

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



**FORM 10-Q**

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

For the quarterly period ended September 30, 2020

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)

**510 Lake Cook Road, Suite 100, Deerfield, Illinois 60015**

(Address of principal executive offices)

**37-0602744**

(IRS Employer I.D. No.)

**60015**

(Zip Code)

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

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: **N/A**

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol (s)</b>	<b>Name of each exchange on which registered</b>
Common Stock (\$1.00 par value)	CAT	New York Stock Exchange <sup>1</sup>
9 3/8% Debentures due March 15, 2021	CAT21	New York Stock Exchange
8% Debentures due February 15, 2023	CAT23	New York Stock Exchange
5.3% Debentures due September 15, 2035	CAT35	New York Stock Exchange

<sup>1</sup> In addition to the New York Stock Exchange, Caterpillar common stock is also listed on stock exchanges in France and Switzerland.

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

Indicate by check mark whether the registrant has submitted electronically 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  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.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

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

At September 30, 2020, 543,258,283 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.

**Part I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

<b>Caterpillar Inc.</b>		
<b>Consolidated Statement of Results of Operations</b>		
<b>(Unaudited)</b>		
<b>(Dollars in millions except per share data)</b>		
	<b>Three Months Ended</b>	
	<b>September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Sales and revenues:</b>		
Sales of Machinery, Energy & Transportation .....	\$ 9,228	\$ 11,974
Revenues of Financial Products .....	653	784
Total sales and revenues .....	9,881	12,758
<b>Operating costs:</b>		
Cost of goods sold .....	6,919	8,569
Selling, general and administrative expenses .....	1,126	1,251
Research and development expenses .....	344	431
Interest expense of Financial Products .....	137	189
Other operating (income) expenses .....	370	298
Total operating costs .....	8,896	10,738
<b>Operating profit</b> .....	985	2,020
Interest expense excluding Financial Products .....	136	103
Other income (expense) .....	14	88
<b>Consolidated profit before taxes</b> .....	863	2,005
Provision (benefit) for income taxes .....	187	518
Profit of consolidated companies .....	676	1,487
Equity in profit (loss) of unconsolidated affiliated companies .....	(5)	7
<b>Profit of consolidated and affiliated companies</b> .....	671	1,494
Less: Profit (loss) attributable to noncontrolling interests .....	3	—
<b>Profit</b> <sup>1</sup> .....	<u>\$ 668</u>	<u>\$ 1,494</u>
<b>Profit per common share</b> .....	\$ 1.23	\$ 2.69
<b>Profit per common share – diluted</b> <sup>2</sup> .....	\$ 1.22	\$ 2.66
<b>Weighted-average common shares outstanding (millions)</b>		
– Basic .....	542.3	556.3
– Diluted <sup>2</sup> .....	546.4	561.2

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

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

**See accompanying notes to Consolidated Financial Statements.**

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

	<b>Three Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Profit of consolidated and affiliated companies</b> .....	<b>\$ 671</b>	<b>\$ 1,494</b>
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2020- \$21; 2019 - \$(21).....	291	(263)
Pension and other postretirement benefits:		
Current year prior service credit (cost), net of tax (provision)/benefit of: 2020 - \$1; 2019 - \$0.....	(1)	—
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2020 - \$2; 2019 - \$2.....	(7)	(8)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2020 - \$(2); 2019 - \$(16).....	3	59
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2020 - \$(20); 2019 - \$20.....	73	(76)
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2020 - \$0; 2019 - \$(2).....	8	4
Total other comprehensive income (loss), net of tax.....	367	(284)
Comprehensive income.....	1,038	1,210
Less: comprehensive income attributable to the noncontrolling interests.....	3	—
<b>Comprehensive income attributable to shareholders</b> .....	<b>\$ 1,035</b>	<b>\$ 1,210</b>

**See accompanying notes to Consolidated Financial Statements.**

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

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Sales and revenues:</b>		
Sales of Machinery, Energy & Transportation .....	\$ 28,452	\$ 38,369
Revenues of Financial Products .....	2,061	2,287
Total sales and revenues .....	<u>30,513</u>	<u>40,656</u>
<b>Operating costs:</b>		
Cost of goods sold .....	21,298	27,513
Selling, general and administrative expenses .....	3,426	3,879
Research and development expenses .....	1,041	1,307
Interest expense of Financial Products .....	461	571
Other operating (income) expenses .....	1,114	946
Total operating costs .....	<u>27,340</u>	<u>34,216</u>
<b>Operating profit</b> .....	3,173	6,440
Interest expense excluding Financial Products .....	384	309
Other income (expense) .....	<u>265</u>	<u>316</u>
<b>Consolidated profit before taxes</b> .....	3,054	6,447
Provision (benefit) for income taxes .....	839	1,470
Profit of consolidated companies .....	<u>2,215</u>	<u>4,977</u>
Equity in profit (loss) of unconsolidated affiliated companies .....	<u>8</u>	<u>20</u>
<b>Profit of consolidated and affiliated companies</b> .....	2,223	4,997
Less: Profit (loss) attributable to noncontrolling interests .....	<u>5</u>	<u>2</u>
<b>Profit</b> <sup>1</sup> .....	<u>\$ 2,218</u>	<u>\$ 4,995</u>
<b>Profit per common share</b> .....	\$ 4.08	\$ 8.84
<b>Profit per common share – diluted</b> <sup>2</sup> .....	\$ 4.05	\$ 8.75
<b>Weighted-average common shares outstanding (millions)</b>		
– <b>Basic</b> .....	543.9	565.2
– <b>Diluted</b> <sup>2</sup> .....	547.8	570.8

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

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

**See accompanying notes to Consolidated Financial Statements.**

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

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Profit of consolidated and affiliated companies</b> .....	<b>\$ 2,223</b>	<b>\$ 4,997</b>
Other comprehensive income (loss), net of tax:		
Foreign currency translation, net of tax (provision)/benefit of: 2020 - \$20; 2019 - \$(19).....	106	(186)
Pension and other postretirement benefits:		
Current year prior service credit (cost), net of tax (provision)/benefit of: 2020 - \$1; 2019 - \$0.....	1	—
Amortization of prior service (credit) cost, net of tax (provision)/benefit of: 2020 - \$7; 2019 - \$8.....	(21)	(22)
Derivative financial instruments:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2020 - \$21; 2019 - \$(15).....	(72)	53
(Gains) losses reclassified to earnings, net of tax (provision)/benefit of: 2020 - \$(22); 2019 - \$23.....	76	(86)
Available-for-sale securities:		
Gains (losses) deferred, net of tax (provision)/benefit of: 2020 - \$(9); 2019 - \$(10).....	29	34
Total other comprehensive income (loss), net of tax.....	119	(207)
Comprehensive income.....	2,342	4,790
Less: comprehensive income attributable to the noncontrolling interests.....	5	2
<b>Comprehensive income attributable to shareholders</b> .....	<b>\$ 2,337</b>	<b>\$ 4,788</b>

**See accompanying notes to Consolidated Financial Statements.**

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

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and short-term investments.....	\$ 9,315	\$ 8,284
Receivables – trade and other.....	6,969	8,568
Receivables – finance.....	8,966	9,336
Prepaid expenses and other current assets.....	1,831	1,739
Inventories.....	11,453	11,266
<b>Total current assets</b> .....	<b>38,534</b>	<b>39,193</b>
Property, plant and equipment – net.....	12,232	12,904
Long-term receivables – trade and other.....	1,149	1,193
Long-term receivables – finance.....	12,209	12,651
Noncurrent deferred and refundable income taxes.....	1,440	1,411
Intangible assets.....	1,363	1,565
Goodwill.....	6,304	6,196
Other assets.....	3,510	3,340
<b>Total assets</b> .....	<b>\$ 76,741</b>	<b>\$ 78,453</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term borrowings:		
Machinery, Energy & Transportation.....	\$ —	\$ 5
Financial Products.....	2,660	5,161
Accounts payable.....	5,193	5,957
Accrued expenses.....	3,510	3,750
Accrued wages, salaries and employee benefits.....	1,069	1,629
Customer advances.....	1,209	1,187
Dividends payable.....	—	567
Other current liabilities.....	1,978	2,155
Long-term debt due within one year:		
Machinery, Energy & Transportation.....	1,397	16
Financial Products.....	7,962	6,194
<b>Total current liabilities</b> .....	<b>24,978</b>	<b>26,621</b>
Long-term debt due after one year:		
Machinery, Energy & Transportation.....	9,742	9,141
Financial Products.....	16,365	17,140
Liability for postemployment benefits.....	6,254	6,599
Other liabilities.....	4,408	4,323
<b>Total liabilities</b> .....	<b>61,747</b>	<b>63,824</b>
<b>Commitments and contingencies (Notes 11 and 14)</b>		
<b>Shareholders' equity</b>		
Common stock of \$1.00 par value:		
Authorized shares: 2,000,000,000		
Issued shares: (9/30/20 and 12/31/19 – 814,894,624) at paid-in amount.....	6,204	5,935
Treasury stock (9/30/20 – 271,636,341 shares; 12/31/19 – 264,812,014 shares) at cost.....	(25,315)	(24,217)
Profit employed in the business.....	35,508	34,437
Accumulated other comprehensive income (loss).....	(1,448)	(1,567)
Noncontrolling interests.....	45	41
<b>Total shareholders' equity</b> .....	<b>14,994</b>	<b>14,629</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$ 76,741</b>	<b>\$ 78,453</b>

See accompanying notes to Consolidated Financial Statements.

**Caterpillar Inc.**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited)**  
**(Dollars in millions)**

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
<b>Three Months Ended September 30, 2019</b>						
<b>Balance at June 30, 2019</b> .....	\$ 5,822	\$ (22,467)	\$ 32,981	\$ (1,499)	\$ 41	\$ 14,878
Profit of consolidated and affiliated companies.....	—	—	1,494	—	—	1,494
Foreign currency translation, net of tax.....	—	—	—	(263)	—	(263)
Pension and other postretirement benefits, net of tax.....	—	—	—	(8)	—	(8)
Derivative financial instruments, net of tax.....	—	—	—	(17)	—	(17)
Available-for-sale securities, net of tax.....	—	—	—	4	—	4
Common shares issued from treasury stock for stock-based compensation: 404,606.....	—	20	—	—	—	20
Stock-based compensation expense.....	57	—	—	—	—	57
Common shares repurchased: 10,335,410 <sup>1</sup> .....	—	(1,246)	—	—	—	(1,246)
Other.....	72	—	2	—	—	74
<b>Balance at September 30, 2019</b> .....	<b>\$ 5,951</b>	<b>\$ (23,693)</b>	<b>\$ 34,477</b>	<b>\$ (1,783)</b>	<b>\$ 41</b>	<b>\$ 14,993</b>
<b>Three Months Ended September 30, 2020</b>						
<b>Balance at June 30, 2020</b> .....	\$ 6,120	\$ (25,412)	\$ 34,841	\$ (1,815)	\$ 43	\$ 13,777
Profit of consolidated and affiliated companies.....	—	—	668	—	3	671
Foreign currency translation, net of tax.....	—	—	—	291	—	291
Pension and other postretirement benefits, net of tax.....	—	—	—	(8)	—	(8)
Derivative financial instruments, net of tax.....	—	—	—	76	—	76
Available-for-sale securities, net of tax.....	—	—	—	8	—	8
Common shares issued from treasury stock for stock-based compensation: 1,751,708.....	23	97	—	—	—	120
Stock-based compensation expense.....	55	—	—	—	—	55
Other.....	6	—	(1)	—	(1)	4
<b>Balance at September 30, 2020</b> .....	<b>\$ 6,204</b>	<b>\$ (25,315)</b>	<b>\$ 35,508</b>	<b>\$ (1,448)</b>	<b>\$ 45</b>	<b>\$ 14,994</b>

<sup>1</sup> See Note 12 for additional information.

**See accompanying notes to Consolidated Financial Statements.**



**Caterpillar Inc.**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**(Unaudited)**  
**(Dollars in millions)**

	Common stock	Treasury stock	Profit employed in the business	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total
<b>Nine Months Ended September 30, 2019</b>						
<b>Balance at December 31, 2018</b> .....	\$ 5,827	\$ (20,531)	\$ 30,427	\$ (1,684)	\$ 41	\$ 14,080
Adjustments to adopt new accounting guidance						
Lease accounting.....	—	—	235	—	—	235
Reclassification of certain tax effects from accumulated other comprehensive income.....	—	—	(108)	108	—	—
<b>Balance at January 1, 2019</b> .....	5,827	(20,531)	30,554	(1,576)	41	14,315
Profit of consolidated and affiliated companies.....	—	—	4,995	—	2	4,997
Foreign currency translation, net of tax.....	—	—	—	(186)	—	(186)
Pension and other postretirement benefits, net of tax.....	—	—	—	(22)	—	(22)
Derivative financial instruments, net of tax.....	—	—	—	(33)	—	(33)
Available-for-sale securities, net of tax.....	—	—	—	34	—	34
Dividends declared <sup>1</sup> .....	—	—	(1,074)	—	—	(1,074)
Distribution to noncontrolling interests.....	—	—	—	—	(2)	(2)
Common shares issued from treasury stock for stock-based compensation: 2,907,710.....	(62)	121	—	—	—	59
Stock-based compensation expense.....	170	—	—	—	—	170
Common shares repurchased: 25,792,061 <sup>2</sup> .....	—	(3,283)	—	—	—	(3,283)
Other.....	16	—	2	—	—	18
<b>Balance at September 30, 2019</b> .....	<b>\$ 5,951</b>	<b>\$ (23,693)</b>	<b>\$ 34,477</b>	<b>\$ (1,783)</b>	<b>\$ 41</b>	<b>\$ 14,993</b>
<b>Nine Months Ended September 30, 2020</b>						
<b>Balance at December 31, 2019</b> .....	\$ 5,935	\$ (24,217)	\$ 34,437	\$ (1,567)	\$ 41	\$ 14,629
Adjustments to adopt new accounting guidance <sup>3</sup>						
Credit losses.....	—	—	(25)	—	—	(25)
<b>Balance at January 1, 2020</b> .....	5,935	(24,217)	34,412	(1,567)	41	14,604
Profit of consolidated and affiliated companies.....	—	—	2,218	—	5	2,223
Foreign currency translation, net of tax.....	—	—	—	106	—	106
Pension and other postretirement benefits, net of tax.....	—	—	—	(20)	—	(20)
Derivative financial instruments, net of tax.....	—	—	—	4	—	4
Available-for-sale securities, net of tax.....	—	—	—	29	—	29
Dividends declared <sup>1</sup> .....	—	—	(1,121)	—	—	(1,121)
Common shares issued from treasury stock for stock-based compensation: 3,271,679.....	(43)	153	—	—	—	110
Stock-based compensation expense.....	169	—	—	—	—	169
Common shares repurchased: 10,096,006 <sup>2</sup> .....	—	(1,250)	—	—	—	(1,250)
Other.....	143	(1)	(1)	—	(1)	140
<b>Balance at September 30, 2020</b> .....	<b>\$ 6,204</b>	<b>\$ (25,315)</b>	<b>\$ 35,508</b>	<b>\$ (1,448)</b>	<b>\$ 45</b>	<b>\$ 14,994</b>

<sup>1</sup> Dividends per share of common stock of \$2.06 and \$1.89 were declared in the nine months ended September 30, 2020 and 2019, respectively.

<sup>2</sup> See Note 12 for additional information.

<sup>3</sup> See Note 2 for additional information.

**See accompanying notes to Consolidated Financial Statements.**

**Caterpillar Inc.**  
**Consolidated Statement of Cash Flow**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flow from operating activities:</b>		
Profit of consolidated and affiliated companies .....	\$ 2,223	\$ 4,997
Adjustments for non-cash items:		
Depreciation and amortization .....	1,815	1,933
Net gain on remeasurement of pension obligations .....	(55)	—
Provision (benefit) for deferred income taxes .....	(38)	(13)
Other .....	919	627
Changes in assets and liabilities, net of acquisitions and divestitures:		
Receivables – trade and other .....	1,473	427
Inventories .....	(139)	(676)
Accounts payable .....	(596)	(669)
Accrued expenses .....	(286)	114
Accrued wages, salaries and employee benefits .....	(547)	(858)
Customer advances .....	13	169
Other assets – net .....	(15)	19
Other liabilities – net .....	(512)	(1,592)
Net cash provided by (used for) operating activities .....	<u>4,255</u>	<u>4,478</u>
<b>Cash flow from investing activities:</b>		
Capital expenditures – excluding equipment leased to others .....	(686)	(723)
Expenditures for equipment leased to others .....	(805)	(1,133)
Proceeds from disposals of leased assets and property, plant and equipment .....	550	812
Additions to finance receivables .....	(9,278)	(9,453)
Collections of finance receivables .....	9,656	9,144
Proceeds from sale of finance receivables .....	37	183
Investments and acquisitions (net of cash acquired) .....	(93)	(6)
Proceeds from sale of businesses and investments (net of cash sold) .....	13	3
Proceeds from sale of securities .....	239	281
Investments in securities .....	(512)	(425)
Other – net .....	(80)	(37)
Net cash provided by (used for) investing activities .....	<u>(959)</u>	<u>(1,354)</u>
<b>Cash flow from financing activities:</b>		
Dividends paid .....	(1,683)	(1,564)
Common stock issued, including treasury shares reissued .....	110	59
Common shares repurchased .....	(1,130)	(3,283)
Proceeds from debt issued (original maturities greater than three months):		
Machinery, Energy & Transportation .....	1,991	1,479
Financial Products .....	7,427	7,348
Payments on debt (original maturities greater than three months):		
Machinery, Energy & Transportation .....	(18)	(8)
Financial Products .....	(6,771)	(6,054)
Short-term borrowings – net (original maturities three months or less) .....	(2,138)	(1,006)
Other – net .....	(1)	(2)
Net cash provided by (used for) financing activities .....	<u>(2,213)</u>	<u>(3,031)</u>
Effect of exchange rate changes on cash .....	(56)	(47)
<b>Increase (decrease) in cash and short-term investments and restricted cash .....</b>	<b>1,027</b>	<b>46</b>
Cash and short-term investments and restricted cash at beginning of period .....	8,292	7,890
Cash and short-term investments and restricted cash at end of period .....	<u>\$ 9,319</u>	<u>\$ 7,936</u>

*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.**

**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)** – We define ME&T as Caterpillar Inc. and its subsidiaries, excluding Financial Products. ME&T’s information relates to the design, manufacturing and marketing of our products.

**Financial Products** – We define Financial Products as our finance and insurance subsidiaries, primarily Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings Inc. (Insurance Services). Financial Products’ information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment.

**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, 2020 and 2019, (b) the consolidated comprehensive income for the three and nine months ended September 30, 2020 and 2019, (c) the consolidated financial position at September 30, 2020 and December 31, 2019, (d) the consolidated changes in shareholders’ equity for the three and nine months ended September 30, 2020 and 2019 and (e) the consolidated cash flow for the nine months ended September 30, 2020 and 2019. 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, 2019 (2019 Form 10-K).

The December 31, 2019 financial position data included herein is derived from the audited consolidated financial statements included in the 2019 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.

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 these VIEs for which we are not the primary beneficiary was \$57 million and \$133 million as of September 30, 2020 and December 31, 2019, respectively.

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 were 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

### A. Adoption of new accounting standards

**Credit losses** (Accounting Standards Update (ASU) 2016-13) – In June 2016, the Financial Accounting Standards Board (FASB) issued new 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 applies 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 also applies to debt securities and other financial assets measured at fair value through other comprehensive income. The new guidance was effective January 1, 2020. We applied the new guidance using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of January 1, 2020. We have not recast prior period comparative information, which we continue to report under the accounting guidance in effect for those periods. Our adoption of the new guidance did not have a material impact on our financial statements.

We adopted the following ASUs effective January 1, 2020, none of which had a material impact on our financial statements:

<b>ASU</b>	<b>Description</b>
2018-13	Fair value measurement
2018-15	Internal-use software
2018-19	Codification improvements - Credit losses
2019-04	Codification improvements - Credit losses, Derivatives & hedging, and Financial instruments
2019-05	Financial instruments - Credit losses
2019-11	Codification improvements - Credit losses
2019-12	Simplifying accounting for income taxes
2020-02	Financial instruments - Credit losses
2020-03	Codification improvements - Financial instruments

### B. Accounting standards issued but not yet adopted

**Reference rate reform** (ASU 2020-04) – In March 2020, the FASB issued accounting guidance to ease the potential burden in accounting for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The guidance is optional and may be elected over time as reference rate reform activities occur between March 12, 2020 through December 31, 2022. We are evaluating the impact of reference rate reform on our contracts and assessing the impacts of adopting this guidance on our financial statements.

We consider the applicability and impact of all ASUs. We assessed ASUs not listed above and determined that they either were not applicable or were not expected to have a material impact on our financial statements.

## 3. Sales and revenue contract information

Trade receivables represent amounts due from dealers and end users for the sale of our products. In addition, Cat Financial provides wholesale inventory financing for a dealer's purchase of inventory. We include wholesale inventory receivables 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 \$6,048 million, \$7,648 million and \$7,743 million as of September 30, 2020, December 31, 2019 and December 31, 2018, respectively. We recognize trade receivables from dealers and end users in Receivables – trade and other in the Consolidated Statement of Financial Position. Long-term trade receivables from dealers and end users were \$674 million, \$693 million and \$674 million as of September 30, 2020, December 31, 2019 and December 31, 2018, respectively. We recognize long-term trade receivables from dealers and end users in Long-term receivables – trade and other in the Consolidated Statement of Financial Position.

We invoice in advance of recognizing the sale of certain products. We recognize advanced customer payments as a contract liability in Customer advances and Other liabilities in the Consolidated Statement of Financial Position. Contract liabilities were \$1,659 million, \$1,654 million and \$1,680 million as of September 30, 2020, December 31, 2019 and December 31, 2018, respectively. We reduce the contract liability when revenue is recognized. During the three and nine months ended September 30, 2020, we recognized \$144 million and \$843 million, respectively, of revenue that was recorded as a contract liability at the beginning of 2020. During the three and nine months ended September 30, 2019, we recognized \$101 million and \$976 million, respectively, of revenue that was recorded as a contract liability at the beginning of 2019.

As of September 30, 2020, 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 \$6.0 billion, of which \$2.4 billion is expected to be completed and revenue recognized in the twelve months following September 30, 2020. We have elected the practical expedient not to 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.

See Note 16 for further disaggregated sales and revenues information.

#### 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).

We recognized pretax stock-based compensation expense of \$55 million and \$169 million for the three and nine months ended September 30, 2020, respectively, and \$57 million and \$170 million for the three and nine months ended September 30, 2019, respectively.

The following table illustrates the type and fair value of the stock-based compensation awards granted during the nine months ended September 30, 2020 and 2019, respectively:

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	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	1,913,888	\$ 25.98	\$ 127.60	1,499,524	\$ 40.98	\$ 138.35
RSUs	705,287	\$ 127.60	\$ 127.60	657,389	\$ 138.35	\$ 138.35
PRSUs	371,641	\$ 127.60	\$ 127.60	342,097	\$ 138.35	\$ 138.35

The following table provides the assumptions used in determining the fair value of the stock-based awards for the nine months ended September 30, 2020 and 2019, respectively:

	Grant Year	
	2020	2019
Weighted-average dividend yield	2.47%	2.56%
Weighted-average volatility	25.7%	29.1%
Range of volatilities	24.5% -29.7%	25.1% -38.7%
Range of risk-free interest rates	1.21% -1.39%	2.48% -2.68%
Weighted-average expected lives	8 years	7 years

As of September 30, 2020, the total remaining unrecognized compensation expense related to nonvested stock-based compensation awards was \$170 million, which will be amortized over the weighted-average remaining requisite service periods of approximately 1.8 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. We present at least annually to the Audit Committee of the Board of Directors on our risk management practices, including our use of financial derivative instruments.

We recognize all derivatives at their fair value on the Consolidated Statement of Financial Position. 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. We record in current earnings 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. We record in Accumulated other comprehensive income (loss) (AOCI) changes in the fair value of a derivative that is qualified, designated and highly effective as a cash flow hedge, to the extent effective, on the Consolidated Statement of Financial Position until we reclassify them to earnings in the same period or periods during which the hedged transaction affects earnings. We report changes in the fair value of undesignated derivative instruments in current earnings. We classify cash flows from designated derivative financial instruments within the same category as the item being hedged on the Consolidated Statement of Cash Flow. We include cash flows from undesignated derivative financial instruments in the investing category on the Consolidated Statement of Cash Flow.

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

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

### Foreign Currency Exchange Rate Risk

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

Our ME&T 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, 2020, the maximum term of these outstanding contracts was approximately 60 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, Norwegian Krona, 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. We perform designation on a specific exposure basis to support hedge accounting. The remainder of ME&T foreign currency contracts are undesignated.

As of September 30, 2020, \$8 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 over the next twelve months when earnings are affected by the hedged transactions. The actual amount recorded in current earnings 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 ME&T 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 and duration) of Cat Financial's debt portfolio with the interest rate profile of our receivables portfolio within predetermined ranges on an ongoing basis. In connection with that policy, we use interest rate derivative instruments to modify the debt structure to match assets within the receivables portfolio. This matched funding reduces the volatility of margins between interest-bearing assets and interest-bearing liabilities, regardless of which direction interest rates move.

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

We have, at certain times, liquidated fixed-to-floating and floating-to-fixed interest rate contracts at both ME&T and Financial Products. We amortize the gains or losses associated with these contracts at the time of liquidation 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 materials. Our policy is to use commodity forward and option contracts to manage the commodity risk and reduce the cost of purchased materials.

Our ME&T 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 were as follows:

(Millions of dollars)	Consolidated Statement of Financial Position Location	Asset (Liability) Fair Value	
		September 30, 2020	December 31, 2019
<b>Designated derivatives</b>			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$ 29	\$ 18
Machinery, Energy & Transportation	Long-term receivables – trade and other	28	9
Machinery, Energy & Transportation	Accrued expenses	(40)	(20)
Machinery, Energy & Transportation	Other liabilities	(21)	—
Financial Products	Receivables – trade and other	16	54
Financial Products	Long-term receivables – trade and other	—	13
Financial Products	Accrued expenses	(39)	(3)
Interest rate contracts			
Machinery, Energy & Transportation	Long-term receivables – trade and other	1	—
Financial Products	Receivables – trade and other	3	—
Financial Products	Long-term receivables – trade and other	60	5
Financial Products	Accrued expenses	(12)	(25)
		<u>\$ 25</u>	<u>\$ 51</u>
<b>Undesignated derivatives</b>			
Foreign exchange contracts			
Machinery, Energy & Transportation	Receivables – trade and other	\$ 3	\$ 1
Financial Products	Receivables – trade and other	57	7
Financial Products	Long-term receivables – trade and other	12	5
Financial Products	Accrued expenses	(18)	(22)
Commodity contracts			
Machinery, Energy & Transportation	Receivables – trade and other	9	4
Machinery, Energy & Transportation	Long-term receivables – trade and other	1	—
Machinery, Energy & Transportation	Accrued expenses	(7)	(1)
		<u>\$ 57</u>	<u>\$ (6)</u>



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

(Millions of dollars)	September 30, 2020	December 31, 2019
Machinery, Energy & Transportation .....	\$ 3,479	\$ 2,563
Financial Products .....	\$ 11,538	\$ 8,931

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

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

<b>Cash Flow Hedges</b>		<b>Three Months Ended September 30, 2020</b>		
		<b>Recognized in Earnings</b>		
(Millions of dollars)	Amount of Gains (Losses) Recognized in AOCI	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI	Amount of the line items in the Consolidated Statement of Results of Operations
Foreign exchange contracts				
Machinery, Energy & Transportation ...	\$ 66	Sales of Machinery, Energy & Transportation .....	\$ (6)	\$ 9,228
		Cost of goods sold .....	(15)	6,919
Financial Products .....	(64)	Interest expense of Financial Products .....	8	137
		Other income (expense) .....	(63)	14
Interest rate contracts				
Machinery, Energy & Transportation ...	2	Interest expense excluding Financial Products .....	(1)	136
Financial Products .....	1	Interest expense of Financial Products .....	(16)	137
	<u>\$ 5</u>		<u>\$ (93)</u>	
		<b>Three Months Ended September 30, 2019</b>		
		<b>Recognized in Earnings</b>		
(Millions of dollars)	Amount of Gains (Losses) Recognized in AOCI	Classification of Gains (Losses)	Amount of Gains (Losses) Reclassified from AOCI	Amount of the line items in the Consolidated Statement of Results of Operations
Foreign exchange contracts				
Machinery, Energy & Transportation ...	\$ (13)	Sales of Machinery, Energy & Transportation .....	\$ 3	\$ 11,974
Financial Products .....	100	Interest expense of Financial Products .....	9	189
		Other income (expense) .....	89	88
Interest rate contracts				
Machinery, Energy & Transportation ...	—	Interest expense excluding Financial Products .....	(2)	103
Financial Products .....	(12)	Interest expense of Financial Products .....	(3)	189
	<u>\$ 75</u>		<u>\$ 96</u>	

<b>Cash Flow Hedges</b>				
<b>Nine Months Ended September 30, 2020</b>				
<b>(Millions of dollars)</b>	<b>Amount of Gains (Losses) Recognized in AOCI</b>	<b>Recognized in Earnings</b>		<b>Amount of the line items in the Consolidated Statement of Results of Operations</b>
		<b>Classification of Gains (Losses)</b>	<b>Amount of Gains (Losses) Reclassified from AOCI</b>	
Foreign exchange contracts				
Machinery, Energy & Transportation...	\$ (58)	Sales of Machinery, Energy & Transportation .....	\$ 10	\$ 28,452
		Cost of goods sold .....	(58)	21,298
Financial Products .....	2	Interest expense of Financial Products .....	28	461
		Other income (expense) .....	(35)	265
Interest rate contracts				
Machinery, Energy & Transportation .....	(14)	Interest expense excluding Financial Products .....	(3)	384
Financial Products .....	(23)	Interest expense of Financial Products .....	(40)	461
	<u>\$ (93)</u>		<u>\$ (98)</u>	
<b>Nine Months Ended September 30, 2019</b>				
	<b>Amount of Gains (Losses) Recognized in AOCI</b>	<b>Recognized in Earnings</b>		<b>Amount of the line items in the Consolidated Statement of Results of Operations</b>
		<b>Classification of Gains (Losses)</b>	<b>Amount of Gains (Losses) Reclassified from AOCI</b>	
Foreign exchange contracts				
Machinery, Energy & Transportation ...	\$ 8	Sales of Machinery, Energy & Transportation .....	\$ 4	\$ 38,369
		Cost of goods sold .....	(4)	27,513
Financial Products .....	132	Interest expense of Financial Products .....	23	571
		Other income (expense) .....	91	316
Interest rate contracts				
Machinery, Energy & Transportation .....	—	Interest expense excluding Financial Products .....	(3)	309
Financial Products .....	(72)	Interest expense of Financial Products .....	(2)	571
	<u>\$ 68</u>		<u>\$ 109</u>	

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

(Millions of dollars)	<u>Classification of Gains (Losses)</u>	<u>Three Months Ended September 30, 2020</u>	<u>Three Months Ended September 30, 2019</u>
Foreign exchange contracts			
Machinery, Energy & Transportation .....	Other income (expense).....	\$ 8	\$ (1)
Financial Products .....	Other income (expense).....	(73)	15
Commodity contracts			
Machinery, Energy & Transportation .....	Other income (expense).....	6	(6)
		<u>\$ (59)</u>	<u>\$ 8</u>
(Millions of dollars)	<u>Classification of Gains (Losses)</u>	<u>Nine Months Ended September 30, 2020</u>	<u>Nine Months Ended September 30, 2019</u>
Foreign exchange contracts			
Machinery, Energy & Transportation .....	Other income (expense).....	\$ 21	\$ 12
Financial Products .....	Other income (expense).....	12	(24)
Commodity contracts			
Machinery, Energy & Transportation .....	Other income (expense).....	(25)	10
		<u>\$ 8</u>	<u>\$ (2)</u>

We enter into International Swaps and Derivatives Association (ISDA) master netting agreements within ME&T 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, 2020 and December 31, 2019, no cash collateral was received or pledged under the master netting agreements.

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

			<u>Gross Amounts Not Offset in the Statement of Financial Position</u>			
			<u>Net Amount of Assets Presented in the Statement of Financial Position</u>			
September 30, 2020						
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position		Financial Instruments	Cash Collateral Received	Net Amount of Assets
<b>Derivatives</b>						
Machinery, Energy & Transportation.....	\$ 71	\$ —	\$ 71	\$ (55)	\$ —	\$ 16
Financial Products.....	148	—	148	(37)	—	111
Total.....	<u>\$ 219</u>	<u>\$ —</u>	<u>\$ 219</u>	<u>\$ (92)</u>	<u>\$ —</u>	<u>\$ 127</u>
			<u>Gross Amounts Not Offset in the Statement of Financial Position</u>			
			<u>Net Amount of Liabilities Presented in the Statement of Financial Position</u>			
September 30, 2020						
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position		Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
<b>Derivatives</b>						
Machinery, Energy & Transportation.....	\$ (68)	\$ —	\$ (68)	\$ 55	\$ —	\$ (13)
Financial Products.....	(69)	—	(69)	37	—	(32)
Total.....	<u>\$ (137)</u>	<u>\$ —</u>	<u>\$ (137)</u>	<u>\$ 92</u>	<u>\$ —</u>	<u>\$ (45)</u>
			<u>Gross Amounts Not Offset in the Statement of Financial Position</u>			
			<u>Net Amount of Assets Presented in the Statement of Financial Position</u>			
December 31, 2019						
(Millions of dollars)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position		Financial Instruments	Cash Collateral Received	Net Amount of Assets
<b>Derivatives</b>						
Machinery, Energy & Transportation.....	\$ 32	\$ —	\$ 32	\$ (13)	\$ —	\$ 19
Financial Products.....	84	—	84	(21)	—	63
Total.....	<u>\$ 116</u>	<u>\$ —</u>	<u>\$ 116</u>	<u>\$ (34)</u>	<u>\$ —</u>	<u>\$ 82</u>
			<u>Gross Amounts Not Offset in the Statement of Financial Position</u>			
			<u>Net Amount of Liabilities Presented in the Statement of Financial Position</u>			
December 31, 2019						
(Millions of dollars)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position		Financial Instruments	Cash Collateral Pledged	Net Amount of Liabilities
<b>Derivatives</b>						
Machinery, Energy & Transportation.....	\$ (21)	\$ —	\$ (21)	\$ 13	\$ —	\$ (8)
Financial Products.....	(50)	—	(50)	21	—	(29)
Total.....	<u>\$ (71)</u>	<u>\$ —</u>	<u>\$ (71)</u>	<u>\$ 34</u>	<u>\$ —</u>	<u>\$ (37)</u>

**6. Inventories**

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

(Millions of dollars)	September 30, 2020	December 31, 2019
Raw materials .....	\$ 4,093	\$ 4,263
Work-in-process .....	1,113	1,147
Finished goods .....	5,984	5,598
Supplies .....	263	258
Total inventories .....	<u>\$ 11,453</u>	<u>\$ 11,266</u>

**7. Intangible assets and goodwill**

**A. Intangible assets**

Intangible assets were comprised of the following:

(Millions of dollars)	Weighted Amortizable Life (Years)	September 30, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships .....	15	\$ 2,453	\$ (1,533)	\$ 920
Intellectual property .....	11	1,522	(1,131)	391
Other .....	13	181	(129)	52
Total finite-lived intangible assets .....	14	<u>\$ 4,156</u>	<u>\$ (2,793)</u>	<u>\$ 1,363</u>

(Millions of dollars)	Weighted Amortizable Life (Years)	December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships .....	15	\$ 2,450	\$ (1,406)	\$ 1,044
Intellectual property .....	12	1,510	(1,055)	455
Other .....	13	191	(125)	66
Total finite-lived intangible assets .....	14	<u>\$ 4,151</u>	<u>\$ (2,586)</u>	<u>\$ 1,565</u>

Amortization expense for the three and nine months ended September 30, 2020 was \$78 million and \$236 million, respectively. Amortization expense for the three and nine months ended September 30, 2019 was \$81 million and \$244 million, respectively. Amortization expense related to intangible assets is expected to be:

(Millions of dollars)					
Remaining Three Months of 2020	2021	2022	2023	2024	Thereafter
\$76	\$296	\$278	\$220	\$162	\$331

**B. Goodwill**

No goodwill was impaired during the nine months ended September 30, 2020 or 2019.

The changes in carrying amount of goodwill by reportable segment for the nine months ended September 30, 2020 were as follows:

(Millions of dollars)	December 31, 2019	Acquisitions	Other Adjustments <sup>1</sup>	September 30, 2020
<b>Construction Industries</b>				
Goodwill.....	\$ 306	\$ —	\$ 6	\$ 312
Impairments.....	(22)	—	—	(22)
Net goodwill.....	284	—	6	290
<b>Resource Industries</b>				
Goodwill.....	4,156	—	40	4,196
Impairments.....	(1,175)	—	—	(1,175)
Net goodwill.....	2,981	—	40	3,021
<b>Energy &amp; Transportation</b>				
Goodwill.....	2,875	41	19	2,935
<b>All Other <sup>2</sup></b>				
Goodwill.....	56	—	2	58
<b>Consolidated total</b>				
Goodwill.....	7,393	41	67	7,501
Impairments.....	(1,197)	—	—	(1,197)
Net goodwill.....	<u>\$ 6,196</u>	<u>\$ 41</u>	<u>\$ 67</u>	<u>\$ 6,304</u>

<sup>1</sup> Other adjustments are comprised primarily of foreign currency translation.

<sup>2</sup> Includes All Other operating segment (See Note 16).

**8. Investments in debt and equity securities**

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

We classify debt securities as available-for-sale, and we include the unrealized gains and losses arising from the revaluation of these debt securities, net of applicable deferred income taxes, in equity (Accumulated other comprehensive income (loss) in the Consolidated Statement of Financial Position). We include the unrealized gains and losses arising from the revaluation of the equity securities in Other income (expense) in the Consolidated Statement of Results of Operations. We generally determine realized gains and losses on sales of investments using the specific identification method for debt and equity securities and include them in Other income (expense) in the Consolidated Statement of Results of Operations.

The cost basis and fair value of debt 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, 2020			December 31, 2019		
	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value	Cost Basis	Unrealized Pretax Net Gains (Losses)	Fair Value
<b>Government debt</b>						
U.S. treasury bonds .....	\$ 16	\$ —	\$ 16	\$ 9	\$ —	\$ 9
Other U.S. and non-U.S. government bonds .....	50	1	51	54	—	54
<b>Corporate bonds</b>						
Corporate bonds .....	958	43	1,001	836	20	856
Asset-backed securities .....	156	2	158	62	—	62
<b>Mortgage-backed debt securities</b>						
U.S. governmental agency .....	351	13	364	327	4	331
Residential .....	5	—	5	6	—	6
Commercial .....	61	4	65	46	1	47
<b>Total debt securities</b> .....	<u>\$ 1,597</u>	<u>\$ 63</u>	<u>\$ 1,660</u>	<u>\$ 1,340</u>	<u>\$ 25</u>	<u>\$ 1,365</u>

**Available-for-sale investments in an unrealized loss position:**

(Millions of dollars)	September 30, 2020					
	Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Corporate bonds</b>						
Corporate bonds .....	\$ 65	\$ 2	\$ 6	\$ —	\$ 71	\$ 2
Total .....	<u>\$ 65</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 71</u>	<u>\$ 2</u>

(Millions of dollars)	December 31, 2019					
	Less than 12 months <sup>1</sup>		12 months or more <sup>1</sup>		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Corporate bonds</b>						
Corporate bonds .....	\$ 58	\$ 1	\$ 50	\$ —	\$ 108	\$ 1
Total .....	<u>\$ 58</u>	<u>\$ 1</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$ 108</u>	<u>\$ 1</u>

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

**Corporate Bonds** The unrealized losses on our investments in corporate bonds relate to changes in interest rates and credit-related yield spreads since time of purchase. We do not intend to sell the investments, and it is not likely that we will be required to sell the investments before recovery of their amortized cost basis. In addition, we did not expect credit-related losses on these investments as of September 30, 2020.

The cost basis and fair value of the available-for-sale debt securities at September 30, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay and creditors may have the right to call obligations.

(Millions of dollars)	September 30, 2020	
	Cost Basis	Fair Value
Due in one year or less	\$ 134	\$ 135
Due after one year through five years	715	748
Due after five years through ten years	246	257
Due after ten years	85	86
U.S. governmental agency mortgage-backed securities	351	364
Residential mortgage-backed securities	5	5
Commercial mortgage-backed securities	61	65
Total debt securities – available-for-sale	<u>\$ 1,597</u>	<u>\$ 1,660</u>

**Sales of available-for-sale securities:**

(Millions of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Proceeds from the sale of available-for-sale securities	\$ 74	\$ 92	\$ 197	\$ 237
Gross gains from the sale of available-for-sale securities	—	—	1	1
Gross losses from the sale of available-for-sale securities	—	—	1	1

For the three months ended September 30, 2020 and 2019, the net unrealized gains (losses) for equity securities held at September 30, 2020 and 2019 were \$9 million and \$2 million, respectively. For the nine months ended September 30, 2020 and 2019, the net unrealized gains (losses) for equity securities held at September 30, 2020 and 2019 were \$(1) million and \$54 million, respectively.



9. Postretirement benefits

A. Pension and postretirement benefit costs

(Millions of dollars)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	September 30		September 30		September 30	
	2020	2019	2020	2019	2020	2019
<b>For the three months ended:</b>						
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ —	\$ 29	\$ 13	\$ 20	\$ 24	\$ 19
Interest cost.....	120	150	17	23	26	34
Expected return on plan assets.....	(197)	(180)	(34)	(37)	(4)	(4)
Amortization of prior service cost (credit).....	—	—	—	—	(9)	(10)
(Gain) loss on remeasurement of pension obligations <sup>1</sup> .....	(2)	—	79	—	—	—
Curtailments, settlements and termination benefits <sup>1</sup> .....	—	—	4	—	—	—
Net periodic benefit cost (benefit) <sup>2</sup> .....	<u>\$ (79)</u>	<u>\$ (1)</u>	<u>\$ 79</u>	<u>\$ 6</u>	<u>\$ 37</u>	<u>\$ 39</u>
<b>For the nine months ended:</b>						
<b>Components of net periodic benefit cost:</b>						
Service cost.....	\$ —	\$ 86	\$ 41	\$ 61	\$ 71	\$ 60
Interest cost.....	362	450	57	70	79	102
Expected return on plan assets.....	(593)	(540)	(107)	(112)	(10)	(14)
Amortization of prior service cost (credit).....	—	—	—	—	(28)	(30)
(Gain) loss on remeasurement of pension obligations <sup>1</sup> .....	—	—	(55)	—	—	—
Curtailments, settlements and termination benefits <sup>1</sup> .....	—	—	25	—	—	—
Net periodic benefit cost (benefit) <sup>2</sup> .....	<u>\$ (231)</u>	<u>\$ (4)</u>	<u>\$ (39)</u>	<u>\$ 19</u>	<u>\$ 112</u>	<u>\$ 118</u>

<sup>1</sup> Total lump-sum transfers out of certain pension plans exceeded the service and interest cost for 2020, which required us to follow settlement accounting and remeasure the plans' obligations as of March 31, 2020, June 30, 2020 and September 30, 2020.

<sup>2</sup> The service cost component is included in Operating costs in the Consolidated Statement of Results of Operations. All other components are included in Other income (expense) in the Consolidated Statement of Results of Operations.

We made \$47 million and \$217 million of contributions to our pension and other postretirement plans during the three and nine months ended September 30, 2020, respectively. We currently anticipate full-year 2020 contributions of approximately \$250 million.

B. Defined contribution benefit costs

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

(Millions of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
U.S. Plans.....	\$ 103	\$ 68	\$ 248	\$ 298
Non-U.S. Plans.....	22	22	65	64
	<u>\$ 125</u>	<u>\$ 90</u>	<u>\$ 313</u>	<u>\$ 362</u>

The decrease in the U.S. defined contribution benefit costs for the nine months ended September 30, 2020 was primarily due to the fair value adjustments related to our non-qualified deferred compensation plans.

**10. Leases**

Revenues from finance and operating leases, primarily included in Revenues of Financial Products on the Consolidated Statement of Results of Operations, were as follows:

(Millions of dollars)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Finance lease revenue.....	\$ 125	\$ 136	\$ 369	\$ 390
Operating lease revenue.....	249	317	837	941
Total.....	<u>\$ 374</u>	<u>\$ 453</u>	<u>\$ 1,206</u>	<u>\$ 1,331</u>

We present revenues net of sales and other related taxes.

**11. 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.

Supplier consortium performance guarantee

We have provided a guarantee to a customer in Europe related to the performance of contractual obligations by a supplier consortium to which one of our Caterpillar subsidiaries is a member. The guarantee covers potential damages incurred by the customer resulting from the supplier consortium's non-performance. The damages are capped except for failure of the consortium to meet certain obligations outlined in the contract in the normal course of business. The guarantee will expire when the supplier consortium performs all of its contractual obligations, which is expected to be completed in 2022.

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, 2020 and December 31, 2019, the related recorded liability was \$5 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 was as follows:

(Millions of dollars)	September 30, 2020	December 31, 2019
Caterpillar dealer performance guarantees.....	\$ 1,139	\$ 1,150
Supplier consortium performance guarantee.....	257	238
Other guarantees.....	179	221
Total guarantees.....	<u>\$ 1,575</u>	<u>\$ 1,609</u>

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, 2020 and December 31, 2019, the SPC's assets of \$1,098 million and \$1,453 million, respectively, were primarily comprised of loans to dealers, and the SPC's liabilities of \$1,097 million and \$1,452 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.

We determine our product warranty liability by applying historical claim rate experience to the current field population and dealer inventory. Generally, we base historical claim rates on actual warranty experience for each product by machine model/engine size by customer or dealer location (inside or outside North America). We develop specific rates for each product shipment month and update them monthly based on actual warranty claim experience.

<b>(Millions of dollars)</b>	<b>2020</b>
Warranty liability, January 1	\$ 1,541
Reduction in liability (payments)	(652)
Increase in liability (new warranties)	678
Warranty liability, September 30	<u>\$ 1,567</u>

<b>(Millions of dollars)</b>	<b>2019</b>
Warranty liability, January 1	\$ 1,391
Reduction in liability (payments)	(903)
Increase in liability (new warranties)	1,053
Warranty liability, December 31	<u>\$ 1,541</u>

## 12. Profit per share

<b>Computations of profit per share:</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
<b>(Dollars in millions except per share data)</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Profit for the period (A) <sup>1</sup>	\$ 668	\$ 1,494	\$ 2,218	\$ 4,995
Determination of shares (in millions):				
Weighted-average number of common shares outstanding (B)	542.3	556.3	543.9	565.2
Shares issuable on exercise of stock awards, net of shares assumed to be purchased out of proceeds at average market price	4.1	4.9	3.9	5.6
Average common shares outstanding for fully diluted computation (C) <sup>2</sup>	<u>546.4</u>	<u>561.2</u>	<u>547.8</u>	<u>570.8</u>
Profit per share of common stock:				
Assuming no dilution (A/B)	\$ 1.23	\$ 2.69	\$ 4.08	\$ 8.84
Assuming full dilution (A/C) <sup>2</sup>	\$ 1.22	\$ 2.66	\$ 4.05	\$ 8.75
Shares outstanding as of September 30 (in millions)			543.3	552.7

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

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

For the three and nine months ended September 30, 2020 and 2019, we excluded 4.8 million and 3.0 million of outstanding stock options, respectively, from the computation of diluted earnings per share because the effect would have been antidilutive.

In July 2018, the Board approved a share repurchase authorization (the 2018 Authorization) of up to \$10.0 billion of Caterpillar common stock effective January 1, 2019, with no expiration. As of September 30, 2020, approximately \$4.8 billion remained available under the 2018 Authorization.

For the three months ended September 30, 2020, we did not repurchase any shares of Caterpillar common stock. For the nine months ended September 30, 2020, we repurchased 10.1 million shares of Caterpillar common stock at an aggregate cost of \$1.3 billion. For the three and nine months ended September 30, 2019, we repurchased 10.3 million and 25.8 million shares of Caterpillar common stock, respectively, at an aggregate cost of \$1.3 billion and \$3.3 billion, respectively. We made these purchases through a combination of accelerated stock repurchase agreements with third-party financial institutions and open market transactions.

**13. Accumulated other comprehensive income (loss)**

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

(Millions of dollars)	Foreign currency translation	Pension and other postretirement benefits	Derivative financial instruments	Available- for-sale securities	Total
<b><u>Three Months Ended September 30, 2020</u></b>					
Balance at June 30, 2020	\$ (1,672)	\$ (15)	\$ (169)	\$ 41	\$ (1,815)
Other comprehensive income (loss) before reclassifications	291	(1)	3	8	301
Amounts reclassified from accumulated other comprehensive (income) loss	—	(7)	73	—	66
Other comprehensive income (loss)	291	(8)	76	8	367
Balance at September 30, 2020	<u>\$ (1,381)</u>	<u>\$ (23)</u>	<u>\$ (93)</u>	<u>\$ 49</u>	<u>\$ (1,448)</u>
<b><u>Three Months Ended September 30, 2019</u></b>					
Balance at June 30, 2019	\$ (1,426)	\$ 17	\$ (105)	\$ 15	\$ (1,499)
Other comprehensive income (loss) before reclassifications	(263)	—	59	4	(200)
Amounts reclassified from accumulated other comprehensive (income) loss	—	(8)	(76)	—	(84)
Other comprehensive income (loss)	(263)	(8)	(17)	4	(284)
Balance at September 30, 2019	<u>\$ (1,689)</u>	<u>\$ 9</u>	<u>\$ (122)</u>	<u>\$ 19</u>	<u>\$ (1,783)</u>

(Millions of dollars)	<u>Foreign currency translation</u>	<u>Pension and other postretirement benefits</u>	<u>Derivative financial instruments</u>	<u>Available- for-sale securities</u>	<u>Total</u>
<b><u>Nine Months Ended September 30, 2020</u></b>					
Balance at December 31, 2019.....	\$ (1,487)	\$ (3)	\$ (97)	\$ 20	\$ (1,567)
Other comprehensive income (loss) before reclassifications.....	84	1	(72)	29	42
Amounts reclassified from accumulated other comprehensive (income) loss.....	22	(21)	76	—	77
Other comprehensive income (loss).....	106	(20)	4	29	119
Balance at September 30, 2020.....	<u>\$ (1,381)</u>	<u>\$ (23)</u>	<u>\$ (93)</u>	<u>\$ 49</u>	<u>\$ (1,448)</u>
<b><u>Nine Months Ended September 30, 2019</u></b>					
Balance at December 31, 2018.....	\$ (1,601)	\$ 12	\$ (80)	\$ (15)	\$ (1,684)
Adjustment to adopt new accounting guidance related to reclassification of certain tax effects from accumulated other comprehensive income.....	98	19	(9)	—	108
Balance at January 1, 2019.....	(1,503)	31	(89)	(15)	(1,576)
Other comprehensive income (loss) before reclassifications.....	(186)	—	53	34	(99)
Amounts reclassified from accumulated other comprehensive (income) loss.....	—	(22)	(86)	—	(108)
Other comprehensive income (loss).....	(186)	(22)	(33)	34	(207)
Balance at September 30, 2019.....	<u>\$ (1,689)</u>	<u>\$ 9</u>	<u>\$ (122)</u>	<u>\$ 19</u>	<u>\$ (1,783)</u>

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

(Millions of dollars)	Classification of income (expense)	Three Months Ended September 30	
		2020	2019
Pension and other postretirement benefits:			
Amortization of prior service credit (cost).....	Other income (expense)....	\$ 9	\$ 10
Tax (provision) benefit .....		(2)	(2)
Reclassifications net of tax.....		\$ 7	\$ 8
Derivative financial instruments:			
Foreign exchange contracts.....	Sales of Machinery, Energy & Transportation ..	\$ (6)	\$ 3
Foreign exchange contracts.....	Cost of goods sold .....	(15)	—
Foreign exchange contracts.....	Other income (expense)....	(63)	89
Foreign exchange contracts.....	Interest expense of Financial Products .....	8	9
Interest rate contracts .....	Interest expense excluding Financial Products .....	(1)	(2)
Interest rate contracts .....	Interest expense of Financial Products .....	(16)	(3)
Reclassifications before tax .....		(93)	96
Tax (provision) benefit .....		20	(20)
Reclassifications net of tax.....		\$ (73)	\$ 76
Total reclassifications from Accumulated other comprehensive income (loss)....		\$ (66)	\$ 84

(Millions of dollars)	Classification of income (expense)	Nine Months Ended September 30	
		2020	2019
Foreign currency translation			
Gain (loss) on foreign currency translation.....	Other income (expense).....	\$ (22)	\$ —
Reclassifications net of tax.....		\$ (22)	\$ —
Pension and other postretirement benefits:			
Amortization of prior service credit (cost).....	Other income (expense).....	\$ 28	\$ 30
Tax (provision) benefit.....		(7)	(8)
Reclassifications net of tax.....		\$ 21	\$ 22
Derivative financial instruments:			
Foreign exchange contracts.....	Sales of Machinery, Energy & Transportation.....	\$ 10	\$ 4
Foreign exchange contracts.....	Cost of goods sold.....	(58)	(4)
Foreign exchange contracts.....	Other income (expense).....	(35)	91
Foreign exchange contracts.....	Interest expense of Financial Products.....	28	23
Interest rate contracts.....	Interest expense excluding Financial Products.....	(3)	(3)
Interest rate contracts.....	Interest expense of Financial Products.....	(40)	(2)
Reclassifications before tax.....		(98)	109
Tax (provision) benefit.....		22	(23)
Reclassifications net of tax.....		\$ (76)	\$ 86
Total reclassifications from Accumulated other comprehensive income (loss).....		\$ (77)	\$ 108

#### **14. 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.

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, we accrue the investigation, remediation, and operating and maintenance costs against our earnings. We accrue costs 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 27, 2020, the Brazilian Federal Environmental Agency (“IBAMA”) issued Caterpillar Brasil Ltda a notice of violation regarding allegations around the requirements for use of imported oils at the Piracicaba, Brazil facility. We have instituted processes to address the allegations. While we are still discussing resolution of these allegations with IBAMA, the initial notice from IBAMA included a proposed fine of approximately \$300,000. We do not expect this fine or our response to address the allegations to have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

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 requested 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 (CSARL) 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 CSARL, 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.

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 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.



**15. Income taxes**

The provision for income taxes for the first nine months of 2020 reflected an estimated annual tax rate of 31 percent, compared with 26 percent for the first nine months of 2019, excluding the discrete items discussed in the following paragraphs. The increase in the estimated annual tax rate was primarily related to changes in the expected geographic mix of profits from a tax perspective for 2020, including the impact of U.S. tax on non-U.S. earnings as a result of U.S. tax reform.

During the first nine months of 2020, we recorded discrete tax benefits of \$80 million to adjust prior year U.S. taxes including the impact of regulations received in 2020 and \$21 million for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense. In addition, we recorded a \$10 million tax charge related to the \$55 million of net remeasurement gain resulting from the settlements of pension obligations. We excluded this net remeasurement gain and related tax from the estimated annual tax rate as the future period remeasurement impacts cannot currently be estimated.

During the first nine months of 2019, we recorded discrete tax benefits of \$178 million to adjust previously unrecognized tax benefits as a result of receipt of additional guidance related to the calculation of the mandatory deemed repatriation of non-U.S. earnings and \$28 million for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense.

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 (CSARL), 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 change to our unrecognized tax benefits for this position 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.

## 16. 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 Chief Legal Officer, General Counsel and 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 Chief Legal Officer, General Counsel and 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 one smaller operating segment that is included in the All Other operating segment. 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.

### B. Description of segments

We have five 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 segment:

**Construction Industries:** A segment primarily responsible for supporting customers using machinery in infrastructure 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; motor graders; pipelayers; road reclaimers; 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, heavy construction, 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, 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. The product portfolio includes 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, and reciprocating engines supplied to the industrial industry as well as Cat machinery. Responsibilities also include the remanufacturing of Caterpillar 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 Caterpillar equipment. The segment also earns revenues from ME&T, but the related costs are not allocated to operating segments. Financial Products' segment profit is determined on a pretax basis and includes other income/expense items.

**All Other operating segment:** Primarily includes activities such as: business strategy; product management and development; manufacturing and sourcing 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 one wholly owned dealer in Japan; dealer portfolio management and ensuring the most efficient and effective distribution of machines, engines and parts; brand management and marketing strategy; and 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 segment are included as a reconciling item between reportable segments and consolidated external reporting.

### C. Segment measurement and reconciliations

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

- ME&T segment net assets generally include inventories, receivables, property, plant and equipment, goodwill, intangibles, accounts payable and customer advances. Beginning in 2020, we revised how we allocate certain assets between segments. We have recast all prior period amounts to align with the current methodology. We generally manage at the corporate level liabilities other than accounts payable and customer advances, and we do not include these in segment operations. Financial Products Segment assets generally include all categories of assets.
- We value segment inventories and cost of sales using a current cost methodology.
- We amortize goodwill allocated to segments using a fixed amount based on a 20-year useful life. This methodology difference only impacts segment assets. We do not include goodwill amortization expense in segment profit. In addition, we have allocated to segments only a portion of goodwill for certain acquisitions made in 2011 or later.
- We generally manage currency exposures for ME&T at the corporate level and do not include in segment profit the effects of changes in exchange rates on results of operations within the year. We report 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 as a methodology difference.
- We do not include stock-based compensation expense 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.
- We determine ME&T segment profit on a pretax basis and exclude interest expense and most other income/expense items. We determine Financial Products Segment profit on a pretax basis and include other income/expense items.

Reconciling items are created based on accounting differences between segment reporting and our consolidated external reporting. Please refer to pages 36 to 39 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:** May include 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, which may consist of accelerated depreciation, inventory write-downs, building demolition, 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. Only certain restructuring costs are excluded from segment profit. See Note 20 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, we report certain costs on the cash basis for segment reporting and the accrual basis for consolidated external reporting.

For the three and nine months ended September 30, 2020 and 2019, 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	Intersegment Sales and Revenues	Total Sales and Revenues
<b>Three Months Ended September 30, 2020</b>							
Construction Industries.....	\$ 1,781	\$ 230	\$ 796	\$ 1,241	\$ 4,048	\$ 8	\$ 4,056
Resource Industries.....	487	269	384	564	1,704	112	1,816
Energy & Transportation.....	1,584	221	1,113	557	3,475	686	4,161
Financial Products Segment.....	448	63	100	113	724 <sup>1</sup>	—	724
Total sales and revenues from reportable segments.....	4,300	783	2,393	2,475	9,951	806	10,757
All Other operating segment.....	10	1	1	13	25	81	106
Corporate Items and Eliminations.....	(59)	(12)	(10)	(14)	(95)	(887)	(982)
<b>Total Sales and Revenues.....</b>	<b>\$ 4,251</b>	<b>\$ 772</b>	<b>\$ 2,384</b>	<b>\$ 2,474</b>	<b>\$ 9,881</b>	<b>\$ —</b>	<b>\$ 9,881</b>
<b>Three Months Ended September 30, 2019</b>							
Construction Industries.....	\$ 2,728	\$ 413	\$ 1,048	\$ 1,086	\$ 5,275	\$ 14	\$ 5,289
Resource Industries.....	789	349	396	645	2,179	131	2,310
Energy & Transportation.....	2,129	378	1,224	831	4,562	890	5,452
Financial Products Segment.....	560	79	102	124	865 <sup>1</sup>	—	865
Total sales and revenues from reportable segments.....	6,206	1,219	2,770	2,686	12,881	1,035	13,916
All Other operating segment.....	1	6	8	12	27	84	111
Corporate Items and Eliminations.....	(105)	(14)	(15)	(16)	(150)	(1,119)	(1,269)
<b>Total Sales and Revenues.....</b>	<b>\$ 6,102</b>	<b>\$ 1,211</b>	<b>\$ 2,763</b>	<b>\$ 2,682</b>	<b>\$ 12,758</b>	<b>\$ —</b>	<b>\$ 12,758</b>

<sup>1</sup> Includes revenues from Construction Industries, Resource Industries, Energy & Transportation and All Other operating segment of \$81 million and \$131 million in the three months ended September 30, 2020 and 2019, respectively.

**Sales and Revenues by Geographic Region**

(Millions of dollars)	North America	Latin America	EAME	Asia/ Pacific	External Sales and Revenues	Intersegment Sales and Revenues	Total Sales and Revenues
<b><u>Nine Months Ended September 30, 2020</u></b>							
Construction Industries .....	\$ 5,470	\$ 707	\$ 2,618	\$ 3,597	\$ 12,392	\$ 18	\$ 12,410
Resource Industries .....	1,690	859	1,158	1,686	5,393	333	5,726
Energy & Transportation .....	5,138	667	3,095	1,734	10,634	2,025	12,659
Financial Products Segment .....	1,466	193	298	344	2,301 <sup>1</sup>	—	2,301
Total sales and revenues from reportable segments .....	13,764	2,426	7,169	7,361	30,720	2,376	33,096
All Other operating segment .....	22	4	17	38	81	249	330
Corporate Items and Eliminations .....	(169)	(36)	(32)	(51)	(288)	(2,625)	(2,913)
<b>Total Sales and Revenues .....</b>	<b>\$ 13,617</b>	<b>\$ 2,394</b>	<b>\$ 7,154</b>	<b>\$ 7,348</b>	<b>\$ 30,513</b>	<b>\$ —</b>	<b>\$ 30,513</b>
<b><u>Nine Months Ended September 30, 2019</u></b>							
Construction Industries .....	\$ 9,206	\$ 1,124	\$ 3,162	\$ 4,081	\$ 17,573	\$ 56	\$ 17,629
Resource Industries .....	2,798	1,220	1,310	2,209	7,537	344	7,881
Energy & Transportation .....	6,577	1,035	3,416	2,291	13,319	2,829	16,148
Financial Products Segment .....	1,681	225	306	376	2,588 <sup>1</sup>	—	2,588
Total sales and revenues from reportable segments .....	20,262	3,604	8,194	8,957	41,017	3,229	44,246
All Other operating segment .....	23	7	23	45	98	259	357
Corporate Items and Eliminations .....	(326)	(37)	(41)	(55)	(459)	(3,488)	(3,947)
<b>Total Sales and Revenues .....</b>	<b>\$ 19,959</b>	<b>\$ 3,574</b>	<b>\$ 8,176</b>	<b>\$ 8,947</b>	<b>\$ 40,656</b>	<b>\$ —</b>	<b>\$ 40,656</b>

<sup>1</sup> Includes revenues from Construction Industries, Resource Industries, Energy & Transportation and All Other operating segment of \$274 million and \$398 million in the nine months ended September 30, 2020 and 2019, respectively.

For the three and nine months ended September 30, 2020 and 2019, Energy & Transportation segment sales by end user application were as follows:

**Energy & Transportation External Sales**

(Millions of dollars)	<b>Three Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Oil and gas .....	\$ 734	\$ 1,246
Power generation .....	1,034	1,123
Industrial .....	730	980
Transportation .....	977	1,213
<b>Energy &amp; Transportation External Sales .....</b>	<b>\$ 3,475</b>	<b>\$ 4,562</b>

(Millions of dollars)	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
Oil and gas .....	\$ 2,622	\$ 3,682
Power generation .....	2,783	3,180
Industrial .....	2,209	2,841
Transportation .....	3,020	3,616
<b>Energy &amp; Transportation External Sales .....</b>	<b>\$ 10,634</b>	<b>\$ 13,319</b>

**Reconciliation of Consolidated profit before taxes:**

(Millions of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Profit from reportable segments:				
Construction Industries .....	\$ 585	\$ 940	\$ 1,743	\$ 3,272
Resource Industries .....	167	311	623	1,368
Energy & Transportation .....	492	1,021	1,718	2,745
Financial Products Segment .....	142	218	395	622
Total profit from reportable segments .....	1,386	2,490	4,479	8,007
Profit from All Other operating segment .....	27	(21)	31	15
Cost centers .....	9	(9)	18	32
Corporate costs .....	(122)	(167)	(409)	(492)
Timing .....	(39)	6	(90)	(118)
Restructuring costs .....	(87)	(20)	(211)	(162)
Methodology differences:				
Inventory/cost of sales .....	(7)	25	(25)	24
Postretirement benefit expense .....	(32)	19	253	4
Stock-based compensation expense .....	(55)	(57)	(169)	(170)
Financing costs .....	(125)	(58)	(324)	(173)
Currency .....	(22)	(62)	(230)	(110)
Other income/expense methodology differences .....	(72)	(124)	(244)	(374)
Other methodology differences .....	2	(17)	(25)	(36)
Total consolidated profit before taxes .....	\$ 863	\$ 2,005	\$ 3,054	\$ 6,447

**Reconciliation of Assets:**

(Millions of dollars)	September 30, 2020	December 31, 2019
Assets from reportable segments:		
Construction Industries .....	\$ 4,507	\$ 4,601
Resource Industries .....	6,188	6,505
Energy & Transportation .....	8,752	8,548
Financial Products Segment .....	34,014	35,813
Total assets from reportable segments .....	53,461	55,467
Assets from All Other operating segment .....	1,610	1,728
Items not included in segment assets:		
Cash and short-term investments .....	8,512	7,299
Deferred income taxes .....	1,339	1,294
Goodwill and intangible assets .....	4,737	4,435
Property, plant and equipment – net and other assets .....	2,608	2,529
Inventory methodology differences .....	(2,560)	(2,426)
Liabilities included in segment assets .....	7,720	8,541
Other .....	(686)	(414)
Total assets .....	\$ 76,741	\$ 78,453

**Reconciliation of Depreciation and amortization:**  
(Millions of dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Depreciation and amortization from reportable segments:				
Construction Industries.....	\$ 61	\$ 73	\$ 183	\$ 220
Resource Industries.....	105	113	312	337
Energy & Transportation.....	147	157	442	464
Financial Products Segment.....	174	209	577	622
Total depreciation and amortization from reportable segments.....	487	552	1,514	1,643
Items not included in segment depreciation and amortization:				
All Other operating segment.....	71	53	196	158
Cost centers.....	31	35	96	100
Other.....	4	5	9	32
Total depreciation and amortization.....	\$ 593	\$ 645	\$ 1,815	\$ 1,933

**Reconciliation of Capital expenditures:**  
(Millions of dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Capital expenditures from reportable segments:				
Construction Industries.....	\$ 37	\$ 48	\$ 85	\$ 117
Resource Industries.....	10	31	63	91
Energy & Transportation.....	100	150	331	366
Financial Products Segment.....	280	388	783	1,093
Total capital expenditures from reportable segments.....	427	617	1,262	1,667
Items not included in segment capital expenditures:				
All Other operating segment.....	46	34	84	69
Cost centers.....	8	22	23	71
Timing.....	1	(21)	147	108
Other.....	11	(21)	(25)	(59)
Total capital expenditures.....	\$ 493	\$ 631	\$ 1,491	\$ 1,856

## 17. **Cat Financial financing activities**

Effective January 1, 2020, we implemented the new credit loss guidance using a modified retrospective approach. Prior period comparative information has not been recast and continues to be reported under the accounting guidance in effect for those periods. See Note 2 for additional information.

### **Allowance for credit losses**

#### **Portfolio segments**

A portfolio segment is the level at which Cat Financial develops a systematic methodology for determining its allowance for credit losses. Cat Financial's portfolio segments and related methods for estimating expected credit losses are as follows:

#### **Customer**

Cat Financial provides loans and finance leases to end-user customers primarily for the purpose of financing new and used Caterpillar machinery, engines and equipment for commercial use, the majority of which operate in construction-related industries. Cat Financial also provides financing for vehicles, power generation facilities and marine vessels that, in most cases, incorporate Caterpillar products. The average original term of Cat Financial's customer finance receivable portfolio was approximately 48 months with an average remaining term of approximately 23 months as of September 30, 2020.

Cat Financial typically maintains a security interest in financed equipment and requires physical damage insurance coverage on the financed equipment, both of which provide Cat Financial with certain rights and protections. If Cat Financial's collection efforts fail to bring a defaulted account current, Cat Financial generally can repossess the financed equipment, after satisfying local legal requirements, and sell it within the Caterpillar dealer network or through third party auctions.

Cat Financial estimates the allowance for credit losses related to its customer finance receivables based on loss forecast models utilizing probabilities of default and the estimated loss given default based on past loss experience adjusted for current conditions and reasonable and supportable forecasts capturing country and industry-specific macro-economic factors.

Cat Financial's forecasts for the markets in which it operates slightly improved during the three months ended September 30, 2020, but continued to reflect an overall decline in economic conditions resulting from a contracting economy, elevated unemployment rates and an increase in delinquencies due to the COVID-19 pandemic. The company believes the economic forecasts employed represent reasonable and supportable forecasts, followed by a reversion to long term trends.

#### **Dealer**

Cat Financial provides financing to Caterpillar dealers in the form of wholesale financing plans. Cat Financial's wholesale financing plans provide assistance to dealers by financing their mostly new Caterpillar equipment inventory and rental fleets on a secured and unsecured basis. In addition, Cat Financial provides unsecured loans to Caterpillar dealers for working capital.

Cat Financial estimates the allowance for credit losses for dealer finance receivables based on historical loss rates with consideration of current economic conditions and reasonable and supportable forecasts.

Although our forecasts continued to indicate a decline in economic conditions, Cat Financial's Dealer portfolio segment has not historically experienced increased credit losses during prior economic downturns due to its close working relationships with the dealers and their financial strength. Therefore, we made no adjustments to historical loss rates during the three and nine months ended September 30, 2020.

#### **Classes of finance receivables**

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



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

Receivable balances, including accrued interest, are written off against the allowance for credit losses when, in the judgment of management, they are considered uncollectible (generally upon repossession of the collateral). The amount of the write-off is determined by comparing the fair value of the collateral, less cost to sell, to the amortized cost. Subsequent recoveries, if any, are credited to the allowance for credit losses when received.

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

(Millions of dollars)	September 30, 2020		
	Customer	Dealer	Total
<b>Allowance for Credit Losses:</b>			
Balance at beginning of year.....	\$ 375	\$ 45	\$ 420
Adjustment to adopt new accounting guidance <sup>1</sup> .....	12	—	12
Receivables written off.....	(212)	—	(212)
Recoveries on receivables previously written off.....	27	—	27
Provision for credit losses.....	213	—	213
Other.....	(3)	—	(3)
Balance at end of period.....	\$ 412	\$ 45	\$ 457
Individually evaluated.....	\$ 172	\$ 39	\$ 211
Collectively evaluated.....	240	6	246
Ending Balance.....	\$ 412	\$ 45	\$ 457
<b>Finance Receivables:</b>			
Individually evaluated.....	\$ 612	\$ 78	\$ 690
Collectively evaluated.....	17,967	2,975	20,942
Ending Balance.....	\$ 18,579	\$ 3,053	\$ 21,632

<sup>1</sup> See Note 2 regarding new accounting guidance related to credit losses.

(Millions of dollars)	December 31, 2019		
	Customer	Dealer	Total
<b>Allowance for Credit Losses:</b>			
Balance at beginning of year	\$ 486	\$ 21	\$ 507
Receivables written off	(281)	—	(281)
Recoveries on receivables previously written off	44	—	44
Provision for credit losses	138	24	162
Other	(12)	—	(12)
Balance at end of year	<u>\$ 375</u>	<u>\$ 45</u>	<u>\$ 420</u>
Individually evaluated	\$ 178	\$ 39	\$ 217
Collectively evaluated	197	6	203
Ending Balance	<u>\$ 375</u>	<u>\$ 45</u>	<u>\$ 420</u>
<b>Finance Receivables:</b>			
Individually evaluated	\$ 594	\$ 78	\$ 672
Collectively evaluated	18,093	3,632	21,725
Ending Balance	<u>\$ 18,687</u>	<u>\$ 3,710</u>	<u>\$ 22,397</u>

**Credit quality of finance receivables**

At origination, Cat Financial evaluates credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit-rating agency ratings, loan-to-value ratios, probabilities of default, industry trends, macroeconomic factors and other internal metrics. On an ongoing basis, Cat Financial monitors credit quality based on past-due status as there is a meaningful correlation between the past-due status of customers and the risk of loss. In determining past-due status, Cat Financial considers the entire finance receivable past due when any installment is over 30 days past due.

**Customer**

The table below summarizes the aging category of Cat Financial's amortized cost of finance receivables in the Customer portfolio segment by origination year:

(Millions of dollars)	September 30, 2020							Revolving Finance Receivables	Total Finance Receivables
	2020	2019	2018	2017	2016	Prior			
<b>North America</b>									
Current.....	\$ 2,697	\$ 2,711	\$ 1,588	\$ 660	\$ 288	\$ 59	\$ 89	\$ 8,092	
31-60 days past due.....	41	57	39	21	9	3	1	171	
61-90 days past due.....	12	24	21	13	4	1	—	75	
91+ days past due.....	6	29	30	20	8	5	—	98	
<b>EAME</b>									
Current.....	903	1,049	684	313	92	28	—	3,069	
31-60 days past due.....	6	9	6	3	1	—	—	25	
61-90 days past due.....	4	4	1	—	1	1	—	11	
91+ days past due.....	6	8	13	8	40	43	—	118	
<b>Asia/Pacific</b>									
Current.....	1,027	835	403	86	13	5	—	2,369	
31-60 days past due.....	9	24	23	7	1	—	—	64	
61-90 days past due.....	3	9	7	4	—	—	—	23	
91+ days past due.....	3	21	12	2	—	—	—	38	
<b>Mining</b>									
Current.....	315	615	334	180	104	159	160	1,867	
31-60 days past due.....	—	—	1	—	—	—	—	1	
61-90 days past due.....	—	1	4	2	—	—	—	7	
91+ days past due.....	1	11	8	24	—	—	1	45	
<b>Latin America</b>									
Current.....	402	393	182	64	18	38	—	1,097	
31-60 days past due.....	—	3	3	2	—	—	—	8	
61-90 days past due.....	1	1	1	1	—	—	—	4	
91+ days past due.....	—	13	45	25	7	5	—	95	
<b>Caterpillar Power Finance</b>									
Current.....	149	232	138	274	97	132	129	1,151	
31-60 days past due.....	—	—	18	—	—	3	—	21	
61-90 days past due.....	—	—	—	—	—	—	—	—	
91+ days past due.....	—	—	3	8	29	90	—	130	
<b>Total Customer</b>	<b>\$ 5,585</b>	<b>\$ 6,049</b>	<b>\$ 3,564</b>	<b>\$ 1,717</b>	<b>\$ 712</b>	<b>\$ 572</b>	<b>\$ 380</b>	<b>\$ 18,579</b>	

Finance receivables in the Customer portfolio segment are substantially secured by collateral, primarily in the form of Caterpillar and other machinery. For those contracts where the borrower is experiencing financial difficulty, repayment of the outstanding amounts is generally expected to be provided through the operation or repossession and sale of the machinery.

#### Dealer

As of September 30, 2020, Cat Financial's total amortized cost of finance receivables within the Dealer portfolio segment was current, with the exception of \$78 million that was 91+ days past due in Latin America. These past due receivables were originated in 2017.

The table below summarizes Cat Financial's recorded investment in finance receivables by aging category.

(Millions of dollars)	December 31, 2019					
	31-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Finance Receivables
<b>Customer</b>						
North America.....	\$ 72	\$ 23	\$ 55	\$ 150	\$ 8,002	\$ 8,152
EAME.....	30	31	141	202	2,882	3,084
Asia/Pacific.....	40	14	29	83	2,181	2,264
Mining.....	5	—	19	24	2,266	2,290
Latin America.....	41	23	80	144	1,089	1,233
Caterpillar Power Finance.....	10	10	225	245	1,419	1,664
<b>Dealer</b>						
North America.....	—	—	—	—	2,136	2,136
EAME.....	—	—	—	—	342	342
Asia/Pacific.....	—	—	—	—	437	437
Mining.....	—	—	—	—	4	4
Latin America.....	—	—	78	78	712	790
Caterpillar Power Finance.....	—	—	—	—	1	1
<b>Total</b> .....	<u>\$ 198</u>	<u>\$ 101</u>	<u>\$ 627</u>	<u>\$ 926</u>	<u>\$ 21,471</u>	<u>\$ 22,397</u>

#### Impaired finance receivables

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

In Cat Financial's Customer portfolio segment, impaired finance receivables and the related unpaid principal balances and allowance were as follows:

(Millions of dollars)	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b><u>Impaired Finance Receivables With No Allowance Recorded</u></b>			
North America .....	\$ 6	\$ 6	\$ —
EAME .....	—	—	—
Asia/Pacific .....	—	—	—
Mining .....	22	22	—
Latin America .....	8	8	—
Caterpillar Power Finance .....	58	58	—
<b>Total</b> .....	<b>\$ 94</b>	<b>\$ 94</b>	<b>\$ —</b>
<b><u>Impaired Finance Receivables With An Allowance Recorded</u></b>			
North America .....	\$ 30	\$ 30	\$ 11
EAME .....	61	61	29
Asia/Pacific .....	8	8	2
Mining .....	37	36	9
Latin America .....	58	58	20
Caterpillar Power Finance .....	306	319	107
<b>Total</b> .....	<b>\$ 500</b>	<b>\$ 512</b>	<b>\$ 178</b>
<b><u>Total Impaired Finance Receivables</u></b>			
North America .....	\$ 36	\$ 36	\$ 11
EAME .....	61	61	29
Asia/Pacific .....	8	8	2
Mining .....	59	58	9
Latin America .....	66	66	20
Caterpillar Power Finance .....	364	377	107
<b>Total</b> .....	<b>\$ 594</b>	<b>\$ 606</b>	<b>\$ 178</b>

(Millions of dollars)	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b><u>Impaired Finance Receivables With No Allowance Recorded</u></b>				
North America.....	\$ 10	\$ —	\$ 10	\$ —
EAME.....	15	—	7	—
Asia/Pacific.....	—	—	—	—
Mining.....	26	—	29	1
Latin America.....	22	—	22	1
Caterpillar Power Finance.....	57	1	53	2
<b>Total.....</b>	<b>\$ 130</b>	<b>\$ 1</b>	<b>\$ 121</b>	<b>\$ 4</b>
<b><u>Impaired Finance Receivables With An Allowance Recorded</u></b>				
North America.....	\$ 30	\$ —	\$ 36	\$ 1
EAME.....	80	1	88	2
Asia/Pacific.....	12	1	9	1
Mining.....	65	1	49	2
Latin America.....	69	1	73	4
Caterpillar Power Finance.....	376	1	422	8
<b>Total.....</b>	<b>\$ 632</b>	<b>\$ 5</b>	<b>\$ 677</b>	<b>\$ 18</b>
<b><u>Total Impaired Finance Receivables</u></b>				
North America.....	\$ 40	\$ —	\$ 46	\$ 1
EAME.....	95	1	95	2
Asia/Pacific.....	12	1	9	1
Mining.....	91	1	78	3
Latin America.....	91	1	95	5
Caterpillar Power Finance.....	433	2	475	10
<b>Total.....</b>	<b>\$ 762</b>	<b>\$ 6</b>	<b>\$ 798</b>	<b>\$ 22</b>

There were \$78 million in impaired finance receivables with a related allowance of \$39 million as of December 31, 2019 for the Dealer portfolio segment, all of which was in Latin America.

**Non-accrual finance receivables**

Recognition of income is suspended and the finance receivable is placed on non-accrual status when management determines that collection of future income is not probable. Contracts on non-accrual status are generally more than 120 days past due or have been restructured in a troubled debt restructuring (TDR). Recognition is resumed and previously suspended income is recognized when the finance receivable becomes current and collection of remaining amounts is considered probable. Payments received while the finance receivable is on non-accrual status are applied to interest and principal in accordance with the contractual terms. Interest earned but uncollected prior to the receivable being placed on non-accrual status is written off through Provision for credit losses when, in the judgment of management, it is considered uncollectible.

In Cat Financial's Customer portfolio segment, finance receivables which were on non-accrual status and finance receivables over 90 days past due and still accruing income were as follows:

(Millions of dollars)	September 30, 2020		
	Amortized Cost		
	Non-accrual With an Allowance	Non-accrual Without an Allowance	91+ Still Accruing
North America .....	\$ 82	\$ 1	\$ 28
EAME .....	137	—	1
Asia/Pacific .....	26	—	13
Mining .....	38	1	10
Latin America .....	95	2	—
Caterpillar Power Finance .....	207	17	—
<b>Total</b> .....	<b>\$ 585</b>	<b>\$ 21</b>	<b>\$ 52</b>

There was \$2 million and \$8 million of interest income recognized during the three and nine months ended September 30, 2020 for customer finance receivables on non-accrual status.

(Millions of dollars)	December 31, 2019	
	Recorded Investment	
	Non-accrual Finance Receivables	91+ Still Accruing
North America .....	\$ 44	\$ 15
EAME .....	165	4
Asia/Pacific .....	21	8
Mining .....	47	—
Latin America .....	89	2
Caterpillar Power Finance .....	361	—
<b>Total</b> .....	<b>\$ 727</b>	<b>\$ 29</b>

As of September 30, 2020 and December 31, 2019, there were \$78 million in finance receivables on non-accrual status in Cat Financial's Dealer portfolio segment, all of which was in Latin America. There were no finance receivables in Cat Financial's Dealer portfolio segment more than 90 days past due and still accruing income as of September 30, 2020 and no interest income was recognized on dealer finance receivables on non-accrual status during the three and nine months ended September 30, 2020.

### Troubled debt restructurings

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

There were no finance receivables modified as TDRs during the three and nine months ended September 30, 2020 and 2019 for the Dealer portfolio segment. Cat Financial's finance receivables in the Customer portfolio segment modified as TDRs were as follows:

(Dollars in millions)	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Number of Contracts	Pre-TDR Amortized Cost	Post-TDR Amortized Cost	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
North America .....	3	\$ 1	\$ 1	4	\$ —	\$ —
Asia/Pacific .....	79	4	4	—	—	—
Mining .....	12	5	5	—	—	—
Latin America .....	3	16	16	—	—	—
Caterpillar Power Finance .....	8	50	50	4	56	55
<b>Total</b> .....	<b>105</b>	<b>\$ 76</b>	<b>\$ 76</b>	<b>8</b>	<b>\$ 56</b>	<b>\$ 55</b>

(Dollars in millions)	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Number of Contracts	Pre-TDR Amortized Cost	Post-TDR Amortized Cost	Number of Contracts	Pre-TDR Recorded Investment	Post-TDR Recorded Investment
North America .....	13	\$ 10	\$ 10	12	\$ 5	\$ 4
EAME .....	—	—	—	19	17	17
Asia/Pacific <sup>(1)</sup> .....	183	12	12	—	—	—
Mining <sup>(2)</sup> .....	52	22	22	1	6	6
Latin America .....	9	18	18	4	2	2
Caterpillar Power Finance .....	14	87	87	19	154	152
<b>Total</b> .....	<b>271</b>	<b>\$ 149</b>	<b>\$ 149</b>	<b>55</b>	<b>\$ 184</b>	<b>\$ 181</b>

<sup>(1)</sup> During the nine months ended September 30, 2020, 183 contracts with a pre-TDR and post-TDR amortized cost of \$12 million were related to seven customers.

<sup>(2)</sup> During the nine months ended September 30, 2020, 52 contracts with a pre-TDR and post-TDR amortized cost of \$22 million were related to three customers.

TDRs in the Customer portfolio segment with a payment default (defined as 91+ days past due) which had been modified within twelve months prior to the default date, were as follows:

(Dollars in millions)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Number of Contracts	Post-TDR Amortized Cost	Number of Contracts	Post-TDR Recorded Investment
North America .....	1	\$ 6	—	\$ —
Mining .....	1	1	—	—
Caterpillar Power Finance .....	2	18	—	—
<b>Total</b> .....	<b>4</b>	<b>\$ 25</b>	<b>—</b>	<b>\$ —</b>

(Dollars in millions)	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Number of Contracts	Post-TDR Amortized Cost	Number of Contracts	Post-TDR Recorded Investment
North America .....	2	\$ 6	—	\$ —
EAME .....	2	10	—	—
Mining .....	1	1	—	—
Latin America .....	3	1	—	—
Caterpillar Power Finance .....	2	18	—	—
<b>Total</b> .....	<b>10</b>	<b>\$ 36</b>	<b>—</b>	<b>\$ —</b>



## 18. Fair value disclosures

### A. Fair value measurements

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

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

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

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

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

#### Investments in debt and equity securities

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

In addition, Insurance Services has an equity investment in a real estate investment trust (REIT) which is recorded at fair value based on the net asset value (NAV) of the investment and is not classified within the fair value hierarchy.

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

#### Derivative financial instruments

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

Assets and liabilities measured on a recurring basis at fair value, primarily related to Financial Products, included in our Consolidated Statement of Financial Position as of September 30, 2020 and December 31, 2019 were as follows:

(Millions of dollars)	September 30, 2020				
	Level 1	Level 2	Level 3	Measured at NAV	Total Assets / Liabilities, at Fair Value
<b>Assets</b>					
Debt securities					
Government debt					
U.S. treasury bonds	\$ 16	\$ —	\$ —	\$ —	\$ 16
Other U.S. and non-U.S. government bonds	—	51	—	—	51
Corporate bonds					
Corporate bonds	—	1,001	—	—	1,001
Asset-backed securities	—	158	—	—	158
Mortgage-backed debt securities					
U.S. governmental agency	—	364	—	—	364
Residential	—	5	—	—	5
Commercial	—	65	—	—	65
Total debt securities	16	1,644	—	—	1,660
Equity securities					
Large capitalization value	173	—	—	—	173
Smaller company growth	32	—	—	—	32
REIT	—	—	—	139	139
Total equity securities	205	—	—	139	344
Derivative financial instruments, net	—	82	—	—	82
Total assets	\$ 221	\$ 1,726	\$ —	\$ 139	\$ 2,086

(Millions of dollars)	December 31, 2019				
	Level 1	Level 2	Level 3	Measured at NAV	Total Assets / Liabilities, at Fair Value
<b>Assets</b>					
Debt securities					
Government debt					
U.S. treasury bonds	\$ 9	\$ —	\$ —	\$ —	\$ 9
Other U.S. and non-U.S. government bonds	—	54	—	—	54
Corporate bonds					
Corporate bonds	—	856	—	—	856
Asset-backed securities	—	62	—	—	62
Mortgage-backed debt securities					
U.S. governmental agency	—	331	—	—	331
Residential	—	6	—	—	6
Commercial	—	47	—	—	47
Total debt securities	9	1,356	—	—	1,365
Equity securities					
Large capitalization value	187	—	—	—	187
Smaller company growth	29	—	4	—	33
REIT	—	—	—	126	126
Total equity securities	216	—	4	126	346
Derivative financial instruments, net	—	45	—	—	45
Total assets	\$ 225	\$ 1,401	\$ 4	\$ 126	\$ 1,756

In addition to the amounts above, Cat Financial impaired loans are subject to measurement at fair value on a nonrecurring basis and are classified as Level 3 measurements. A loan is considered impaired when management determines that collection of contractual amounts due is not probable. In these cases, an allowance for credit losses may be established based either on the present value of expected future cash flows discounted at the receivables' effective interest rate, the fair value of the collateral for collateral-dependent receivables, or the observable market price of the receivable. In determining collateral value, Cat Financial estimates the current fair market value of the collateral less selling costs. Cat Financial had impaired loans with a fair value of \$269 million and \$343 million as of September 30, 2020 and December 31, 2019, respectively.

## **B. Fair values of financial instruments**

In addition to the methods and assumptions we use to record the fair value of financial instruments as discussed in the Fair value measurements section above, we use the following methods and assumptions to estimate the fair value of our financial instruments:

### Cash and short-term investments

Carrying amount approximates fair value.

### Restricted cash and short-term investments

Carrying amount approximates fair value. We include restricted cash and short-term investments in Prepaid expenses and other current assets in the Consolidated Statement of Financial Position.

### Finance receivables

We estimate fair value by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

### Wholesale inventory receivables

We estimate fair value by discounting the future cash flows using current rates, representative of receivables with similar remaining maturities.

### Short-term borrowings

Carrying amount approximates fair value.

### Long-term debt

We estimate fair value for fixed and floating rate debt based on quoted market prices.

### Guarantees

The fair value of guarantees is based upon our estimate of the premium a market participant would require to issue the same guarantee in a stand-alone arms-length transaction with an unrelated party. If quoted or observable market prices are not available, fair value is based upon internally developed models that utilize current market-based assumptions.

Fair values of our financial instruments were as follows:

(Millions of dollars)	Fair Value of Financial Instruments					
	September 30, 2020		December 31, 2019		Fair Value Levels	Reference
	Carrying Amount	Fair Value	Carrying Amount	Fair Value		
<b>Assets</b>						
Cash and short-term investments	\$ 9,315	\$ 9,315	\$ 8,284	\$ 8,284	1	
Restricted cash and short-term investments	4	4	8	8	1	
Investments in debt and equity securities	2,004	2,004	1,711	1,711	1, 2 & 3	Note 8
Finance receivables – net (excluding finance leases <sup>1</sup> )	13,817	14,145	14,473	14,613	3	Note 17
Wholesale inventory receivables – net (excluding finance leases <sup>1</sup> )	1,000	975	1,105	1,076	3	
Foreign currency contracts – net	27	27	62	62	2	Note 5
Interest rate contracts – net	52	52	—	—	2	Note 5
Commodity contracts – net	3	3	3	3	2	Note 5
<b>Liabilities</b>						
Short-term borrowings	2,660	2,660	5,166	5,166	1	
Long-term debt (including amounts due within one year)						
Machinery, Energy & Transportation	11,139	14,200	9,157	11,216	2	
Financial Products	24,327	24,982	23,334	23,655	2	
Interest rate contracts – net	—	—	20	20	2	Note 5
Guarantees	5	5	5	5	3	Note 11

<sup>1</sup> Represents finance leases and failed sales leasebacks of \$7,644 million and \$7,800 million at September 30, 2020 and December 31, 2019, respectively.

## 19. Other income (expense)

(Millions of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
	Investment and interest income	\$ 21	\$ 50	\$ 91
Foreign exchange gains (losses) <sup>1</sup>	(43)	(5)	(122)	(34)
License fee income	27	31	75	87
Net periodic pension and OPEB income (cost), excluding service cost <sup>2</sup>	—	24	270	74
Gains (losses) on sale of securities and affiliated companies	9	2	(12)	55
Miscellaneous income (loss)	—	(14)	(37)	(22)
Total	\$ 14	\$ 88	\$ 265	\$ 316

<sup>1</sup> Includes gains (losses) from foreign exchange derivative contracts. See Note 5 for further details.

<sup>2</sup> Includes a net remeasurement loss of \$(77) million and a net remeasurement gain of \$55 million for the three and nine months ended September 30, 2020, respectively, from the settlements of certain pension obligations. See Note 9 for further details.

## 20. Restructuring costs

Our accounting for employee separations is dependent upon how the particular program is designed. For voluntary programs, we recognize eligible separation costs at the time of employee acceptance unless the acceptance requires explicit approval by the company. For involuntary programs, we recognize eligible costs when management has approved the program, the affected employees have been properly notified and the costs are estimable.

Restructuring costs for the three and nine months ended September 30, 2020 and 2019 were as follows:

(Millions of dollars)	Three Months Ended September 30	
	2020	2019
Employee separations <sup>1</sup> .....	\$ 98	\$ 8
Long-lived asset impairments <sup>1</sup> .....	2	3
Other <sup>2</sup> .....	12	13
Total restructuring costs.....	\$ 112	\$ 24
	Nine Months Ended September 30	
	2020	2019
Employee separations <sup>1</sup> .....	\$ 232	\$ 33
Contract terminations <sup>1</sup> .....	3	—
Long-lived asset impairments <sup>1</sup> .....	25	39
Other <sup>2</sup> .....	36	110
Total restructuring costs.....	\$ 296	\$ 182

<sup>1</sup> Recognized in Other operating (income) expenses.

<sup>2</sup> Represents costs related to our restructuring programs, primarily for inventory write-downs, equipment relocation, project management, accelerated depreciation and building demolition, all of which are primarily included in Cost of goods sold.

For the nine months ended September 30, 2020, the restructuring costs were primarily related to various voluntary and involuntary employee separation programs implemented across the company and strategic actions to address certain product lines, which were partially offset by a gain on the sale of a manufacturing facility that had been closed. For the nine months ended September 30, 2019, the restructuring costs were primarily related to restructuring actions in Construction Industries and Energy & Transportation.

The following table summarizes the 2019 and 2020 employee separation activity:

(Millions of dollars)	
Liability balance at December 31, 2018.....	\$ 85
Increase in liability (separation charges).....	48
Reduction in liability (payments).....	(85)
Liability balance at December 31, 2019.....	48
Increase in liability (separation charges).....	232
Reduction in liability (payments).....	(131)
Liability balance at September 30, 2020.....	\$ 149

Most of the liability balance at September 30, 2020 is expected to be paid in 2020 and 2021.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited financial statements and related notes included elsewhere in this report and our discussion of significant risks to the company's business under Part I, Item 1A. Risk Factors of the 2019 Form 10-K as supplemented by Part II, Item 1A. Risk Factors of the company's Quarterly Report on Form 10-Q filed on August 5, 2020.

### **Overview**

Total sales and revenues for the third quarter of 2020 were \$9.881 billion, a decrease of \$2.877 billion, or 23 percent, compared with \$12.758 billion in the third quarter of 2019. The decline was due to lower *sales volume* driven by lower end-user demand for equipment and *services*. Sales were lower across all regions and in the three primary segments. Third-quarter 2020 profit per share was \$1.22, compared with \$2.66 profit per share in the third quarter of 2019. Profit per share in the third quarter of 2020 included a pre-tax net remeasurement loss of \$77 million, or \$0.12 per share, resulting from the settlements of pension obligations. Profit for the third quarter of 2020 was \$668 million, a decrease of \$826 million, or 55 percent, compared with \$1.494 billion for the third quarter of 2019. The decrease was due to lower sales volume. Lower selling, general and administrative (SG&A) and research and development (R&D) expenses were mostly offset by unfavorable *price realization* and lower profit from *Financial Products*.

Total sales and revenues were \$30.513 billion for the nine months ended September 30, 2020, a decrease of \$10.143 billion, or 25 percent, compared with \$40.656 billion for the nine months ended September 30, 2019. Profit per share for the nine months ended September 30, 2020, was \$4.05, a decrease of \$4.70, or 54 percent, compared with \$8.75 for the nine months ended September 30, 2019. Profit per share for the nine months ended September 30, 2020, included a pre-tax net remeasurement gain of \$55 million, or \$0.08 per share, resulting from the settlements of pension obligations. Profit per share for the nine months ended September 30, 2019, included a discrete tax benefit related to U.S. tax reform of \$178 million, or \$0.31 per share. Profit for the nine months ended September 30, 2020, was \$2.218 billion, a decrease of \$2.777 billion, or 56 percent, compared with \$4.995 billion for the nine months ended September 30, 2019.

### **Highlights for the third quarter of 2020 include:**

- Total sales and revenues for the third quarter of 2020 were \$9.881 billion, a decrease of \$2.877 billion, or 23 percent, compared with \$12.758 billion in the third quarter of 2019. The decline was due to lower sales volume driven by lower end-user demand for equipment and services. Sales were lower across all regions and in the three primary segments.
- Operating profit margin was 10.0 percent for the third quarter of 2020, compared with 15.8 percent for the third quarter of 2019.
- Third-quarter 2020 profit per share was \$1.22, compared with \$2.66 profit per share in the third quarter of 2019. Profit per share in the third quarter of 2020 included a pre-tax net remeasurement loss of \$77 million, or \$0.12 per share, resulting from the settlements of pension obligations.
- Enterprise operating cash flow was \$1.734 billion in the third quarter of 2020. Caterpillar ended the third quarter with \$9.3 billion of enterprise cash and more than \$14 billion of available liquidity sources.

### **Highlights for the nine months ended September 30, 2020, include:**

- Total sales and revenues were \$30.513 billion for the nine months ended September 30, 2020, a decrease of \$10.143 billion, or 25 percent, compared with \$40.656 billion for the nine months ended September 30, 2019.
- Operating profit margin was 10.4 percent for the nine months ended September 30, 2020, compared with 15.8 percent for the nine months ended September 30, 2019.
- Profit per share for the nine months ended September 30, 2020, was \$4.05, a decrease of \$4.70, or 54 percent, compared with \$8.75 for the nine months ended September 30, 2019. Profit per share for the nine months ended September 30, 2020, included a pre-tax net remeasurement gain of \$55 million, or \$0.08 per share, resulting from the settlements of pension obligations. Profit per share for the nine months ended September 30, 2019, included a discrete tax benefit related to U.S. tax reform of \$178 million, or \$0.31 per share.
- Enterprise operating cash flow was \$4.255 billion for the nine months ended September 30, 2020.

**Response to COVID-19 and Global Business Conditions:**

**Operational Status**

Caterpillar continues to implement safeguards in its facilities to protect team members, including increased frequency of cleaning and disinfecting, social distancing practices and other measures consistent with specific regulatory requirements and guidance from health authorities.

As of mid-October 2020, globally and across Caterpillar's three primary segments, nearly all of the company's primary production facilities continued to operate. This continues to fluctuate as conditions warrant, including the pace of economic recovery and the potential for additional COVID-related temporary shutdowns.

The company has continued to take actions to reduce costs and prioritize its spending to provide for investment in services and expanded offerings, key elements of its strategy for profitable growth, which was introduced in 2017.

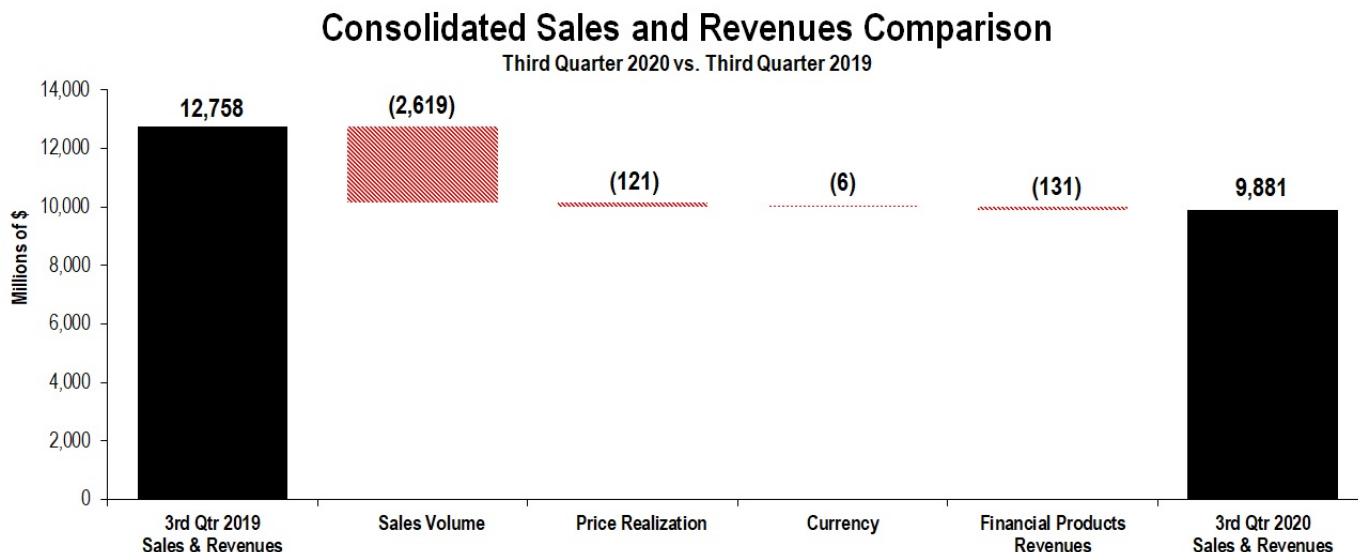
*Notes:*

- Glossary of terms is included on pages 68 - 70; first occurrence of terms shown in bold italics.
- Information on non-GAAP financial measures is included on page 76.

**Consolidated Results of Operations**

**THREE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2019**

**CONSOLIDATED SALES AND REVENUES**



The chart above graphically illustrates reasons for the change in consolidated sales and revenues between the third quarter of 2019 (at left) and the third quarter of 2020 (at right). Caterpillar management utilizes these charts internally to visually communicate with the company’s Board of Directors and employees.

Total sales and revenues for the third quarter of 2020 were \$9.881 billion, a decrease of \$2.877 billion, or 23 percent, compared with \$12.758 billion in the third quarter of 2019. The decline was mostly due to lower sales volume driven by lower end-user demand for equipment and services and the impact from changes in *dealer inventories*. Dealers decreased inventories more during the third quarter of 2020 than during the third quarter of 2019.

Sales were lower across all regions and the three primary segments.

North America sales declined 31 percent driven by lower end-user demand for equipment and services.

Sales decreased 37 percent in *Latin America* due to lower demand in most countries across the region and unfavorable *currency* impacts from a weaker Brazilian real.

*EAME* sales decreased 14 percent due to lower sales volume in most countries across the region, driven by lower end-user demand and the impact from changes in dealer inventories. Dealers decreased inventories more during the third quarter of 2020 than during the third quarter of 2019.

Asia/Pacific sales decreased 8 percent due to lower end-user demand and unfavorable price realization, partially offset by the impact from changes in dealer inventories. Dealers decreased inventories during the third quarter of 2019, compared with an increase during the third quarter of 2020. Sales were lower across the region, partially offset by higher sales in China driven by higher demand.

Dealers decreased machine and engine inventories about \$600 million during the third quarter of 2020, compared with a decrease of about \$400 million during the third quarter of 2019. Dealers are independent, and the reasons for changes in their inventory levels vary, including their expectations of future demand and product delivery times. Dealers’ demand expectations take into account seasonal changes, macroeconomic conditions, machine rental rates and other factors. Delivery times can vary based on availability of product from Caterpillar factories and product distribution centers. We expect dealers to reduce their inventories by about \$2.5 billion for the full-year 2020.



**Sales and Revenues by Segment**

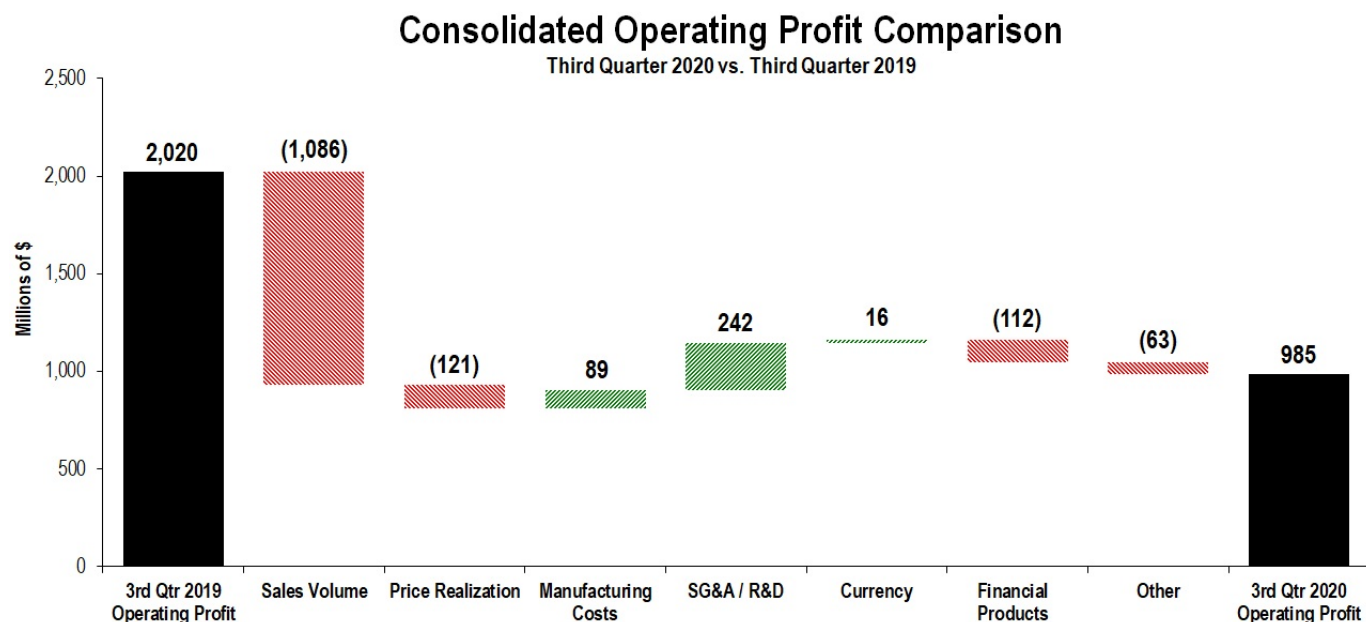
(Millions of dollars)	Third Quarter 2019	Sales Volume	Price Realization	Currency	Inter-Segment / Other	Third Quarter 2020	\$ Change	% Change
<i>Construction Industries</i> .....	\$ 5,289	\$ (1,150)	\$ (60)	\$ (17)	\$ (6)	\$ 4,056	\$ (1,233)	(23%)
<i>Resource Industries</i> .....	2,310	(425)	(46)	(4)	(19)	1,816	(494)	(21%)
<i>Energy &amp; Transportation</i> .....	5,452	(1,086)	(16)	15	(204)	4,161	(1,291)	(24%)
<i>All Other Segment</i> .....	111	(3)	1	—	(3)	106	(5)	(5%)
<i>Corporate Items and Eliminations</i> .....	(1,188)	45	—	—	232	(911)	277	
<i>Machinery, Energy &amp; Transportation Sales</i> ...	11,974	(2,619)	(121)	(6)	—	9,228	(2,746)	(23%)
<i>Financial Products Segment</i> .....	865	—	—	—	(141)	724	(141)	(16%)
Corporate Items and Eliminations.....	(81)	—	—	—	10	(71)	10	
<b>Financial Products Revenues</b> .....	<b>784</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(131)</b>	<b>653</b>	<b>(131)</b>	<b>(17%)</b>
<b>Consolidated Sales and Revenues</b> .....	<b>\$ 12,758</b>	<b>\$ (2,619)</b>	<b>\$ (121)</b>	<b>\$ (6)</b>	<b>\$ (131)</b>	<b>\$ 9,881</b>	<b>\$ (2,877)</b>	<b>(23%)</b>

**Sales and Revenues by Geographic Region**

(Millions of dollars)	North America		Latin America		EAME		Asia/Pacific		External Sales and Revenues		Inter-Segment		Total Sales and Revenues	
	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg
<b>Third Quarter 2020</b>														
Construction Industries.....	\$ 1,781	(35%)	\$ 230	(44%)	\$ 796	(24%)	\$ 1,241	14%	\$ 4,048	(23%)	\$ 8	(43%)	\$ 4,056	(23%)
Resource Industries.....	487	(38%)	269	(23%)	384	(3%)	564	(13%)	1,704	(22%)	112	(15%)	1,816	(21%)
Energy & Transportation.....	1,584	(26%)	221	(42%)	1,113	(9%)	557	(33%)	3,475	(24%)	686	(23%)	4,161	(24%)
All Other Segment.....	10	900%	1	(83%)	1	(88%)	13	8%	25	(7%)	81	(4%)	106	(5%)
Corporate Items and Eliminations.....	(22)		(2)		—		—		(24)		(887)		(911)	
<b>Machinery, Energy &amp; Transportation Sales</b> .....	<b>3,840</b>	<b>(31%)</b>	<b>719</b>	<b>(37%)</b>	<b>2,294</b>	<b>(14%)</b>	<b>2,375</b>	<b>(8%)</b>	<b>9,228</b>	<b>(23%)</b>	<b>—</b>	<b>—</b>	<b>9,228</b>	<b>(23%)</b>
Financial Products Segment.....	448	(20%)	63	(20%)	100	(2%)	113	(9%)	724 <sup>1</sup>	(16%)	—	—	724	(16%)
Corporate Items and Eliminations.....	(37)		(10)		(10)		(14)		(71)		—	—	(71)	
<b>Financial Products Revenues</b> .....	<b>411</b>	<b>(21%)</b>	<b>53</b>	<b>(17%)</b>	<b>90</b>	<b>(4%)</b>	<b>99</b>	<b>(9%)</b>	<b>653</b>	<b>(17%)</b>	<b>—</b>	<b>—</b>	<b>653</b>	<b>(17%)</b>
<b>Consolidated Sales and Revenues</b> .....	<b>\$ 4,251</b>	<b>(30%)</b>	<b>\$ 772</b>	<b>(36%)</b>	<b>\$ 2,384</b>	<b>(14%)</b>	<b>\$ 2,474</b>	<b>(8%)</b>	<b>\$ 9,881</b>	<b>(23%)</b>	<b>\$ —</b>	<b>—</b>	<b>\$ 9,881</b>	<b>(23%)</b>
<b>Third Quarter 2019</b>														
Construction Industries.....	\$ 2,728		\$ 413		\$ 1,048		\$ 1,086		\$ 5,275		\$ 14		\$ 5,289	
Resource Industries.....	789		349		396		645		2,179		131		2,310	
Energy & Transportation.....	2,129		378		1,224		831		4,562		890		5,452	
All Other Segment.....	1		6		8		12		27		84		111	
Corporate Items and Eliminations.....	(62)		1		(7)		(1)		(69)		(1,119)		(1,188)	
<b>Machinery, Energy &amp; Transportation Sales</b> .....	<b>5,585</b>		<b>1,147</b>		<b>2,669</b>		<b>2,573</b>		<b>11,974</b>		<b>—</b>		<b>11,974</b>	
Financial Products Segment.....	560		79		102		124		865 <sup>1</sup>		—		865	
Corporate Items and Eliminations.....	(43)		(15)		(8)		(15)		(81)		—		(81)	
<b>Financial Products Revenues</b> .....	<b>517</b>		<b>64</b>		<b>94</b>		<b>109</b>		<b>784</b>		<b>—</b>		<b>784</b>	
<b>Consolidated Sales and Revenues</b> .....	<b>\$ 6,102</b>		<b>\$ 1,211</b>		<b>\$ 2,763</b>		<b>\$ 2,682</b>		<b>\$ 12,758</b>		<b>\$ —</b>		<b>\$ 12,758</b>	

<sup>1</sup> Includes revenues from Machinery, Energy & Transportation of \$81 million and \$131 million in the third quarter of 2020 and 2019, respectively.

**CONSOLIDATED OPERATING PROFIT**



The chart above graphically illustrates reasons for the change in consolidated operating profit between the third quarter of 2019 (at left) and the third quarter of 2020 (at right). Caterpillar management utilizes these charts internally to visually communicate with the company’s Board of Directors and employees. The bar titled Other includes *consolidating adjustments* and *Machinery, Energy & Transportation other operating (income) expenses*.

Operating profit for the third quarter of 2020 was \$985 million, a decrease of \$1.035 billion, or 51 percent, compared with \$2.020 billion in the third quarter of 2019. The decrease was primarily due to lower sales volume. Favorable selling, general and administrative (SG&A) and research and development (R&D) expenses were mostly offset by unfavorable price realization and lower profit from Financial Products.

SG&A/R&D expenses benefited from reduced short-term incentive compensation expense and other cost reductions related to lower sales volumes.

Short-term incentive compensation expense is directly related to financial and operational performance, measured against targets set annually. In the first quarter, in response to the continued global economic uncertainty due to the COVID-19 pandemic, Caterpillar suspended 2020 short-term incentive compensation plans for many employees and all senior executives. As a result, no short-term incentive compensation expense was recognized in the third quarter of 2020, compared with about \$130 million in the third quarter of 2019.

Operating profit margin was 10.0 percent for the third quarter of 2020, compared with 15.8 percent for the third quarter of 2019.

<b>Profit (Loss) by Segment</b>				
(Millions of dollars)	Third Quarter 2020	Third Quarter 2019	\$ Change	% Change
Construction Industries	\$ 585	\$ 940	\$ (355)	(38%)
Resource Industries	167	311	(144)	(46%)
Energy & Transportation	492	1,021	(529)	(52%)
All Other Segment	27	(21)	48	n/a
Corporate Items and Eliminations	(346)	(363)	17	
<b>Machinery, Energy &amp; Transportation</b>	<b>925</b>	<b>1,888</b>	<b>(963)</b>	<b>(51%)</b>
Financial Products Segment	142	218	(76)	(35%)
Corporate Items and Eliminations	(15)	21	(36)	
<b>Financial Products</b>	<b>127</b>	<b>239</b>	<b>(112)</b>	<b>(47%)</b>
Consolidating Adjustments	(67)	(107)	40	
<b>Consolidated Operating Profit</b>	<b>\$ 985</b>	<b>\$ 2,020</b>	<b>\$ (1,035)</b>	<b>(51%)</b>

### **Other Profit/Loss and Tax Items**

- Interest expense excluding Financial Products in the third quarter of 2020 was \$136 million, compared with \$103 million in the third quarter of 2019. The increase was due to higher average debt outstanding during the third quarter of 2020, compared with the third quarter of 2019.
- Other income (expense) in the third quarter of 2020 was income of \$14 million, compared with income of \$88 million in the third quarter of 2019. The change was primarily due to the unfavorable impacts from foreign currency exchange gains (losses) and lower investment and interest income.
- The provision for income taxes for the third quarter of 2020 reflected an estimated annual tax rate of 31 percent, excluding the discrete items discussed below, compared with 26 percent for the third quarter of 2019. The increase in the estimated annual tax rate was primarily related to changes in the expected geographic mix of profits from a tax perspective for 2020, including the impact of U.S. tax on non-U.S. earnings as a result of U.S. tax reform.

In the third quarter of 2020, we recorded discrete tax benefits of \$80 million to adjust prior year U.S. taxes including the impact of regulations received in 2020 and \$13 million for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense. In addition, we recorded a \$12 million tax benefit related to the \$77 million of net remeasurement loss resulting from the settlements of pension obligations. We excluded this net remeasurement loss and related tax benefit from the estimated annual tax rate as the future period remeasurement impacts cannot currently be estimated.

### **Construction Industries**

Construction Industries' total sales were \$4.056 billion in the third quarter of 2020, a decrease of \$1.233 billion, or 23 percent, compared with \$5.289 billion in the third quarter of 2019. The decrease was due to lower sales volume, driven by lower end-user demand and the impact from changes in dealer inventories. During the third quarter of 2020, dealers decreased inventories in all regions except for Asia/Pacific where dealers increased inventories, compared with the third quarter of 2019 when dealer inventories were about flat in all regions except for Asia/Pacific where dealers decreased inventories. Overall, dealers decreased inventories more during the third quarter of 2020 than during the third quarter of 2019.

- In North America, sales decreased mostly due to lower sales volume driven by lower end-user demand and the impact from changes in dealer inventories. The lower end-user demand was driven primarily by pipeline and road construction.
- Sales declined in Latin America primarily due to the impact from changes in dealer inventories and unfavorable currency impacts from a weaker Brazilian real.
- In EAME, sales decreased mostly because of lower sales volume across the region, driven by lower end-user demand and the impact from changes in dealer inventories.
- Sales increased in Asia/Pacific primarily due to the impact of changes in dealer inventories, partially offset by unfavorable price realization. The increase in sales was primarily driven by China demand, which was partially offset by lower sales in the rest of the region.

Construction Industries' profit was \$585 million in the third quarter of 2020, a decrease of \$355 million, or 38 percent, compared with \$940 million in the third quarter of 2019. The decrease was mainly due to lower sales volume and unfavorable price realization, partially offset by favorable *manufacturing costs* and lower SG&A/R&D expenses. Favorable manufacturing costs were driven by lower period manufacturing costs and favorable variable labor and burden. SG&A/R&D expenses and period manufacturing costs both benefited from cost reductions related to lower sales volumes.

Construction Industries' profit as a percent of total sales was 14.4 percent in the third quarter of 2020, compared with 17.8 percent in the third quarter of 2019.

### **Resource Industries**

Resource Industries' total sales were \$1.816 billion in the third quarter of 2020, a decrease of \$494 million, or 21 percent, compared with \$2.310 billion in the third quarter of 2019. The decrease was due to lower sales volume driven by lower end-user demand for equipment and aftermarket parts, partially offset by the impact of changes in dealer inventories. Dealers decreased inventories more during the third quarter of 2019 than during the third quarter of 2020. End-user demand was lower across non-residential construction and quarry and aggregates and mining, primarily in North America.

Resource Industries’ profit was \$167 million in the third quarter of 2020, a decrease of \$144 million, or 46 percent, compared with \$311 million in the third quarter of 2019. The decrease was mainly because of lower sales volume and unfavorable price realization, partially offset by favorable manufacturing costs and lower SG&A/R&D expenses. Favorable manufacturing costs were driven by lower period manufacturing costs, favorable material costs and lower warranty expense, partially offset by unfavorable cost absorption. Cost absorption was unfavorable as inventory increased in the third quarter of 2019, compared with a decrease in the third quarter of 2020. SG&A/R&D expenses, along with period manufacturing costs, benefited from lower short-term incentive compensation expense, other cost-reduction actions implemented in response to lower sales volumes and benefits from prior restructuring programs.

Resource Industries’ profit as a percent of total sales was 9.2 percent in the third quarter of 2020, compared with 13.5 percent in the third quarter of 2019.

**Energy & Transportation**

<b>Sales by Application</b>				
<b>(Millions of dollars)</b>	<b>Third Quarter 2020</b>	<b>Third Quarter 2019</b>	<b>\$ Change</b>	<b>% Change</b>
Oil and Gas.....	\$ 734	\$ 1,246	\$ (512)	(41%)
Power Generation.....	1,034	1,123	(89)	(8%)
Industrial.....	730	980	(250)	(26%)
Transportation.....	977	1,213	(236)	(19%)
<b>External Sales</b> .....	<b>3,475</b>	<b>4,562</b>	<b>(1,087)</b>	<b>(24%)</b>
Inter-segment.....	686	890	(204)	(23%)
<b>Total Sales</b> .....	<b>\$ 4,161</b>	<b>\$ 5,452</b>	<b>\$ (1,291)</b>	<b>(24%)</b>

Energy & Transportation’s total sales were \$4.161 billion in the third quarter of 2020, a decrease of \$1.291 billion, or 24 percent, compared with \$5.452 billion in the third quarter of 2019. Sales declined across all applications and inter-segment engine sales.

- Oil and Gas – Sales decreased mainly due to lower demand in North America for reciprocating engines used in gas compression and decreased sales of engine aftermarket parts. In addition, sales were lower for turbines and turbine-related services.
- Power Generation – Sales decreased primarily due to lower sales volume in engine aftermarket parts, and small reciprocating engine applications, as well as turbines and turbine-related services. The sales decrease was partially offset by an increase in large reciprocating engine applications, mainly for data centers.
- Industrial – Sales decreased due to lower demand across all regions.
- Transportation – Sales declined in rail due to lower deliveries of locomotives and related services, primarily in North America, and in marine due to lower sales of engine aftermarket parts, primarily in EAME.

Energy & Transportation’s profit was \$492 million in the third quarter of 2020, a decrease of \$529 million, or 52 percent, compared with \$1.021 billion in the third quarter of 2019. The decrease was due to lower sales volume, partially offset by lower SG&A/R&D expenses and period manufacturing costs. SG&A/R&D expenses and period manufacturing costs were mostly impacted by a reduction in short-term incentive compensation expense and other cost-reduction actions implemented in response to lower sales volumes. In addition, segment profit was unfavorably impacted by other operating income/expense and higher inventory write-downs during the third quarter of 2020.

Energy & Transportation’s profit as a percent of total sales was 11.8 percent in the third quarter of 2020, compared with 18.7 percent in the third quarter of 2019.

**Financial Products Segment**

Financial Products’ segment revenues were \$724 million in the third quarter of 2020, a decrease of \$141 million, or 16 percent, from the third quarter of 2019. The decrease was primarily because of lower average financing rates across all regions and lower average *earning assets* primarily in North America.

Financial Products' segment profit was \$142 million in the third quarter of 2020, compared with \$218 million in the third quarter of 2019. The decrease was due to higher provision for credit losses, lower net yield on average earning assets and lower average earning assets at Cat Financial. These unfavorable impacts were partially offset by a reduction in SG&A expenses primarily due to lower short-term incentive compensation and employee benefit expenses.

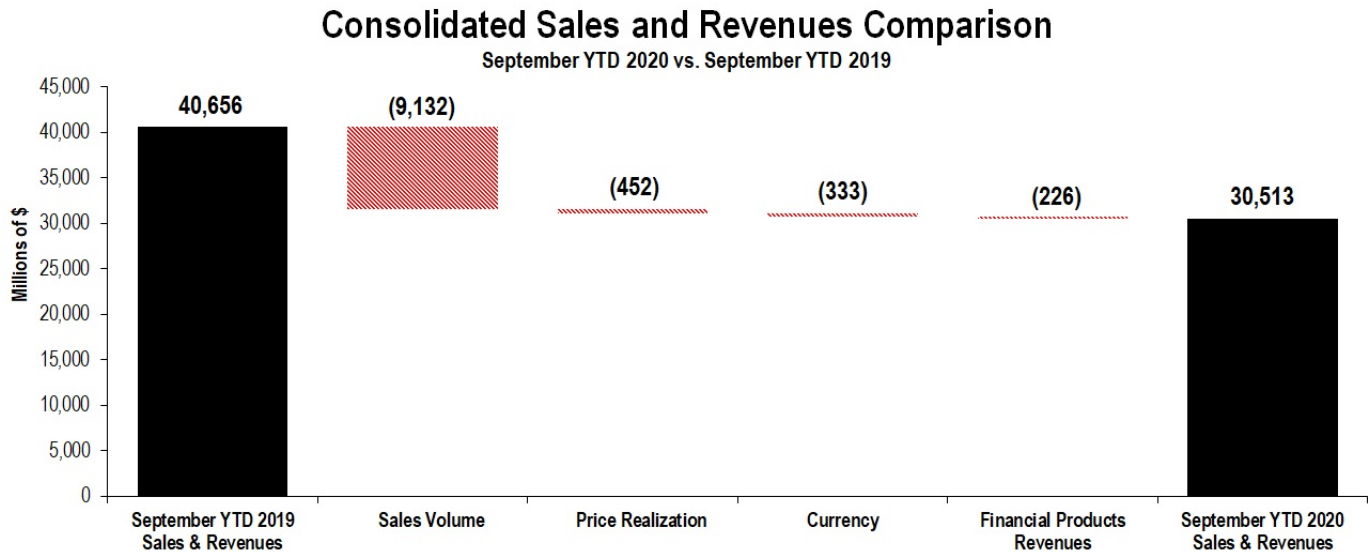
At the end of the third quarter of 2020, past dues at Cat Financial were 3.81 percent, compared with 3.19 percent at the end of the third quarter of 2019. Past dues increased primarily due to the impacts of the COVID-19 pandemic, partially offset by decreases in the Caterpillar Power Finance and Latin American portfolios. Write-offs, net of recoveries, were \$125 million for the third quarter of 2020, compared with \$103 million for the third quarter of 2019. As of September 30, 2020, Cat Financial's allowance for credit losses totaled \$460 million, or 1.74 percent of finance receivables, compared with \$515 million, or 1.92 percent of finance receivables at June 30, 2020. The decrease in the allowance for credit losses was primarily driven by write-offs of previously reserved accounts in the Caterpillar Power Finance portfolio. The allowance for credit losses at year-end 2019 was \$424 million, or 1.50 percent of finance receivables.

### **Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$361 million in the third quarter of 2020, an increase of \$19 million from the third quarter of 2019, primarily due to higher *restructuring costs* and an unfavorable change in fair value adjustments related to deferred compensation plans, partially offset by lower corporate costs and segment reporting methodology differences.

**NINE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2019**

**CONSOLIDATED SALES AND REVENUES**



The chart above graphically illustrates reasons for the change in consolidated sales and revenues between the nine months ended September 30, 2019 (at left) and the nine months ended September 30, 2020 (at right). Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees.

Total sales and revenues were \$30.513 billion for the nine months ended September 30, 2020, a decrease of \$10.143 billion, or 25 percent, compared with \$40.656 billion for the nine months ended September 30, 2019. The decline was due to lower sales volume driven by lower end-user demand for equipment and services and the impact from changes in dealer inventories. Dealers decreased machine and engine inventories about \$1.8 billion during the nine months ended September 30, 2020, compared with an increase of about \$1.4 billion during the nine months ended September 30, 2019. The changes in dealer inventories came primarily in Construction Industries and Resource Industries.

Sales were lower across all regions and in the three primary segments.

North America sales declined 33 percent driven by lower end-user demand and the impact from changes in dealer inventories. Dealers decreased inventories during the nine months ended September 30, 2020, compared with an increase during the nine months ended September 30, 2019.

Sales decreased 34 percent in Latin America due to lower demand in most countries across the region, driven by lower end-user demand and the impact from changes in dealer inventories. Dealers decreased inventories during the nine months ended September 30, 2020, compared with dealer inventories that were about flat during the nine months ended September 30, 2019.

EAME sales decreased 13 percent due to lower sales volume in most countries across the region, driven by lower end-user demand and the impact from changes in dealer inventories. Dealers increased inventories during the nine months ended September 30, 2019, compared with dealer inventories that were about flat during the nine months ended September 30, 2020.

Asia/Pacific sales decreased 18 percent due to lower demand across the region. Lower demand was driven by the impact from changes in dealer inventories and lower end-user demand. Dealers decreased inventories during the nine months ended September 30, 2020, compared with dealer inventories that were about flat during the nine months ended September 30, 2019.

Dealers decreased machine and engine inventories about \$1.8 billion during the nine months ended September 30, 2020, compared with an increase of about \$1.4 billion during the nine months ended September 30, 2019. Dealers are independent, and the reasons for changes in their inventory levels vary, including their expectations of future demand and product delivery times. Dealers' demand expectations take into account seasonal changes, macroeconomic conditions, machine rental rates and other factors. Delivery times can vary based on availability of product from Caterpillar factories and product distribution centers. We expect dealers to reduce their inventories by about \$2.5 billion for the full-year 2020.

**Sales and Revenues by Segment**

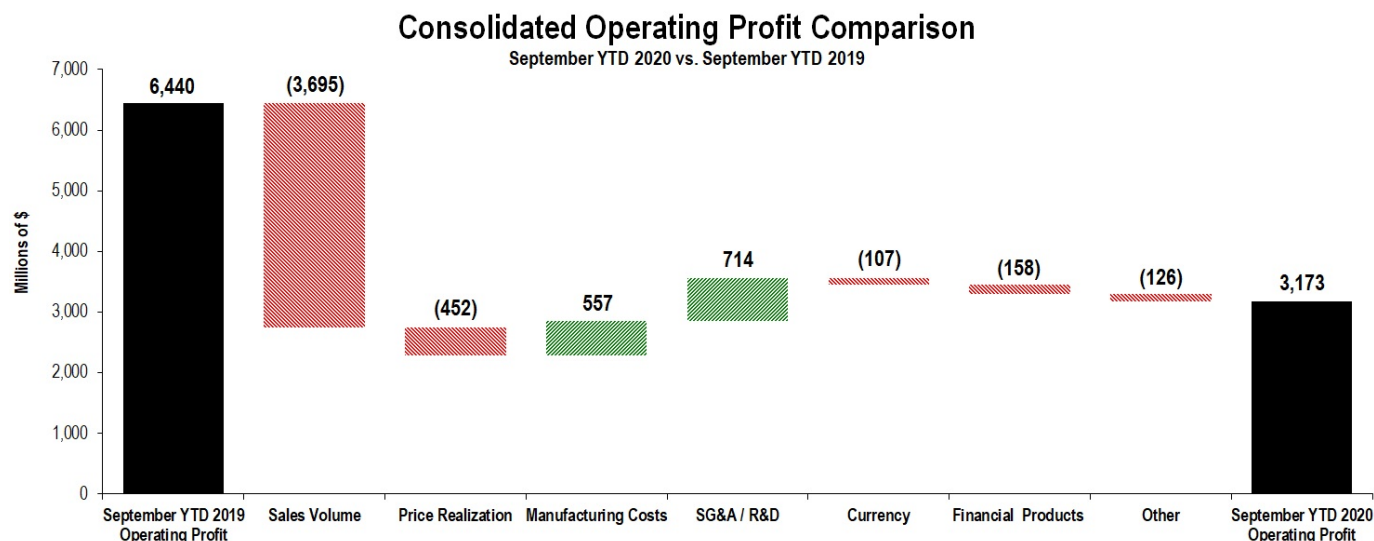
(Millions of dollars)	Nine Months Ended September 30, 2019		Price Realization			Inter-Segment / Other		Nine Months Ended September 30, 2020		\$ Change	% Change
	Sales Volume				Currency						
Construction Industries	\$ 17,629	\$ (4,628)	\$ (396)	\$ (157)	\$ (38)	\$ 12,410	\$ (5,219)	(30%)			
Resource Industries	7,881	(1,967)	(88)	(89)	(11)	5,726	(2,155)	(27%)			
Energy & Transportation	16,148	(2,630)	31	(86)	(804)	12,659	(3,489)	(22%)			
All Other Segment	357	(17)	1	(1)	(10)	330	(27)	(8%)			
Corporate Items and Eliminations	(3,646)	110	—	—	863	(2,673)	973				
<b>Machinery, Energy &amp; Transportation Sales</b>	<b>38,369</b>	<b>(9,132)</b>	<b>(452)</b>	<b>(333)</b>	<b>—</b>	<b>28,452</b>	<b>(9,917)</b>	<b>(26%)</b>			
Financial Products Segment	2,588	—	—	—	(287)	2,301	(287)	(11%)			
Corporate Items and Eliminations	(301)	—	—	—	61	(240)	61				
<b>Financial Products Revenues</b>	<b>2,287</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(226)</b>	<b>2,061</b>	<b>(226)</b>	<b>(10%)</b>			
<b>Consolidated Sales and Revenues</b>	<b>\$ 40,656</b>	<b>\$ (9,132)</b>	<b>\$ (452)</b>	<b>\$ (333)</b>	<b>\$ (226)</b>	<b>\$ 30,513</b>	<b>\$ (10,143)</b>	<b>(25%)</b>			

**Sales and Revenues by Geographic Region**

(Millions of dollars)	North America		Latin America		EAME		Asia/Pacific		External Sales and Revenues		Inter-Segment		Total Sales and Revenues	
	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg	\$	% Chg
<b>Nine Months Ended September 30, 2020</b>														
Construction Industries	\$ 5,470	(41%)	\$ 707	(37%)	\$ 2,618	(17%)	\$ 3,597	(12%)	\$ 12,392	(29%)	\$ 18	(68%)	\$ 12,410	(30%)
Resource Industries	1,690	(40%)	859	(30%)	1,158	(12%)	1,686	(24%)	5,393	(28%)	333	(3%)	5,726	(27%)
Energy & Transportation	5,138	(22%)	667	(36%)	3,095	(9%)	1,734	(24%)	10,634	(20%)	2,025	(28%)	12,659	(22%)
All Other Segment	22	(4%)	4	(43%)	17	(26%)	38	(16%)	81	(17%)	249	(4%)	330	(8%)
Corporate Items and Eliminations	(35)		(5)		(4)		(4)		(48)		(2,625)		(2,673)	
<b>Machinery, Energy &amp; Transportation Sales</b>	<b>12,285</b>	<b>(33%)</b>	<b>2,232</b>	<b>(34%)</b>	<b>6,884</b>	<b>(13%)</b>	<b>7,051</b>	<b>(18%)</b>	<b>28,452</b>	<b>(26%)</b>	<b>—</b>	<b>—%</b>	<b>28,452</b>	<b>(26%)</b>
Financial Products Segment	1,466	(13%)	193	(14%)	298	(3%)	344	(9%)	2,301 <sup>1</sup>	(11%)	—	—%	2,301	(11%)
Corporate Items and Eliminations	(134)		(31)		(28)		(47)		(240)		—		(240)	
<b>Financial Products Revenues</b>	<b>1,332</b>	<b>(11%)</b>	<b>162</b>	<b>(14%)</b>	<b>270</b>	<b>(4%)</b>	<b>297</b>	<b>(8%)</b>	<b>2,061</b>	<b>(10%)</b>	<b>—</b>	<b>—%</b>	<b>2,061</b>	<b>(10%)</b>
<b>Consolidated Sales and Revenues</b>	<b>\$ 13,617</b>	<b>(32%)</b>	<b>\$ 2,394</b>	<b>(33%)</b>	<b>\$ 7,154</b>	<b>(13%)</b>	<b>\$ 7,348</b>	<b>(18%)</b>	<b>\$ 30,513</b>	<b>(25%)</b>	<b>\$ —</b>	<b>—%</b>	<b>\$ 30,513</b>	<b>(25%)</b>
<b>Nine Months Ended September 30, 2019</b>														
Construction Industries	\$ 9,206		\$ 1,124		\$ 3,162		\$ 4,081		\$ 17,573		\$ 56		\$ 17,629	
Resource Industries	2,798		1,220		1,310		2,209		7,537		344		7,881	
Energy & Transportation	6,577		1,035		3,416		2,291		13,319		2,829		16,148	
All Other Segment	23		7		23		45		98		259		357	
Corporate Items and Eliminations	(142)		—		(15)		(1)		(158)		(3,488)		(3,646)	
<b>Machinery, Energy &amp; Transportation Sales</b>	<b>18,462</b>		<b>3,386</b>		<b>7,896</b>		<b>8,625</b>		<b>38,369</b>		<b>—</b>		<b>38,369</b>	
Financial Products Segment	1,681		225		306		376		2,588 <sup>1</sup>		—		2,588	
Corporate Items and Eliminations	(184)		(37)		(26)		(54)		(301)		—		(301)	
<b>Financial Products Revenues</b>	<b>1,497</b>		<b>188</b>		<b>280</b>		<b>322</b>		<b>2,287</b>		<b>—</b>		<b>2,287</b>	
<b>Consolidated Sales and Revenues</b>	<b>\$ 19,959</b>		<b>\$ 3,574</b>		<b>\$ 8,176</b>		<b>\$ 8,947</b>		<b>\$ 40,656</b>		<b>\$ —</b>		<b>\$ 40,656</b>	

<sup>1</sup> Includes revenues from Machinery, Energy & Transportation of \$274 million and \$398 million in the nine months ended September 30, 2020 and 2019, respectively.



**CONSOLIDATED OPERATING PROFIT**


The chart above graphically illustrates reasons for the change in consolidated operating profit between the nine months ended September 30, 2019 (at left) and the nine months ended September 30, 2020 (at right). Caterpillar management utilizes these charts internally to visually communicate with the company's Board of Directors and employees. The bar titled Other includes consolidating adjustments and Machinery, Energy & Transportation's other operating (income) expenses.

Operating profit for the nine months ended September 30, 2020, was \$3.173 billion, a decrease of \$3.267 billion, or 51 percent, compared with \$6.440 billion for the nine months ended September 30, 2019. The decrease was due to lower sales volume and unfavorable price realization, partially offset by lower SG&A/R&D expenses and favorable manufacturing costs.

Lower SG&A/R&D expenses reflected reduced short-term incentive compensation expense, a favorable change in fair value adjustments related to deferred compensation plans and other cost reductions related to lower sales volumes.

Favorable manufacturing costs were mostly driven by lower period manufacturing costs and material costs, partially offset by higher warranty expense and the unfavorable impact of cost absorption. Period manufacturing costs declined primarily due to a reduction in short-term incentive compensation expense and other cost reductions related to lower sales volumes. Cost absorption was unfavorable as inventory increased more during the nine months ended September 30, 2019, than during the nine months ended September 30, 2020.

Short-term incentive compensation expense is directly related to financial and operational performance, measured against targets set annually. In the first quarter, in response to the continued global economic uncertainty due to the COVID-19 pandemic, Caterpillar suspended 2020 short-term incentive compensation plans for many employees and all senior executives. As a result, no short-term incentive compensation expense was recognized during the nine months ended September 30, 2020, compared with about \$560 million during the nine months ended September 30, 2019.

Operating profit margin was 10.4 percent for the nine months ended September 30, 2020, compared with 15.8 percent for the nine months ended September 30, 2019.

<b>Profit by Segment</b>					
(Millions of dollars)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	\$ Change	% Change	
Construction Industries .....	\$ 1,743	\$ 3,272	\$ (1,529)	(47%)	
Resource Industries .....	623	1,368	(745)	(54%)	
Energy & Transportation .....	1,718	2,745	(1,027)	(37%)	
All Other Segment .....	31	15	16	107%	
Corporate Items and Eliminations .....	(1,100)	(1,179)	79		
<b>Machinery, Energy &amp; Transportation .....</b>	<b>3,015</b>	<b>6,221</b>	<b>(3,206)</b>	<b>(52%)</b>	
Financial Products Segment .....	395	622	(227)	(36%)	
Corporate Items and Eliminations .....	(6)	(75)	69		
<b>Financial Products .....</b>	<b>389</b>	<b>547</b>	<b>(158)</b>	<b>(29%)</b>	
Consolidating Adjustments .....	(231)	(328)	97		
<b>Consolidated Operating Profit .....</b>	<b>\$ 3,173</b>	<b>\$ 6,440</b>	<b>\$ (3,267)</b>	<b>(51%)</b>	



## **Other Profit/Loss and Tax Items**

- Interest expense excluding Financial Products for the nine months ended September 30, 2020, was \$384 million, compared with \$309 million for the nine months ended September 30, 2019. The increase was due to higher average debt outstanding during the nine months ended September 30, 2020, compared with the nine months ended September 30, 2019.
- Other income/expense for the nine months ended September 30, 2020, was income of \$265 million, compared with income of \$316 million for the nine months ended September 30, 2019. The unfavorable change was primarily due to unfavorable impacts from foreign currency exchange gains (losses), lower investment and interest income, unfavorable impacts of equity securities at Insurance Services and commodity hedges. The company experienced higher foreign currency exchange net losses in the nine months ended September 30, 2020, compared with the nine months ended September 30, 2019. The unfavorable impact of equity securities was due to unrealized gains in the nine months ended September 30, 2019, compared with unrealized losses in the nine months ended September 30, 2020. The unfavorable change was partially offset by a favorable impact from *pension and other postemployment benefit (OPEB)* plans, including a \$55 million net remeasurement gain resulting from the settlements of pension obligations.
- The provision for income taxes for the first nine months of 2020 reflected an estimated annual tax rate of 31 percent compared with 26 percent for the first nine months of 2019, excluding the discrete items discussed in the following paragraphs. The increase in the estimated annual tax rate was primarily related to changes in the expected geographic mix of profits from a tax perspective for 2020, including the impact of U.S. tax on non-U.S. earnings as a result of U.S. tax reform.

During the first nine months of 2020, we recorded discrete tax benefits of \$80 million to adjust prior year U.S. taxes including the impact of regulations received in 2020 and \$21 million for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense. In addition, we recorded a \$10 million tax charge related to the \$55 million of net remeasurement gain resulting from the settlements of pension obligations. We excluded this net remeasurement gain and related tax from the estimated annual tax rate as the future period remeasurement impacts cannot currently be estimated.

During the first nine months of 2019, we recorded discrete tax benefits of \$178 million to adjust previously unrecognized tax benefits as a result of receipt of additional guidance related to the calculation of the mandatory deemed repatriation of non-U.S. earnings and \$28 million for the settlement of stock-based compensation awards with associated tax deductions in excess of cumulative U.S. GAAP compensation expense.

## **Construction Industries**

Construction Industries' total sales were \$12.410 billion for the nine months ended September 30, 2020, a decrease of \$5.219 billion, or 30 percent, compared with \$17.629 billion for the nine months ended September 30, 2019. The decrease was due to lower sales volume, driven by lower end-user demand and the impact from changes in dealer inventories. Dealers decreased inventories during the nine months ended September 30, 2020, compared with an increase during the nine months ended September 30, 2019.

- In North America, sales decreased mostly due to lower sales volume driven by lower end-user demand and the impact from changes in dealer inventories. Dealers increased inventories during the nine months ended September 30, 2019, compared with a decrease during the nine months ended September 30, 2020.
- Sales declined in Latin America primarily due to the impact from changes in dealer inventories and unfavorable currency impacts from a weaker Brazilian real. Dealers decreased inventories during the nine months ended September 30, 2020, compared with about flat during the nine months ended September 30, 2019.
- In EAME, sales decreased mostly due to lower end-user demand and the impact from changes in dealer inventories across most countries in the region. Dealers increased inventories more during the nine months ended September 30, 2019, than during the nine months ended September 30, 2020.
- Sales declined in Asia/Pacific primarily due to lower end-user demand across the region and unfavorable price realization due to competitive market conditions in China.

Construction Industries' profit was \$1.743 billion for the nine months ended September 30, 2020, a decrease of \$1.529 billion, or 47 percent, compared with \$3.272 billion for the nine months ended September 30, 2019. The decrease was mainly due to lower sales volume and unfavorable price realization primarily due to geographic product mix, partially offset by favorable manufacturing costs and lower SG&A/R&D expenses. Favorable manufacturing costs were primarily due to lower period manufacturing costs and material costs, partially offset by higher warranty expense. Lower period manufacturing costs and SG&A/R&D expenses both reflected a reduction in short-term incentive compensation expense and other cost reductions related to lower sales volumes.

Construction Industries' profit as a percent of total sales was 14.0 percent for the nine months ended September 30, 2020, compared with 18.6 percent for the nine months ended September 30, 2019.

**Resource Industries**

Resource Industries' total sales were \$5.726 billion for the nine months ended September 30, 2020, a decrease of \$2.155 billion, or 27 percent, compared with \$7.881 billion for the nine months ended September 30, 2019. The decrease was due to lower sales volume, driven by lower end-user demand for equipment and aftermarket parts, and the impact from changes in dealer inventories. Dealers decreased inventories during the nine months ended September 30, 2020, compared with an increase during the nine months ended September 30, 2019. Lower end-user demand was primarily driven by equipment supporting non-residential construction and quarry and aggregates. Mining equipment end-user demand and aftermarket parts demand were also down in the nine months ended September 30, 2020, though to a lesser extent. Mining equipment sales were impacted by mining company delays in capital expenditures due to pricing in certain commodities and overall economic uncertainty.

Resource Industries' profit was \$623 million for the nine months ended September 30, 2020, a decrease of \$745 million, or 54 percent, compared with \$1.368 billion for the nine months ended September 30, 2019. The decrease was mainly due to lower sales volume, partially offset by favorable manufacturing costs. Favorable manufacturing costs were mostly due to lower period manufacturing costs and material costs, partially offset by the unfavorable impact of cost absorption. Lower period manufacturing costs were driven by lower short-term incentive compensation expense, other cost-reduction actions implemented in response to lower sales volumes and the benefits of prior restructuring programs. Cost absorption was unfavorable as inventory increased during the nine months ended September 30, 2019, compared with inventory levels that were about flat during the nine months ended September 30, 2020.

Resource Industries' profit as a percent of total sales was 10.9 percent for the nine months ended September 30, 2020, compared with 17.4 percent for the nine months ended September 30, 2019.

**Energy & Transportation**

**Sales by Application**

(Millions of dollars)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	\$ Change	% Change
Oil and Gas.....	\$ 2,622	\$ 3,682	\$ (1,060)	(29%)
Power Generation.....	2,783	3,180	(397)	(12%)
Industrial.....	2,209	2,841	(632)	(22%)
Transportation.....	3,020	3,616	(596)	(16%)
<b>External Sales.....</b>	<b>10,634</b>	<b>13,319</b>	<b>(2,685)</b>	<b>(20%)</b>
Inter-Segment.....	2,025	2,829	(804)	(28%)
<b>Total Sales.....</b>	<b>\$ 12,659</b>	<b>\$ 16,148</b>	<b>\$ (3,489)</b>	<b>(22%)</b>

Energy & Transportation's total sales were \$12.659 billion for the nine months ended September 30, 2020, a decrease of \$3.489 billion, or 22 percent, compared with \$16.148 billion for the nine months ended September 30, 2019. Sales declined across all applications and inter-segment engine sales.

- Oil and Gas – Sales decreased mainly due to lower demand in North America for reciprocating engines used in gas compression and decreased sales of engine aftermarket parts and lower sales of turbines and turbine-related services.
- Power Generation – Sales decreased primarily due to lower sales volume for reciprocating engines and aftermarket parts, as well as lower sales in turbines and turbine-related services.
- Industrial – Sales decreased due to lower demand across all regions.
- Transportation – Sales declined in rail due to lower deliveries of locomotives and related services and in marine applications primarily in EAME and Asia/Pacific.

Energy & Transportation's profit was \$1.718 billion for the nine months ended September 30, 2020, a decrease of \$1.027 billion, or 37 percent, compared with \$2.745 billion for the nine months ended September 30, 2019. The decrease was due to lower sales volume, partially offset by lower SG&A/R&D expenses and manufacturing costs. SG&A/R&D expenses and manufacturing costs were both impacted by a reduction in short-term incentive compensation expense and other cost reductions related to lower sales volumes. In addition, segment profit was unfavorably impacted by other operating income/expense and higher inventory write-downs during the third quarter of 2020.

Energy & Transportation’s profit as a percent of total sales was 13.6 percent for the nine months ended September 30, 2020, compared with 17.0 percent for the nine months ended September 30, 2019.

**Financial Products Segment**

Financial Products’ segment revenues were \$2.301 billion for the nine months ended September 30, 2020, a decrease of \$287 million, or 11 percent, from the nine months ended September 30, 2019. The decrease was primarily because of lower average financing rates across all regions and lower average earning assets primarily in North America.

Financial Products’ segment profit was \$395 million for the nine months ended September 30, 2020, compared with \$622 million for the nine months ended September 30, 2019. The decrease was due to higher provision for credit losses at Cat Financial, an unfavorable impact from equity securities in Insurance Services, lower average earning assets and lower net yield on average earning assets. These unfavorable impacts were partially offset by a reduction in SG&A expenses primarily due to lower short-term incentive compensation and employee benefit expenses.

**Corporate Items and Eliminations**

Expense for corporate items and eliminations was \$1.106 billion in the nine months ended September 30, 2020, a decrease of \$148 million from the nine months ended September 30, 2019, primarily due to lower corporate costs, segment reporting methodology differences and a favorable change in fair value adjustments related to deferred compensation plans, partially offset by higher restructuring costs.

**RESTRUCTURING COSTS**

Restructuring costs for the three and nine months ended September 30, 2020 and 2019 were as follows:

(Millions of dollars)	Three Months Ended September 30	
	2020	2019
Employee separations <sup>1</sup> .....	\$ 98	\$ 8
Long-lived asset impairments <sup>1</sup> .....	2	3
Other <sup>2</sup> .....	12	13
Total restructuring costs.....	\$ 112	\$ 24
	Nine Months Ended September 30	
	2020	2019
Employee separations <sup>1</sup> .....	\$ 232	\$ 33
Contract terminations <sup>1</sup> .....	3	—
Long-lived asset impairments <sup>1</sup> .....	25	39
Other <sup>2</sup> .....	36	110
Total restructuring costs.....	\$ 296	\$ 182

<sup>1</sup> Recognized in Other operating (income) expenses.

<sup>2</sup> Represents costs related to our restructuring programs, primarily for inventory write-downs, equipment relocation, project management, accelerated depreciation and building demolition, all of which are primarily included in Cost of goods sold.

For the nine months ended September 30, 2020, the restructuring costs were primarily related to various voluntary and involuntary employee separation programs implemented across the company and strategic actions to address certain product lines, which were partially offset by a gain on the sale of a manufacturing facility that had been closed. For the nine months ended September 30, 2019, the restructuring costs were primarily related to restructuring actions in Construction Industries and Energy & Transportation.

The following table summarizes the 2019 and 2020 employee separation activity:

<b>(Millions of dollars)</b>	
Liability balance at December 31, 2018	\$ 85
Increase in liability (separation charges)	48
Reduction in liability (payments)	(85)
Liability balance at December 31, 2019	48
Increase in liability (separation charges)	232
Reduction in liability (payments)	(131)
Liability balance at September 30, 2020	<u>\$ 149</u>

Most of the liability balance at September 30, 2020 is expected to be paid in 2020 and 2021.

We expect that prior restructuring actions will result in an incremental benefit to operating costs, primarily Cost of goods sold and SG&A expenses of about \$200 million in 2020 compared with 2019.

**GLOSSARY OF TERMS**

- All Other Segment** – Primarily includes activities such as: business strategy; product management and development; manufacturing and sourcing 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; brand management and marketing strategy; and digital investments for new customer and dealer solutions that integrate data analytics with state-of-the-art digital technologies while transforming the buying experience.
- Consolidating Adjustments** – Elimination of transactions between Machinery, Energy & Transportation and Financial Products.
- Construction Industries** – A segment primarily responsible for supporting customers using machinery in infrastructure 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; motor graders; pipelayers; road reclaimers; 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.
- Corporate Items and Eliminations** – Includes corporate-level expenses, timing differences (as some expenses are reported in segment profit on a cash basis), methodology differences between segment and consolidated external reporting, certain restructuring costs, and inter-segment eliminations.
- Currency** – With respect to sales and revenues, currency represents the translation impact on sales resulting from changes in foreign currency exchange rates versus the U.S. dollar. With respect to operating profit, currency represents the net translation impact on sales and operating costs resulting from changes in foreign currency exchange rates versus the U.S. dollar. Currency only includes the impact on sales and operating profit for the Machinery, Energy & Transportation lines of business; currency impacts on Financial Products revenues and operating profit are included in the Financial Products portions of the respective analyses. With respect to other income/expense, currency represents the effects of forward and option contracts entered into by the company to reduce the risk of fluctuations in exchange rates (hedging) and the net effect of changes in foreign currency exchange rates on our foreign currency assets and liabilities for consolidated results (translation).
- Dealer Inventories** – Represents dealer machine and engine inventories, excluding aftermarket parts.
- EAME** – A geographic region including Europe, Africa, the Middle East and the Commonwealth of Independent States (CIS).
- Earning Assets** – Assets consisting primarily of total finance receivables net of unearned income, plus equipment on operating leases, less accumulated depreciation at Cat Financial.

9. **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. The product portfolio includes 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, and reciprocating engines supplied to the industrial industry as well as Cat machinery. Responsibilities also include the remanufacturing of Caterpillar 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.
10. **Financial Products** – The company defines Financial Products as our finance and insurance subsidiaries, primarily Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings Inc. (Insurance Services). Financial Products’ information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment.
11. **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 Caterpillar equipment. The segment also earns revenues from Machinery, Energy & Transportation, but the related costs are not allocated to operating segments. Financial Products’ segment profit is determined on a pretax basis and includes other income/expense items.
12. **Latin America** – A geographic region including Central and South American countries and Mexico.
13. **Machinery, Energy & Transportation (ME&T)** – The company defines ME&T as Caterpillar Inc. and its subsidiaries, excluding Financial Products. ME&T’s information relates to the design, manufacturing and marketing of its products.
14. **Machinery, Energy & Transportation Other Operating (Income) Expenses** – Comprised primarily of gains/losses on disposal of long-lived assets, gains/losses on divestitures and legal settlements, and accruals.
15. **Manufacturing Costs** – Manufacturing costs exclude the impacts of currency and represent the volume-adjusted change for variable costs and the absolute dollar change for period manufacturing costs. Variable manufacturing costs are defined as having a direct relationship with the volume of production. This includes material costs, direct labor and other costs that vary directly with production volume, such as freight, power to operate machines and supplies that are consumed in the manufacturing process. Period manufacturing costs support production but are defined as generally not having a direct relationship to short-term changes in volume. Examples include machinery and equipment repair, depreciation on manufacturing assets, facility support, procurement, factory scheduling, manufacturing planning and operations management.
16. **Mark-to-market gains/losses** – Represents the net gain or loss of actual results differing from the company’s assumptions and the effects of changing assumptions for our defined benefit pension and OPEB plans. These gains and losses are immediately recognized through earnings upon the annual remeasurement in the fourth quarter, or on an interim basis as triggering events warrant remeasurement.
17. **Pension and Other Postemployment Benefit (OPEB)** – The company’s defined-benefit pension and postretirement benefit plans.
18. **Price Realization** – The impact of net price changes excluding currency and new product introductions. Price realization includes geographic mix of sales, which is the impact of changes in the relative weighting of sales prices between geographic regions.



19. **Resource Industries** – A segment primarily responsible for supporting customers using machinery in mining, heavy construction, 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, 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.
20. **Restructuring Costs** – May include 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, which may consist of accelerated depreciation, inventory write-downs, building demolition, 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.
21. **Sales Volume** – With respect to sales and revenues, sales volume represents the impact of changes in the quantities sold for Machinery, Energy & Transportation as well as the incremental sales impact of new product introductions, including emissions-related product updates. With respect to operating profit, sales volume represents the impact of changes in the quantities sold for Machinery, Energy & Transportation combined with product mix as well as the net operating profit impact of new product introductions, including emissions-related product updates. Product mix represents the net operating profit impact of changes in the relative weighting of Machinery, Energy & Transportation sales with respect to total sales. The impact of sales volume on segment profit includes inter-segment sales.
22. **Services** – Enterprise services include, but are not limited to, aftermarket parts, Financial Products revenues and other service-related revenues. Machinery, Energy & Transportation segments exclude most Financial Products revenues.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Sources of funds**

We generate significant capital resources from operating activities, which are the primary source of funding for our ME&T operations. Funding for these businesses is also available from commercial paper and long-term debt issuances. Financial Products' operations are funded primarily from commercial paper, term debt issuances and collections from its existing portfolio. Despite lower volume in most of the industries we serve, we had positive operating cash flow in the first nine months of 2020 within both our ME&T and Financial Products' operations. On a consolidated basis, we ended the first nine months of 2020 with \$9.32 billion of cash, an increase of \$1.03 billion from year-end 2019. We intend to maintain a strong cash and liquidity position.

Consolidated operating cash flow for the first nine months of 2020 was \$4.26 billion, down \$223 million compared to the same period last year. The decrease was primarily due to lower profit adjusted for non-cash items, including lower accruals for short-term incentive compensation and postretirement benefits. Partially offsetting lower profit were the absence of a discretionary pension contribution, reduced working capital requirements and lower payments for short-term incentive compensation during the first nine months of 2020 compared to the same period last year. Within working capital, changes in receivables and inventory favorably impacted cash flow, but were partially offset by unfavorable changes in accrued expenses and customer advances.

Total debt as of September 30, 2020 was \$38.13 billion, an increase of \$469 million from year-end 2019. Debt related to Financial Products decreased \$1.51 billion, primarily due to lower portfolio funding requirements. Debt related to ME&T increased \$1.98 billion in the first nine months of 2020. The increase was due to the issuance of new debt to maintain our strong financial position and increase liquidity. In April 2020, we issued \$800 million of ten-year bonds at 2.6 percent and \$1.2 billion of 30-year bonds at 3.25 percent.

As of September 30, 2020, we had three global credit facilities with a syndicate of banks totaling \$10.50 billion (Credit Facility) available in the aggregate to both Caterpillar and Cat Financial for general liquidity purposes. Based on management's allocation decision, which can be revised from time to time, the portion of the Credit Facility available to ME&T as of September 30, 2020 was \$2.75 billion. Information on our Credit Facility is as follows:

- In September 2020, we entered into a new 364-day facility of \$3.15 billion (of which \$824 million is available to ME&T) which expires in September 2021.

- The three-year facility, as amended and restated in September of 2019, of \$2.73 billion (of which \$715 million is available to ME&T) expires in September 2022.
- The five-year facility, as amended and restated in September of 2019, of \$4.62 billion (of which \$1.21 billion is available to ME&T) expires in September 2024.

At September 30, 2020, Caterpillar’s consolidated net worth was \$15.02 billion, which was above the \$9.00 billion required under the Credit Facility. The consolidated net worth is defined in the Credit Facility as the consolidated shareholders’ equity including preferred stock but excluding the pension and other postretirement benefits balance within Accumulated other comprehensive income (loss).

At September 30, 2020, Cat Financial’s covenant interest coverage ratio was 1.69 to 1. This was above the 1.15 to 1 minimum ratio calculated as (1) profit excluding income taxes, interest expense and net gain/(loss) from interest rate derivatives to (2) interest expense calculated at the end of each calendar quarter for the rolling four quarter period then most recently ended, required by the Credit Facility.

In addition, at September 30, 2020, Cat Financial’s six-month covenant leverage ratio was 6.76 to 1. This was below the maximum ratio of debt to net worth of 10 to 1, calculated (1) on a monthly basis as the average of the leverage ratios determined on the last day of each of the six preceding calendar months and (2) at each December 31, required by the Credit Facility.

In the event Caterpillar or Cat Financial does not meet one or more of their respective financial covenants under the Credit Facility in the future (and are unable to obtain a consent or waiver), the syndicate of banks may terminate the commitments allocated to the party that does not meet its covenants. Additionally, in such event, certain of Cat Financial’s other lenders under other loan agreements where similar financial covenants or cross default provisions are applicable may, at their election, choose to pursue remedies under those loan agreements, including accelerating the repayment of outstanding borrowings. At September 30, 2020, there were no borrowings under the Credit Facility.

Our total credit commitments and available credit as of September 30, 2020 were:

(Millions of dollars)	September 30, 2020		
	Consolidated	Machinery, Energy & Transportation	Financial Products
Credit lines available:			
Global credit facilities .....	\$ 10,500	\$ 2,750	\$ 7,750
Other external .....	3,105	175	2,930
Total credit lines available .....	13,605	2,925	10,680
Less: Commercial paper outstanding .....	(1,890)	—	(1,890)
Less: Utilized credit .....	(827)	—	(827)
Available credit .....	<u>\$ 10,888</u>	<u>\$ 2,925</u>	<u>\$ 7,963</u>

The other external consolidated credit lines with banks as of September 30, 2020 totaled \$3.11 billion. These committed and uncommitted credit lines, which may be eligible for renewal at various future dates or have no specified expiration date, are used primarily by our subsidiaries for local funding requirements. Caterpillar or Cat Financial may guarantee subsidiary borrowings under these lines.

Since the outbreak of the COVID-19 global pandemic, Caterpillar has taken actions to maintain our strong financial position and increase liquidity. During 2020, we raised \$2.0 billion of incremental cash by issuing \$800 million of ten-year bonds at 2.6 percent and \$1.2 billion of 30-year bonds at 3.25 percent. We also entered into an incremental \$3.9 billion short-term credit facility that was set to expire on December 31, 2020 and registered for \$4.2 billion in commercial paper support programs available in the United States and Canada. In addition, Cat Financial issued \$3.25 billion of medium-term notes in the quarter to refinance maturing medium-term notes and supplement its liquidity position. Due to our strong liquidity position, we chose to early terminate the \$3.9 billion short-term credit facility on September 2, 2020. We also do not have any outstanding borrowings under either commercial paper support program as of the date of this filing.

We receive debt ratings from the major credit rating agencies. Moody's currently rates our debt as "low-A", while Fitch and S&P maintain a "mid-A" debt rating. To date, this split rating has not had a material impact on our borrowing costs or our overall financial health. However, a downgrade of our credit ratings by any of the major credit rating agencies would result in increased borrowing costs and could make access to certain credit markets more difficult. In the event economic conditions deteriorate such that access to debt markets becomes unavailable, ME&T's operations would rely on cash flow from operations, use of existing cash balances, borrowings from Cat Financial and access to our committed credit facilities. Our Financial Products' operations would rely on cash flow from its existing portfolio, existing cash balances, access to our committed credit facilities and other credit line facilities of Cat Financial, commercial paper support facilities sponsored by the U.S. Federal Reserve and the Bank of Canada, and potential borrowings from Caterpillar. In addition, we maintain a support agreement with Cat Financial, which requires Caterpillar to remain the sole owner of Cat Financial and may, under certain circumstances, require Caterpillar to make payments to Cat Financial should Cat Financial fail to maintain certain financial ratios.

We facilitate voluntary supply chain finance programs (the "Programs") through participating financial institutions. The Programs are available to a wide range of suppliers and allows them the option to manage their cash flow. We are not a party to the agreements between the participating financial institutions and the suppliers in connection with the Programs. The range of payment terms we negotiate with our suppliers is consistent, irrespective of whether a supplier participates in the Programs. The amounts payable to participating financial institutions for suppliers who voluntarily participate in the Programs and included in Accounts payable in the Consolidated Statement of Financial Position were \$468 million and \$575 million at September 30, 2020 and December 31, 2019, respectively. The amounts settled through the Programs and paid to participating financial institutions were \$2.4 billion and \$3.1 billion during the first nine months of 2020 and 2019, respectively. We account for payments made under the Programs, the same as our other Accounts payable, as a reduction to our cash flows from operations. We do not believe that changes in the availability of supply chain financing will have a significant impact on our liquidity.

### **Machinery, Energy & Transportation**

Net cash provided by operating activities was \$2.07 billion in the first nine months of 2020, compared with \$2.63 billion for the same period in 2019. The decrease was primarily due to lower profit adjusted for non-cash items, including lower accruals for short-term incentive compensation and postretirement benefits. Partially offsetting lower profit were the absence of a discretionary pension contribution, lower payments for short-term incentive compensation and reduced working capital requirements during the first nine months of 2020 compared with the same period last year. Within working capital, changes in inventory and receivables favorably impacted cash flow, but were partially offset by unfavorable changes in accrued expenses and customer advances.

Net cash used for investing activities in the first nine months of 2020 was \$66 million, compared with net cash provided of \$138 million in the first nine months of 2019. The change was primarily due to a decrease in activity related to intercompany lending with Financial Products.

Net cash used for financing activities during the first nine months of 2020 was \$742 million, compared with net cash used of \$3.32 billion in the same period of 2019. The change was primarily due to a decrease in share repurchases of \$2.15 billion and an increase in proceeds from the issuance of debt of \$512 million in the first nine months of 2020 compared to the same period last year.

While our short-term priorities for the use of cash may vary from time to time as business needs and conditions dictate, our long-term cash deployment strategy is focused on the following priorities. Our top priority is to maintain a strong financial position in support of a mid-A rating. Next, we intend to fund operational requirements and commitments. Then, we intend to fund priorities that profitably grow the company and return capital to shareholders through dividend growth and share repurchases. Additional information on cash deployment is as follows:

**Strong financial position** – Our top priority is to maintain a strong financial position in support of a mid-A rating. We track a diverse group of financial metrics that focus on liquidity, leverage, cash flow and margins which align with our cash deployment actions and the various methodologies used by the major credit rating agencies.

**Operational excellence and commitments** – Capital expenditures were \$685 million during the first nine months of 2020, compared to \$730 million for the same period in 2019. We expect ME&T's capital expenditures in 2020 to be about \$1.0 billion. We made \$217 million of contributions to our pension and other postretirement benefit plans during the first nine months of 2020. We currently anticipate full-year 2020 contributions of approximately \$250 million. In comparison, we made \$1.77 billion of contributions to our pension and other postretirement benefit plans during the first nine months of 2019.



**Fund strategic growth initiatives and return capital to shareholders** – We intend to utilize our liquidity and debt capacity to fund targeted investments that drive long-term profitable growth focused in the areas of expanded offerings and services, including acquisitions.

As part of our capital allocation strategy, ME&T free cash flow is a liquidity measure we use to determine the cash generated and available for financing activities including debt repayments, dividends and share repurchases. We define ME&T free cash flow as cash from ME&T operations excluding discretionary pension and other postretirement benefit plan contributions less capital expenditures. A goal of our capital allocation strategy is to return substantially all ME&T free cash flow to shareholders through the cycles in the form of dividends and share repurchases, while maintaining our mid-A rating.

Our share repurchase plans are subject to the company’s cash deployment priorities and are evaluated on an ongoing basis considering the financial condition of the company and the economic outlook, corporate cash flow, the company’s liquidity needs, and the health and stability of global credit markets. The timing and amount of future repurchases may vary depending on market conditions and investing priorities. In July 2018, the Board of Directors approved an authorization to repurchase up to \$10 billion of Caterpillar common stock (the 2018 Authorization) effective January 1, 2019, with no expiration. In the first nine months of 2020, we repurchased \$1.13 billion of Caterpillar common stock, with \$4.82 billion remaining under the 2018 Authorization as of September 30, 2020. Our basic shares outstanding as of September 30, 2020 were approximately 543 million. Due to current economic uncertainty, we have temporarily suspended our share repurchase program and do not expect to repurchase any additional shares in 2020. The existing share repurchase program remains authorized by the Board, and we may resume share repurchases in the future at any time depending upon market conditions, our capital needs and other factors.

Each quarter, our Board of Directors reviews the company’s dividend for the applicable quarter. The Board evaluates the financial condition of the company and considers the economic outlook, corporate cash flow, the company’s liquidity needs, and the health and stability of global credit markets to determine whether to maintain or change the quarterly dividend. In October 2020, the Board of Directors approved maintaining our quarterly dividend representing \$1.03 per share and we continue to expect our strong financial position to support the dividend. Dividends paid totaled \$1.68 billion in the first nine months of 2020.

## **Financial Products**

Financial Products operating cash flow was \$1.04 billion in the first nine months of 2020, compared with \$1.18 billion for the same period a year ago. Net cash provided by investing activities was \$885 million for the first nine months of 2020, compared with net cash used of \$101 million for the same period in 2019. The change was primarily due to higher collections of finance receivables and other portfolio activity. Net cash used for financing activities was \$2.10 billion for the first nine months of 2020, compared with net cash used of \$433 million for the same period in 2019. The change was primarily due to lower portfolio funding requirements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

For a discussion of recent accounting pronouncements, see Part I, Item 1. Note 2 - “New accounting guidance.”

## **CRITICAL ACCOUNTING POLICIES**

For a discussion of the company’s critical accounting policies, see Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2019 Annual Report on Form 10-K. We have revised the following critical accounting policy since our 2019 Annual Report on Form 10-K:

**Allowance for credit losses** - The allowance for credit losses is management’s estimate of expected losses over the life of our finance receivable portfolio calculated using loss forecast models that take into consideration historical credit loss experience, current economic conditions and forecasts and scenarios that capture country and industry-specific economic factors. In addition, qualitative factors not able to be fully captured in our loss forecast models, including borrower-specific and Company-specific macro-economic factors, are considered in the evaluation of the adequacy of our allowance for credit losses. These qualitative factors are subjective and require a degree of management judgment.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist and on an individual basis when it is determined that similar risk characteristics do not exist. Finance receivables are identified for individual evaluation based on past-due status and information available about the customer, such as financial statements, news reports and published credit ratings, as well as general information regarding industry trends and the economic environment in which our customers operate. The allowance for credit losses attributable to finance receivables that are individually evaluated is based on the present value of expected future cash flows discounted at the receivables' effective interest rate, the fair value of the collateral for collateral-dependent receivables or the observable market price of the receivable. In determining collateral value, we estimate the current fair market value of the collateral less selling costs. We also consider credit enhancements such as additional collateral and contractual third-party guarantees.

While management believes it has exercised prudent judgment and applied reasonable assumptions, there can be no assurance that in the future, changes in economic conditions or other factors would not cause changes in the financial health of our customers. If the financial health of our customers deteriorates, the timing and level of payments received could be impacted and therefore, could result in a change to our estimated losses.

## **OTHER MATTERS**

### **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.

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, we accrue the investigation, remediation, and operating and maintenance costs against our earnings. We accrue costs 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 27, 2020, the Brazilian Federal Environmental Agency ("IBAMA") issued Caterpillar Brasil Ltda a notice of violation regarding allegations around the requirements for use of imported oils at the Piracicaba, Brazil facility. We have instituted processes to address the allegations. While we are still discussing resolution of these allegations with IBAMA, the initial notice from IBAMA included a proposed fine of approximately \$300,000. We do not expect this fine or our response to address the allegations to have a material adverse effect on the Company's consolidated results of operations, financial position or liquidity.

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 requested 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 (CSARL) 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 CSARL, 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.

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 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.

### **Retirement Benefits**

We recognize mark-to-market gains and losses immediately through earnings upon the remeasurement of our pension and OPEB plans. *Mark-to-market gains and losses* represent the effects of actual results differing from our assumptions and the effects of changing assumptions. We will record the annual mark-to-market adjustment as of the measurement date, December 31, 2020. The discount rates for our U.S. pension plans were 2.6 percent and 3.2 percent as of September 30, 2020 and December 31, 2019, respectively. Asset returns as of September 30, 2020 for our U.S. pension plans were 8.8 percent compared to an expected return on plan assets for 2020 of 5.1 percent. It is difficult to predict the December 31, 2020 adjustment amount, as it is dependent on several factors including discount rate, actual returns on plan assets and other actuarial assumptions.

### **Order Backlog**

At the end of the third quarter of 2020, the dollar amount of backlog believed to be firm was approximately \$13.4 billion, about \$500 million higher than the second quarter of 2020. The order backlog increased in Construction Industries, while Energy & Transportation and Resource Industries were about flat. Compared with the third quarter of 2019, the order backlog decreased about \$1.2 billion with decreases across the three primary segments. Of the total backlog at September 30, 2020, approximately \$3.8 billion was not expected to be filled in the following twelve months.

**NON-GAAP FINANCIAL MEASURES**

We provide the following definitions for the non-GAAP financial measures used in this report. These non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and therefore are unlikely to be comparable to the calculation of similar measures for other companies. Management does not intend for these items to be considered in isolation or as a substitute for the related GAAP measures.

We believe it is important to separately quantify the profit impact of two significant items in order for our results to be meaningful to our readers. These items consist of (i) remeasurement (gain) loss resulting from the settlements of pension obligations in 2020 and (ii) a discrete tax benefit related to U.S. tax reform in the first quarter of 2019. We do not consider these items indicative of earnings from ongoing business activities and believe the non-GAAP measure provides investors with useful perspective on underlying business results and trends and aids with assessing our period-over-period results. In addition, we provide a calculation of ME&T free cash flow as we believe it is an important measure for investors to determine the cash generation available for financing activities including debt repayments, dividends and share repurchases.

Reconciliations of adjusted profit per share to the most directly comparable GAAP measure, profit per share - diluted are as follows:

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Profit per share - diluted .....	\$ 1.22	\$ 2.66	\$ 4.05	\$ 8.75
Per share remeasurement (gain) loss of pension obligations <sup>1</sup> .....	\$ 0.12	\$ —	\$ (0.08)	\$ —
Per share U.S. tax reform impact .....	\$ —	\$ —	\$ —	\$ (0.31)
Adjusted profit per share .....	\$ 1.34	\$ 2.66	\$ 3.97	\$ 8.44

<sup>1</sup> At statutory tax rates.

Reconciliations of ME&T free cash flow to the most directly comparable GAAP measure, net cash provided by operating activities are as follows:

<b>(Millions of dollars)</b>	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
ME&T net cash provided by operating activities <sup>1</sup> .....	\$ 2,065	\$ 2,632
ME&T discretionary pension contributions .....	\$ —	\$ 1,500
ME&T capital expenditures .....	\$ (685)	\$ (730)
ME&T free cash flow .....	\$ 1,380	\$ 3,402

<sup>1</sup> See reconciliation of ME&T net cash provided by operating activities to consolidated net cash provided by operating activities on pages 84 - 85.

## **Supplemental Consolidating Data**

The Company is providing supplemental consolidating data for the purpose of additional analysis. The data has been grouped as follows:

**Consolidated** – Caterpillar Inc. and its subsidiaries.

**Machinery, Energy & Transportation** – We define ME&T as it is presented in the supplemental data as Caterpillar Inc. and its subsidiaries, excluding Financial Products. ME&T's information relates to the design, manufacturing and marketing of our products.

**Financial Products** – We define Financial Products as it is presented in the supplemental data as our finance and insurance subsidiaries, primarily Caterpillar Financial Services Corporation (Cat Financial) and Caterpillar Insurance Holdings Inc. (Insurance Services). Financial Products' information relates to the financing to customers and dealers for the purchase and lease of Caterpillar and other equipment.

**Consolidating Adjustments** – Eliminations of transactions between ME&T and Financial Products.

The nature of the ME&T and Financial Products businesses is different, especially with regard to the financial position and cash flow items. Caterpillar management utilizes this presentation internally to highlight these differences. We believe this presentation will assist readers in understanding our business.

Pages 78 to 92 reconcile ME&T and Financial Products to Caterpillar Inc. consolidated financial information. Certain amounts for prior periods have been reclassified to conform to the current period presentation.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For the Three Months Ended September 30, 2020**  
**(Unaudited)**  
**(Millions of dollars)**

	Supplemental Consolidating Data			
	Consolidated	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery, Energy & Transportation.....	\$ 9,228	\$ 9,228	\$ —	\$ —
Revenues of Financial Products.....	653	—	740	(87) <sup>1</sup>
Total sales and revenues.....	9,881	9,228	740	(87)
<b>Operating costs:</b>				
Cost of goods sold.....	6,919	6,921	—	(2) <sup>2</sup>
Selling, general and administrative expenses.....	1,126	943	189	(6) <sup>2</sup>
Research and development expenses.....	344	344	—	—
Interest expense of Financial Products.....	137	—	137	—
Other operating (income) expenses.....	370	95	287	(12) <sup>2</sup>
Total operating costs.....	8,896	8,303	613	(20)
<b>Operating profit</b> .....	985	925	127	(67)
Interest expense excluding Financial Products.....	136	136	—	—
Other income (expense).....	14	(62)	9	67 <sup>3</sup>
<b>Consolidated profit before taxes</b> .....	863	727	136	—
Provision (benefit) for income taxes.....	187	133	54	—
Profit of consolidated companies.....	676	594	82	—
Equity in profit (loss) of unconsolidated affiliated companies.....	(5)	(4)	—	(1) <sup>4</sup>
<b>Profit of consolidated and affiliated companies</b> .....	671	590	82	(1)
Less: Profit (loss) attributable to noncontrolling interests.....	3	—	4	(1) <sup>5</sup>
<b>Profit</b> <sup>6</sup> .....	<u>\$ 668</u>	<u>\$ 590</u>	<u>\$ 78</u>	<u>\$ —</u>

<sup>1</sup> Elimination of Financial Products' revenues earned from ME&T.

<sup>2</sup> Elimination of net expenses recorded by ME&T paid to Financial Products.

<sup>3</sup> Elimination of discount recorded by ME&T on receivables sold to Financial Products and of interest earned between ME&T and Financial Products as well as dividends paid by Financial Products to ME&T.

<sup>4</sup> Elimination of equity profit (loss) earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>5</sup> Elimination of noncontrolling interest profit (loss) recorded by Financial Products for subsidiaries partially owned by ME&T subsidiaries.

<sup>6</sup> Profit attributable to common shareholders.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For the Nine Months Ended September 30, 2020**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Supplemental Consolidating Data</b>			
	<b>Consolidated</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b>Sales and revenues:</b>				
Sales of Machinery, Energy & Transportation.....	\$ 28,452	\$ 28,452	\$ —	\$ —
Revenues of Financial Products.....	2,061	—	2,350	(289) <sup>1</sup>
Total sales and revenues.....	<u>30,513</u>	<u>28,452</u>	<u>2,350</u>	<u>(289)</u>
<b>Operating costs:</b>				
Cost of goods sold.....	21,298	21,302	—	(4) <sup>2</sup>
Selling, general and administrative expenses.....	3,426	2,867	572	(13) <sup>2</sup>
Research and development expenses.....	1,041	1,041	—	—
Interest expense of Financial Products.....	461	—	462	(1) <sup>3</sup>
Other operating (income) expenses.....	1,114	227	927	(40) <sup>2</sup>
Total operating costs.....	<u>27,340</u>	<u>25,437</u>	<u>1,961</u>	<u>(58)</u>
<b>Operating profit</b> .....	3,173	3,015	389	(231)
Interest expense excluding Financial Products.....	384	383	—	1 <sup>3</sup>
Other income (expense).....	265	60	(7)	212 <sup>4</sup>
<b>Consolidated profit before taxes</b> .....	3,054	2,692	382	(20)
Provision (benefit) for income taxes.....	839	720	119	—
Profit of consolidated companies.....	<u>2,215</u>	<u>1,972</u>	<u>263</u>	<u>(20)</u>
Equity in profit (loss) of unconsolidated affiliated companies.....	8	18	—	(10) <sup>5</sup>
<b>Profit of consolidated and affiliated companies</b> .....	2,223	1,990	263	(30)
Less: Profit (loss) attributable to noncontrolling interests.....	5	2	13	(10) <sup>6</sup>
<b>Profit</b> <sup>7</sup> .....	<u>\$ 2,218</u>	<u>\$ 1,988</u>	<u>\$ 250</u>	<u>\$ (20)</u>

<sup>1</sup> Elimination of Financial Products' revenues earned from ME&T.

<sup>2</sup> Elimination of net expenses recorded by ME&T paid to Financial Products.

<sup>3</sup> Elimination of interest expense recorded between Financial Products and ME&T.

<sup>4</sup> Elimination of discount recorded by ME&T on receivables sold to Financial Products and of interest earned between ME&T and Financial Products as well as dividends paid by Financial Products to ME&T.

<sup>5</sup> Elimination of equity profit (loss) earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>6</sup> Elimination of noncontrolling interest profit (loss) recorded by Financial Products for subsidiaries partially owned by ME&T subsidiaries.

<sup>7</sup> Profit attributable to common shareholders.

**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For the Three Months Ended September 30, 2019**  
**(Unaudited)**  
**(Millions of dollars)**

	<u>Supplemental Consolidating Data</u>			
	<u>Consolidated</u>	<u>Machinery, Energy &amp; Transportation</u>	<u>Financial Products</u>	<u>Consolidating Adjustments</u>
<b>Sales and revenues:</b>				
Sales of Machinery, Energy & Transportation.....	\$ 11,974	\$ 11,974	\$ —	\$ —
Revenues of Financial Products.....	784	—	920	(136) <sup>1</sup>
Total sales and revenues.....	<u>12,758</u>	<u>11,974</u>	<u>920</u>	<u>(136)</u>
<b>Operating costs:</b>				
Cost of goods sold.....	8,569	8,569	—	—
Selling, general and administrative expenses.....	1,251	1,095	163	(7) <sup>2</sup>
Research and development expenses.....	431	431	—	—
Interest expense of Financial Products.....	189	—	198	(9) <sup>3</sup>
Other operating (income) expenses.....	298	(9)	320	(13) <sup>2</sup>
Total operating costs.....	<u>10,738</u>	<u>10,086</u>	<u>681</u>	<u>(29)</u>
<b>Operating profit</b> .....	2,020	1,888	239	(107)
Interest expense excluding Financial Products.....	103	103	—	—
Other income (expense).....	88	(27)	8	107 <sup>4</sup>
<b>Consolidated profit before taxes</b> .....	2,005	1,758	247	—
Provision (benefit) for income taxes.....	518	457	61	—
Profit of consolidated companies.....	<u>1,487</u>	<u>1,301</u>	<u>186</u>	<u>—</u>
Equity in profit (loss) of unconsolidated affiliated companies.....	7	12	—	(5) <sup>5</sup>
<b>Profit of consolidated and affiliated companies</b> .....	1,494	1,313	186	(5)
Less: Profit (loss) attributable to noncontrolling interests.....	—	(1)	6	(5) <sup>6</sup>
<b>Profit</b> <sup>7</sup> .....	<u>\$ 1,494</u>	<u>\$ 1,314</u>	<u>\$ 180</u>	<u>\$ —</u>

<sup>1</sup> Elimination of Financial Products' revenues earned from ME&T.

<sup>2</sup> Elimination of net expenses recorded by ME&T paid to Financial Products.

<sup>3</sup> Elimination of interest expense recorded between Financial Products and ME&T.

<sup>4</sup> Elimination of discount recorded by ME&T on receivables sold to Financial Products and of interest earned between ME&T and Financial Products as well as dividends paid by Financial Products to ME&T.

<sup>5</sup> Elimination of equity profit (loss) earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>6</sup> Elimination of noncontrolling interest profit (loss) recorded by Financial Products for subsidiaries partially owned by ME&T subsidiaries.

<sup>7</sup> Profit attributable to common shareholders.



**Caterpillar Inc.**  
**Supplemental Data for Results of Operations**  
**For the Nine Months Ended September 30, 2019**  
**(Unaudited)**  
**(Millions of dollars)**

	Supplemental Consolidating Data			
	Consolidated	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments
<b>Sales and revenues:</b>				
Sales of Machinery, Energy & Transportation.....	\$ 38,369	\$ 38,369	\$ —	\$ —
Revenues of Financial Products.....	2,287	—	2,684	(397) <sup>1</sup>
Total sales and revenues.....	40,656	38,369	2,684	(397)
<b>Operating costs:</b>				
Cost of goods sold.....	27,513	27,515	—	(2) <sup>2</sup>
Selling, general and administrative expenses.....	3,879	3,324	564	(9) <sup>2</sup>
Research and development expenses.....	1,307	1,307	—	—
Interest expense of Financial Products.....	571	—	599	(28) <sup>3</sup>
Other operating (income) expenses.....	946	2	974	(30) <sup>2</sup>
Total operating costs.....	34,216	32,148	2,137	(69)
<b>Operating profit</b> .....	6,440	6,221	547	(328)
Interest expense excluding Financial Products.....	309	318	—	(9) <sup>3</sup>
Other income (expense).....	316	(71)	68	319 <sup>4</sup>
<b>Consolidated profit before taxes</b> .....	6,447	5,832	615	—
Provision (benefit) for income taxes.....	1,470	1,294	176	—
Profit of consolidated companies.....	4,977	4,538	439	—
Equity in profit (loss) of unconsolidated affiliated companies.....	20	36	—	(16) <sup>5</sup>
<b>Profit of consolidated and affiliated companies</b> .....	4,997	4,574	439	(16)
Less: Profit (loss) attributable to noncontrolling interests.....	2	1	17	(16) <sup>6</sup>
<b>Profit</b> <sup>7</sup> .....	\$ 4,995	\$ 4,573	\$ 422	\$ —

<sup>1</sup> Elimination of Financial Products' revenues earned from ME&T.

<sup>2</sup> Elimination of net expenses recorded by ME&T paid to Financial Products.

<sup>3</sup> Elimination of interest expense recorded between Financial Products and ME&T.

<sup>4</sup> Elimination of discount recorded by ME&T on receivables sold to Financial Products and of interest earned between ME&T and Financial Products as well as dividends paid by Financial Products to ME&T.

<sup>5</sup> Elimination of equity profit (loss) earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>6</sup> Elimination of noncontrolling interest profit (loss) recorded by Financial Products for subsidiaries partially owned by ME&T subsidiaries.

<sup>7</sup> Profit attributable to common shareholders.

**Caterpillar Inc.**  
**Supplemental Data for Financial Position**  
**At September 30, 2020**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Supplemental Consolidating Data</b>			
	<b>Consolidated</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b>Assets</b>				
Current assets:				
Cash and short-term investments	\$ 9,315	\$ 8,512	\$ 803	\$ —
Receivables – trade and other	6,969	2,484	497	3,988 <sup>1,2</sup>
Receivables – finance	8,966	—	13,120	(4,154) <sup>2</sup>
Prepaid expenses and other current assets	1,831	1,372	634	(175) <sup>3</sup>
Inventories	11,453	11,453	—	—
<b>Total current assets</b>	<b>38,534</b>	<b>23,821</b>	<b>15,054</b>	<b>(341)</b>
Property, plant and equipment – net	12,232	8,156	4,076	—
Long-term receivables – trade and other	1,149	294	181	674 <sup>1,2</sup>
Long-term receivables – finance	12,209	—	12,900	(691) <sup>2</sup>
Noncurrent deferred and refundable income taxes	1,440	1,979	101	(640) <sup>4</sup>
Intangible assets	1,363	1,363	—	—
Goodwill	6,304	6,304	—	—
Other assets	3,510	2,887	1,815	(1,192) <sup>5</sup>
<b>Total assets</b>	<b>\$ 76,741</b>	<b>\$ 44,804</b>	<b>\$ 34,127</b>	<b>\$ (2,190)</b>
<b>Liabilities</b>				
Current liabilities:				
Short-term borrowings	\$ 2,660	\$ —	\$ 2,660	\$ —
Short-term borrowings with consolidated companies	—	—	—	—
Accounts payable	5,193	5,174	187	(168) <sup>6</sup>
Accrued expenses	3,510	3,131	379	—
Accrued wages, salaries and employee benefits	1,069	1,055	14	—
Customer advances	1,209	1,209	—	—
Dividends payable	—	—	—	—
Other current liabilities	1,978	1,509	666	(197) <sup>4,7</sup>
Long-term debt due within one year	9,359	1,397	7,962	—
<b>Total current liabilities</b>	<b>24,978</b>	<b>13,475</b>	<b>11,868</b>	<b>(365)</b>
Long-term debt due after one year	26,107	9,757	16,365	(15) <sup>8</sup>
Liability for postemployment benefits	6,254	6,253	1	—
Other liabilities	4,408	3,739	1,384	(715) <sup>4</sup>
<b>Total liabilities</b>	<b>61,747</b>	<b>33,224</b>	<b>29,618</b>	<b>(1,095)</b>
<b>Commitments and contingencies</b>				
<b>Shareholders' equity</b>				
Common stock	6,204	6,204	919	(919) <sup>9</sup>
Treasury stock	(25,315)	(25,315)	—	—
Profit employed in the business	35,508	31,285	4,214	9 <sup>9</sup>
Accumulated other comprehensive income (loss)	(1,448)	(636)	(812)	—
Noncontrolling interests	45	42	188	(185) <sup>9</sup>
<b>Total shareholders' equity</b>	<b>14,994</b>	<b>11,580</b>	<b>4,509</b>	<b>(1,095)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 76,741</b>	<b>\$ 44,804</b>	<b>\$ 34,127</b>	<b>\$ (2,190)</b>

<sup>1</sup> Elimination of receivables between ME&T and Financial Products.

<sup>2</sup> Reclassification of ME&T's trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>3</sup> Elimination of ME&T's insurance premiums that are prepaid to Financial Products.

<sup>4</sup> Reclassification reflecting required netting of deferred tax assets/liabilities by taxing jurisdiction.

<sup>5</sup> Elimination of other intercompany assets between ME&T and Financial Products.

<sup>6</sup> Elimination of payables between ME&T and Financial Products.

<sup>7</sup> Elimination of prepaid insurance in Financial Products' other liabilities.

<sup>8</sup> Elimination of debt between ME&T and Financial Products.

<sup>9</sup> Eliminations associated with ME&T's investments in Financial Products' subsidiaries.

**Caterpillar Inc.**  
**Supplemental Data for Financial Position**  
**At December 31, 2019**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Supplemental Consolidating Data</b>			
	<b>Consolidated</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b>Assets</b>				
Current assets:				
Cash and short-term investments	\$ 8,284	\$ 7,299	\$ 985	\$ —
Receivables – trade and other	8,568	3,737	451	4,380 <sup>1,2</sup>
Receivables – finance	9,336	—	14,489	(5,153) <sup>2</sup>
Prepaid expenses and other current assets	1,739	1,290	529	(80) <sup>3</sup>
Inventories	11,266	11,266	—	—
<b>Total current assets</b>	<b>39,193</b>	<b>23,592</b>	<b>16,454</b>	<b>(853)</b>
Property, plant and equipment – net	12,904	8,606	4,298	—
Long-term receivables – trade and other	1,193	348	152	693 <sup>1,2</sup>
Long-term receivables – finance	12,651	—	13,354	(703) <sup>2</sup>
Noncurrent deferred and refundable income taxes	1,411	2,002	117	(708) <sup>4</sup>
Intangible assets	1,565	1,565	—	—
Goodwill	6,196	6,196	—	—
Other assets	3,340	2,953	1,572	(1,185) <sup>5</sup>
<b>Total assets</b>	<b>\$ 78,453</b>	<b>\$ 45,262</b>	<b>\$ 35,947</b>	<b>\$ (2,756)</b>
<b>Liabilities</b>				
Current liabilities:				
Short-term borrowings	\$ 5,166	\$ 5	\$ 5,161	\$ —
Short-term borrowings with consolidated companies	—	—	600	(600) <sup>6</sup>
Accounts payable	5,957	5,918	212	(173) <sup>7</sup>
Accrued expenses	3,750	3,415	335	—
Accrued wages, salaries and employee benefits	1,629	1,580	49	—
Customer advances	1,187	1,187	—	—
Dividends payable	567	567	—	—
Other current liabilities	2,155	1,689	566	(100) <sup>4,8</sup>
Long-term debt due within one year	6,210	16	6,194	—
<b>Total current liabilities</b>	<b>26,621</b>	<b>14,377</b>	<b>13,117</b>	<b>(873)</b>
Long-term debt due after one year	26,281	9,151	17,140	(10) <sup>6</sup>
Liability for postemployment benefits	6,599	6,599	—	—
Other liabilities	4,323	3,681	1,430	(788) <sup>4</sup>
<b>Total liabilities</b>	<b>63,824</b>	<b>33,808</b>	<b>31,687</b>	<b>(1,671)</b>
<b>Commitments and contingencies</b>				
<b>Shareholders' equity</b>				
Common stock	5,935	5,935	919	(919) <sup>9</sup>
Treasury stock	(24,217)	(24,217)	—	—
Profit employed in the business	34,437	30,434	3,997	6 <sup>9</sup>
Accumulated other comprehensive income (loss)	(1,567)	(739)	(828)	—
Noncontrolling interests	41	41	172	(172) <sup>9</sup>
<b>Total shareholders' equity</b>	<b>14,629</b>	<b>11,454</b>	<b>4,260</b>	<b>(1,085)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 78,453</b>	<b>\$ 45,262</b>	<b>\$ 35,947</b>	<b>\$ (2,756)</b>

<sup>1</sup> Elimination of receivables between ME&T and Financial Products.

<sup>2</sup> Reclassification of ME&T's trade receivables purchased by Financial Products and Financial Products' wholesale inventory receivables.

<sup>3</sup> Elimination of ME&T's insurance premiums that are prepaid to Financial Products.

<sup>4</sup> Reclassification reflecting required netting of deferred tax assets/liabilities by taxing jurisdiction.

<sup>5</sup> Elimination of other intercompany assets between ME&T and Financial Products.

<sup>6</sup> Elimination of debt between ME&T and Financial Products.

<sup>7</sup> Elimination of payables between ME&T and Financial Products.

<sup>8</sup> Elimination of prepaid insurance in Financial Products' other liabilities.

<sup>9</sup> Eliminations associated with ME&T's investments in Financial Products' subsidiaries.

**Caterpillar Inc.**  
**Supplemental Data for Cash Flow**  
**For the Nine Months Ended September 30, 2020**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Supplemental Consolidating Data</b>			
	<b>Consolidated</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b>Cash flow from operating activities:</b>				
Profit of consolidated and affiliated companies	\$ 2,223	\$ 1,990	\$ 263	\$ (30) <sup>1,5</sup>
Adjustments for non-cash items:				
Depreciation and amortization	1,815	1,217	598	—
Net gain on remeasurement of pension obligations	(55)	(55)	—	—
Provision (benefit) for deferred income taxes	(38)	(5)	(33)	—
Other	919	494	167	258 <sup>2</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables – trade and other	1,473	616	(54)	911 <sup>2,3</sup>
Inventories	(139)	(130)	—	(9) <sup>2</sup>
Accounts payable	(596)	(599)	(6)	9 <sup>2</sup>
Accrued expenses	(286)	(314)	28	—
Accrued wages, salaries and employee benefits	(547)	(512)	(35)	—
Customer advances	13	13	—	—
Other assets – net	(15)	(136)	26	95 <sup>2</sup>
Other liabilities – net	(512)	(514)	83	(81) <sup>2</sup>
Net cash provided by (used for) operating activities	<u>4,255</u>	<u>2,065</u>	<u>1,037</u>	<u>1,153</u>
<b>Cash flow from investing activities:</b>				
Capital expenditures – excluding equipment leased to others	(686)	(687)	(11)	12 <sup>2</sup>
Expenditures for equipment leased to others	(805)	2	(823)	16 <sup>2</sup>
Proceeds from disposals of leased assets and property, plant and equipment	550	119	451	(20) <sup>2</sup>
Additions to finance receivables	(9,278)	—	(10,234)	956 <sup>3</sup>
Collections of finance receivables	9,656	—	10,822	(1,166) <sup>3</sup>
Net intercompany purchased receivables	—	—	971	(971) <sup>3</sup>
Proceeds from sale of finance receivables	37	—	37	—
Net intercompany borrowings	—	599	6	(605) <sup>4</sup>
Investments and acquisitions (net of cash acquired)	(93)	(93)	—	—
Proceeds from sale of businesses and investments (net of cash sold)	13	13	—	—
Proceeds from sale of securities	239	17	222	—
Investments in securities	(512)	(15)	(497)	—
Other – net	(80)	(21)	(59)	—
Net cash provided by (used for) investing activities	<u>(959)</u>	<u>(66)</u>	<u>885</u>	<u>(1,778)</u>
<b>Cash flow from financing activities:</b>				
Dividends paid	(1,683)	(1,683)	(20)	20 <sup>5</sup>
Common stock issued, including treasury shares reissued	110	110	—	—
Common shares repurchased	(1,130)	(1,130)	—	—
Net intercompany borrowings	—	(6)	(599)	605 <sup>4</sup>
Proceeds from debt issued (original maturities greater than three months)	9,418	1,991	7,427	—
Payments on debt (original maturities greater than three months)	(6,789)	(18)	(6,771)	—
Short-term borrowings – net (original maturities three months or less)	(2,138)	(5)	(2,133)	—
Other – net	(1)	(1)	—	—
Net cash provided by (used for) financing activities	<u>(2,213)</u>	<u>(742)</u>	<u>(2,096)</u>	<u>625</u>
Effect of exchange rate changes on cash	(56)	(47)	(9)	—
<b>Increase (decrease) in cash and short-term investments and restricted cash</b>	<u>1,027</u>	<u>1,210</u>	<u>(183)</u>	<u>—</u>
Cash and short-term investments and restricted cash at beginning of period	8,292	7,302	990	—
Cash and short-term investments and restricted cash at end of period	<u>\$ 9,319</u>	<u>\$ 8,512</u>	<u>\$ 807</u>	<u>\$ —</u>

<sup>1</sup> Elimination of equity profit earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>2</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>3</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>4</sup> Elimination of net proceeds and payments to/from ME&T and Financial Products.

<sup>5</sup> Elimination of dividend activity between Financial Products and ME&T.

**Caterpillar Inc.**  
**Supplemental Data for Cash Flow**  
**For the Nine Months Ended September 30, 2019**  
**(Unaudited)**  
**(Millions of dollars)**

	<b>Supplemental Consolidating Data</b>			
	<b>Consolidated</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b>Cash flow from operating activities:</b>				
Profit of consolidated and affiliated companies	\$ 4,997	\$ 4,574	\$ 439	\$ (16) <sup>1</sup>
Adjustments for non-cash items:				
Depreciation and amortization	1,933	1,283	650	—
Provision (benefit) for deferred income taxes	(13)	9	(22)	—
Other	627	379	(111)	359 <sup>2</sup>
Changes in assets and liabilities, net of acquisitions and divestitures:				
Receivables – trade and other	427	125	(16)	318 <sup>2,3</sup>
Inventories	(676)	(702)	—	26 <sup>2</sup>
Accounts payable	(669)	(651)	6	(24) <sup>2</sup>
Accrued expenses	114	105	11	(2) <sup>2</sup>
Accrued wages, salaries and employee benefits	(858)	(865)	7	—
Customer advances	169	171	—	(2) <sup>2</sup>
Other assets – net	19	(66)	63	22 <sup>2</sup>
Other liabilities – net	(1,592)	(1,730)	150	(12) <sup>2</sup>
Net cash provided by (used for) operating activities	<u>4,478</u>	<u>2,632</u>	<u>1,177</u>	<u>669</u>
<b>Cash flow from investing activities:</b>				
Capital expenditures – excluding equipment leased to others	(723)	(709)	(14)	—
Expenditures for equipment leased to others	(1,133)	(21)	(1,151)	39 <sup>2</sup>
Proceeds from disposals of leased assets and property, plant and equipment	812	149	766	(103) <sup>2</sup>
Additions to finance receivables	(9,453)	—	(10,633)	1,180 <sup>3</sup>
Collections of finance receivables	9,144	—	10,166	(1,022) <sup>3</sup>
Net intercompany purchased receivables	—	—	763	(763) <sup>3</sup>
Proceeds from sale of finance receivables	183	—	183	—
Net intercompany borrowings	—	721	1	(722) <sup>4</sup>
Investments and acquisitions (net of cash acquired)	(6)	(6)	—	—
Proceeds from sale of businesses and investments (net of cash sold)	3	3	—	—
Proceeds from sale of securities	281	16	265	—
Investments in securities	(425)	(16)	(409)	—
Other – net	(37)	1	(38)	—
Net cash provided by (used for) investing activities	<u>(1,354)</u>	<u>138</u>	<u>(101)</u>	<u>(1,391)</u>
<b>Cash flow from financing activities:</b>				
Dividends paid	(1,564)	(1,564)	—	—
Common stock issued, including treasury shares reissued	59	59	—	—
Common shares repurchased	(3,283)	(3,283)	—	—
Net intercompany borrowings	—	(1)	(721)	722 <sup>4</sup>
Proceeds from debt issued (original maturities greater than three months)	8,827	1,479	7,348	—
Payments on debt (original maturities greater than three months)	(6,062)	(8)	(6,054)	—
Short-term borrowings – net (original maturities three months or less)	(1,006)	—	(1,006)	—
Other – net	(2)	(2)	—	—
Net cash provided by (used for) financing activities	<u>(3,031)</u>	<u>(3,320)</u>	<u>(433)</u>	<u>722</u>
Effect of exchange rate changes on cash	(47)	(38)	(9)	—
<b>Increase (decrease) in cash and short-term investments and restricted cash</b>	<u>46</u>	<u>(588)</u>	<u>634</u>	<u>—</u>
Cash and short-term investments and restricted cash at beginning of period	7,890	6,994	896	—
Cash and short-term investments and restricted cash at end of period	<u>\$ 7,936</u>	<u>\$ 6,406</u>	<u>\$ 1,530</u>	<u>\$ —</u>

<sup>1</sup> Elimination of equity profit earned from Financial Products' subsidiaries partially owned by ME&T subsidiaries.

<sup>2</sup> Elimination of non-cash adjustments and changes in assets and liabilities related to consolidated reporting.

<sup>3</sup> Reclassification of Financial Products' cash flow activity from investing to operating for receivables that arose from the sale of inventory.

<sup>4</sup> Elimination of net proceeds and payments to/from ME&T and Financial Products.

**Reconciliation of Consolidated profit before taxes:**

(Millions of dollars)	Consolidated Total	Machinery, Energy & Transportation	Financial Products
<b><u>Three Months Ended September 30, 2020</u></b>			
Profit from reportable segments:			
Construction Industries .....	\$ 585	\$ 585	\$ —
Resource Industries .....	167	167	—
Energy & Transportation .....	492	492	—
Financial Products Segment .....	142	—	142
Total profit from reportable segments .....	1,386	1,244	142
Profit from all other operating segment .....	27	27	—
Cost centers .....	9	9	—
Corporate costs .....	(122)	(122)	—
Timing .....	(39)	(39)	—
Restructuring costs .....	(87)	(87)	—
Methodology differences:			
Inventory/cost of sales .....	(7)	(7)	—
Postretirement benefit expense .....	(32)	(32)	—
Stock-based compensation expense .....	(55)	(53)	(2)
Financing costs .....	(125)	(125)	—
Currency .....	(22)	(22)	—
Other income/expense methodology differences .....	(72)	(72)	—
Other methodology differences .....	2	6	(4)
Total consolidated profit before taxes .....	<u>\$ 863</u>	<u>\$ 727</u>	<u>\$ 136</u>
<b><u>Three Months Ended September 30, 2019</u></b>			
Profit from reportable segments:			
Construction Industries .....	\$ 940	\$ 940	\$ —
Resource Industries .....	311	311	—
Energy & Transportation .....	1,021	1,021	—
Financial Products Segment .....	218	—	218
Total profit from reportable segments .....	2,490	2,272	218
Profit from all other operating segment .....	(21)	(21)	—
Cost centers .....	(9)	(9)	—
Corporate costs .....	(167)	(168)	1
Timing .....	6	6	—
Restructuring costs .....	(20)	(20)	—
Methodology differences:			
Inventory/cost of sales .....	25	25	—
Postretirement benefit expense .....	19	19	—
Stock-based compensation expense .....	(57)	(55)	(2)
Financing costs .....	(58)	(58)	—
Currency .....	(62)	(62)	—
Other income/expense methodology differences .....	(124)	(124)	—
Other methodology differences .....	(17)	(47)	30
Total consolidated profit before taxes .....	<u>\$ 2,005</u>	<u>\$ 1,758</u>	<u>\$ 247</u>

**Reconciliation of Consolidated profit before taxes:**

(Millions of dollars)	Consolidated Total	Machinery, Energy & Transportation	Financial Products
<b><u>Nine Months Ended September 30, 2020</u></b>			
Profit from reportable segments:			
Construction Industries	\$ 1,743	\$ 1,743	\$ —
Resource Industries	623	623	—
Energy & Transportation	1,718	1,718	—
Financial Products Segment	395	—	395
Total profit from reportable segments	4,479	4,084	395
Profit from all other operating segment	31	31	—
Cost centers	18	18	—
Corporate costs	(409)	(403)	(6)
Timing	(90)	(90)	—
Restructuring costs	(211)	(210)	(1)
Methodology differences:			
Inventory/cost of sales	(25)	(25)	—
Postretirement benefit expense	253	253	—
Stock-based compensation expense	(169)	(163)	(6)
Financing costs	(324)	(324)	—
Currency	(230)	(230)	—
Other income/expense methodology differences	(244)	(224)	—
Other methodology differences	(25)	(25)	—
Total consolidated profit before taxes	<u>\$ 3,054</u>	<u>\$ 2,692</u>	<u>\$ 382</u>

**Nine Months Ended September 30, 2019**

Profit from reportable segments:			
Construction Industries	\$ 3,272	\$ 3,272	\$ —
Resource Industries	1,368	1,368	—
Energy & Transportation	2,745	2,745	—
Financial Products Segment	622	—	622
Total profit from reportable segments	8,007	7,385	622
Profit from all other operating segment	15	15	—
Cost centers	32	32	—
Corporate costs	(492)	(487)	(5)
Timing	(118)	(118)	—
Restructuring costs	(162)	(131)	(31)
Methodology differences:			
Inventory/cost of sales	24	24	—
Postretirement benefit expense	4	4	—
Stock-based compensation expense	(170)	(164)	(6)
Financing costs	(173)	(173)	—
Currency	(110)	(110)	—
Other income/expense methodology differences	(374)	(374)	—
Other methodology differences	(36)	(71)	35
Total consolidated profit before taxes	<u>\$ 6,447</u>	<u>\$ 5,832</u>	<u>\$ 615</u>

**Reconciliation of Assets:**

(Millions of dollars)	Consolidated Total	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments
<b>September 30, 2020</b>				
Assets from reportable segments:				
Construction Industries .....	\$ 4,507	\$ 4,507	\$ —	\$ —
Resource Industries .....	6,188	6,188	—	—
Energy & Transportation .....	8,752	8,752	—	—
Financial Products Segment .....	34,014	—	34,014	—
Total assets from reportable segments .....	53,461	19,447	34,014	—
Assets from All Other operating segment .....	1,610	1,610	—	—
Items not included in segment assets:				
Cash and short-term investments .....	8,512	8,512	—	—
Intercompany receivables .....	—	108	—	(108)
Deferred income taxes .....	1,339	1,979	—	(640)
Goodwill and intangible assets .....	4,737	4,737	—	—
Property, plant and equipment – net and other assets .....	2,608	3,704	—	(1,096)
Inventory methodology differences .....	(2,560)	(2,560)	—	—
Liabilities included in segment assets .....	7,720	7,720	—	—
Other .....	(686)	(453)	113	(346)
Total assets .....	<u>\$ 76,741</u>	<u>\$ 44,804</u>	<u>\$ 34,127</u>	<u>\$ (2,190)</u>
<b>December 31, 2019</b>				
Assets from reportable segments:				
Construction Industries .....	\$ 4,601	\$ 4,601	\$ —	\$ —
Resource Industries .....	6,505	6,505	—	—
Energy & Transportation .....	8,548	8,548	—	—
Financial Products Segment .....	35,813	—	35,813	—
Total assets from reportable segments .....	55,467	19,654	35,813	—
Assets from All Other operating segment .....	1,728	1,728	—	—
Items not included in segment assets:				
Cash and short-term investments .....	7,299	7,299	—	—
Intercompany receivables .....	—	758	—	(758)
Deferred income taxes .....	1,294	2,002	—	(708)
Goodwill and intangible assets .....	4,435	4,435	—	—
Property, plant and equipment – net and other assets .....	2,529	3,614	—	(1,085)
Inventory methodology differences .....	(2,426)	(2,426)	—	—
Liabilities included in segment assets .....	8,541	8,541	—	—
Other .....	(414)	(343)	134	(205)
Total assets .....	<u>\$ 78,453</u>	<u>\$ 45,262</u>	<u>\$ 35,947</u>	<u>\$ (2,756)</u>



**Reconciliation of Depreciation and amortization:**

(Millions of dollars)	Consolidated Total	Machinery, Energy & Transportation	Financial Products
<b><u>Three Months Ended September 30, 2020</u></b>			
Depreciation and amortization from reportable segments:			
Construction Industries .....	\$ 61	\$ 61	\$ —
Resource Industries .....	105	105	—
Energy & Transportation .....	147	147	—
Financial Products Segment .....	174	—	174
Total depreciation and amortization from reportable segments .....	<u>487</u>	<u>313</u>	<u>174</u>
Items not included in segment depreciation and amortization:			
All Other operating segment .....	71	71	—
Cost centers .....	31	31	—
Other .....	4	(3)	7
Total depreciation and amortization .....	<u>\$ 593</u>	<u>\$ 412</u>	<u>\$ 181</u>
<b><u>Three Months Ended September 30, 2019</u></b>			
Depreciation and amortization from reportable segments:			
Construction Industries .....	\$ 73	\$ 73	\$ —
Resource Industries .....	113	113	—
Energy & Transportation .....	157	157	—
Financial Products Segment .....	209	—	209
Total depreciation and amortization from reportable segments .....	<u>552</u>	<u>343</u>	<u>209</u>
Items not included in segment depreciation and amortization:			
All Other operating segment .....	53	53	—
Cost centers .....	35	35	—
Other .....	5	(3)	8
Total depreciation and amortization .....	<u>\$ 645</u>	<u>\$ 428</u>	<u>\$ 217</u>

**Reconciliation of Depreciation and amortization:**

(Millions of dollars)

	<b>Consolidated Total</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>
<b><u>Nine Months Ended September 30, 2020</u></b>			
Depreciation and amortization from reportable segments:			
Construction Industries .....	\$ 183	\$ 183	\$ —
Resource Industries .....	312	312	—
Energy & Transportation .....	442	442	—
Financial Products Segment .....	577	—	577
Total depreciation and amortization from reportable segments .....	<u>1,514</u>	<u>937</u>	<u>577</u>
Items not included in segment depreciation and amortization:			
All Other operating segment .....	196	196	—
Cost centers .....	96	96	—
Other .....	9	(12)	21
Total depreciation and amortization .....	<u>\$ 1,815</u>	<u>\$ 1,217</u>	<u>\$ 598</u>
<b><u>Nine Months Ended September 30, 2019</u></b>			
Depreciation and amortization from reportable segments:			
Construction Industries .....	\$ 220	\$ 220	\$ —
Resource Industries .....	337	337	—
Energy & Transportation .....	464	464	—
Financial Products Segment .....	622	—	622
Total depreciation and amortization from reportable segments .....	<u>1,643</u>	<u>1,021</u>	<u>622</u>
Items not included in segment depreciation and amortization:			
All Other operating segment .....	158	158	—
Cost centers .....	100	100	—
Other .....	32	4	28
Total depreciation and amortization .....	<u>\$ 1,933</u>	<u>\$ 1,283</u>	<u>\$ 650</u>

**Reconciliation of Capital expenditures:**

(Millions of dollars)	<b>Consolidated Total</b>	<b>Machinery, Energy &amp; Transportation</b>	<b>Financial Products</b>	<b>Consolidating Adjustments</b>
<b><u>Three Months Ended September 30, 2020</u></b>				
Capital expenditures from reportable segments:				
Construction Industries	\$ 37	\$ 37	\$ —	\$ —
Resource Industries	10	10	—	—
Energy & Transportation	100	100	—	—
Financial Products Segment	280	—	280	—
Total capital expenditures from reportable segments	<u>427</u>	<u>147</u>	<u>280</u>	<u>—</u>
Items not included in segment capital expenditures:				
All Other operating segment	46	46	—	—
Cost centers	8	8	—	—
Timing	1	1	—	—
Other	11	19	7	(15)
Total capital expenditures	<u>\$ 493</u>	<u>\$ 221</u>	<u>\$ 287</u>	<u>\$ (15)</u>
<b><u>Three Months Ended September 30, 2019</u></b>				
Capital expenditures from reportable segments:				
Construction Industries	\$ 48	\$ 48	\$ —	\$ —
Resource Industries	31	31	—	—
Energy & Transportation	150	150	—	—
Financial Products Segment	388	—	388	—
Total capital expenditures from reportable segments	<u>617</u>	<u>229</u>	<u>388</u>	<u>—</u>
Items not included in segment capital expenditures:				
All Other operating segment	34	34	—	—
Cost centers	22	22	—	—
Timing	(21)	(21)	—	—
Other	(21)	(26)	41	(36)
Total capital expenditures	<u>\$ 631</u>	<u>\$ 238</u>	<u>\$ 429</u>	<u>\$ (36)</u>

**Reconciliation of Capital expenditures:**

(Millions of dollars)	Consolidated Total	Machinery, Energy & Transportation	Financial Products	Consolidating Adjustments
<b><u>Nine Months Ended September 30, 2020</u></b>				
Capital expenditures from reportable segments:				
Construction Industries	\$ 85	\$ 85	\$ —	\$ —
Resource Industries	63	63	—	—
Energy & Transportation	331	331	—	—
Financial Products Segment	783	—	783	—
Total capital expenditures from reportable segments	1,262	479	783	—
Items not included in segment capital expenditures:				
All Other operating segment	84	84	—	—
Cost centers	23	23	—	—
Timing	147	147	—	—
Other	(25)	(48)	51	(28)
Total capital expenditures	<u>\$ 1,491</u>	<u>\$ 685</u>	<u>\$ 834</u>	<u>\$ (28)</u>
<b><u>Nine Months Ended September 30, 2019</u></b>				
Capital expenditures from reportable segments:				
Construction Industries	\$ 117	\$ 117	\$ —	\$ —
Resource Industries	91	91	—	—
Energy & Transportation	366	366	—	—
Financial Products Segment	1,093	—	1,093	—
Total capital expenditures from reportable segments	1,667	574	1,093	—
Items not included in segment capital expenditures:				
All Other operating segment	69	69	—	—
Cost centers	71	71	—	—
Timing	108	108	—	—
Other	(59)	(92)	72	(39)
Total capital expenditures	<u>\$ 1,856</u>	<u>\$ 730</u>	<u>\$ 1,165</u>	<u>\$ (39)</u>

**Forward-looking Statements**

Certain statements in this Form 10-Q 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,” “forecast,” “target,” “guide,” “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 speak only as of the date they are made, 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) commodity price changes, material price increases, fluctuations in demand for our products or significant shortages of material; (iii) government monetary or fiscal policies; (iv) political and economic risks, commercial instability and events beyond our control in the countries in which we operate; (v) international trade policies and their impact on demand for our products and our competitive position, including the imposition of new tariffs or changes in existing tariff rates; (vi) our ability to develop, produce and market quality products that meet our customers' needs; (vii) the impact of the highly competitive environment in which we operate on our sales and pricing; (viii) information technology security threats and computer crime; (ix) inventory management decisions and sourcing practices of our dealers and our OEM customers; (x) a failure to realize, or a delay in realizing, all of the anticipated benefits of our acquisitions, joint ventures or divestitures; (xi) union disputes or other employee relations issues; (xii) adverse effects of unexpected events; (xiii) disruptions or volatility in global financial markets limiting our sources of liquidity or the liquidity of our customers, dealers and suppliers; (xiv) 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; (xv) our Financial Products segment's risks associated with the financial services industry; (xvi) changes in interest rates or market liquidity conditions; (xvii) an increase in delinquencies, repossessions or net losses of Cat Financial's customers; (xviii) currency fluctuations; (xix) our or Cat Financial's compliance with financial and other restrictive covenants in debt agreements; (xx) increased pension plan funding obligations; (xxi) alleged or actual violations of trade or anti-corruption laws and regulations; (xxii) additional tax expense or exposure, including the impact of U.S. tax reform; (xxiii) significant legal proceedings, claims, lawsuits or government investigations; (xxiv) new regulations or changes in financial services regulations; (xxv) compliance with environmental laws and regulations; (xxvi) the duration and geographic spread of, business disruptions caused by, and the overall global economic impact of, the COVID-19 pandemic; and (xxvii) other factors described in more detail in Caterpillar's Forms 10-Q, 10-K and other filings with the Securities and Exchange Commission.

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

The information required by this Item is incorporated by reference from Note 5 – “Derivative financial instruments and risk management” included in Part I, Item 1 and Management's Discussion and Analysis included in Part I, Item 2 of this Form 10-Q.

### ***Item 4. Controls and Procedures***

#### ***Evaluation of disclosure controls and procedures***

An evaluation was performed under the supervision and with the participation of the company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based on that evaluation, the CEO and CFO concluded that the company's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

#### ***Changes in internal control over financial reporting***

During the third quarter of 2020, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### ***Item 1. Legal Proceedings***

The information required by this Item is incorporated by reference from Note 14 – “Environmental and legal matters” included in Part I, Item 1 of this Form 10-Q.

***Item 1A. Risk Factors***

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, other than as updated in Part II, "Item 1A. Risk Factors," in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020.

***Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***

***Issuer Purchases of Equity Securities***

No shares were repurchased during the third quarter of 2020.

***Non-U.S. Employee Stock Purchase Plans***

As of September 30, 2020, we had 27 employee stock purchase plans (the "EIP Plans") that are administered outside the United States for our non-U.S. employees, which had approximately 13,000 active participants in the aggregate. During the third quarter of 2020, approximately 96,000 shares of Caterpillar common stock were purchased by the EIP Plans pursuant to the terms of such plans.

**Item 6. Exhibits**

- 10.1 Credit Agreement (2020 364-Day Facility), dated September 3, 2020, by and among Caterpillar Inc., Caterpillar Financial Services Corporation, Caterpillar International Finance Designated Activity Company, and Caterpillar Finance Kabushiki Kaisha, certain financial institutions named therein, Citibank, N.A., BofA Securities, Inc. and JPMorgan Chase Bank N.A. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 8, 2020)
- 10.2 Local Currency Addendum, dated as of September 3, 2020, to the Credit Agreement (2020 364-Day Facility) (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 8, 2020)
- 10.3 Japan Local Currency Addendum, dated as of September 3, 2020, to the Credit Agreement (2020 364-Day Facility) (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed September 8, 2020)
- 31.1 Certification of Chief Executive Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer of Caterpillar Inc. and Chief Financial Officer of Caterpillar Inc., as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive File (embedded within the Inline XBRL document and included in Exhibit 101)

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CATERPILLAR INC.**

November 4, 2020	<u>          /s/ D. James Umpleby III          </u> D. James Umpleby III	Chairman of the Board & Chief Executive Officer
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November 4, 2020	<u>          /s/ Andrew R.J. Bonfield          </u> Andrew R.J. Bonfield	Chief Financial Officer
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November 4, 2020	<u>          /s/ Suzette M. Long          </u> Suzette M. Long	Chief Legal Officer, General Counsel & Corporate Secretary
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November 4, 2020	<u>          /s/ G. Michael Marvel          </u> G. Michael Marvel	Chief Accounting Officer
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## SECTION 302 CERTIFICATION

I, D. James Umpleby III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 4, 2020

/s/ D. James Umpleby III

D. James Umpleby III

Chief Executive Officer

## SECTION 302 CERTIFICATION

I, Andrew R.J. Bonfield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Caterpillar Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 4, 2020           /s/ Andrew R.J. Bonfield           Chief Financial Officer  
 Andrew R.J. Bonfield

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Caterpillar Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 4, 2020           /s/ D. James Umpleby III           Chief Executive Officer  
D. James Umpleby III

November 4, 2020           /s/ Andrew R.J. Bonfield           Chief Financial Officer  
Andrew R.J. Bonfield

A signed original of this written statement required by Section 906 has been provided to Caterpillar Inc. and will be retained by Caterpillar Inc. and furnished to the Securities and Exchange Commission or its staff upon request.