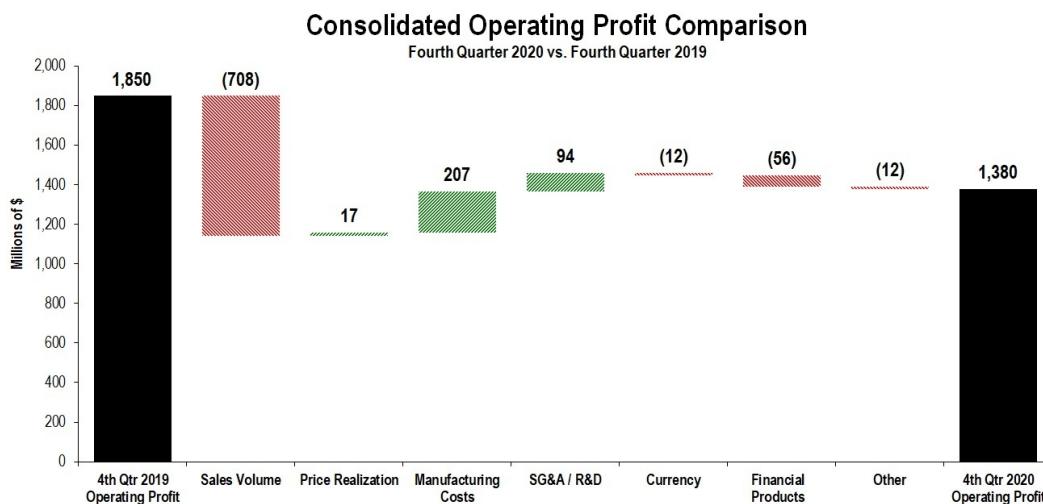


CONSOLIDATED OPERATING PROFIT



The chart above graphically illustrates reasons for the change in consolidated operating profit between the fourth quarter of 2019 (at left) and the fourth 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 entitled Other includes consolidating adjustments and Machinery, Energy & Transportation other operating (income) expenses.

Operating profit for the fourth quarter of 2020 was \$1.380 billion, a decrease of \$470 million, or 25 percent, compared with \$1.850 billion in the fourth quarter of 2019. The decrease was primarily the result of lower sales volume partially offset by lower manufacturing costs and SG&A/R&D expenses. In addition, operating profit declined due to lower profit from Financial Products.

Manufacturing costs were lower due to favorable impact from cost absorption, lower material and period manufacturing costs, partially offset by higher warranty expense. Cost absorption was favorable as inventory decreased more in the fourth quarter of 2019 than in the fourth quarter of 2020.

SG&A/R&D expenses and period manufacturing costs benefited from reduced short-term incentive compensation expense and other cost reductions related to lower sales volumes, partially offset by higher labor and benefits costs.

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 fourth quarter of 2020, compared with about \$120 million in the fourth quarter of 2019.

Operating profit margin was 12.3 percent for the fourth quarter of 2020, compared with 14.1 percent for the fourth quarter of 2019.