CATERPILLAR INC
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
At September 30, 2018, 590,106,711 shares of common stock of the registrant were outstanding.

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* Item omitted because no answer is called for or item is not applicable.

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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 September 30	
	2018	2017
Sales and revenues:		
Sales of Machinery, Energy & Transportation	$12,763	$10,713
Revenues of Financial Products	747	700
Total sales and revenues	13,510	11,413
Operating costs:		
Cost of goods sold	9,022	7,678
Selling, general and administrative expenses	1,299	1,254
Research and development expenses	479	461
Interest expense of Financial Products	185	163
Other operating (income) expenses	390	348
Total operating costs	11,375	9,904
Operating profit	2,135	1,509
Interest expense excluding Financial Products	102	118
Other income (expense)	102	132
Consolidated profit before taxes	2,135	1,523
Provision (benefit) for income taxes	415	470
Profit of consolidated companies	1,720	1,053
Equity in profit (loss) of unconsolidated affiliated companies	7	8
Profit of consolidated and affiliated companies	1,727	1,061
Less: Profit (loss) attributable to noncontrolling interests	—	2
Profit [1]	$1,727	$1,059
Profit per common share	$2.92	$1.79
Profit per common share – diluted [2]	$2.88	$1.77
Weighted-average common shares outstanding (millions)		
– Basic	592.1	592.9

– Diluted[2]	599.4	600.1
Cash dividends declared per common share	$—	$—

[1] Profit attributable to common shareholders.
[2] 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 September 30	
	2018	2017
Profit of consolidated and affiliated companies	$1,727	$1,061
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2018 - $(3); 2017 - $28	(65)	248
Pension and other postretirement benefits:		
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2018 - $2; 2017 - $2	(7)	(4)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - $(9); 2017 - $2	32	(4)
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - $8; 2017 - $(5)	(31)	11
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - $0; 2017 - $(8)	(1)	11
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - $0; 2017 - $12	—	(24)
Total other comprehensive income (loss), net of tax	(72)	238
Comprehensive income	1,655	1,299
Less: comprehensive income attributable to the noncontrolling interests	—	(2)
Comprehensive income attributable to shareholders	$1,655	$1,297

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc.
Consolidated Statement of Results of Operations
(Unaudited)
(Dollars in millions except per share data)

	Nine Months Ended September 30	
	2018	2017
Sales and revenues:		
Sales of Machinery, Energy & Transportation	$38,192	$30,482
Revenues of Financial Products	2,188	2,084
Total sales and revenues	40,380	32,566
Operating costs:		
Cost of goods sold	27,010	22,295
Selling, general and administrative expenses	4,015	3,619
Research and development expenses	1,384	1,344
Interest expense of Financial Products	533	484
Other operating (income) expenses	1,028	1,751
Total operating costs	33,970	29,493
Operating profit	6,410	3,073
Interest expense excluding Financial Products	305	362
Other income (expense)	350	260
Consolidated profit before taxes	6,455	2,971
Provision (benefit) for income taxes	1,377	921
Profit of consolidated companies	5,078	2,050
Equity in profit (loss) of unconsolidated affiliated companies	21	8
Profit of consolidated and affiliated companies	5,099	2,058
Less: Profit (loss) attributable to noncontrolling interests	—	5
Profit [1]	$5,099	$2,053
Profit per common share	$8.57	$3.48
Profit per common share – diluted [2]	$8.45	$3.44
Weighted-average common shares outstanding (millions)		
– Basic	595.3	590.3
– Diluted [2]	603.8	596.5
Cash dividends declared per common share	$1.64	$1.55

[1] Profit attributable to common shareholders.
[2] Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

See accompanying notes to Consolidated Financial Statements.

Caterpillar Inc.
Consolidated Statement of Comprehensive Income
(Unaudited)
(Dollars in millions)

	Nine Months Ended September 30	
	2018	2017
Profit of consolidated and affiliated companies	$5,099	$2,058
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2018 - $(18); 2017 - $86	(292)	719
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 - $5; 2017 - $6	(21)	(12)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - $(23); 2017 - $(3)	73	6
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - $32; 2017 - $(41)	(109)	77
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2018 - $3; 2017 - $(17)	(14)	29
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2018 - $0; 2017 - $11	—	(21)
Total other comprehensive income (loss), net of tax	(365)	806
Comprehensive income	4,734	2,864
Less: comprehensive income attributable to the noncontrolling interests	—	(5)
Comprehensive income attributable to shareholders	$4,734	$2,859

See accompanying notes to Consolidated Financial Statements.

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Caterpillar Inc.
Consolidated Statement of Financial Position
(Unaudited)
(Dollars in millions)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and short-term investments	$ 8,007	$ 8,261
Receivables – trade and other	7,974	7,436
Receivables – finance	8,824	8,757
Prepaid expenses and other current assets	1,835	1,772
Inventories	11,814	10,018
Total current assets	38,454	36,244
Property, plant and equipment – net	13,607	14,155
Long-term receivables – trade and other	1,129	990
Long-term receivables – finance	13,244	13,542
Noncurrent deferred and refundable income taxes	1,288	1,693
Intangible assets	1,976	2,111
Goodwill	6,233	6,200
Other assets	2,278	2,027
Total assets	$ 78,209	$ 76,962
Liabilities		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation	$ 59	$ 1
Financial Products	4,462	4,836
Accounts payable	6,788	6,487
Accrued expenses	3,423	3,220
Accrued wages, salaries and employee benefits	2,132	2,559
Customer advances	1,491	1,426
Dividends payable	—	466
Other current liabilities	1,867	1,742
Long-term debt due within one year:		
Machinery, Energy & Transportation	10	6
Financial Products	5,801	6,188
Total current liabilities	26,033	26,931
Long-term debt due after one year:		
Machinery, Energy & Transportation	7,991	7,929
Financial Products	17,450	15,918
Liability for postemployment benefits	7,046	8,365
Other liabilities	3,799	4,053
Total liabilities	62,319	63,196
Commitments and contingencies (Notes 10 and 13)		
Shareholders' equity		

Common stock of $1.00 par value:		
Authorized shares: 2,000,000,000 Issued shares: (9/30/18 and 12/31/17 – 814,894,624) at paid-in amount	5,715	5,593
Treasury stock (9/30/18 – 224,787,913 shares; 12/31/17 – 217,268,852 shares) at cost	(18,681)	(17,005)
Profit employed in the business	30,384	26,301
Accumulated other comprehensive income (loss)	(1,568)	(1,192)
Noncontrolling interests	40	69
Total shareholders’ equity	15,890	13,766
Total liabilities and shareholders’ equity	$ 78,209	$ 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
Nine Months Ended September 30, 2017						
Balance at December 31, 2016	$5,277	$(17,478)	$27,377	$(2,039)	$76	$13,213
Adjustment to adopt stock-based compensation guidance[1]	—	—	15	—	—	15
Balance at January 1, 2017	$5,277	$(17,478)	$27,392	$(2,039)	$76	$13,228
Profit of consolidated and affiliated companies	—	—	2,053	—	5	2,058
Foreign currency translation, net of tax	—	—	—	719	—	719
Pension and other postretirement benefits, net of tax	—	—	—	(4)	—	(4)
Derivative financial instruments, net of tax	—	—	—	83	—	83
Available-for-sale securities, net of tax	—	—	—	8	—	8
Change in ownership from noncontrolling interests	4	—	—	—	(3)	1
Dividends declared	—	—	(915)	—	—	(915)
Distribution to noncontrolling interests	—	—	—	—	(8)	(8)
Common shares issued from treasury stock for stock-based compensation: 8,447,558	5	348	—	—	—	353
Stock-based compensation expense	165	—	—	—	—	165
Other	9	—	—	—	—	9
Balance at September 30, 2017	$5,460	$(17,130)	$28,530	$(1,233)	$70	$15,697
Nine Months Ended September 30, 2018						
Balance at December 31, 2017	$5,593	$(17,005)	$26,301	$(1,192)	$69	$13,766
Adjustments to adopt new accounting guidance[1]						
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	—	—	5,099	—	—	5,099
Foreign currency translation, net of tax	—	—	—	(292)	—	(292)
Pension and other postretirement benefits, net of tax	—	—	—	(23)	—	(23)
Derivative financial instruments, net of tax	—	—	—	(36)	—	(36)
Available-for-sale securities, net of tax	—	—	—	(14)	—	(14)
Change in ownership from noncontrolling interests	(25)	—	—	—	(18)	(43)
Dividends declared	—	—	(980)	—	—	(980)
Distribution to noncontrolling interests	—	—	—	—	(1)	(1)
	36	256	—	—	—	292

Common shares issued from treasury stock for stock-based compensation: 5,284,974						
Stock-based compensation expense	164	—	—	—	—	164
Common shares repurchased: 12,804,035 [2]	—	(1,932)	—	—	—	(1,932)
Other	(53)	—	—	—	(10)	(63)
Balance at September 30, 2018	$ 5,715	$ (18,681)	$ 30,384	$ (1,568)	$ 40	$ 15,890

[1] See Note 2 for additional information.
[2] 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)

	Nine Months Ended September 30	
	2018	2017
Cash flow from operating activities:		
Profit of consolidated and affiliated companies	$5,099	$2,058
Adjustments for non-cash items:		
Depreciation and amortization	2,065	2,153
Other	630	596
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other	(725)	(455)
Inventories	(1,822)	(1,489)
Accounts payable	496	1,371
Accrued expenses	(32)	121
Accrued wages, salaries and employee benefits	(418)	962
Customer advances	59	358
Other assets – net	394	(137)
Other liabilities – net	(1,271)	(373)
Net cash provided by (used for) operating activities	4,475	5,165
Cash flow from investing activities:		
Capital expenditures – excluding equipment leased to others	(921)	(566)
Expenditures for equipment leased to others	(1,208)	(1,071)
Proceeds from disposals of leased assets and property, plant and equipment	732	864
Additions to finance receivables	(9,092)	(8,246)
Collections of finance receivables	8,032	8,532
Proceeds from sale of finance receivables	416	98
Investments and acquisitions (net of cash acquired)	(357)	(47)
Proceeds from sale of businesses and investments (net of cash sold)	14	93
Proceeds from sale of securities	363	431
Investments in securities	(417)	(594)
Other – net	24	73
Net cash provided by (used for) investing activities	(2,414)	(433)
Cash flow from financing activities:		
Dividends paid	(1,444)	(1,367)
Common stock issued, including treasury shares reissued	292	353
Common shares repurchased	(2,000)	—
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation	47	362
Financial Products	7,026	6,972
Payments on debt (original maturities greater than three months):		
Machinery, Energy & Transportation	(6)	(506)
Financial Products	(5,636)	(5,718)

Short-term borrowings – net (original maturities three months or less)	(465)	(2,403)
Other – net	(32)	(7)
Net cash provided by (used for) financing activities	(2,218)	(2,314)
Effect of exchange rate changes on cash	(117)	40
Increase (decrease) in cash and short-term investments and restricted cash	(274)	2,458
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	$8,046	$9,657

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 and nine months ended September 30, 2018 and 2017, (b) the consolidated comprehensive income for the three and nine months ended September 30, 2018 and 2017, (c) the consolidated financial position at September 30, 2018 and December 31, 2017, (d) the consolidated changes in shareholders' equity for the nine months ended September 30, 2018 and 2017 and (e) the consolidated cash flow for the nine months ended September 30, 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)	September 30, 2018	December 31, 2017
Receivables - trade and other	$ 29	$ 34
Receivables - finance	47	42

Long-term receivables - finance	26	38
Investments in unconsolidated affiliated companies	30	39
Guarantees[1]	—	259
Total	$ 132	$ 412

[1] 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
Assets			
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
Liabilities			
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:

Consolidated Statement of Results of Operations	Three Months Ended September 30, 2018		
	As Reported	Previous Accounting Guidance	Impact from Adopting New Revenue Guidance
(Millions of dollars)			
Sales of Machinery, Energy & Transportation	$12,763	$ 12,719	$ 44
Cost of goods sold	$9,022	$ 8,997	$ 25
Operating profit	$2,135	$ 2,116	$ 19
Consolidated profit before taxes	$2,135	$ 2,116	$ 19
Provision (benefit) for income taxes	$415	$ 411	$ 4
Profit of consolidated companies	$1,720	$ 1,705	$ 15
Profit of consolidated and affiliated companies	$1,727	$ 1,712	$ 15
Profit	$1,727	$ 1,712	$ 15

Consolidated Statement of Results of Operations	Nine Months Ended September 30, 2018		
	As Reported	Previous Accounting Guidance	Impact from Adopting New Revenue Guidance
(Millions of dollars)			
Sales of Machinery, Energy & Transportation	$38,192	$ 38,194	$ (2)
Cost of goods sold	$27,010	$ 27,020	$ (10)
Other operating (income) expenses	$1,028	$ 1,034	$ (6)
Operating profit	$6,410	$ 6,396	$ 14
Consolidated profit before taxes	$6,455	$ 6,441	$ 14
Provision (benefit) for income taxes	$1,377	$ 1,374	$ 3
Profit of consolidated companies	$5,078	$ 5,067	$ 11
Profit of consolidated and affiliated companies	$5,099	$ 5,088	$ 11
Profit	$5,099	$ 5,088	$ 11

Consolidated Statement of Financial Position	September 30, 2018		
	As Reported	Previous Accounting Guidance	Impact from Adopting New Revenue Guidance
(Millions of dollars)			
Assets			

Receivables - trade and other	$7,974	$ 8,011	$ (37)
Prepaid expenses and other current assets	$1,835	$ 1,502	$ 333
Inventories	$11,814	$ 11,807	$ 7
Noncurrent deferred and refundable income taxes	$1,288	$ 1,289	$ (1)
Liabilities			
Accrued expenses	$3,423	$ 3,203	$ 220
Customer advances	$1,491	$ 1,408	$ 83
Shareholders' equity			
Profit employed in the business	$30,384	$ 30,385	$ (1)

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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. Entities have the option to adopt the new guidance using a modified retrospective approach through a cumulative effect adjustment to retained earnings applied either to the beginning of the earliest period presented or the beginning of the period of adoption. We will adopt the new guidance effective January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption.

The new guidance provides a number of optional practical expedients in transition. We plan to elect the ‘package of practical expedients’, which allows us not to reassess under the new guidance our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight practical expedient. In addition, the new guidance provides practical expedients for an entity’s ongoing accounting that we are still evaluating such as whether or not to separate lease and non-lease components. We plan to elect the short-term lease recognition exemption for all leases that qualify which means we will not recognize right-of-use assets or lease liabilities for these leases.

We are currently designing new processes and controls, cataloging and entering our leases into a recently implemented software solution and evaluating our population of leased assets to assess the effect of the new guidance on our financial statements. While we continue to assess the effects of adoption, we believe the most significant effects relate to the recognition of right-of-use assets and lease liabilities on our balance sheet, and providing new disclosures about our leasing activities. In addition, we expect to derecognize about $125 million of existing assets and $375 million of debt obligations for a sale-leaseback transaction that qualifies for sale accounting under the new guidance. The gain associated with this change in accounting will be recognized through opening retained earnings as of January 1, 2019. We are continuing to evaluate the impact of the new guidance on lessor accounting, which will primarily impact Cat Financial. We do not expect the new guidance to have a material impact on our results of operations.

Stock-based compensation – In March 2016, the FASB issued accounting guidance to simplify several aspects of the accounting for share-based payments. The new guidance changes how reporting entities account for certain aspects of share-based payments, including the accounting for income taxes and the classification of the tax impact on the Consolidated Statement of Cash Flow. Under the new guidance, all excess tax benefits and deficiencies during the period are recognized in income (rather than equity) on a prospective basis. The guidance removes the requirement to delay recognition of excess tax benefits until it reduces income taxes currently payable. This change was required to be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to opening retained earnings in the period of adoption. In addition, Cash flows related to excess tax benefits are now included in Cash provided by operating activities and will no longer be separately classified as a financing activity. This change was adopted retrospectively. The guidance was effective January 1, 2017, and did not have a material impact on our financial statements.

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.

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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 an employer to disaggregate the service cost component from the other components of net periodic 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 periodic 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

	Three Months Ended September 30, 2017		
(Millions of dollars)	As Revised	Previously Reported	Effect of Change
Cost of goods sold	$7,678	$ 7,633	$ 45
Selling, general and administrative expenses	$1,254	$ 1,237	$ 17
Research and development expenses	$461	$ 455	$ 6
Total operating costs	$9,904	$ 9,836	$ 68
Operating profit	$1,509	$ 1,577	$ (68)
Other income (expense)	$132	$ 64	$ 68

	Nine Months Ended September 30, 2017		
	As Revised	Previously Reported	Effect of Change
Cost of goods sold	$22,295	$ 22,160	$ 135

Selling, general and administrative expenses	$3,619	$ 3,571	$ 48
Research and development expenses	$1,344	$ 1,326	$ 18
Other operating (income) expenses	$1,751	$ 1,780	$ (29)
Total operating costs	$29,493	$ 29,321	$ 172
Operating profit	$3,073	$ 3,245	$ (172)
Other income (expense)	$260	$ 88	$ 172

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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. We will adopt the new guidance effective January 1, 2019. 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. 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. We will adopt the new guidance effective January 1, 2019. 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.

Defined benefit plan disclosures – In August 2018, the FASB issued accounting guidance that revises the annual disclosure requirements for employers by removing and adding certain disclosures for these plans. The applicable requirements that were removed include the amount of prior service cost (credit) that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost for the next fiscal year and the effect of a one-percentage-point change in the assumed health care cost trend rates on the service and interest cost components of other postretirement benefit cost and on the accumulated postretirement benefit obligations. The new disclosure requirements include the weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and narrative description of the reasons for significant actuarial gains and losses related to changes in benefit plan obligations or assets for the period. The new guidance is required to be applied on a retrospective basis. The guidance is effective January 1, 2020, with early adoption permitted. We do not expect the adoption to have a material impact 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 collectibility 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.

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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 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 $6,902 million and $6,399 million as of September 30, 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 $664 million and $639 million as of September 30, 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 $432 million and $396 million as of September 30, 2018 and January 1, 2018, respectively. We reduce the contract liability when revenue is recognized. During the three and nine months ended September 30, 2018, we recognized $145 million and $1,124 million, respectively, of revenue that was recorded as a contract liability at the beginning of 2018.

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.

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As of September 30, 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 $5.9 billion, of which $2.7 billion is expected to be completed and revenue recognized in the twelve months following September 30, 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.

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) and performance-based restricted stock units (PRSUs).

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 $52 million and $164 million for the three and nine months ended September 30, 2018, respectively, and $48 million and $165 million for the three and nine months ended September 30, 2017, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the nine months ended September 30, 2018 and 2017, respectively:

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	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 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	1,605,220	$ 46.11	$ 150.90	2,701,644	$ 25.01	$ 95.66
RSUs	722,521	$ 150.64	$ 150.64	924,421	$ 90.11	$ 96.01
PRSUs	344,866	$ 150.93	$ 150.93	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 nine months ended September 30, 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 September 30, 2018, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was $217 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 1.9 years.

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.

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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 September 30, 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 September 30, 2018, $33 million of deferred net losses, 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 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

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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.

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 September 30, 2018	December 31, 2017
Designated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$ 4	$ 8
Machinery, Energy & Transportation	Long-term receivables – trade and other	—	4
Machinery, Energy & Transportation	Accrued expenses	(46)	(14)
Machinery, Energy & Transportation	Other liabilities	(6)	(2)
Financial Products	Receivables – trade and other	50	—
Financial Products	Long-term receivables – trade and other	31	7
Financial Products	Accrued expenses	(17)	(57)
Interest rate contracts			
Financial Products	Receivables – trade and other	1	—
Financial Products	Long-term receivables – trade and other	9	3
Financial Products	Accrued expenses	(3)	(2)
		$ 23	$ (53)
Undesignated derivatives			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	$ 4	$ 19
Machinery, Energy & Transportation	Accrued expenses	(37)	(9)

Financial Products	Receivables – trade and other	42	12
Financial Products	Long-term receivables – trade and other	7	—
Financial Products	Accrued expenses	(19)	(9)
Commodity contracts			
Machinery, Energy & Transportation	Receivables – trade and other	10	21
Machinery, Energy & Transportation	Accrued expenses	(8)	—
		$ (1)	$ 34

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

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(Millions of dollars)	September 30, 2018	December 31, 2017
Machinery, Energy & Transportation	$ 2,129	$ 3,190
Financial Products	$ 7,517	$ 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.

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Cash Flow Hedges

(Millions of dollars)	Three Months Ended September 30, 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	$(15)	Other income (expense)	$ (17)	$ —
Financial Products	53	Other income (expense)	51	—
Financial Products	—	Interest expense of Financial Products	5	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	—	—
Financial Products	3	Interest expense of Financial Products	—	—
	$41		$ 39	$ —

(Millions of dollars)	Three Months Ended September 30, 2017			
		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	$16	Other income (expense)	$ 4	$ —
Financial Products	(21)	Other income (expense)	(20)	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(2)	—
Financial Products	(1)	Interest expense of Financial Products	2	—
	$(6)		$ (16)	$ —

	Nine Months Ended September 30, 2018			
		Recognized in Earnings		
	Amount of Gains (Losses) Recognized in AOCI	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI to Earnings	Recognized in Earnings (Ineffective Portion)

	(Effective Portion)			
Foreign exchange contracts				
Machinery, Energy & Transportation	$(55)	Other income (expense)	$ (12)	$ —
Financial Products	143	Other income (expense)	141	—
Financial Products	—	Interest expense of Financial Products	13	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(2)	—
Financial Products	8	Interest expense of Financial Products	1	—
	$96		$ 141	$ —

	Nine Months Ended September 30, 2017			
		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	$72	Other income (expense)	$ (49)	$ —
Financial Products	(62)	Other income (expense)	(69)	—
Interest rate contracts				
Machinery, Energy & Transportation	—	Interest expense excluding Financial Products	(5)	—
Financial Products	(1)	Interest expense of Financial Products	5	—
	$9		$ (118)	$ —

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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 September 30, 2018	Three Months Ended September 30, 2017
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	$ (5)	$ 15
Financial Products	Other income (expense)	13	11
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(5)	11
		$ 3	$ 37

	Classification of Gains (Losses)	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Foreign exchange contracts			
Machinery, Energy & Transportation	Other income (expense)	$ (43)	$ 67
Financial Products	Other income (expense)	29	21
Commodity contracts			
Machinery, Energy & Transportation	Other income (expense)	(5)	12
		$ (19)	$ 100

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 September 30, 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:

September 30, 2018				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
Derivatives						
Machinery, Energy & Transportation	$ 18	$ —	$ 18	$ (18)	$ —	$ —
Financial Products	140	—	140	(31)	—	109
Total	$ 158	$ —	$ 158	$ (49)	$ —	$ 109

September 30, 2018				Gross Amounts Not Offset in the Statement of Financial Position		
(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	$ (97)	$ —	$ (97)	$ 18	$ —	$ (79)
Financial Products	(39)	—	(39)	31	—	(8)
Total	$ (136)	$ —	$ (136)	$ 49	$ —	$ (87)

December 31, 2017				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	Net Amount of Assets Presented in the Statement of	Financial Instruments	Cash Collateral Received	Net Amount of Assets

		Position	Financial Position			
Derivatives						
Machinery, Energy & Transportation	$ 52	$ —	$ 52	$ (22)	$ —	$ 30
Financial Products	22	—	22	(10)	—	12
Total	$ 74	$ —	$ 74	$ (32)	$ —	$ 42

December 31, 2017				Gross Amounts Not Offset in the Statement of Financial Position		
(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)	September 30, 2018	December 31, 2017
Raw materials	$ 3,413	$ 2,802
Work-in-process	2,764	2,254
Finished goods	5,425	4,761
Supplies	212	201
Total inventories	$ 11,814	$ 10,018

During the first nine months of 2017, there was a liquidation of LIFO inventory resulting from closure of our facility in Gosselies, Belgium. The liquidated inventory was carried at lower costs prevailing in prior years as compared with current costs. The effect of this reduction of inventory decreased Cost of goods sold by approximately $62 million and increased Profit by approximately $45 million or $0.07 per share.

7. Intangible assets and goodwill

A. Intangible assets

Intangible assets are comprised of the following:

	September 30, 2018			
(Millions of dollars)	Weighted Amortizable Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	15	$2,462	$ (1,212)	$1,250
Intellectual property	12	1,562	(933)	629
Other	13	198	(101)	97
Total finite-lived intangible assets	14	$4,222	$ (2,246)	$1,976
	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 and nine months ended September 30, 2018 was $82 million and $248 million, respectively. Amortization expense for the three and nine months ended September 30, 2017 was $82 million and

$241 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)

Remaining Three Months of 2018	2019	2020	2021	2022	Thereafter
$84	$326	$311	$293	$274	$688

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B. Goodwill

No goodwill was impaired during the nine months ended September 30, 2018 or 2017.

During the first quarter of 2018, we acquired net assets with related goodwill of $121 million in the Energy & Transportation segment. We recorded goodwill of $109 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 nine months ended September 30, 2018 were as follows:

(Millions of dollars)	December 31, 2017	Acquisitions [1]	Other Adjustments [2]	September 30, 2018
Construction Industries				
Goodwill	$ 305	$ —	$ —	$ 305
Impairments	(22)	—	—	(22)
Net goodwill	283	—	—	283
Resource Industries				
Goodwill	4,232	—	(46)	4,186
Impairments	(1,175)	—	—	(1,175)
Net goodwill	3,057	—	(46)	3,011
Energy & Transportation				
Goodwill	2,806	121	(44)	2,883
All Other [3]				
Goodwill	54	—	2	56
Consolidated total				
Goodwill	7,397	121	(88)	7,430
Impairments	(1,197)	—	—	(1,197)
Net goodwill	$ 6,200	$ 121	$ (88)	$ 6,233

[1] See Note 20 for additional details.
[2] Other adjustments are comprised primarily of foreign currency translation.
[3] 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)	September 30, 2018 Cost Basis	September 30, 2018 Unrealized Pretax Net Gains (Losses)	September 30, 2018 Fair Value	December 31, 2017 Cost Basis	December 31, 2017 Unrealized Pretax Net Gains (Losses)	December 31, 2017 Fair Value
Government debt						
U.S. treasury bonds	$9	$ —	$9	$10	$ —	$10
Other U.S. and non-U.S. government bonds	48	—	48	42	—	42
Corporate bonds						
Corporate bonds	721	(11)	710	585	(1)	584
Asset-backed securities	61	—	61	67	—	67
Mortgage-backed debt securities						
U.S. governmental agency	300	(10)	290	265	(4)	261
Residential	7	—	7	8	—	8
Commercial	15	(1)	14	17	—	17
Total debt securities	$1,161	$ (22)	$1,139	$994	$ (5)	$989
Equity securities[1]						
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

[1] 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.

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

	September 30, 2018					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds						
Corporate bonds	$498	$ 8	$93	$ 3	$591	$ 11
Mortgage-backed debt securities						
U.S. governmental agency	119	3	163	8	282	11
Commercial	8	—	6	1	14	1
Total	$625	$ 11	$262	$ 12	$887	$ 23

	December 31, 2017					
	Less than 12 months [1]		12 months or more [1]		Total	
(Millions of dollars)	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

[1] 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 September 30, 2018.

Mortgage-Backed Debt Securities. The unrealized losses on our investments in U.S. government agency mortgage-backed securities and commercial 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 September 30, 2018.

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The cost basis and fair value of the available-for-sale debt securities at September 30, 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.

	September 30, 2018	
(Millions of dollars)	Cost Basis	Fair Value
Due in one year or less	$160	$159
Due after one year through five years	540	531
Due after five years through ten years	122	120
Due after ten years	17	18
U.S. governmental agency mortgage-backed securities	300	290
Residential mortgage-backed securities	7	7
Commercial mortgage-backed securities	15	14
Total debt securities – available-for-sale	$1,161	$1,139

Sales of available-for-sale securities:

	Three Months Ended September 30		Nine Months Ended September 30	
(Millions of dollars)	2018[1]	2017	2018[1]	2017
Proceeds from the sale of available-for-sale securities	$41	$244	$181	$431
Gross gains from the sale of available-for-sale securities	$—	$38	$—	$40
Gross losses from the sale of available-for-sale securities	$—	$1	$—	$3

[1] Beginning January 1, 2018, equity securities are no longer classified as available-for-sale securities. See Note 2 for additional information.

For the three and nine months ended September 30, 2018, the net unrealized gains (losses) for equity securities were $10 million and $14 million, respectively. For the three and nine months ended September 30, 2018, there were $4 million of realized net gains (losses) recognized on the sale of equity securities.

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.

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(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	September 30		September 30		September 30	
	2018	2017	2018	2017	2018	2017
For the three months ended:						
Components of net periodic benefit cost:						
Service cost	$31	$29	$22	$23	$22	$19
Interest cost	134	131	25	23	31	33
Expected return on plan assets	(202)	(184)	(55)	(55)	(9)	(10)
Amortization of prior service cost (credit) [1]	—	—	—	—	(9)	(6)
Net periodic benefit cost (benefit) [2]	$(37)	$(24)	$(8)	$(9)	$35	$36
For the nine months ended:						
Components of net periodic benefit cost:						
Service cost	$94	$87	$67	$70	$64	$58
Interest cost	401	393	74	73	93	98
Expected return on plan assets	(607)	(551)	(167)	(168)	(25)	(28)
Amortization of prior service cost (credit) [1]	—	—	—	(1)	(26)	(17)
Curtailments and termination benefits	—	9	—	20	—	—
Net periodic benefit cost (benefit) [2]	$(112)	$(62)	$(26)	$(6)	$106	$111
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%

1 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.

2 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 $1,064 million and $1,291 million of contributions to our pension and other postretirement plans during the three and nine months ended September 30, 2018, respectively. The 2018 contributions include a $1.0 billion discretionary contribution made to our U.S. pension plans in September 2018. We currently anticipate full-year 2018 contributions of approximately $1,362 million. We made $324 million and $522 million of contributions to our pension and other postretirement plans during the three and nine months ended September 30, 2017, respectively.

B. Defined contribution benefit costs

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Millions of dollars)	2018	2017	2018	2017
U.S. Plans	$97	$97	$247	$267
Non-U.S. Plans	21	19	64	54
	$118	$116	$311	$321

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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 September 30, 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)	September 30, 2018	December 31, 2017
Caterpillar dealer performance guarantees	$ 1,375	$ 1,313

Customer loan guarantees	31	40
Supplier consortium performance guarantees	556	565
Third party logistics business lease guarantees	68	69
Other guarantees	122	118
Total guarantees	$ 2,152	$ 2,105

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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 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 September 30, 2018 and December 31, 2017, the SPC’s assets of $1,133 million and $1,107 million, respectively, were primarily comprised of loans to dealers, and the SPC’s liabilities of $1,133 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)	(561)
Increase in liability (new warranties)	556
Warranty liability, September 30	$1,414

(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

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11. Profit per share

Computations of profit per share:	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions except per share data)	2018	2017	2018	2017
Profit for the period (A) [1]	$1,727	$1,059	$5,099	$2,053
Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	592.1	592.9	595.3	590.3
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of	7.3	7.2	8.5	6.2

proceeds at average market price				
Average common shares outstanding for fully diluted computation (C) [2]	599.4	600.1	603.8	596.5
Profit per share of common stock:				
Assuming no dilution (A/B)	$2.92	$1.79	$8.57	$3.48
Assuming full dilution (A/C) [2]	$2.88	$1.77	$8.45	$3.44
Shares outstanding as of September 30 (in millions)			590.1	594.9

[1] Profit attributable to common shareholders.
[2] Diluted by assumed exercise of stock-based compensation awards using the treasury stock method.

SARs and stock options to purchase 1,471,071 and 5,136,715 common shares were outstanding for the three and nine months ended September 30, 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, 3.1 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of $500 million.

During the second quarter of 2018, we repurchased $750 million of common stock. In May 2018, we entered into an accelerated stock repurchase agreement (ASR) with a third-party financial institution to purchase shares of our common stock. Pursuant to the terms of the ASR Agreement, 3.3 million shares of our common stock were repurchased at an aggregate cost to Caterpillar of $500 million. In May 2018, we repurchased 1.6 million shares for $250 million in open market transactions.

During the third quarter of 2018, we entered into an ASR with a third-party financial institution to purchase $750 million of our common stock. In August 2018, upon payment of $750 million to the financial institution, we received 4.8 million shares. In October 2018, upon final settlement of the ASR, we received an additional 0.4 million shares. In total, we repurchased 5.2 million shares under this ASR. As of September 30, 2018, approximately $3.5 billion of the 2014 $10.0 billion authorization remained.

In July 2018, the Board approved a new share repurchase authorization of up to $10.0 billion of Caterpillar common stock effective January 1, 2019, with no expiration.

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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
Three Months Ended September 30, 2018					
Balance at June 30, 2018	$ (1,432)	$ 30	$ (78)	$ (16)	$ (1,496)
Other comprehensive income (loss) before reclassifications	(65)	—	32	(1)	(34)
Amounts reclassified from accumulated other comprehensive (income) loss	—	(7)	(31)	—	(38)
Other comprehensive income (loss)	(65)	(7)	1	(1)	(72)
Balance at September 30, 2018	$ (1,497)	$ 23	$ (77)	$ (17)	$ (1,568)
Three Months Ended September 30, 2017					
Balance at June 30, 2017	$ (1,499)	$ 14	$ (39)	$ 53	$ (1,471)
Other comprehensive income (loss) before reclassifications	237	—	(4)	11	244
Amounts reclassified from accumulated other comprehensive (income) loss	11	(4)	11	(24)	(6)
Other comprehensive income (loss)	248	(4)	7	(13)	238
Balance at September 30, 2017	$ (1,251)	$ 10	$ (32)	$ 40	$ (1,233)

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(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available-for-sale securities	Total
Nine Months Ended September 30, 2018					
Balance at December 31, 2017	$ (1,205)	$ 46	$ (41)	$ 8	$ (1,192)
Adjustment to adopt recognition and measurement of financial assets and liabilities guidance[1]	—	—	—	(11)	(11)
Balance at January 1, 2018	(1,205)	46	(41)	(3)	(1,203)
Other comprehensive income (loss) before reclassifications	(293)	(2)	73	(14)	(236)
Amounts reclassified from accumulated other comprehensive (income) loss	1	(21)	(109)	—	(129)
Other comprehensive income (loss)	(292)	(23)	(36)	(14)	(365)
Balance at September 30, 2018	$ (1,497)	$ 23	$ (77)	$ (17)	$ (1,568)
Nine Months Ended September 30, 2017					
Balance at December 31, 2016	$ (1,970)	$ 14	$ (115)	$ 32	$ (2,039)
Other comprehensive income (loss) before reclassifications	706	8	6	29	749
Amounts reclassified from accumulated other comprehensive (income) loss	13	(12)	77	(21)	57
Other comprehensive income (loss)	719	(4)	83	8	806
Balance at September 30, 2017	$ (1,251)	$ 10	$ (32)	$ 40	$ (1,233)

[1] 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 September 30 2018	2017
Foreign currency translation			
Gain (loss) on foreign currency translation	Other income (expense)	$—	$(11)
Tax (provision) benefit		—	—
Reclassifications net of tax		$—	$(11)
Pension and other postretirement benefits:			
Amortization of prior service credit (cost)	Other income (expense)	$9	$6
Tax (provision) benefit		(2)	(2)
Reclassifications net of tax		$7	$4
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	$34	$(16)
Foreign exchange contracts	Interest expense of Financial Products	5	—
Interest rate contracts	Interest expense excluding Financial Products	—	(2)
Interest rate contracts	Interest expense of Financial Products	—	2
Reclassifications before tax		39	(16)
Tax (provision) benefit		(8)	5
Reclassifications net of tax		$31	$(11)
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	$—	$36
Tax (provision) benefit		—	(12)
Reclassifications net of tax		$—	$24
Total reclassifications from Accumulated other comprehensive income (loss)		$38	$6

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(Millions of dollars)	Classification of income (expense)	Nine Months Ended September 30 2018	2017
Foreign currency translation			
Gain (loss) on foreign currency translation	Other income (expense)	$(1)	$(13)
Tax (provision) benefit		—	—
Reclassifications net of tax		$(1)	$(13)
Pension and other postretirement benefits:			
Amortization of prior service credit (cost)	Other income (expense)	$26	$18
Tax (provision) benefit		(5)	(6)
Reclassifications net of tax		$21	$12
Derivative financial instruments:			
Foreign exchange contracts	Other income (expense)	$129	$(118)
Foreign exchange contracts	Interest expense of Financial Products	13	—
Interest rate contracts	Interest expense excluding Financial Products	(2)	(5)
Interest rate contracts	Interest expense of Financial Products	1	5
Reclassifications before tax		141	(118)
Tax (provision) benefit		(32)	41
Reclassifications net of tax		$109	$(77)
Available-for-sale securities:			
Realized gain (loss)	Other income (expense)	$—	$32
Tax (provision) benefit		—	(11)
Reclassifications net of tax		$—	$21
Total reclassifications from Accumulated other comprehensive income (loss)		$129	$(57)

13. Environmental and legal matters

The Company is regulated by federal, state and international environmental laws governing its 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.

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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 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 nine months of 2018 reflected an estimated annual tax rate of 24 percent, compared to 32 percent for the first nine months of 2017, excluding the discrete items discussed in the following paragraph. The decrease was 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.

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The 2018 provision for income taxes for the first nine months of 2018 also included a $154 million reduction to the provisionally estimated charge of $2.371 billion recognized during the fourth quarter of 2017 due to enactment of U.S. tax reform legislation. The $154 million benefit revises the estimated impact of the write-down of U.S. net deferred tax assets to reflect the reduction in the U.S. corporate tax rate from 35 percent to 21 percent. This benefit primarily related to the decision to make an additional discretionary pension contribution of $1.0 billion to U.S. pension plans in the third quarter of 2018 treated as deductible on the 2017 U.S. tax return. The provision for income taxes for the first nine months of 2018 also includes a charge of $59 million to correct for an error which resulted in an understatement of the valuation allowance offsetting deferred tax assets for prior years. This error had the effect of overstating profit by $17 million, $33 million and $9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Management has concluded that the error was not material to any period presented. In addition, a discrete tax benefit of $52 million was recorded in the first nine months of 2018, compared to $45 million in the first nine 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 for the first nine months of 2018 also included a $25 million benefit for the release of a valuation allowance against the deferred tax assets of a non-U.S. subsidiary. The provision for income taxes for the first nine months of 2017 also included a $15 million increase to prior year taxes related to non-U.S. restructuring costs.

Our analysis of U.S. tax reform legislation, updated through September 30, 2018, resulted in no other changes to the 2017 year-end provisional charge. We will continue to update our calculations as additional required information is prepared and analyzed, interpretations and assumptions are refined, and additional guidance is issued. These updates could significantly impact the provision for income taxes, the amount of taxes payable and the deferred tax asset and liability balances. We account for the new U.S. tax on global intangible low-taxed income as a period cost.

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), four Group Presidents, a Chief Financial Officer (CFO), a General Counsel & Corporate Secretary and a Chief Human Resources Officer. The Group Presidents and CFO are accountable for a related set of end-to-end businesses that they manage. The General Counsel & Corporate Secretary leads the Law, Security 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/CFO level. As such, the CEO serves as our Chief Operating Decision Maker, and operating segments are primarily based on the Group President/CFO 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 the CFO 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, Security 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 periodic postretirement benefit costs. Prior service cost (credits) is no longer included in segment profit. See Note 2 for additional information.

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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, utility vehicles, 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, 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, manufacturing of filters and fluids, undercarriage, ground engaging tools, fluid transfer products, precision seals, 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.

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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.

- 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 most 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 45 to 51 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, all of which are primarily included in Cost of goods sold. A table, Reconciliation of Restructuring costs on page 48, has been included to illustrate how segment profit would have been impacted by the restructuring costs. See Note 19 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 September 30
(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 September 30	Capital expenditures
Construction Industries	$5,654	$ 29	$5,683	$ 93	$ 1,058	$ 5,071	$ 58
Resource Industries	2,538	100	2,638	115	414	6,439	49
Energy & Transportation	4,577	978	5,555	159	973	8,302	161
Machinery, Energy & Transportation	$12,769	$ 1,107	$13,876	$ 367	$ 2,445	$ 19,812	$ 268
Financial Products Segment	845 [1]	—	845	212	201	35,729	298
Total	$13,614	$ 1,107	$14,721	$ 579	$ 2,646	$ 55,541	$ 566

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	$4,854	$ 32	$4,886	$ 99	$ 884	$ 4,838	$ 50
Resource Industries	1,870	86	1,956	129	229	6,403	41
Energy & Transportation	3,961	877	4,838	165	743	7,564	113
Machinery, Energy & Transportation	$10,685	$ 995	$11,680	$ 393	$ 1,856	$ 18,805	$ 204
Financial Products Segment	774 [1]	—	774	204	185	34,893	308
Total	$11,459	$ 995	$12,454	$ 597	$ 2,041	$ 53,698	$ 512

[1] Includes revenues from Machinery, Energy & Transportation of $122 million and $93 million in the third quarter of 2018 and 2017, respectively.

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Reportable Segments
Nine Months Ended September 30
(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 September 30	Capital expenditures
Construction Industries	$ 17,450	$ 82	$ 17,532	$ 272	$ 3,329	$ 5,071	$ 162
Resource Industries	7,177	296	7,473	346	1,203	6,439	111
Energy & Transportation	13,567	2,931	16,498	474	2,859	8,302	463
Machinery, Energy & Transportation	$ 38,194	$ 3,309	$ 41,503	$ 1,092	$ 7,391	$ 19,812	$ 736
Financial Products Segment	2,467 [1]	—	2,467	627	476	35,729	1,192
Total	$ 40,661	$ 3,309	$ 43,970	$ 1,719	$ 7,867	$ 55,541	$ 1,928

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	$ 13,875	$ 70	$ 13,945	$ 301	$ 2,418	$ 4,838	$ 107
Resource Industries	5,299	254	5,553	386	488	6,403	93
Energy & Transportation	11,258	2,484	13,742	485	1,982	7,564	320
Machinery, Energy & Transportation	$ 30,432	$ 2,808	$ 33,240	$ 1,172	$ 4,888	$ 18,805	$ 520
Financial Products Segment	2,310 [1]	—	2,310	616	559	34,893	1,018
Total	$ 32,742	$ 2,808	$ 35,550	$ 1,788	$ 5,447	$ 53,698	$ 1,538

[1] Includes revenues from Machinery, Energy & Transportation of $345 million and $281 million through the first three quarters of 2018 and 2017, respectively.

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For the three and nine months ending September 30, 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
Three Months Ended September 30, 2018					
Construction Industries	$2,646	$369	$1,109	$1,530	$5,654
Resource Industries	849	427	574	688	2,538
Energy & Transportation	2,309	330	1,180	758	4,577
All Other operating segments	15	—	4	18	37
Corporate Items and Eliminations	(40)	1	(5)	1	(43)
Machinery, Energy & Transportation Sales	5,779	1,127	2,862	2,995	12,763
Financial Products Segment	559	68	101	117	845
Corporate Items and Eliminations	(62)	(12)	(6)	(18)	(98)
Financial Products Revenues	497	56	95	99	747
Consolidated Sales and Revenues	$6,276	$1,183	$2,957	$3,094	$13,510
Nine Months Ended September 30, 2018					
Construction Industries	$8,005	$1,105	$3,347	$4,993	$17,450
Resource Industries	2,451	1,181	1,663	1,882	7,177
Energy & Transportation	7,116	897	3,425	2,129	13,567
All Other operating segments	47	1	12	55	115
Corporate Items and Eliminations	(108)	(1)	(8)	—	(117)
Machinery, Energy & Transportation Sales	17,511	3,183	8,439	9,059	38,192
Financial Products Segment	1,608	213	303	343	2,467
Corporate Items and Eliminations	(168)	(36)	(18)	(57)	(279)
Financial Products Revenues	1,440	177	285	286	2,188
Consolidated Sales and Revenues	$18,951	$3,360	$8,724	$9,345	$40,380

For the three and nine months ending September 30, 2018, Energy & Transportation segment sales by end user application were as follows:

Energy & Transportation External Sales

(Millions of dollars)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Oil and gas	$ 1,362	$ 4,044
Power generation	1,102	3,063
Industrial	863	2,738
Transportation	1,250	3,722

Energy & Transportation External Sales	$ 4,577	$ 13,567

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Reconciliation of Sales and revenues:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended September 30, 2017				
Total external sales and revenues from reportable segments	$ 10,685	$ 774	$ —	$ 11,459
All Other operating segments	56	—	—	56
Other	(28)	19	(93) [1]	(102)
Total sales and revenues	$ 10,713	$ 793	$ (93)	$ 11,413

	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2017				
Total external sales and revenues from reportable segments	$ 30,432	$ 2,310	$ —	$ 32,742
All Other operating segments	126	—	—	126
Other	(76)	53	(279) [1]	(302)
Total sales and revenues	$ 30,482	$ 2,363	$ (279)	$ 32,566

[1] 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 September 30, 2018			
Total profit from reportable segments	$ 2,445	$ 201	$ 2,646
All Other operating segments	(10)	—	(10)
Cost centers	29	—	29
Corporate costs	(134)	—	(134)
Timing	(18)	—	(18)
Restructuring costs	(96)	(14)	(110)
Methodology differences:			
Inventory/cost of sales	(20)	—	(20)
Postretirement benefit expense	58	—	58
Stock-based compensation expense	(50)	(2)	(52)
Financing costs	(56)	—	(56)
Currency	(96)	—	(96)
Other income/expense methodology differences	(88)	—	(88)
Other methodology differences	(19)	5	(14)
Total consolidated profit before taxes	$ 1,945	$ 190	$ 2,135
Three Months Ended September 30, 2017			
Total profit from reportable segments	$ 1,856	$ 185	$ 2,041
All Other operating segments	5	—	5
Cost centers	17	—	17
Corporate costs	(158)	—	(158)
Timing	(21)	—	(21)
Restructuring costs	(89)	(1)	(90)
Methodology differences:			
Inventory/cost of sales	(4)	—	(4)
Postretirement benefit expense	38	—	38
Stock-based compensation expense	(46)	(2)	(48)
Financing costs	(116)	—	(116)
Currency	(37)	—	(37)
Other income/expense methodology differences	(71)	—	(71)
Other methodology differences	(32)	(1)	(33)
Total consolidated profit before taxes	$ 1,342	$ 181	$ 1,523

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Reconciliation of Consolidated profit before taxes:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Nine Months Ended September 30, 2018			
Total profit from reportable segments	$ 7,391	$ 476	$ 7,867
All Other operating segments	70	—	70
Cost centers	55	—	55
Corporate costs	(480)	—	(480)
Timing	(168)	—	(168)
Restructuring costs	(278)	(15)	(293)
Methodology differences:			
Inventory/cost of sales	3	—	3
Postretirement benefit expense	227	—	227
Stock-based compensation expense	(158)	(6)	(164)
Financing costs	(203)	—	(203)
Currency	(145)	—	(145)
Other income/expense methodology differences	(261)	—	(261)
Other methodology differences	(61)	8	(53)
Total consolidated profit before taxes	$ 5,992	$ 463	$ 6,455
Nine Months Ended September 30, 2017			
Total profit from reportable segments	$ 4,888	$ 559	$ 5,447
All Other operating segments	(28)	—	(28)
Cost centers	13	—	13
Corporate costs	(447)	—	(447)
Timing	(128)	—	(128)
Restructuring costs	(1,009)	(2)	(1,011)
Methodology differences:			
Inventory/cost of sales	(80)	—	(80)
Postretirement benefit expense	129	—	129
Stock-based compensation expense	(158)	(7)	(165)
Financing costs	(369)	—	(369)
Currency	(195)	—	(195)
Other income/expense methodology differences	(105)	—	(105)
Other methodology differences	(93)	3	(90)
Total consolidated profit before taxes	$ 2,418	$ 553	$ 2,971

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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 September 30, 2018			
Construction Industries	$ 1,058	$ (19)	$ 1,039
Resource Industries	414	(53)	361
Energy & Transportation	973	(31)	942
Financial Products Segment	201	—	201
All Other operating segments	(10)	(4)	(14)
Total	$ 2,636	$ (107)	$ 2,529
Three Months Ended September 30, 2017			
Construction Industries	$ 884	$ (15)	$ 869
Resource Industries	229	(59)	170
Energy & Transportation	743	(28)	715
Financial Products Segment	185	—	185
All Other operating segments	5	(13)	(8)
Total	$ 2,046	$ (115)	$ 1,931

Reconciliation of Restructuring costs:

(Millions of dollars)	Segment profit (loss)	Restructuring costs	Segment profit (loss) with restructuring costs
Nine Months Ended September 30, 2018			
Construction Industries	$ 3,329	$ (62)	$ 3,267
Resource Industries	1,203	(149)	1,054
Energy & Transportation	2,859	(60)	2,799
Financial Products Segment	476	(1)	475
All Other operating segments	70	(13)	57
Total	$ 7,937	$ (285)	$ 7,652
Nine Months Ended September 30, 2017			
Construction Industries	$ 2,418	$ (709)	$ 1,709
Resource Industries	488	(229)	259
Energy & Transportation	1,982	(86)	1,896
Financial Products Segment	559	(2)	557
All Other operating segments	(28)	(32)	(60)
Total	$ 5,419	$ (1,058)	$ 4,361

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Reconciliation of Assets:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
September 30, 2018				
Total assets from reportable segments	$ 19,812	$35,729	$ —	$ 55,541
All Other operating segments	1,273	—	—	1,273
Items not included in segment assets:				
Cash and short-term investments	7,189	—	—	7,189
Intercompany receivables	1,644	—	(1,644)	—
Investment in Financial Products	4,165	—	(4,165)	—
Deferred income taxes	1,818	—	(628)	1,190
Goodwill and intangible assets	4,304	—	—	4,304
Property, plant and equipment – net and other assets	2,035	—	—	2,035
Operating lease methodology difference	(184)	—	—	(184)
Inventory methodology differences	(2,374)	—	—	(2,374)
Liabilities included in segment assets	9,814	—	—	9,814
Other	(510)	(13)	(56)	(579)
Total assets	$ 48,986	$35,716	$ (6,493)	$ 78,209
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 September 30, 2018			
Total depreciation and amortization from reportable segments	$ 367	$ 212	$ 579
Items not included in segment depreciation and amortization:			
All Other operating segments	55	—	55
Cost centers	33	—	33
Other	22	9	31
Total depreciation and amortization	$ 477	$ 221	$ 698
Three Months Ended September 30, 2017			
Total depreciation and amortization from reportable segments	$ 393	$ 204	$ 597
Items not included in segment depreciation and amortization:			
All Other operating segments	52	—	52
Cost centers	36	—	36
Other	28	10	38
Total depreciation and amortization	$ 509	$ 214	$ 723

Reconciliations of Depreciation and amortization:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidated Total
Nine Months Ended September 30, 2018			
Total depreciation and amortization from reportable segments	$ 1,092	$ 627	$ 1,719
Items not included in segment depreciation and amortization:			
All Other operating segments	170	—	170
Cost centers	96	—	96
Other	52	28	80
Total depreciation and amortization	$ 1,410	$ 655	$ 2,065
Nine Months Ended September 30, 2017			
Total depreciation and amortization from reportable segments	$ 1,172	$ 616	$ 1,788
Items not included in segment depreciation and amortization:			
All Other operating segments	162	—	162
Cost centers	106	—	106
Other	67	30	97
Total depreciation and amortization	$ 1,507	$ 646	$ 2,153

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Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Three Months Ended September 30, 2018				
Total capital expenditures from reportable segments	$ 268	$ 298	$ —	$ 566
Items not included in segment capital expenditures:				
All Other operating segments	63	—	—	63
Cost centers	30	—	—	30
Timing	(5)	—	—	(5)
Other	(65)	45	(33)	(53)
Total capital expenditures	$ 291	$ 343	$ (33)	$ 601
Three Months Ended September 30, 2017				
Total capital expenditures from reportable segments	$ 204	$ 308	$ —	$ 512
Items not included in segment capital expenditures:				
All Other operating segments	26	—	—	26
Cost centers	17	—	—	17
Timing	(21)	—	—	(21)
Other	(31)	19	(9)	(21)
Total capital expenditures	$ 195	$ 327	$ (9)	$ 513

Reconciliations of Capital expenditures:

(Millions of dollars)	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments	Consolidated Total
Nine Months Ended September 30, 2018				
Total capital expenditures from reportable segments	$ 736	$ 1,192	$ —	$ 1,928
Items not included in segment capital expenditures:				
All Other operating segments	101	—	—	101
Cost centers	70	—		