance receivables and the related unpaid principal balances and allowance for the Customer portfolio segment were as follows:

(Millions of dollars)	March 31, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Impaired Finance Receivables With No Allowance Recorded</b>						
North America	\$16	\$ 16	\$ —	\$19	\$ 19	\$ —
Europe	7	7	—	45	45	—
Asia Pacific	27	27	—	34	33	—
Mining	50	50	—	121	121	—
Latin America	46	46	—	45	45	—
Caterpillar Power Finance	195	207	—	160	172	—
Total	\$341	\$ 353	\$ —	\$424	\$ 435	\$ —
<b>Impaired Finance Receivables With An Allowance Recorded</b>						
North America	\$60	\$ 58	\$ 21	\$44	\$ 43	\$ 17
Europe	49	49	13	9	8	5
Asia Pacific	4	4	1	8	8	2
Mining	67	67	18	—	—	—
Latin America	71	71	40	95	106	42
Caterpillar Power Finance	379	381	101	362	365	83
Total	\$630	\$ 630	\$ 194	\$518	\$ 530	\$ 149
<b>Total Impaired Finance Receivables</b>						
North America	\$76	\$ 74	\$ 21	\$63	\$ 62	\$ 17
Europe	56	56	13	54	53	5
Asia Pacific	31	31	1	42	41	2
Mining	117	117	18	121	121	—
Latin America	117	117	40	140	151	42
Caterpillar Power Finance	574	588	101	522	537	83
Total	\$971	\$ 983	\$ 194	\$942	\$ 965	\$ 149

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(Millions of dollars)	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Impaired Finance Receivables With No Allowance Recorded</b>				
North America	\$ 17	\$ —	\$ 10	\$ —
Europe	36	—	49	—
Asia Pacific	31	1	9	—
Mining	103	1	128	1
Latin America	45	1	72	1
Caterpillar Power Finance	172	2	267	3
Total	\$ 404	\$ 5	\$ 535	\$ 5
<b>Impaired Finance Receivables With An Allowance Recorded</b>				
North America	\$ 51	\$ 1	\$ 61	\$ —
Europe	19	—	6	—
Asia Pacific	6	—	45	1
Mining	17	—	—	—
Latin America	87	1	96	1
Caterpillar Power Finance	360	1	63	1
Total	\$ 540	\$ 3	\$ 271	\$ 3
<b>Total Impaired Finance Receivables</b>				
North America	\$ 68	\$ 1	\$ 71	\$ —
Europe	55	—	55	—
Asia Pacific	37	1	54	1
Mining	120	1	128	1
Latin America	132	2	168	2
Caterpillar Power Finance	532	3	330	4
Total	\$ 944	\$ 8	\$ 806	\$ 8

Recognition of income is suspended and the finance receivable is placed on non-accrual status when management determines that collection of future income is not probable (generally after 120 days past due). Recognition is resumed and previously suspended income is recognized when the finance receivable becomes current and collection of remaining amounts is considered probable. Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms.

As of March 31, 2018, there were finance receivables on non-accrual status for the Dealer portfolio segment of \$73 million, all of which were in the Latin America finance receivable class. As of December 31, 2017, there were no finance receivables on non-accrual status for the Dealer portfolio segment. The recorded investment in customer finance receivables on non-accrual status was as follows:

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(Millions of dollars)	March 31, December 31,	
	2018	2017
North America	\$ 50	\$ 38
Europe	50	37
Asia Pacific	8	10
Mining	14	63
Latin America	174	192
Caterpillar Power Finance	339	343
Total	\$ 635	\$ 683

## Troubled Debt Restructurings

A restructuring of a finance receivable constitutes a troubled debt restructuring (TDR) when the lender grants a concession it would not otherwise consider to a borrower experiencing financial difficulties. Concessions granted may include extended contract maturities, inclusion of interest only periods, below market interest rates, extended skip payment periods and reduction of principal and/or accrued interest.

As of March 31, 2018 and December 31, 2017, there were no additional funds committed to lend to a borrower whose terms have been modified in a TDR.

There were no finance receivables modified as TDRs during the three months ended March 31, 2018 or 2017 for the Dealer portfolio segment. Cat Financial's investment in finance receivables in the Customer portfolio segment modified as TDRs during the three months ended March 31, 2018 and 2017, were as follows:

(Millions of dollars)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
North America	13	\$ 6	\$ 6	9	\$ 1	\$ 1
Europe	—	—	—	1	—	—
Asia Pacific	—	—	—	5	39	30
Mining	1	29	29	2	57	56
Latin America	1	3	3	7	2	2
Caterpillar Power Finance	3	3	3	6	25	24
Total	18	\$ 41	\$ 41	30	\$ 124	\$ 113

## 17. Fair value disclosures

## A. Fair value measurements

The guidance on fair value measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

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

Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, we use quoted market prices to determine fair value, and we classify such measurements within Level 1. In some cases where market prices are not available, we make use of observable market based inputs to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon valuations in which one or more significant inputs are unobservable, including internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

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

Fair value measurement includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or Caterpillar) will not be fulfilled. For financial assets traded in an active market (Level 1 and certain Level 2), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (certain Level 2 and Level 3), our fair value calculations have been adjusted accordingly.

### Investments in debt and equity securities

We have investments in certain debt and equity securities, primarily at Insurance Services, that are recorded at fair value. Fair values for our U.S. treasury bonds and large capitalization value and smaller company growth equity securities are based upon valuations for identical instruments in active markets. Fair values for other government bonds, corporate bonds and mortgage-backed debt securities are based upon models that take into consideration such market-based factors as recent sales, risk-free yield curves and prices of similarly rated bonds.

In addition, Insurance Services has an equity investment in a real estate investment trust (REIT) which is recorded at fair value based on the net asset value (NAV) of the investment. Beginning January 1, 2018, we adopted new accounting guidance issued by the FASB which results in the fair value of the REIT no longer being classified within the fair value hierarchy. Prior to January 1, 2018, the fair value was classified as Level 3.

See Note 8 for additional information on our investments in debt and equity securities.

### Derivative financial instruments

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

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Assets and liabilities measured on a recurring basis at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of March 31, 2018 and December 31, 2017 are summarized below:

(Millions of dollars)	March 31, 2018				Total Assets / Liabilities, at Fair Value
	Level 1	Level 2	Level 3	Measured at NAV	
<b>Assets</b>					
<b>Debt securities</b>					
<b>Government debt</b>					
U.S. treasury bonds	\$ 13	\$—	\$	—\$ —	\$ 13
Other U.S. and non-U.S. government bonds	—	51	—	—	51
<b>Corporate bonds</b>					
Corporate bonds	—	640	—	—	640
Asset-backed securities	—	63	—	—	63
<b>Mortgage-backed debt securities</b>					
U.S. governmental agency	—	285	—	—	285
Residential	—	8	—	—	8
Commercial	—	16	—	—	16
<b>Total debt securities</b>	<b>13</b>	<b>1,063</b>	<b>—</b>	<b>—</b>	<b>1,076</b>
<b>Equity securities</b>					
Large capitalization value	281	—	—	—	281
Smaller company growth	58	—	—	—	58
REIT	—	—	—	112	112
<b>Total equity securities</b>	<b>339</b>	<b>—</b>	<b>—</b>	<b>112</b>	<b>451</b>
<b>Total assets</b>	<b>\$352</b>	<b>\$1,063</b>	<b>\$</b>	<b>—\$ 112</b>	<b>\$ 1,527</b>
<b>Liabilities</b>					
Derivative financial instruments, net	—	—	—	—	—