

Year-End 2016 Financial Review

January 26, 2017

CATERPILLAR®

Forward-Looking Statements

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Certain statements in this financial review relate to future events and expectations and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "estimate," "will be," "will," "would," "expect," "anticipate," "plan," "project," "intend," "could," "should" or other similar words or expressions often identify forward-looking statements. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding our outlook, projections, forecasts or trend descriptions. These statements do not guarantee future performance, and we do not undertake to update our forward-looking statements.

Caterpillar's actual results may differ materially from those described or implied in our forward-looking statements based on a number of factors, including, but not limited to: (i) global and regional economic conditions and economic conditions in the industries we serve; (ii) government monetary or fiscal policies and infrastructure spending; (iii) commodity price changes, component price increases, fluctuations in demand for our products or significant shortages of component products; (iv) disruptions or volatility in global financial markets limiting our sources of liquidity or the liquidity of our customers, dealers and suppliers; (v) political and economic risks, commercial instability and events beyond our control in the countries in which we operate; (vi) failure to maintain our credit ratings and potential resulting increases to our cost of borrowing and adverse effects on our cost of funds, liquidity, competitive position and access to capital markets; (vii) our Financial Products segment's risks associated with the financial services industry; (viii) changes in interest rates or market liquidity conditions; (ix) an increase in delinquencies, repossessions or net losses of Cat Financial's customers; (x) new regulations or changes in financial services regulations; (xi) a failure to realize, or a delay in realizing, all of the anticipated benefits of our acquisitions, joint ventures or divestitures; (xii) international trade policies and their impact on demand for our products and our competitive position; (xiii) our ability to develop, produce and market quality products that meet our customers' needs; (xiv) the impact of the highly competitive environment in which we operate on our sales and pricing; (xv) failure to realize all of the anticipated benefits from initiatives to increase our productivity, efficiency and cash flow and to reduce costs; (xvi) additional restructuring costs or a failure to realize anticipated savings or benefits from past or future cost reduction actions; (xvii) inventory management decisions and sourcing practices of our dealers and our OEM customers; (xviii) compliance with environmental laws and regulations; (xix) alleged or actual violations of trade or anti-corruption laws and regulations; (xx) additional tax expense or exposure; (xxi) currency fluctuations; (xxii) our or Cat Financial's compliance with financial covenants; (xxiii) increased pension plan funding obligations; (xxiv) union disputes or other employee relations issues; (xxv) significant legal proceedings, claims, lawsuits or government investigations; (xxvi) changes in accounting standards; (xxvii) failure or breach of IT security; (xxviii) adverse effects of unexpected events including natural disasters; and (xxix) other factors described in more detail under "Item 1A. Risk Factors" in our Form 10-K filed with the SEC on February 16, 2016 for the year ended December 31, 2015.

A reconciliation of non-GAAP financial information referenced in this presentation can be found in our press release describing 2016 fourth quarter and full year financial results which is available on our website at www.caterpillar.com/earnings.

Discussion

• **4th Quarter & Full Year 2016 Results**	Mike DeWalt
• **2017 Outlook**	
• **Q&A**	Jim Umpleby Brad Halverson Mike DeWalt Amy Campbell

Q4 2016 vs Q4 2015 Financial Results

	4th Quarter		
	2015	2016	Change
Sales and Revenues (billions)	$11.030	$9.574	$(1.456)
Profit Per Share	$(0.16)	$(2.00)	$(1.84)
Adjusted Profit Per Share	$0.83	$0.83	$0.00

Sales and Revenues Change

- $(0.7) billion Energy & Transportation
- $(0.4) billion Resource Industries
- $(0.3) billion Construction Industries

Primary Drivers of Profit Change

- Mark-to-market pension change, goodwill impairment and deferred tax valuation allowance were substantially unfavorable
- Sales volume unfavorable $463 million
- Price realization unfavorable $80 million
- Restructuring costs $284 million favorable
- Period and variable costs favorable $492 million

Cost reduction from restructuring
and other cost actions about offset the impact of lower sales.

Sales & Revenues Change Q4 2016 vs Q4 2015

(billions of dollars)	4th Quarter 2015	2016	Change
Energy & Transportation	$4.544	$3.849	$(0.695)
Resource Industries	1.878	1.443	(0.435)
Construction Industries	3.905	3.589	(0.316)
Financial Products & Other	0.703	0.693	(0.010)
Consolidated	$11.030	$9.574	$(1.456)

Transportation represented the most significant decline followed by Oil & Gas and Power Generation.

Most of the decline was from lower end-user demand for new equipment – mining products and large construction equipment sales were down. Parts sales were up slightly.

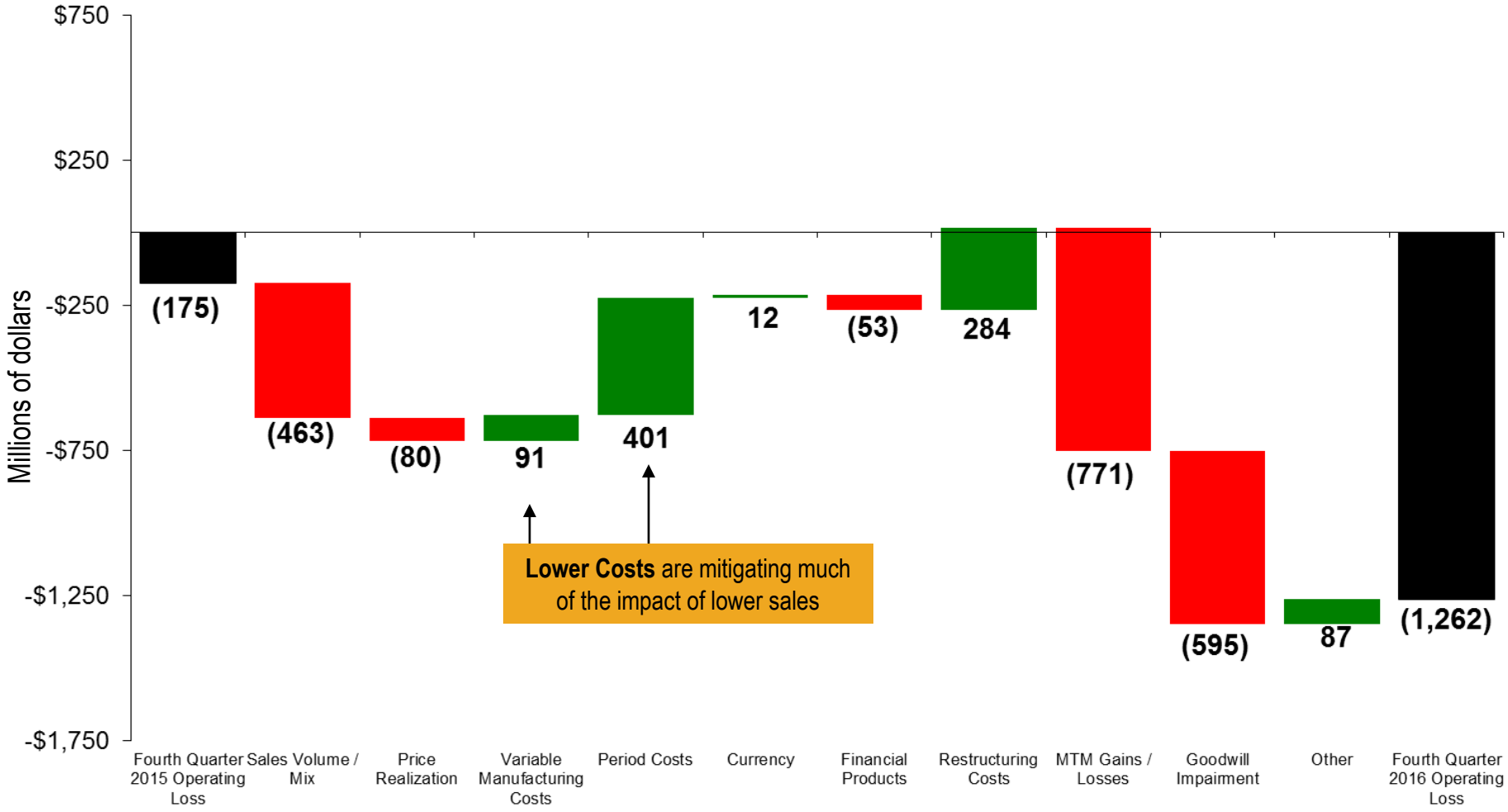
Price Realization was negative $62 million.

The sales decline was from lower demand in North America and EAME (primarily in Africa/Middle East).

Sales in China contributed to an increase in sales in the Asia/Pacific region.

Q4 2016 vs Q4 2015

Operating Profit / (Loss) Comparison



Full Year 2016 Financial Results

	Full Year		
	2015	2016	Change
Sales and Revenues (billions)	$47.011	$38.537	$(8.474)
Profit Per Share	$4.18	$(0.11)	$(4.29)
Adjusted Profit Per Share	$5.35	$3.42	$(1.93)

Drivers of Profit Change
Items excluded from Adjusted Profit

- Mark-to-market pension change, goodwill impairment and deferred tax valuation allowance were substantially unfavorable
- Restructuring costs $121 million unfavorable

Drivers of Adjusted Profit Change
2016 vs 2015

- Lower sales volume and negative price realization of about 2 percent of sales were negative for operating profit by $4 billion
- Substantially lower costs mitigated more than half the impact on operating profit from lower sales

Period & Variable Costs

Costs Lower $2.3 Billion in 2016

Change vs Prior Year

(millions of dollars)	4th Qtr	2016
Variable Cost Reduction	$ 91	$ 675
Period Cost Reduction	401	1,650
Total	$ 492	$ 2,325

Three Main Areas of 2016 Cost Reduction

Restructuring	Material Costs	Everything Else
• Combined and reduced functions – fewer people	• Commodity-related cost reduction	• Less short-term incentive compensation expense
• Reduction in manufacturing floor space and costs	• Design and sourcing related cost reduction	• All other cost reduction actions

Background – Major Restructuring Announced Q3 2015

When	• On September 24, 2015, we announced substantial restructuring actions that we expected to occur through 2018
What	• Close or consolidate more than 20 facilities • Reduce manufacturing floor space by 10% • Reduce workforce by 10,000
The Cost	• We expected restructuring costs related to the announcement would be about $2 billion. About $1.6 billion of cash costs and $400 million of non-cash costs
Benefits	• When fully implemented, the actions would generate about $1.5 billion of annual savings

Restructuring – What's Happened

Substantial Period Cost Reduction Already

Actions	• We've completed, announced or are in the process of implementing almost all of the actions from our Q3 2015 announcement. That's involved the consolidation or closure more than 30 facilities, and reduction in manufacturing floor space of 14% so far.
Workforce	• Since the end of the 3rd quarter of 2015, our total workforce has declined by over 16,000.
The Cost	• Restructuring costs in 2015 and 2016 totaled $1.9 billion and we expect an additional $500 million in 2017 and more in 2018 as inflight actions are completed. In total, that's more than the $2 billion expected since Q3 2015. That's because a portion of 2015 costs were for other projects in flight before Q3 and since then we've significantly expanded restructuring actions.
Benefits So Far	• Not including the impact of lower short-term incentive compensation expense, we've already cut period costs through restructuring and other cost reduction efforts by about $1.5 billion since 2014, with the vast majority of that coming since we began implementing the Q3 2015 restructuring plan.

Restructuring – What's Ahead

- In 2017, at the midpoint of our outlook, we anticipate an additional reduction in our period costs of more than $500 million (excluding short-term incentive compensation expense and labor cost inflation).
- That means that by the end of 2017, our period cost structure excluding short-term incentive compensation expense will be about $2 billion lower than 2014.
- The restructuring cost estimates and benefit expectations for 2017 do not include the contemplated closure of two large manufacturing facilities – Gosselies, Belgium, and Aurora, Illinois.
- If these two actions happen they would add to both restructuring costs and future benefits.

2017 Sales and Revenues Outlook

Positive signs in several parts of the business, but prudently cautious in the outlook for 2017

	2016 Actual	2017 Outlook
Sales and Revenues	$38.5 billion	$36-39 billion
Profit Per Share	$ (0.11)	$ 2.30
Adjusted Profit Profit Per Share	$ 3.42	$ 2.90
		At the midpoint of the sales and revenues range

Positive and Negative Factors We're Currently Watching

Positives

- Commodity prices higher than a year ago. Continued improvement & stability would be positive
- Continued strong gas compression
- Construction in China is positive, but dependent on continued government support for growth
- Construction sales in other developing countries are currently at very low levels

Concerns

- Mining customers…CAPEX forecasts about flat in 2017 with sentiment positive for 2018
- Weakness in North American construction new equipment sales over the past year
- Economic growth in Europe, and the impact of Brexit on growth and business investment
- Rail, marine, power generation and industrial engine sales

Discussion Points

- **2017 Outlook consistent with what we said in early December 2016**
- **Good operational performance continues** – in particular, good progress on lowering our cost structure.
- **We are on track with restructuring actions** – They've contributed substantially to cost reduction this year. All significant actions included in our restructuring announcement from September 2015 have been announced.
- **Strong balance sheet** – The ME&T debt-to-capital ratio was about 41% at the end of 2016 and within our targeted range. Generated positive ME&T operating cash flow in 2016 – more than covered dividend payments and CAPEX. Year-end enterprise cash balance was over $7 billion.