

MESSAGE FROM DOUG

RESPONDING TO A CHANGING WORLD

Our business is always changing — it has to because the world in which we operate is always changing. We face tough competition, ever-changing economic and political environments and evolving customer needs. This isn't anything new, but I do think the pace is faster today than in the past, which makes it harder to stay competitive and in the lead. This requires us to be more nimble and I realize that can sometimes be difficult for employees.

There's no doubt that this has been a challenging year — one that has not been as good as we had originally thought it would be. As we have reacted to the business conditions this year, I know that our people in our factories and offices around the world are feeling the impact of our decision, many of them painful. And I know it's tough to stay focused in times of uncertainty. Thank you for continuing to deliver for our customers every single day. Quality, safety, velocity — most all of our internal metrics are really good, and I'm proud of the work you are doing. I hear great stories from our customers all the time!

We can't slow down the world, but we can make our company better able to respond to changes. Currently the Strategic Planning Committee (SPC) is reviewing and updating our enterprise strategy. Our strategy is solid, and it is still getting us where we need to go. But, we need to look farther into the future and ensure we're responding to our changing world and making updates as needed. The formation of the Caterpillar Enterprise System Group is one example. It's the next step on our journey to becoming a more efficient, nimble organization that can quickly respond to changes in demand without the pain we feel today.

The SPC is a group of Caterpillar leaders from across the company. They have an aggressive timeline, and you can expect an update on their progress later this year and a full rollout after the 2014 Leadership Summit in February.

You have my personal commitment, and the commitment from the entire executive team that we will do our best to keep our people and our values at the heart of all our strategy discussions. Your efforts and hard work are not going unnoticed. Again, thank you for your hard work and focus.



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Cat® dealers supported cleanup efforts following Oklahoma tornado



After an EF5 tornado hit Moore, Okla., on May 20 flattening buildings and leaving many homeless, Cat® dealer Warren was onsite assisting first responders with rescue operations quickly following the disaster, and was still present months later to assist with the cleanup.

Immediately following the disaster, dealers Warren, Foley and Holt Cat provided power modules, excavators, generator sets and light towers. Warren Cat immediately pushed through requests for extra skid steer loaders.

About 90 percent of large machines being used were Cat for cleanup efforts — primarily excavators and bulldozers. Warren Cat also supported their customers

in the area with field representatives, and their four large landfill customers continued to take the bulk of the debris.



Many Warren Cat customers are installing underground storm shelters throughout the Moore metro area.

The city of Moore is also considering new building codes that would require all new homes and

buildings constructed to have a storm shelter or safe room.

Warren Cat and Holt Cat also provided electric power generation for the Toby Keith Twister Relief concert, which had more than 60,000 people in attendance and has raised more than \$3.3 million to date for the United Way of Central Oklahoma tornado relief fund.

Service Information System celebrates milestone

On September 26, eight members of the team that put together the Service Information System (SIS) celebrated the 20th anniversary of its introduction to the Cat® dealer organization.

On July 5, 1988, the Technical Information Division (TID) proposed the creation of a digitized system for parts books, service manuals and other related product support information. This was in response to input from Cat dealers to whom TID was shipping 100 tons of paper per month.

After a year of considerable effort to formulate a plan and to obtain corporate approval, the TID staff accepted the challenge of developing SIS on top of their already heavy work load without adding any staff. Working with computer industry giants and on the cusp of present day computer technology, the team gained the support of the corporation and the Cat dealer organization and began the process of digitizing 20 years of documentation, automating the authoring, graphics and delivery process and developing automated language translation, all of which have endured for more than 20 years.



Caterpillar Retirees' Careers Live on Through the Corporate Archives



On August 9, the Caterpillar Inc. Corporate Archives presented to the Caterpillar Retirees Club. The Corporate Archivists discussed how they hope to meet with retirees on a regular basis and partner with them to promote, advocate and preserve the heritage and legacy of the company.

The Corporate Archives discussed treasures they are seeking and how they hope to partner with retirees in locating these items. Some of the items include original Holt and Best items, vintage toys and scale models (pre-1970), vintage dealer service overalls, Caterpillar Diesels/Peoria Cats Basketball memorabilia (and other sports team memorabilia), original service pins (40 years +), vintage watch fobs, a Caterpillar pedal tractor and Caterpillar bookends. More importantly, the Corporate Archivists are seeking information and knowledge from retirees on the historical significance of these items.

"It's important to get the stories captured behind these items so we know their meaning and history," said Dean Costello, who retired from Caterpillar after 36 years of service and is currently a gallery host at the Caterpillar Visitors Center. "While we understand the



Harold Crabtree and his family touring the Caterpillar Visitors Center, where his original Holt identification card that belonged to his father will be displayed.

value of these items because we worked at Caterpillar during our 30 and 40 year-long careers, it's difficult to translate that meaning in the present but the Corporate Archives help us to do so."

While many great items were donated to the Corporate Archives when meeting with the Retirees Club, one of the rarest artifacts came from Harold Crabtree, who donated an original Holt identification card from 1917 and an original Holt Caterpillar calendar from 1929. Both items belonged to Harold's father, Martin John Crabtree, and the identification card will be displayed at the Caterpillar Visitors Center.

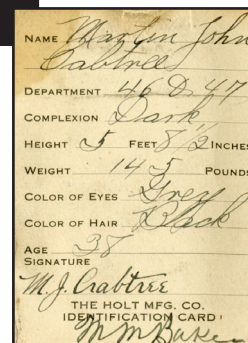
"When I met with Harold a few weeks ago, he mirrored Dean Costello's sentiment that the meaning behind these artifacts is difficult to translate to today and they wouldn't

necessarily have the same historical (and emotional) significance to his children as they do to him," said Lee Fosburgh, Corporate Archivist. "He wanted to donate the items where other people could see them and is excited his memorabilia will be seen by

Caterpillar employees, retirees, dealers, customers and other visitors from around the world at the Caterpillar Visitors Center."

"I hope all of my fellow retirees consider donating their memorabilia to the Corporate Archives so our history can be captured and our careers at Caterpillar can continue to live on," added Dean Costello.

To contact the



Martin John Crabtree's Holt identification card was signed in 1917 by Murray Baker, who brought Holt to Peoria.

Corporate Archives, please email archives@cat.com or call 309-675-7290. To contact the Caterpillar Visitors Center, please email CaterpillarVisitorsCenter@cat.com or call 309-675-0606.

CATERPILLAR RECOGNIZED FOR SUPPLIER DIVERSITY

Caterpillar's Supplier Diversity program was recognized as one of the "Best of the Best" by the **Black EOE Journal** in its summer 2013 issue. The magazine partners with three other diversity publications to leverage non-biased evaluations of U.S. companies on their outreach and accessibility to the African American, Hispanic/Latino, female and veteran populations.



"We cannot be an effective, global leader without diversity throughout the enterprise, and that includes our extended enterprise," said Frank Crespo, Caterpillar's chief procurement officer (CPO) and vice president of Global Purchasing. "It's more than social responsibility and living **Our Values in Action**. Developing an integrated supplier network which mirrors the breadth and diversity of Caterpillar's customers just makes solid business sense."

Supplier diversity is so important to Crespo that one of the Global Purchasing Division's SMART goals is to increase the amount of

diversity spend; that is, how much Caterpillar spends on materials procured from suppliers who meet diversity requirements. It has increasingly become one of the many variables discussed as a means to strengthen the supply chain.

Charly Ugorji has been at the helm of Caterpillar's Supplier Diversity program for the last two years. He credits many factors for the program's success thus far. But three are at the top of his list: Crespo's arrival at Caterpillar, a strategic alliance with Caterpillar's Global Diversity & Inclusion Office and efforts to change perceptions about the program.

"In essence, what we are really trying to do is to eliminate the entitlement perception and instead focus on business decisions that identify diverse suppliers with the ability to support Caterpillar's long term expectations for cost, quality, delivery, shipping and management performance," Ugorji said.

Another key success factor, according to Ugorji, is greater transparency in how procurement teams can identify diverse suppliers and be able to track their performance. This is done through a new analytics tool, which is a significant advancement from the former technology that was employed.



John Jones, facility manager, gives Rick Underwood his 40 year anniversary pin.

Victoria Supply Chain Manager Celebrates 40 Years with Caterpillar

Rick Underwood, Victoria, Texas, supply chain manager, recently celebrated his 40th anniversary as a Caterpillar employee. His first job with Caterpillar was as a chip wheeler in East Peoria, where he used a shovel and wheelbarrow to clean up and dispose of metal chips and shavings from various machines.

"My dad and uncle both worked for Caterpillar, and the company provided a good life for our family," said Underwood. "I had no plans to go to college after graduating from high school, so I went right into the 'family' business."

And a family business it has been. Underwood's dad retired from Caterpillar with 30 years of service, his brother just celebrated his 30th anniversary. Combined with Underwood's 40 years, the immediate Underwood family has 100 years of service with Caterpillar. The tradition continues with Underwood's two son-in-laws, both current Caterpillar employees in East Peoria, Ill.

Underwood's father has been especially influential to him and his career. "Just as I did, my dad started on the shop floor and worked his way up to a purchasing analyst when he retired. He taught me that hard work would not kill me and might actually result in some upward mobility someday."

Over Underwood's 40 years with Caterpillar, hard work and dedication enabled him to have the equivalent of four different careers while working for Caterpillar – from manufacturing, to information technology, to logistics and finally to supply chain. Throughout this time, Underwood's experience has helped start up five different facilities. "It's awesome to see a facility going up and know that it will be there long after you have moved on to your next assignment."

The people are one of Underwood's favorite things about being involved in a start up. "It's a wonderful opportunity to meet new people, and I continue to be amazed in our ability to find and to recruit great talent."



Mach 1 Event Driven Picking Making a Difference in East Peoria

Inventor, printer and American patriot, Benjamin Franklin wrote in 1748 that "time is money." Basically, he was teaching his contemporaries that wasted time equals wasted rewards. To this day this simple lesson is still being observed by the kitting operations supporting the Track-Type Tractor manufacturing operations in East Peoria, Ill., with "event driven picking."

Kitting is a cost-effective solution in manufacturing and logistics that combines multiple unique part numbers packaged specifically to a production order and prepared in a separate container or "kit," then delivered to the assembly line when the parts are needed. Benefits include reduced inventory levels, increased assembler effectiveness and less space required on the assembly line for material storage.

However, when kitting is burdened by outdated business practices and systems, the resulting inefficiencies can play havoc with kits "built" and delivered to the line quickly.

"We had a very manual process, and it was causing pain on a daily and weekly basis," explained Adam Haessler, supply chain planning manager for Track-Type operations in Facilities NN and SS. "We would run out of carts because we kitted stuff we didn't need and we then didn't have the carts to kit the stuff production needed. You can't achieve Lean that way."

The "event driven" functionality was originally developed by Caterpillar Logistics Services (ILS) in 2005 to support the engine facility in Griffin, Ga. Bill Newton, CESG distribution consultant, led the initial development in the ILS legacy system and has helped to implement it throughout a number of facilities. Newton and Ryan Hawkins, Inventory Management/Warehouse Management Mach1 PPO, have been working for the past three years to make sure the "event driven" functionality was part of the Mach 1 global template.

After consulting with Newton, Haessler, along with two other Supply Chain Planning

Engineers, Shayne Croke and Brian Hillner, knew what it would take to improve the process. It wasn't until the rollout of the Mach 1 system to the East Peoria campus in April that they had the right system with the right functionality to attack the problem.

Global Information Services Division, working in conjunction with Newton, Hawkins and Haessler, made sure the functionality was correct. East Peoria's kitting operation gained the ability to set the number of kits needed in the process loop and to determine the triggering point for ordering more kits for each line location. The ILS kitting teams led by Logistics Center Managers Bryan Rollins and Richard Parks also benefitted from the additional grouping and container information provided to help the material handlers efficiently pick parts and post the tickets.

Before Mach 1, kitting had to establish "buffers" or collections of kits held in waiting to handle "planned" demand. "Buffers are created due to variability in your process. You add buffers to minimize the effects of variability. Buffers, however, mean you need extra parts," Haessler said. "But, if you take variability out, you reduce your goods receipt time, which means you remove the need for the extra inventory to stock the buffers. Event driven picking does that. It's near real time consumption."

Due to the stability of event driven picking, kitting has already removed one day off of every goods receipt time (GRT), a full day off the internal kit buffers, and saved close to \$1 million in inventory reduction. With each minute trimmed from the process, the more ILS and Track-Type can achieve, the more the company can save.

"We're showing a higher return on our Mach 1 investment," said Mike Morris, logistics manager within the IMOD Business Excellence Team and team member on the Mach 1 rollout in East Peoria. "East Peoria is using the system the way it was designed and the company is reaping the rewards with the right part, in the right place, at the right time."

Caterpillar Foundation and Opportunity International China Work to reduce rural poverty in China

For more than a decade, the Caterpillar Foundation has supported Opportunity International China (OI China) programs in China to provide financial services and business training to the rural poor and disabled.

Since 2003, OI China has created and sustained nearly 127,000 jobs and provided nearly \$35 million (USD) in loans. In 2012 alone, OI China distributed nearly \$9 million (USD) in loans that created 35,000 jobs in China's rural areas. In addition, 2,904 people received more than 10,500 hours of training. The Caterpillar Foundation also partnered with OI China in 2012 in its "Move the Needle on Poverty Initiative" with a goal of creating and sustaining 150,000 jobs over the next three years.

"Caterpillar sees China as its home," said Qihua Chen, vice president of Caterpillar Inc. and chairman of Caterpillar (China) Investment Co., Ltd. "Over the past 40 years, Caterpillar has not only helped develop China's economy, but supported organizations like OI China that promote

social responsibility and sustainable development. OI China's business model follows the successful adage 'teach a man to fish and he will feed himself forever.' Through this innovative approach, Opportunity International has demonstrated how we can help solve China's rural poverty challenges. Caterpillar is proud to support them."

OI China began work in China's Anhui Province in 2003 when it launched a microfinance loan guarantee program that created jobs for low income families. Based on its success in Anhui, OI China has expanded its activities into northern Jiangsu Province, a rural area populated by many low-income farmers and migrant workers. In addition to financial services and free business operations training, OI China provides residents with ongoing coaching and family support services. The organization also operates an intensive English

language camp each summer for clients and their children.

"We're helping to break the cycle of poverty for many communities in rural China," said Aaron White, deputy chairman & CEO, OI China. "For more than 10 years, Caterpillar has been a valuable partner and has played an instrumental role in providing loans and training that enable people to work their way out of poverty and create better lives for their families."

After 10 years of working in China, OI China, with the support of the Caterpillar Foundation, now provides a range of special programs including: OI China's Business Partnership, OI China's Mobile Banking, OI China's Rural SME Program, OI China's Elisha Program – an apprenticeship support plan for the handicapped and returned migrant farmers.



About the Caterpillar Foundation

Caterpillar supports the philanthropic efforts of the Caterpillar Foundation. Founded in 1952, the Caterpillar Foundation has contributed more than \$550 million to help make sustainable progress possible around the world by providing program support in the areas of environmental sustainability, access to education and basic human needs. To learn more about the global impact of the Caterpillar Foundation, please visit us at <http://www.caterpillar.com/sustainability/caterpillar-foundation>.

CATERPILLAR EMPLOYEE UNITED WAY APPEAL CAMPAIGN SUCCESSFUL

The 2013 Caterpillar Employee United Way Appeal (CEUWA) successfully ended with 38 percent employee participation, an increase from last year's 37 percent participation. Pledges totaled more than \$6 million, just shy of last year's total. In addition to employee pledges, the Caterpillar Foundation matched employee's donations dollar-for-dollar, bringing the total to \$12.5 million.

Throughout the company, facilities got creative in order to encourage employees to support the United Way. The Miami, Fl., Distribution Center held the First Miami DC Bean Bag Tournament and raffle for anyone who participated in the online pledging process. The tournament hosted 130 employees, which increased the United Way participation rate by more than 200 percent.

The Lafayette, Ind., facility raised the bar with its activities this year by launching the first "Wings for the Way" chicken wing eating competition. The competition alone raised \$12,304 for the United Way of Greater Lafayette. Along with the "Wings for the Way" contest, the Large Engine Facility sponsored events such as a Dodge Ball

Tournament, Motorcycle Poker Run Ride and a Silent Auction, raising another \$7,486. With additional donations, the facility raised more than \$260,000 for the 2013 campaign.

Employees at the Victoria, Texas hydraulic excavator facility, opened in 2012, increased their

funds donated by 65 percent in just their second year to take part in the CEUWA. Seventy-seven percent of Victoria employees participated in this year's events, and 56 percent of Victoria employees made a contribution to their local United Way. Activities such as guest speakers, articles and posters throughout the facility focused on educating employees about how contributions will be used. Employees from departments throughout the facility also came together to create a short video that highlighted different partner agencies that receive funds from the Victoria County United Way.



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