





Finning International Inc. is an international equipment dealer which sells, finances and services Caterpillar and other complementary equipment. The Company has more than 5,000 employees serving its principal markets in Western Canada, Britain and Chile. In 1997, Finning achieved record revenue of \$2.3 billion.

Our success is built upon "equal commitment" to customers, shareholders and employees. Our performance depends on delivering the best solutions to customers while building long-term shareholder value.

Our employees around the world work together with a common set of climate goals. These goals guide our people to achieve their best:

- we are each free to act toward clear, shared goals
- we all feel the joy of doing what counts to keep our customers
- we all learn in advance about changes that affect our work
- we are involved in changes that affect our work
- it is safe for people to express their opinion
- opportunities for individual development and growth are fair
- we all know where we are going and how we will get there
- we care about the well being of each other

**our
strength
is our
commitment**



**'My commitment is
to make our customers
and our Company successful.'**

James F. Shepard CHAIRMAN AND CHIEF EXECUTIVE OFFICER

to our shareholders

I am pleased to report that Finning International Inc. produced record results in 1997 for the fourth consecutive year. Revenue increased 24% to \$2.3 billion and net income improved 18% to \$104 million. The Company's return on shareholders' equity was 16.2% in 1997 – the third year in a row the Company earned a return above its 15% target.

This strong performance could not have been achieved without the commitment of our Finning employees around the world. By applying their expertise to individual customer needs they are consistently providing the best solutions – made possible by the fact that Finning sells and services the best equipment in its class, namely Caterpillar. Reliability, productivity and quality of design, manufacture and support are the key ingredients in Caterpillar's record of success.

Finning's record performance in 1997 can also be credited to our corporate strategy. We remained committed to our core business while stepping further out on the international stage. Earlier this decade, the Company embarked on a plan that would see Finning increase its diversification outside of Western Canada. In 1993, we acquired the Caterpillar dealership in Chile at a time when that economy was beginning to accelerate. On October 1, 1997, we completed the acquisition of H. Leverton Limited, the other Cat dealership in Britain, making our Finning (UK) Ltd. operation the sole British Cat dealership. Management is currently integrating the best practices of those two companies to create a stronger and more efficient dealership. The equipment industry in Britain remains highly competitive but we are expecting steady improvement in Finning (UK)'s market share and operating margins over the next three to four years.



Because of our diversification, Finning now generates more than half of its revenue from activities outside of Canada. We serve an expanded customer base spread over three continents and operating in unique industries and separate economies. This diversification reduces our exposure to market cyclicity in any one sector of an economy, allowing our Company to focus on building long-term value. For example, even though the coastal forestry industry in British Columbia experienced weakness in 1997, double-digit growth in Alberta and Chile allowed us to achieve record results.

To further our international diversification, we are also committing more people and resources to our Universal Machinery Services division ("UMS"), previously called International Sales. UMS sells used equipment and used parts to end-users and other dealers around the world. In the last five years, the division has tripled its sales to \$100 million in 1997 and is now expanding its marketing efforts in the areas of pipeline equipment and cranes.

While diversification has been a key to Finning's successful growth, so too has been the forward-looking and expansive product introduction program of Caterpillar. Since 1992, Caterpillar has introduced more than 244 new or improved products and this past year Cat completed a series of acquisitions and joint ventures to further expand its product line. In the agriculture sector, Cat has joined hands with German-based Claas KgaA to introduce a new line of Lexion combine harvesters that will be available in North America in 1999. Caterpillar also acquired Skogsjan AB and Perkins Engines (a division of LucasVarity plc) to expand their forest and power systems lines, respectively. In the second quarter of 1998, Cat will launch its new series of compact construction equipment at an industry trade show in Germany. The commitment to product leadership by Caterpillar provides Finning with expanded opportunities to sell and service new and existing equipment in all its dealer territories.

While Finning has grown in size significantly and enhanced its strategic position over this past decade, it is clear that we cannot stand still in a changing business environment. We must be ever vigilant to the opportunities and threats that are sure to appear in tomorrow's markets. Competition remains tough in each of our dealer territories and we are making the necessary internal changes to stay one step ahead. We recognize that our success in the past has been due to our ability to control costs and reposition our resources to best serve our customers. And we are continuing this approach. In our British operations, substantial relocation and restructuring efforts are underway as Finning (UK) and H. Leverton are being combined to maximize productivity. And in Canada, we have made the decision to relocate 220 positions from our Canadian head office on Great Northern Way in Vancouver to our renovated three-storey office building in Edmonton, Alberta. Edmonton, centrally located to our oil, gas, mining and agricultural customers, is also the gateway to the Northwest Territories which offers a promising future in the mining sector, especially diamonds. Finning (Canada) must be close to its customers in Alberta and the Northwest Territories where expansion opportunities in all key sectors will be the biggest source of our Canadian growth in the next decade. To provide state-of-the-art service support for customers in the Lower Mainland, a new \$15 million branch facility is under construction in Surrey, B.C.

In our continuing efforts to improve efficiency and customer service, Finning made a significant corporate-wide commitment to upgrading its information systems in 1997. Both Finning (Canada) and Finning (UK) successfully launched version 2.0 of the Dealer Business System (DBS) in the third quarter of 1997. DBS is customized software that improves support services for Finning's customers, and links the Company's database with Finning's operating units, the Caterpillar network and other Cat dealers worldwide. Finning Chile will be upgraded from an earlier version of DBS in the fourth quarter of 1998.

Finning also continues to benefit from the business acumen and informed governance of its Board of Directors. In this regard, the Board appointed two additional members in 1997 – Jim Dinning of Calgary, Alberta and Timothy Howden of Marlow, England. We look forward to the valued contribution of these two new members.

Looking forward, Finning's performance will continue to improve as each of the operating units capitalizes on its unrealized potential. Now that Finning (UK) is the national Caterpillar dealer in Britain, there is an opportunity to begin growing our market share in that territory and improving cost competitiveness over time. In Chile, increasing activity in construction and infrastructure projects will offset the decline in the growth rate of mining expected in that territory in 1998. And in Canada, continued activity in the petroleum industry, expansion of the oil sands, and new diamond mining projects in the Northwest Territories provide on-going growth opportunities.

By focusing on core strengths which enhance our "customer solutions" approach to business, the Company will continue to build long-term value. Through the dedication and commitment of all our employees, we will continue to be the leaders in the markets that we serve.

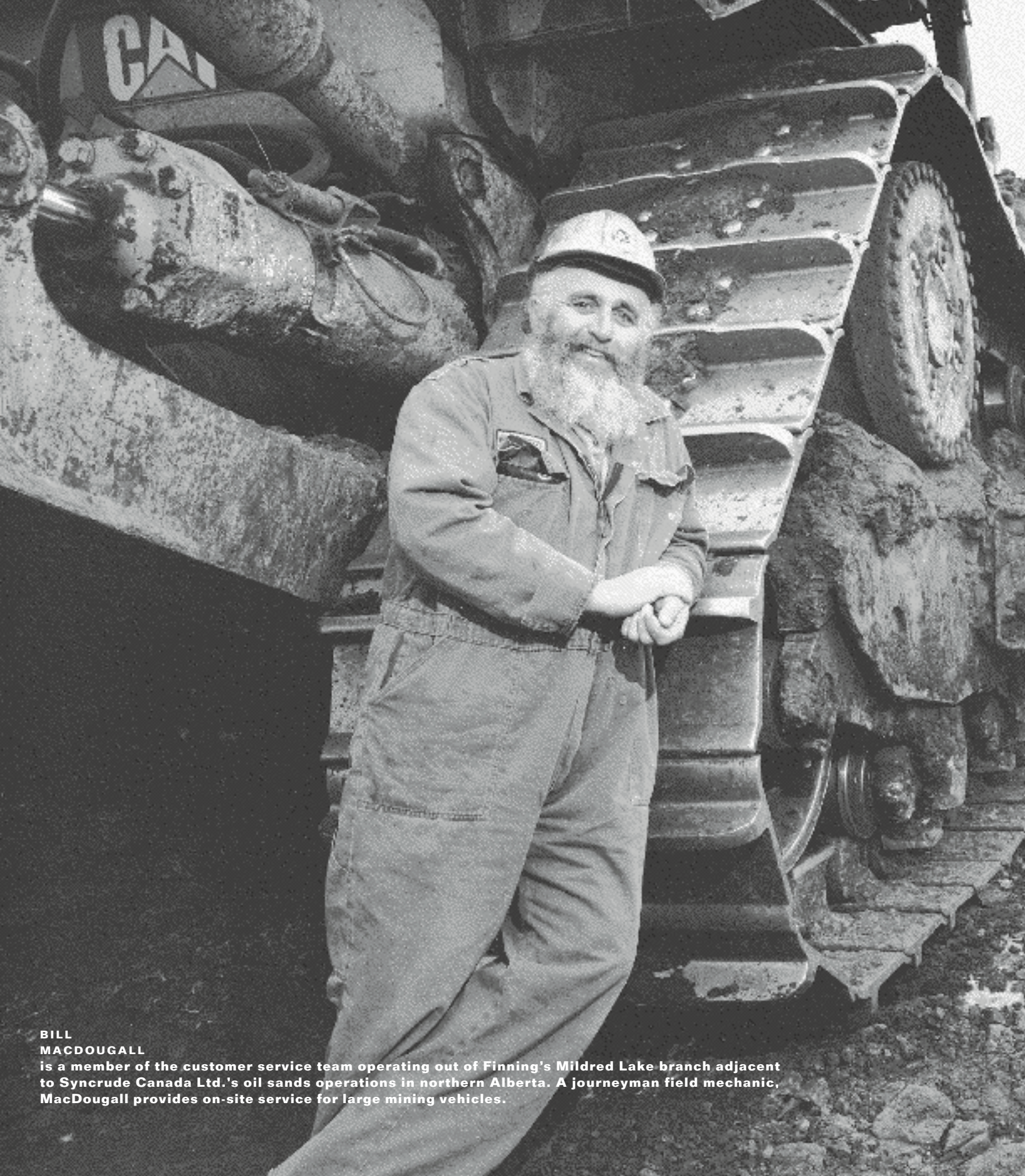


James F. Shepard CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**delivering
the best
solutions**







**BILL
MACDOUGALL**

is a member of the customer service team operating out of Finning's Mildred Lake branch adjacent to Syncrude Canada Ltd.'s oil sands operations in northern Alberta. A journeyman field mechanic, MacDougall provides on-site service for large mining vehicles.

**FINNING
(CANADA)**

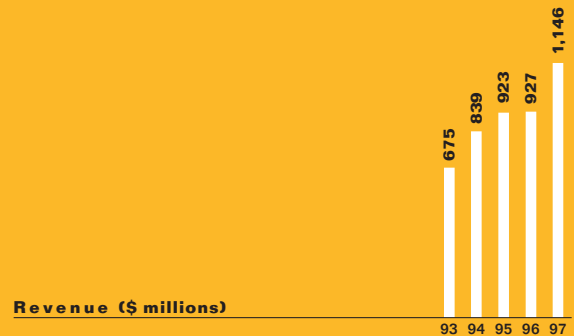




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**FINNING
(CANADA)**



Finning (Canada) is the Caterpillar dealer in Western Canada, serving Alberta, British Columbia, Yukon and the Northwest Territories. It has 36 branches and 2,500 employees with its executive head office located in Edmonton, Alberta.

In 1997, Finning (Canada) reported record revenue of \$1.15 billion, an increase of 24% over 1996. The operating unit's net operating income increased 27% to a record \$51.7 million from \$40.8 million in the previous year.

Canadian operations had record deliveries in 1997, a result of significant growth in the Alberta economy. Unit deliveries increased 31% compared with 1996.

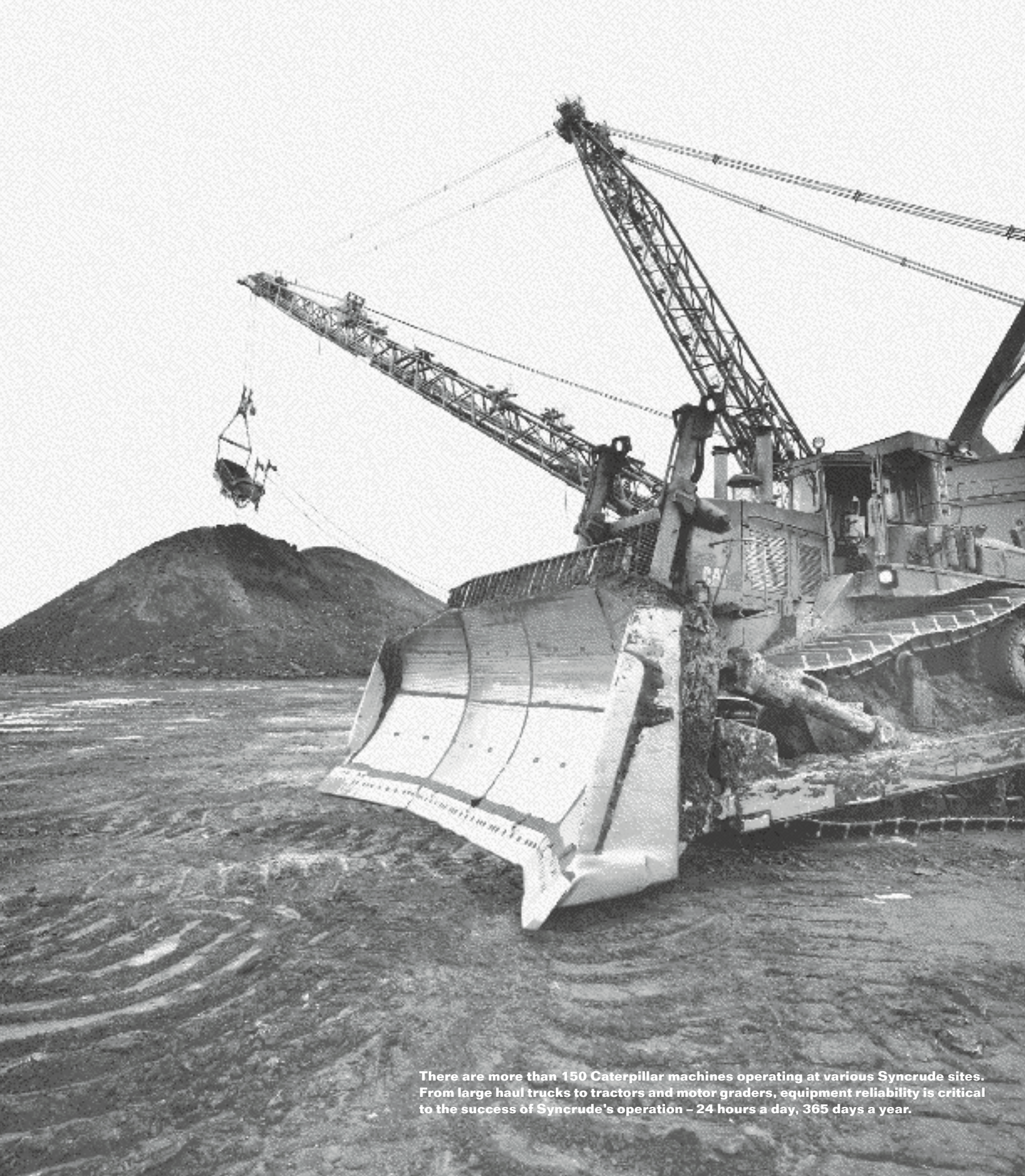
In the near future, Alberta and the Northwest Territories offer the greatest sales potential for Finning (Canada) as the mining, petroleum, pipeline and construction sectors are expected to expand significantly over the next decade.

In May 1997, Finning (Canada) acquired Interior Lift Truck in Kelowna, B.C. This company sells, rents and services materials handling equipment from Kelowna and its branches in Vernon and Penticton.

Canadian operations successfully launched version 2.0 of the Dealer Business System (DBS) across Western Canada in July 1997. DBS is dedicated software designed by Caterpillar to support dealer operations, and links Finning (Canada) with other operating units, the Caterpillar network and other Cat dealers worldwide.







There are more than 150 Caterpillar machines operating at various Syncrude sites. From large haul trucks to tractors and motor graders, equipment reliability is critical to the success of Syncrude's operation – 24 hours a day, 365 days a year.

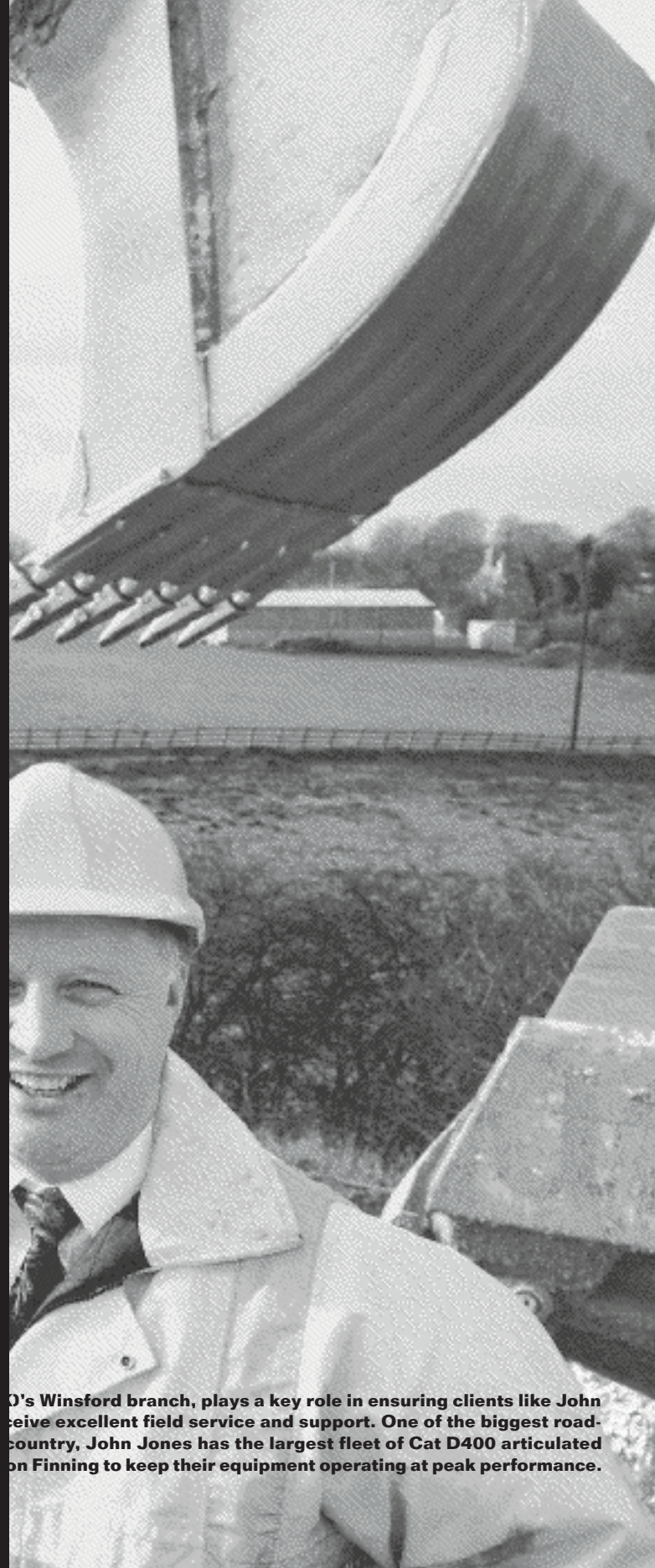


In 1997, Syncrude announced expansion plans totaling \$6 billion over the next 10 years and another major player, Suncor Energy, announced its expansion plans with an estimated cost of \$2.2 billion. These customers count on Finning to help them get the job done through new equipment, technology and experience.





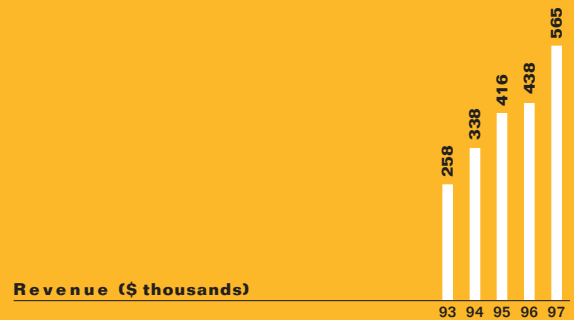
**FINNING
(UK) LTD.**



Finning's Winsford branch, plays a key role in ensuring clients like John Jones receive excellent field service and support. One of the biggest road contractors in the country, John Jones has the largest fleet of Cat D400 articulated graders on Finning to keep their equipment operating at peak performance.



**FINNING
(UK) LTD.**



Finning (UK) Ltd. is the national Caterpillar dealer for Britain, serving England, Scotland and Wales. It has 15 branches and more than 1,700 employees with its head office located in Cannock, England.

In 1997, Finning (UK) reported revenue of \$565 million, an increase of 29% over 1996. The operating unit's net operating income declined to \$16.9 million in 1997 from \$18.8 million in the previous year.

On October 1, 1997, Finning (UK) acquired H. Leverton Limited, the former Caterpillar dealer for eastern and northern England. H. Leverton is being integrated into the Finning (UK) operation, transforming the combined entity into a strong national Cat dealership in Britain.

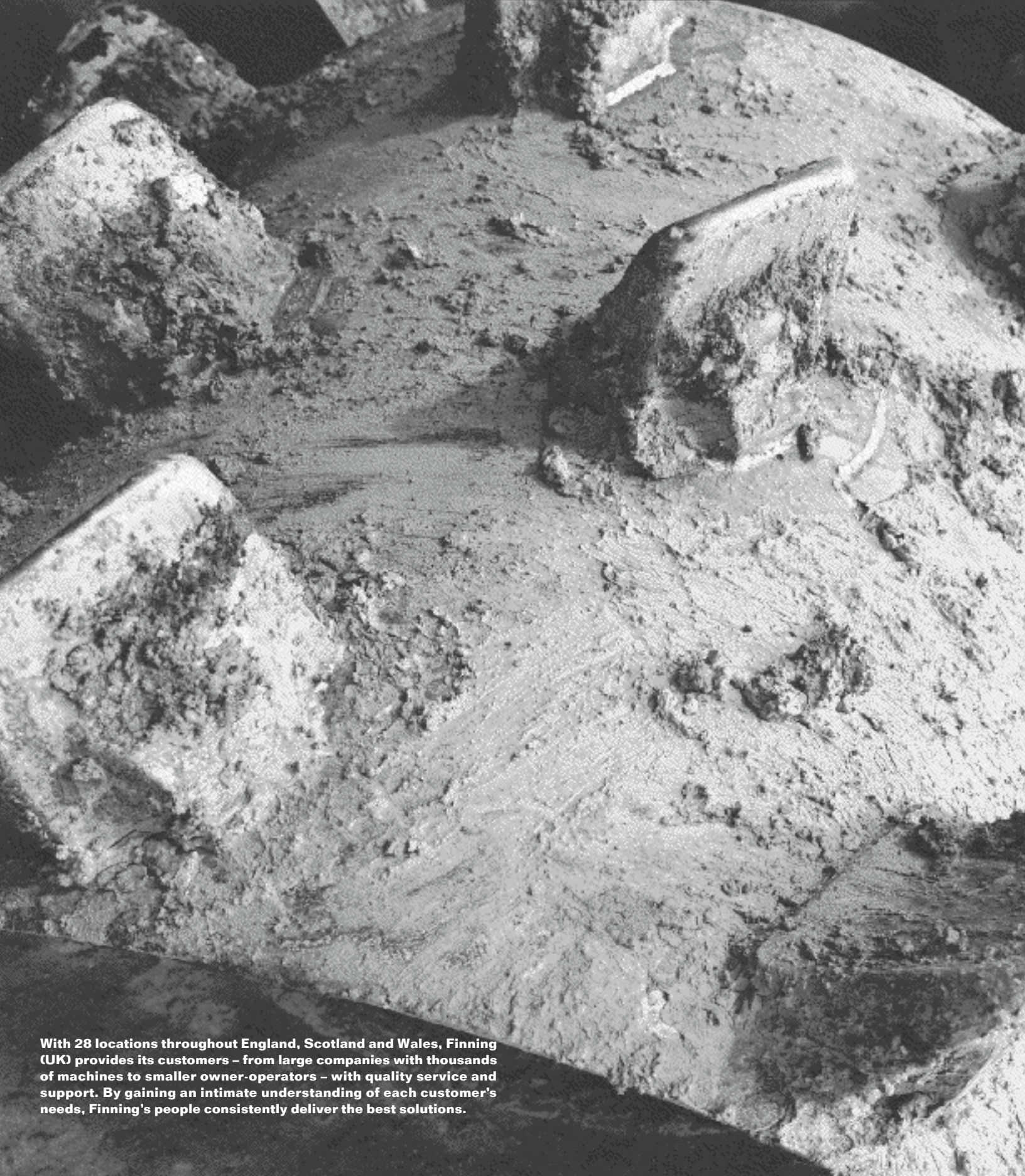
In two separate transactions, Finning (UK) divested its finance portfolio to Caterpillar Financial Services (UK) Ltd. and sold its Polish dealership to Bergerat Monnoyeur International, the Cat dealer in France. The latter transaction was conditional upon approval from the Polish government which was granted in February 1998.

Finning (UK) launched version 2.0 of the Dealer Business System (DBS) in August 1997. DBS is dedicated software designed by Caterpillar to support dealer operations, and links Finning (UK) with the Company's head office, the Caterpillar network and other Cat dealers worldwide.



**COLIN
HOPKINSON.**

area manager at Finning (UK)'s Winsford branch, plays a key role in ensuring clients like John Jones (Excavations) Ltd. receive excellent field service and support. One of the biggest road-building contractors in the country, John Jones has the largest fleet of Cat D400 articulated trucks in England and relies on Finning to keep their equipment operating at peak performance.



With 28 locations throughout England, Scotland and Wales, Finning (UK) provides its customers – from large companies with thousands of machines to smaller owner-operators – with quality service and support. By gaining an intimate understanding of each customer's needs, Finning's people consistently deliver the best solutions.





Plant hire customers like John Jones (Excavations) Ltd. – which provide both equipment and personnel for specialized projects – accounted for more than half of Finning (UK)'s sales of construction machines in 1997.





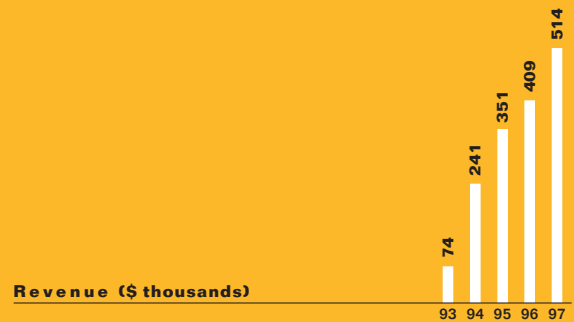
**FINNING
CHILE S.A.**



...cian with Finning Chile S.A., is dedicated full-time to the equipment
...act at the Escondida copper mine in northern Chile's Atacama
...e at the world's largest copper mine, Finning personnel ensure
...y's Cat equipment is operating to its maximum potential.



FINNING CHILE S.A.



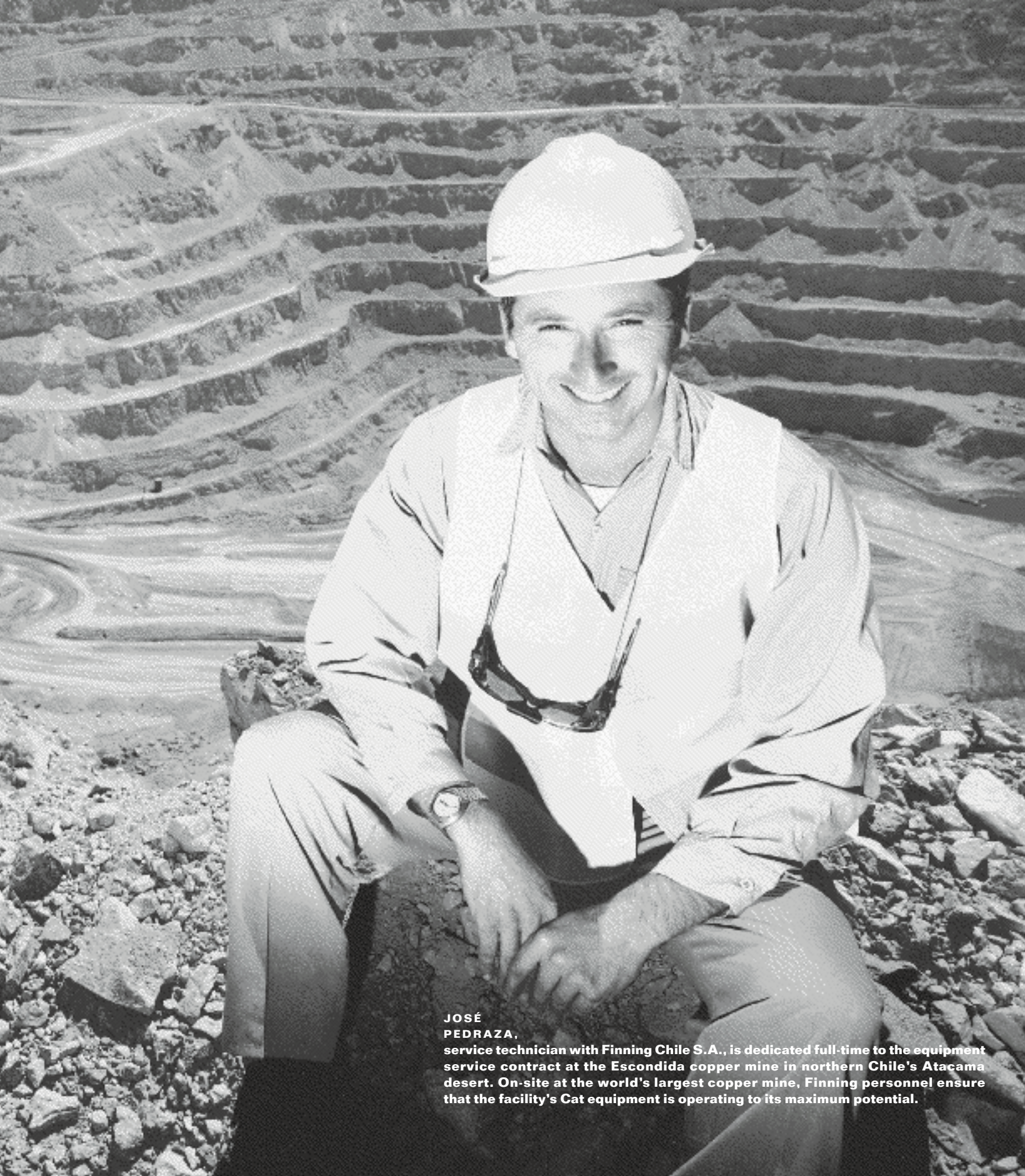
Finning Chile S.A. is the national Caterpillar dealer in Chile, serving the northern, central and southern regions of the country. It has nine branches and 1,200 employees with its head office located in Santiago.

The company changed its name from Gilde-meister S.A.C. to Finning Chile S.A. in 1997, which has been well received by the Chilean business community.

In 1997, Finning Chile reported record revenue of \$514 million, an increase of 26% over 1996. The operating unit's net operating income increased 10% to \$19.5 million from \$17.7 million in the previous year.

The company achieved record sales and deliveries to the mining industry in 1997. Revenue from mining equipment sales increased 15% and unit sales increased 44%. Construction activity increased in 1997 as many large infrastructure projects are being undertaken in the transport, energy and utility sectors over the next five years.

Finning Chile opened a new Parts Distribution Centre in Antofagasta in October 1997 to improve support services for its mining customers operating in the northern region of Chile. The Component Rebuild Centre, also located in Antofagasta, was expanded significantly and eight new service trucks were added to the field fleet.



**JOSÉ
PEDRAZA,**

service technician with Finning Chile S.A., is dedicated full-time to the equipment service contract at the Escondida copper mine in northern Chile's Atacama desert. On-site at the world's largest copper mine, Finning personnel ensure that the facility's Cat equipment is operating to its maximum potential.



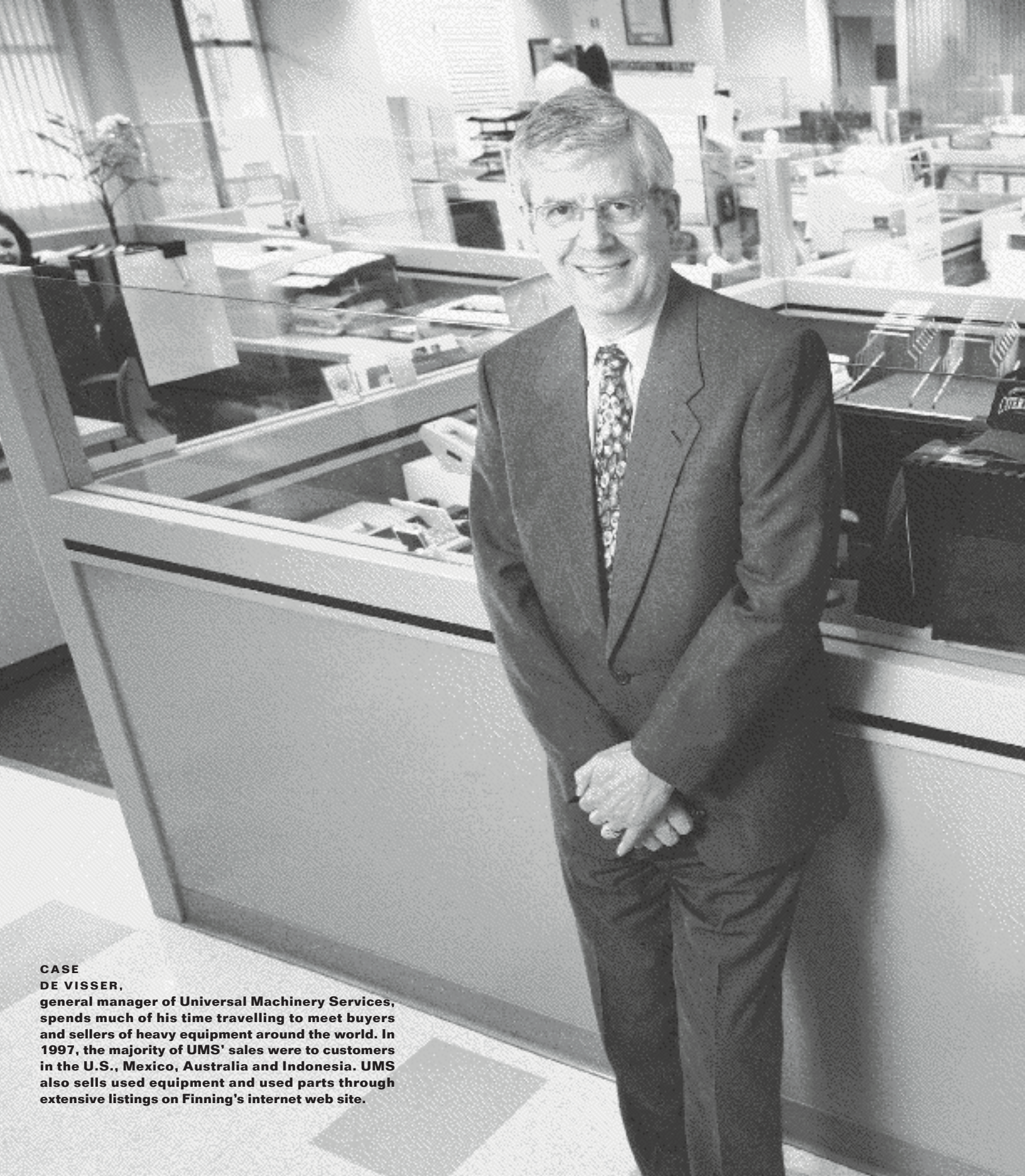


There are more than 120 pieces of Cat equipment in operation at the Escondida mine site, which employs trucks and shovels to mine the ore. About 180 million tons of overburden had to be pre-stripped to uncover the ore body 180 metres below the desert surface. The Escondida mine is majority-owned by Broken Hill Proprietary Inc. of Australia, which holds 57.5% of the project and manages it on behalf of its partners.



Equipment is routinely sent to Finning Chile's Antofagasta branch for overhaul and reconditioning. The Component Rebuild Centre was doubled in size in 1997 and a new Parts Distribution facility was built to expedite parts delivery to customers in northern Chile.





CASE DE VISSER, general manager of Universal Machinery Services, spends much of his time travelling to meet buyers and sellers of heavy equipment around the world. In 1997, the majority of UMS' sales were to customers in the U.S., Mexico, Australia and Indonesia. UMS also sells used equipment and used parts through extensive listings on Finning's internet web site.

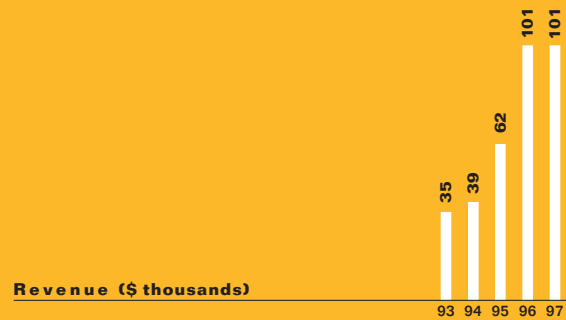
**UNIVERSAL
MACHINERY
SERVICES**





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UNIVERSAL MACHINERY SERVICES



Universal Machinery Services (UMS) sells used equipment and used parts to customers and dealers worldwide. It has more than 30 employees and is headquartered in Vancouver, B.C.

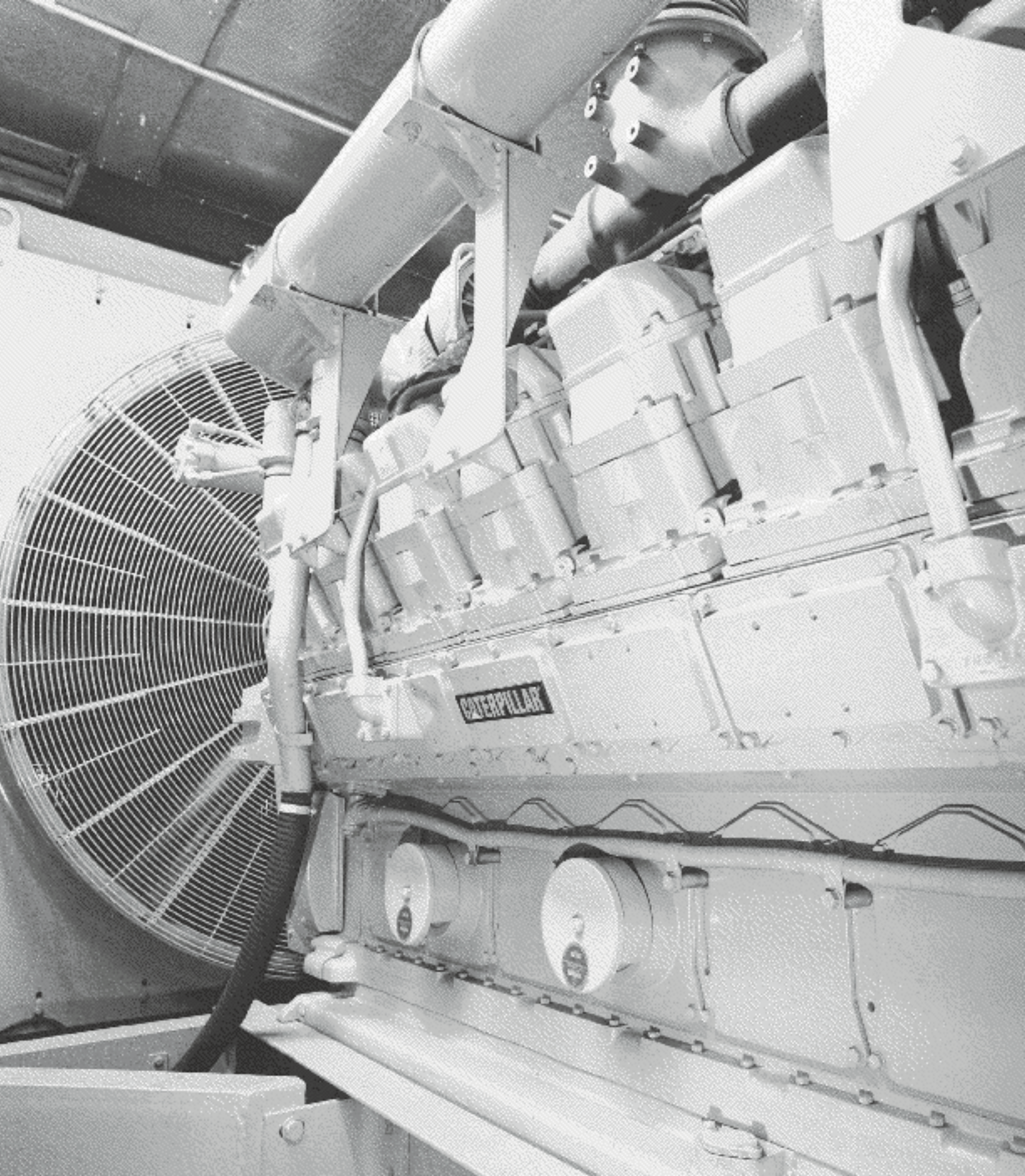
This operation (a division of Finning International Inc.) is part of International operations under the Company's segmented reporting.

In 1997, UMS sold \$101 million in equipment and parts. The operating unit's net operating income, which includes allocated interest and corporate head office expenses, was \$2.4 million. In the last five years, UMS has tripled its sales and is expanding its marketing efforts into pipeline equipment and cranes.

UMS led the used equipment business in large mining truck sales in 1997 and achieved high volume sales of large tractors and wheel loaders. The division purchased a number of mining and construction equipment packages for resale throughout the world. These packages were bought in the Middle East, Australia, Europe and the United States.

UMS often combines its resources with other Cat dealers to buy and sell equipment, with both parties increasing business opportunities and supplier capabilities.





**building
long-term
value**



**MANAGEMENT'S
DISCUSSION AND ANALYSIS**
COMPARISON OF RESULTS OF 1997 TO 1996

**CONSOLIDATED
OPERATIONS**

HIGHLIGHTS Finning achieved its fourth consecutive year of record revenue and earnings in 1997. Revenue increased significantly for the twelve months ending December 31, 1997 to \$2.3 billion, up 24% over the same period a year ago. Revenue in Finning Chile and Finning (Canada) increased 26% and 24%, respectively, primarily due to strong new equipment sales. Revenue in the U.K. increased 29% compared with 1996, including three months of contribution from H. Leverton Limited, purchased on October 1, 1997 by Finning (UK) Ltd. Revenue in International operations, a newly reported segment, was essentially flat compared with the prior year's level.

EQUIPMENT REVENUE Total equipment revenue, including new and used equipment sales and rentals, totaled \$1.5 billion compared with \$1.2 billion in the prior year, an increase of 28%. Approximately 59% of the increase in equipment revenue was attributable to volume increases and 22% was attributable to the acquisition of

subsidiary companies, principally H. Leverton. The balance of the increase was due to the strength of the pound sterling and the U.S. dollar against the Canadian dollar, and selling price increases, the latter averaging 3% in 1997. Equipment revenue represented 65% of total revenue compared with 63% in the prior year.

New equipment revenue increased to \$1.1 billion, a 31% increase from the prior year. Higher new equipment sales to the Canadian petroleum industry and to the Chilean mining industry contributed the majority of the increase. In the U.K., the acquisition of H. Leverton resulted in higher revenues while activity in Finning (UK) was slightly lower than 1996. Used equipment revenue increased to \$309 million, up 12% from the prior year.

Equipment rental, a newly reported segment, generated \$98.5 million of revenue compared with \$57.6 million of revenue in 1996. This is a growing business activity in all operating units. Total assets in the rental fleet at year-end 1997 were \$222.8 million, an increase of 63% over 1996 year-end levels.

REVENUE BY ACTIVITY (\$ MILLIONS)	1997		1996		GROWTH
New equipment	\$ 1,115	48%	\$ 850	45%	31%
Used equipment	309	13%	276	15%	12%
Equipment rental	98	4%	58	3%	69%
Customer service	744	32%	631	34%	18%
Finance and other	61	3%	60	3%	2%
	<u>\$ 2,327</u>	<u>100%</u>	<u>\$ 1,875</u>	<u>100%</u>	<u>24%</u>

CUSTOMER SERVICE REVENUE Parts and service revenue was \$743.7 million, an increase of 18% from the prior year. Approximately 56% of the increase in customer service revenue was attributable to volume increases. The most significant volume increases were in the Chilean and Canadian operations. Finning Chile is in its fourth full year of operations since its acquisition in August 1993 and strong deliveries in the prior years have translated into higher current demand for parts and service. In Finning (Canada), increased activity in its Alberta branches, coupled with the adverse impact of a two-week labour disruption which occurred in

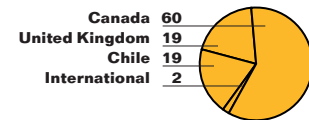
1996, contributed to the increase. In the U.K., excluding H. Leverton, customer service volume was down slightly. International operations had a 179% increase in its used parts sales year-over-year.

The balance of the increase in customer service revenue was due to the acquisition of subsidiary companies, principally H. Leverton, contributing 22% of the increase, and to foreign exchange rate fluctuations and selling price increases, averaging 2% for parts and 5% for service. The selling price increases were implemented to offset higher supplier prices, wage increases and inflationary pressures in Chile.

Revenue by Geographic Segment (%)



Net Income by Geographic Segment (%)



FINANCE REVENUE Finning and Caterpillar Finance have arrangements in place to provide customers with competitive financial services in all of Finning's dealer territories. Finance revenue of \$60.5 million was relatively unchanged from the prior year.

Effective November 13, 1997, the U.K. finance portfolio, which contributed \$14 million in finance revenue in 1997, was sold to Caterpillar Financial Services (UK) Limited for total proceeds of \$136 million (£60 million). All financing associated with long-term rentals, conditional sales, and lease contracts in the U.K. market was transferred to Caterpillar Finance. The U.K. finance portfolio contributed approximately 20% of Finning's total finance income. This loss of income is expected to be more than offset by income from the H. Leverton operation in future periods.

Canadian operations finance revenue grew a modest 4% during the year. The growth in revenue from the lease portfolio and the decline in revenue from the note portfolio was expected, as Finning (Canada) entered into a joint marketing agreement with Caterpillar Financial Services Ltd. in 1996. Under the agreement, personnel from both Finning (Canada) and Caterpillar Finance are marketing a common array of financial services to customers in the Canadian territory. Finning (Canada) provides leasing and rental-purchase financing while Caterpillar Finance offers conditional sales and equity financing. Total consolidated finance assets at year-end 1997 were \$515.2 million compared with \$587.4 million at year-end 1996.

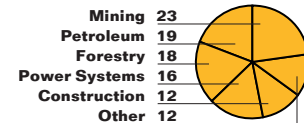
NET INCOME Net income in 1997 increased to \$103.7 million, an improvement of 18% compared with the previous year. Excluding non-recurring gains of \$13.2 million in 1997 and \$7.5 million in 1996, net income in 1997 increased to \$90.5 million, an improvement of 12% over the prior year.

Earnings per share were higher at \$1.32 compared with \$1.13 for 1996. Excluding the non-recurring items, earnings per share were \$1.15 in 1997 compared with \$1.04 the previous year.

Canadian operations contributed \$61.7 million to consolidated net income, an increase of 51% from 1996. Excluding non-recurring gains of \$10.0 million in 1997, net income was \$51.7 million, up 27% from the prior year. Finning (Canada) had an extremely successful year on the strength of new equipment deliveries, primarily to the Alberta petroleum industry. Chilean operations net income was up 10% to \$19.5 million on the strength of mining sales and customer service revenues. U.K. operations net income was \$20.1 million in 1997 compared with \$26.3 million in 1996. Excluding non-recurring gains of \$3.2 million in 1997 and \$7.5 million in 1996, net income declined 10% year-over-year. In 1997, Finning (UK) completed a number of projects including the acquisition of H. Leverton, the sale of the U.K. finance portfolio and the sale of the Polish operations.

Finning expects another good year in 1998. Despite weakened commodity prices, overall activity levels in Finning's operating units are expected to improve modestly year-over-year. In Western Canada, the forestry sector in British Columbia will experience a period of consolidation. In Alberta, growth will continue with activity levels dependent on the oil and gas drilling in the second half of the year. In Chile, overall activity is expected to increase. The anticipated reduction in the growth rate of mining activity in Chile resulting from the decline in copper and gold prices will be offset by increased construction and infrastructure activity. In the U.K., revenue is expected to increase with a full year's contribution from H. Leverton while the market is expected to remain highly competitive.

Canadian Equipment Deliveries
by Market (converted to sales dollars) (%)



CANADIAN OPERATIONS

HIGHLIGHTS In 1997, Finning (Canada) achieved record levels in revenue, earnings and units sold. Deliveries increased 31% on the year, resulting in the highest number of units recorded by any Caterpillar dealer in North America in 1997. Revenue increased 24% to \$1.15 billion and net income increased 51% to \$61.7 million. Demand for equipment exceeded available supply during the year, resulting in a strong unit order backlog going into 1998.

ECONOMIC REVIEW The Alberta economy expanded rapidly in 1997 with growth in GDP of 5.2%. The B.C. economy, on the other hand, grew approximately 2.0% as lower commodity prices and government regulations adversely affected the coastal forestry and mining sectors. In 1998, Alberta's GDP is expected to grow by 3.9%, matching estimates for Canada's national growth rate. In British Columbia, forecasts are for growth in GDP of 1.0% to 1.5% as weak demand in Asia and consolidation in the forestry sector take effect.

INDUSTRY REVIEW

PETROLEUM In 1997, oil and gas drilling in Western Canada increased 28% to just over 17,000 wells drilled. Approximately 75% of the producing wells were located in Alberta. Mid-size tractors, tractor-scrappers, hydraulic excavators and articulated dump trucks were all in demand for oil field work.

Deliveries of new petroleum units by Finning (Canada) surged ahead 140% compared with 1996. Total unit deliveries were heavily weighted in the petroleum sector as this industry accounted for 26% of all new general line equipment deliveries in 1997 compared with 13% in 1996. The value of these deliveries amounted to 19% of total new equipment deliveries compared with 10% in 1996. The increased activity was related to the record number of wells drilled in the Alberta oil patch in 1997.

The price of West Texas intermediate oil, which averaged US\$20.60 per barrel during 1997, eased to \$18.30 per barrel in December 1997. While Western Canadian producers remain concerned about lower oil prices in 1998, increased natural gas pipeline capacity into the U.S. is expected to result in better

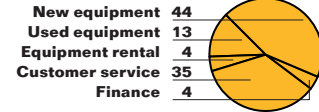
gas prices and related drilling activity in Canada. The construction of main transmission lines for both oil and gas pipelines provides opportunities in 1998 as contractors prepare for these expansion projects. The largest proposed project is the \$3.7 billion Alliance natural gas pipeline which is targeting to be in service by the year 2000.

MINING In 1997, the major producer groups operating in the Athabasca oil sands announced significant capital investments to be made over the next decade. Syncrude announced capital expenditures of \$6 billion that will more than double its daily production to approximately 410,000 barrels by 2007. Suncor Energy is undertaking a \$2.2 billion expansion of its fields and facilities that is expected to boost production to more than 200,000 barrels per day. Shell and Mobil also announced plans in 1997 that are expected to total more than \$4 billion in additional oil sands investment. With the producers adopting the truck and shovel methodology for the mining of the oil sands, the Athabasca developments continue to offer substantial potential for future sales at Finning (Canada).

In 1997, deliveries of new mining units by Finning (Canada) increased 29% and the value of those units rose 39% compared with 1996. Mining unit deliveries in 1997 accounted for 11% of total new general line equipment deliveries, comparable with the prior year. The value of these deliveries amounted to 23% of total new equipment deliveries, the same as the prior year. In 1997, a large package of tractors, trucks, and shovels was ordered for a diamond mine in the Northwest Territories. Finning (Canada) also made significant inroads into the coal mining industry, selling fourteen 240-ton trucks at a coal property in southeastern B.C. and five 240-ton trucks to an Alberta coal mine.

FORESTRY The forestry industry in British Columbia experienced lower commodity prices, falling demand and increased government regulation in 1997. Pulp prices were stable year-over-year at approximately US\$580 per ton and are forecast to remain flat in 1998 in North America and Europe. Newsprint prices, on the other hand, dipped in 1997 but are expected to improve slightly in 1998 based on increasing U.S. demand. Lumber prices, which averaged about US\$350 per mfbm of Spruce-Pine-Fir 2x4s in 1997, are forecast to track below that in 1998.

Canadian Revenue (by activity) (%)



Deliveries of new forestry units by Finning (Canada) were down 7% for the year and the value of those units was down 8%. The value of deliveries to the forestry industry was 18% of total new equipment deliveries compared with 28% in the prior year. Industry analysts are calling for further rationalization and consolidation in the forestry sector. Despite these trends, a slowdown in the coastal forestry sector in 1998 is expected to be offset by activity in the B.C. Interior and Alberta. The forestry business in northern Alberta is a growing opportunity for Finning (Canada). Four new forestry swing machines, purpose-built by Caterpillar as delimeter-processors, delimiters, roadbuilders and log loaders, are key to improving market share.

CONSTRUCTION The construction industry was buoyant in 1997. Deliveries of paving equipment were the highest in Finning (Canada)'s history. Alberta users bought the first of Caterpillar's newest pavers and Finning (Canada) continued to dominate the market for compactors. Purchases of articulated dump trucks, tractor-scrappers and excavators by public works departments in Alberta increased. Aggregate producers and quarry operators favoured large wheel loaders and 65-ton trucks in 1997.

Deliveries of new construction units by Finning (Canada) were down 10% for the year, but the value of those units was 7% higher, largely due to the success of a marketing program to promote higher valued scrapers in 1997. In 1997, 36 units valued at more than \$400,000 each were delivered compared with 12 units in 1996. Twenty-five of these units were delivered to customers in Alberta.

AGRICULTURE New equipment unit deliveries to the agriculture industry were 21% higher than 1996, mainly due to the strength of sales of integrated tool-carriers to feedlot operators. In 1997, Caterpillar introduced the Challenger 95E which is a larger tractor featuring a 410-horsepower engine. After an absence of 60 years, combines reappeared in Caterpillar's product lineup. Following the signing of a joint venture with Claas KgaA of Germany in 1997, Cat will be manufacturing four new combine models for the North American market.

POWER SYSTEMS Power systems equipment deliveries were up 70% in units and the value of those units increased 91% over the prior year. Demand was exceptional for natural gas compressor packages in 1997 and customer support services have also increased as the population of compressor units continues to increase in the Finning (Canada) territory. Four 725 kilowatt generator sets supplied power for preparatory work at the Ekati diamond mine in the Northwest Territories and five generator sets, at 4400 kilowatts each, will be shipped early in 1998 to provide prime power during the production stage.

MATERIALS HANDLING Materials handling units delivered to customers were down 10%, while the value of those units rose 3%. There was an intentional shift away from outright sales of new units towards long term rental of the new units. New equipment rental revenue rose 37%, confirming this trend.

FINANCIAL REVIEW

EQUIPMENT REVENUE Equipment revenue, including new and used equipment sales and rentals, was \$698.6 million in 1997, an increase of 33% over prior year levels. Revenue increased in all activities with the majority of the growth in sales of new equipment, up 41% to \$505.7 million. New equipment revenue included an approximate 2% price increase that was supplier-driven and an approximate 1% price increase due to exchange rate fluctuations of the Canadian dollar relative to the U.S. dollar. Used equipment sold in the domestic market increased to \$144.9 million, up 7% from 1996.

Equipment rental revenue was up 58%, mainly due to a 30% increase in the number of units in the rental fleet but also resulting from improved utilization and higher valued units in the fleet. The business continued to be constrained by unit availability as the general line rental fleet backlog increased, up 83% from prior year levels. Canadian rental fleet assets were \$130 million at year-end 1997, a 31% increase from 1996.

CUSTOMER SERVICE REVENUE Parts and service revenue increased to \$404.2 million, an increase of 11% over 1996. Parts revenue increased 9% to \$326.6 million, mainly due to increased volume in Alberta-based branches. Most of the increase was in new Caterpillar parts. A January 1, 1997 parts price increase of 1.6% contributed to the overall increase. Service revenue was up 23% to \$77.6 million.

REVENUE BY PROVINCE Total sales activity increased 42% in Alberta while B.C. activity levels increased 8% from the prior year. Most of the increase in B.C. was due to the sale of mining trucks to southeastern B.C. coal operators and related customer service revenue. In Alberta, revenue growth was led by the strength of the petroleum services, construction and government maintenance sectors. In 1997, B.C. revenue was 45% of total revenue compared with 52% in 1996.

FINANCE REVENUE Total finance revenue was \$43.6 million, a 4% increase from the prior year. The increase in finance revenue was due to a 20% increase in the lease portfolio. Interest income on conditional sales contracts was down slightly due to lower rates, while the value of the portfolio remained constant.

Total finance assets increased to \$485 million, an increase of 14% from year-end 1996.

ACQUISITIONS Effective May 12, 1997 Finning (Canada) acquired the Interior Lift Truck group of companies for \$2.1 million in cash and share consideration. The Interior Lift Truck group sells, rents and services materials handling and high-reach equipment, primarily in the Interior of British Columbia. This acquisition added \$3.4 million in revenue in 1997.

NET INCOME Net income from Canadian operations increased 51% to \$61.7 million compared with \$40.8 million in 1996. Excluding non-recurring gains of \$10.0 million from insurance proceeds and the sale of property in 1997, net income increased 27% to \$51.7 million. The net income margin, excluding non-recurring items,

improved to 4.5% from 4.4% in 1996. The earnings improvement reflected both increased sales, stable gross profit margins and cost control.

Overall gross profit margins were down slightly by 1.5%. New equipment margins declined 1% from 1996 levels reflecting the increased volume of lower margin mining sales. Used equipment margin improvement of 2% was the result of strong market demand, especially for oil field tractors. Parts margins were down 1%, partly due to a negative foreign exchange variance in the fourth quarter of 1997. Service margins were also down 1%, largely due to a higher ratio of overtime hours experienced in the year.

Total expense levels were down as a percentage of sales. Equipment expenses were down as a percentage of revenue on strong sales volume. Included in expenses was \$4.0 million of DBS-related expenses to effect its implementation on July 2, 1997.

Based on assumptions for economic activity in 1998, growth is expected through increased demand from segments of the mining industry (oil sands, coal and diamonds) and the pipeline and oil and gas industries. In addition, sales are expected to increase in some product categories as a result of focused marketing programs aimed at increasing market share, especially in the forestry, construction and agriculture industries.

During the year, Finning announced plans to relocate its Canadian head office from Vancouver, B.C. to Edmonton, Alberta. Accordingly, Finning is pursuing the sale of the Great Northern Way property in Vancouver. Although the timing and value of such a sale are dependent on many factors, including local market demand and zoning issues, proceeds are expected to exceed book value. A charge against 1998 earnings is expected, relating to the cost of the planned relocation of the Canadian head office from Vancouver to Edmonton. The Company's head office will remain in Vancouver.

UNITED KINGDOM OPERATIONS

HIGHLIGHTS U.K. operations had stable revenue and earnings in a period of significant change:

- Effective October 1, 1997, Finning (UK) acquired 100% of the outstanding share capital of H. Leverton to become the national dealer for Caterpillar equipment in England, Scotland, Wales and the Channel Islands.
- Finning (UK) sold its finance portfolio to Caterpillar Financial Services (UK) Limited, effective November 13, 1997.
- A conditional sale agreement with Bergerat Monnoyeur International, the French Caterpillar dealer, was completed on December 19, 1997. The agreement was conditional upon receiving approval by the Minister of Internal Affairs and Administration, required under Polish law for property transferred between foreign companies. Notification of approval from the Minister of Internal Affairs and Administration was received February 6, 1998 and, accordingly, the sale has been completed.

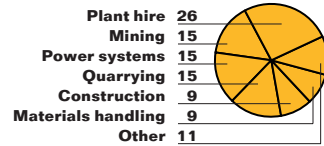
ECONOMIC OVERVIEW The U.K. economy recorded above average growth in 1997 with GDP increasing 3.4% on the year. During the year, the Bank of England pursued an anti-inflationary policy which resulted in the base interest rate climbing from 6.0% to 7.25%. In turn this caused a slowdown in economic growth in the fourth quarter and estimates for GDP growth in 1998 are approximately 2.6%. The pound sterling appreciated strongly in 1997 against other major European currencies and, to a lesser extent, against the U.S. and Canadian dollars. Major projects expected to be underway in 1998 include the Birmingham Northern Relief Road (a six-lane tolled motorway); the M74 and M8 motorways in Scotland; and the installation of new power systems under the government's Non-Fossil Fuel Allowance program.

INDUSTRY REVIEW

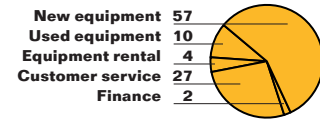
CONSTRUCTION AND PLANT HIRE Private and commercial investment in construction increased 3% in 1997 with light construction outpacing heavy construction. Public spending on infrastructure projects continued to be constrained under the newly elected Labour government. The high value of the pound sterling reduced the competitiveness of used equipment from Britain being sold into overseas markets. This resulted in many rental companies operating machinery for a longer period before trading in the equipment. In 1997, Finning (UK)'s sales of new equipment to the construction and plant hire industries were relatively flat compared with the previous year, however, unit deliveries declined 18%. Combined with three months' revenue contribution from H. Leverton, revenue increased 7% (in pounds sterling).

QUARRYING National output of crushed rock, sand and gravel, and marine-dredged sand remained stable at 230 million tons. With the British government seeking to reduce increasing traffic congestion through road-pricing and other demand management techniques, many new road projects remained on the drawing board. Reduced demand from roadbuilders, however, was offset by a need for quarrying products in other construction sectors. Quarry operators continued to invest in new equipment in 1997 but called for cost-containment and risk-sharing partnerships through product support agreements and performance guarantees from equipment suppliers. In Finning (UK), new equipment sales to this sector increased 18% (in pounds sterling) from the prior year with unit deliveries remaining static. Combined with H. Leverton, quarrying revenue increased 30% (in pounds sterling). The increase in revenue was due in part to a number of machines delivered to a major quarry customer in the fourth quarter of 1997.

U.K. Equipment Deliveries by Market (converted to sales dollars) (%)



U.K. Revenue (by activity) (%)



OPENCAST COAL Deliveries of off-highway trucks and heavy tractors to opencast coal operators in 1997 kept pace with the previous year. A fleet replacement order for nineteen 777D 100-ton capacity trucks was received from a major opencast mine in Scotland during the year. New gas-fired electricity generating capacity came on stream in 1997, reducing the overall demand for steam coal by 19%. However, most of the reduced demand came at the expense of deep coal mines whereas opencast coal mines maintained the same year-over-year production levels of 15 million tons.

CHINA CLAY The Cornish china clay industry underwent a major rationalization to meet cost targets in 1997. Plant fleets were reduced and remaining equipment was deployed on a triple-shift system. Finning (UK) responded to new customer needs by relocating its main Cornwall branch inside the clay mining complex. Seven-day-per-week parts and service support is now being provided, with service personnel engaged on annualized hours contracts. Large machines are brought directly into the dealer workshops via the mine's internal road network.

In Finning (UK), new equipment sales to the opencast coal and china clay industries declined 7% (in pounds sterling) from the prior year, however, unit deliveries declined 34%. Combined with H. Leverton, revenues declined 5% from 1996 levels.

POWER SYSTEMS Power system revenue in Finning (UK) increased 17% (in pounds sterling) while unit deliveries decreased 10%, reflecting an increase in the average price per unit as customers ordered commercial marine vessels with larger hulls and higher power requirements. Combined with H. Leverton, power systems revenue increased 45% and unit deliveries decreased 4%. Engine deliveries to pleasure craft builders increased 12% over the previous year. Commercial marine sales improved 75%, reflecting increased demand for re-powering of fishing craft, auxiliary power provision on large vessels, and work-boat main propulsion.

Industrial engine sales declined as exports of compressors and mobile crushing equipment slowed. Diesel generator sales eased from 1996 levels while rental demand showed consistent growth.

MATERIALS HANDLING Materials handling revenue in Finning (UK) increased 18% (in pounds sterling) in the year and unit deliveries of lift trucks increased 21%, reflecting a sharp improvement in market share. Combined with H. Leverton, materials handling revenue increased 94% (in pounds sterling) and unit deliveries increased 63%. In a level market, users continued to show preference for contract rental, with 60% of transactions falling into this category. Short-term rentals expanded, with fleet growth of 33% and high machine utilization. JLG aerial access equipment was offered on short-term rental contracts and custom equipment rebuild contracts were completed for the Ministry of Defense.

FINANCIAL REVIEW

REVENUE Total revenue was \$565.4 million, an increase of 29% over the prior year. In three months of operations, H. Leverton contributed \$100 million in revenue, which accounted for 76% of the total revenue increase. The results also benefited from a 6.6% appreciation of the pound sterling year-over-year, contributing \$29 million of the total revenue increase. Net of selling price increases and foreign exchange effects, revenue in Finning (UK) was down marginally by 3%.

EQUIPMENT REVENUE Equipment revenue, including new and used equipment sales and rentals, was \$399.8 million in 1997, an increase of 32% over the prior year. H. Leverton contributed 76% of the increase in equipment revenues. Equipment revenue in Finning (UK), based on volume alone, declined marginally by 2.7% from the prior year.

The increase in equipment revenue was led by new equipment sales, up 26% to \$321 million. The growth in new equipment sales was primarily the result of the acquisition of H. Leverton. Total unit deliveries of new equipment declined 7% in Finning (UK), down in all sectors with the exception of quarrying and materials handling as noted in the industry review above. Used equipment revenue was \$55.6 million, an increase of 73% from the prior year. H. Leverton contributed 67% of the increase in used equipment revenue. Excluding H. Leverton, used equipment revenue increased 13% (in pounds sterling) while unit deliveries declined 12%.

Equipment rental revenue increased 52%, due in part to a contract for 23 machines (D300 and D350 dump trucks). H. Leverton contributed 20% of the increase in rental revenue. Total units in Finning (UK)'s rental fleet grew by 15% from the prior year. With the addition of H. Leverton, total units in the rental fleet at year-end 1997 were more than three times the level at year-end 1996. H. Leverton's rental fleet is not capitalized but is financed through external finance companies with a monthly lease charged to the accounts. Assets in the rental fleet grew to \$37.6 million, up 55% from the prior year.

CUSTOMER SERVICE REVENUE Parts and service revenue increased to \$151.5 million, a 25% increase from 1996 levels. The majority of the increase related to H. Leverton contributing customer service revenue of \$23 million for its three months of operations. Net of selling price increases and foreign exchange effects, customer service revenue declined 3.9% in Finning (UK).

FINANCE REVENUE Revenue from the U.K. finance portfolio, including conditional sales contracts and leases, totaled \$14 million in 1997, or 2.5% of total revenue. Effective November 13, 1997, Finning (UK) sold its finance portfolio to Caterpillar Financial Services (UK) Limited. All financing associated with long-term

rentals, conditional sales and lease contracts was transferred to Caterpillar Finance for total proceeds of \$136 million (£60 million), resulting in an after-tax gain of \$3.2 million.

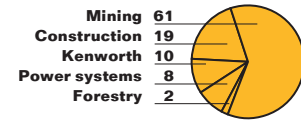
NET INCOME Net income was \$20.1 million compared with \$26.3 million in 1996. Excluding non-recurring gains of \$3.2 million from the sale of the U.K. finance portfolio in 1997 and \$7.5 million from the sale of real estate in 1996, net income was \$16.9 million and \$18.8 million, respectively. H. Leverton incurred a small loss for three months of operations. Eliminating the effect of the pound sterling appreciation, operating net income declined 15% year-over-year.

Net income margin, excluding non-recurring items, declined to 3% from 4.3%. Overall gross profit margins declined 1.8% from the prior year. New equipment margins increased in 1997 by 1.4% but were restrained, in part, by strong competition and product mix. Used equipment margins decreased by 6.2% due to the strength of the pound sterling and the exceptionally high margins achieved in 1996 for both the U.K. and Poland. Parts margins were down 3.5% and service margins were in line with 1996 levels.

Finning (UK) implemented Caterpillar's Dealer Business System (DBS) on August 26, 1997. The successful implementation reflected two years of work by an in-house team. Also on December 31, 1997, the majority of H. Leverton's systems were converted from DBS version 1.3 to DBS version 2.0. Expenses include approximately \$1.6 million of expenditures related to the implementation of DBS.

In 1998, revenue is expected to increase with a full year's contribution from H. Leverton. Cost savings are expected from the restructuring of the organization during 1998 as the Finning (UK) and H. Leverton operations are integrated.

**Chilean Equipment Deliveries
by Market** (converted to sales dollars) (%)



CHILEAN OPERATIONS

HIGHLIGHTS Finning Chile again delivered strong revenue and earnings growth in 1997. Deliveries increased 30.5% over prior year levels. Revenue increased 26% to \$514.1 million and net operating income increased 10% to \$19.5 million.

ECONOMIC REVIEW The Chilean economy continued its pace of expansion in 1997 with growth in GDP of 6.4%. The Chilean central bank continued its tight monetary policy which resulted in the inflation rate declining to 6.1%, its lowest level in 37 years.

In 1997, Finning Chile set record levels in revenue, earnings and units sold, due primarily to the expansion in the mining industry. Chile is the world's largest copper producer and is estimated to have one-quarter of the world's copper reserves. Copper production expanded again in 1997 but prices softened in the fourth quarter in reaction to the decline in Asian demand. The price of copper averaged US\$1.03 during 1997 but closed down at year-end to US\$0.77 per pound, the lowest level in ten years. Despite this price decline, the Chilean economy achieved record export levels in 1997 totaling US\$17.1 billion, with copper representing 43% of this amount and forestry products about 8%. Estimates for economic growth in 1998 have been reduced slightly to the 5.5% to 6.0% range, with inflation remaining in check at about 6.1%. The consensus outlook for copper prices in 1998 is US\$.80 per pound, which is expected to result in a slowdown in investment levels in the copper mining industry. The anticipated reduction in the growth rate of mining activity resulting from lower copper and gold prices is expected to be offset by increased construction and infrastructure activity levels.

INDUSTRY REVIEW

MINING New mining ventures and the expansion of existing mines in Chile created increased demand for earthmoving equipment in 1997. Deliveries of new mining units by Finning Chile increased 44% and revenue increased 15% over the prior year. Mining revenue accounted for 61% of new equipment revenue in 1997, compared with 64% in 1996. New models introduced by Caterpillar, such as the 793C 240-ton mining haul truck, the 992G loader, and the TIGER 790G wheel dozer

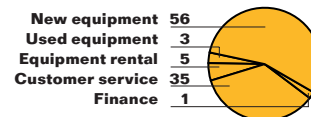
contributed to the sales increase. Large earthmoving packages sold to leading mining companies in Chile included: the sale of twenty-three 240-ton mine haul trucks to Minera Escondida; the sale of eight 195-ton mine haul trucks and two loaders to Minera Cerro Colorado; twelve 130-ton mine haul trucks and two motor graders to Minera Mantos de Oro; and five bulldozers and two motor graders to Minera Disputada.

CONSTRUCTION In 1997, construction of both infrastructure and housing increased significantly. The Chilean government has increasingly promoted private investment in road building, ports, airports, irrigation and hydroelectric dams as well as housing development. Deliveries of new construction units by Finning Chile increased 53% and total revenue increased 48% over the prior year. This sector is expected to remain strong through to the year 2000. Highway construction contracts were awarded under the concessions program to build a four-lane toll highway stretching 1,600 kilometres from La Serena to Puerto Montt. Total investment will be US\$ 2.2 billion over four years. The Trans-Andean pipeline to bring natural gas from Argentina into central Chile was completed in March 1997. Significant rental fleets of Caterpillar equipment were used to complete this job and now other projects are being developed to supply the northern and southern regions with natural gas.

KENWORTH Kenworth truck sales increased to \$27 million compared with \$22 million last year, representing an 18% increase in units delivered. Penetration of new segments in the construction and retail distribution markets contributed to this increase. Both Finning Chile and Paccar Inc. are committed to seeing expansion of the Kenworth truck line in Chile. The Class 7 and 8 truck population in Chile is expanding at approximately 10% annually.

POWER SYSTEMS Power systems revenue reached \$24 million in 1997, an increase of 17% over the prior year. Unit deliveries, which declined 16%, were offset by the sale of higher valued units. Finning Chile made significant inroads in this industry in 1997. For example, Finning Chile sold two of Caterpillar's largest diesel generator sets to public utility electricity suppliers in southern Chile. These two packages, which also incorporated 3600 and 3500 series generator sets, amounted to more than US\$3.4 million. In addition,

Chilean Revenue (by activity) (%)



two Cat 3616 generator sets were sold to a leading Chilean shipyard company and two Cat 3516 "Motivator" 6,000-volt electric sets were sold to Minera Candelaria and Codelco's Radomiro Tomic mines to provide field power to move large electric mining shovels around their pits.

FORESTRY The forestry industry did not expand as rapidly as expected in 1997 due to low pulp prices, which averaged US\$470 per ton in the second half of the year, down from the peak of US\$810 two years ago. Several logging projects and the construction of a new pulp mill in southern Chile were deferred in 1997. In Finning Chile, total new equipment sales to this industry declined 24% from 1996 levels. New logging and processing equipment introduced by Caterpillar and other allied manufacturers in 1997 will provide additional opportunities to penetrate the forestry market in the future.

FINANCIAL REVIEW

EQUIPMENT REVENUE Equipment revenue, including new and used equipment sales and rentals, was \$329.7 million in 1997, an increase of 26% over the prior year. The increase was led by new equipment sales, up 21% to \$288.6 million. The growth in new equipment sales was primarily the result of higher equipment deliveries to the mining and construction industries as noted in the industry review above. The increase in new equipment revenue also reflects an approximate 3% price increase implemented to offset higher supplier prices.

The rental business in Finning Chile continued to expand in 1997. Total rental revenue reached \$21.2 million, almost twice the level achieved in 1996. A new specialized small-equipment rentals facility was opened in Santiago, and an additional line of small construction equipment (Dynapac) was incorporated in the rental business operation. Total assets in the rental fleet grew to \$40 million at year-end 1997 from \$13 million at year-end 1996. Included in the rental fleet is a \$7 million investment in three 793 trucks on rent to a mining company near Antofagasta. The rental fleet concluded the year with 255 active units compared with 211 at year-end 1996.

CUSTOMER SERVICE REVENUE Parts and service revenue increased to \$181.5 million, up 26% from 1996, and is a reflection of the increasing machine population and number of service contracts in the mining sector. A January 1, 1997 parts price increase of 1.6% and an increase in the service labour rates due to inflationary pressures contributed to the overall increase in revenue. Net of selling price increases and foreign exchange rate fluctuations, customer service revenue increased 20.5%. Various large deliveries over the past four years have translated into increased parts and service support in 1997. On the strength of equipment deliveries in 1997, the growth in parts and service is expected to continue.

NET INCOME Net income increased to \$19.5 million, a 10% increase from 1996. The net income margin declined to 3.8% from 4.3% in 1996. In 1997, net income was adversely affected by a \$6.8 million provision (\$2.3 million of which was provided for in the fourth quarter) against service contracts in the year. The provision reflects higher than anticipated maintenance costs in three maturing contracts. Excluding this provision, net income would have been \$26.3 million, a 48% increase from 1996 levels.

Overall gross profit margins decreased by 1.9%. New and used equipment margins were relatively unchanged from the prior year. Customer service margins declined by 6.7% from 1996 due to the service contract provisions.

Selling, general and administrative expenses have remained stable in the year, reflecting continued cost control. Also affecting net income was higher interest costs due to increased borrowing levels to finance equipment and parts inventories.

In 1997, the Chilean peso strengthened during the year in real terms in relation to the U.S. dollar. This occurred for the third consecutive year and results in increasing local costs in relation to Finning Chile's U.S. dollar-based revenues. The impact in 1997 was significantly less than in the previous two years. However, a devaluation adjustment due to the Asian situation started in November 1997 and continued into early 1998.

INTERNATIONAL OPERATIONS

This is a new reporting segment for Finning in 1997. International operations include Universal Machinery Services, a division of Finning International Inc. ("UMS"), and the corporate head office.

UMS was established in 1992 to focus on the growing international used equipment business. In the past five years, it has expanded into pipeline equipment, cranes and used parts. The global market for the sale of used equipment and used parts is estimated to be \$5 billion to \$6 billion annually. Based on UMS' annual sales of \$101.2 million in 1997, it would have less than 2% of this market.

FINANCIAL REVIEW

UMS revenue for 1997 totaled \$101.2 million, essentially flat compared with the prior year. Equipment revenue was \$92.2 million, a decrease of 7% from the prior year. Total unit deliveries in 1997 declined 9.6% from last year. Parts revenue was \$6.5 million, a 179% increase year-over-year reflecting additional resources added to this division.

The majority of UMS' sales in 1997 were to customers in the United States. However, a large number of shipments were also made to Mexico, Australia and Indonesia. UMS continues to lead the used equipment business in large mining truck sales and achieved high volume sales of late-model tractors and wheel loaders. Large mining and construction packages were sourced from the Middle East, Australia, Europe and the United

States in 1997. By combining resources with other Caterpillar dealers to buy and sell equipment, both parties increase business opportunities and improve supplier capabilities. Volume throughout North, South, and Central America improved in 1997 while volume in Europe was below forecast levels, due in part to fluctuating currency exchange rates.

Combined net income for UMS and the corporate head office was \$2.4 million, a 29% decline from 1996. UMS was negatively affected by lower gross profit margins, primarily due to the continued strength of the pound sterling which reduced the competitiveness of used equipment from Britain sold into overseas markets. In addition, net income was negatively affected by higher interest expense due to higher average inventory levels in the year.

Market activity of used Caterpillar equipment is expected to improve in 1998 and UMS will be moving its business into related products such as large crawler cranes, used container carriers, and crushers and other quarry equipment. Finning currently maintains a 75% share of the growing used all-terrain crane sales market in North America. UMS also made progress in 1997 in the sales of international used parts and this sector of the market is expected to grow steadily in 1998.

Also in 1998, Finning will focus on the needs of international pipeline contractors. UMS, together with Holt Company of Texas (the Cat dealer for South Central Texas), made a large-scale purchase of used pipeline equipment in 1997 to serve this market.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses Finning's liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by: (1) operating activities, including the level of accounts receivable, inventories, accounts payable and financing provided to customers; (2) investing activities, including acquisitions of complementary businesses, and capital expenditure and dividend levels; and (3) external financing, including bank credit lines, commercial paper and other capital market activities, providing both short and long-term financing.

Cash flow from operations, before changes in operating assets and liabilities, was \$316.7 million in 1997, up 29% from 1996. The improvement was primarily a result of strong earnings in the Canadian and Chilean operations.

Cash used in operating activities was \$46.6 million compared with \$63.2 million in 1996. The generation of cash from increased business activity in most of Finning's markets was offset by higher accounts receivable, a result of higher business volume, and

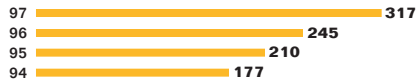
increased inventories to meet delivery requirements. Cash was also used to expand customer financing activities in Finning (Canada).

At December 31, 1997, the portfolio of finance assets totaled \$515.3 million (\$587.4 million at December 31, 1996). The U.K. finance portfolio was sold to Caterpillar Financial Services (UK) Limited in 1997 for proceeds of \$136 million (£60 million). All financing associated with long-term rental, conditional sales and lease contracts in the U.K. market was transferred to Caterpillar Finance. Finning (Canada) is the only operation at year-end 1997 with significant financing activity.

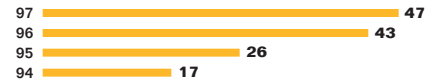
The finance assets are supported by a combination of debt and equity. Finning applies a conservative debt to equity ratio of 6:1 to its finance operation to apportion its capital structure between the operating and financing activities. On this basis, total debt and shareholders' equity are allocated between the operating and financing functions. Deferred income taxes are allocated based on the assets and liabilities assigned to the finance and operating functions. The following table illustrates the impact of this segregation on Finning's capital structure.

SEGMENTED CAPITAL STRUCTURE (\$ THOUSANDS)	FINANCE	OPERATIONS	CONSOLIDATED
1997			
Assets	\$ 515,254	\$ 1,836,623	\$ 2,351,877
LIABILITIES & SHAREHOLDERS' EQUITY			
Short-term debt and term debt	\$ 423,417	\$ 715,804	\$ 1,139,221
Deferred income taxes	21,267	14,335	35,602
Other liabilities	—	489,875	489,875
	444,684	1,220,014	1,664,698
Shareholders' equity	70,570	616,609	687,179
	\$ 515,254	\$ 1,836,623	\$ 2,351,877
Debt to equity ratio	6.00:1	1.16:1	1.66:1
1996			
Assets	\$ 587,374	\$ 1,223,440	\$ 1,810,814
LIABILITIES & SHAREHOLDERS' EQUITY			
Short-term debt and term debt	\$ 481,140	\$ 414,286	\$ 895,426
Deferred income taxes	26,044	13,465	39,509
Other liabilities	—	279,800	279,800
	507,184	707,551	1,214,735
Shareholders' equity	80,190	515,889	596,079
	\$ 587,374	\$ 1,223,440	\$ 1,810,814
Debt to equity ratio	6.00:1	0.80:1	1.50:1

**Cash Flow
from Operations** (\$ MILLIONS)



**Gross
Capital Expenditures** (\$ MILLIONS)



Finning's debt to equity ratio of operations (excluding finance activities) increased to 1.16:1 from 0.80:1. The proceeds from the sale of the U.K. finance portfolio were used to reduce short-term debt corresponding to the portfolio. The increase in the debt to equity ratio was primarily due to the acquisition of H. Leverton and higher receivables and inventory at December 31, 1997.

Finning is focused on leverage reduction through balance sheet management rather than equity issuance. Improvement in the debt to equity ratio is expected through receivables collection, increased inventory turnover, continued growth in earnings and efficiencies realized following the H. Leverton acquisition.

Finning (Canada) offers fixed and floating rate financing to customers. These services are financed through a mixture of floating and fixed rate borrowings. At December 31, 1997, approximately 27% of the finance portfolio was at fixed rates (at December 31, 1996 approximately 53%). The sharp decline is due to the sale of the U.K. finance portfolio, predominantly at fixed rates. Finning has a policy of arranging its financing so that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. Finning enters into interest rate swap agreements, which fix the effective interest rate on this portion of bank indebtedness. This serves as an effective, flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations. At December 31, 1997, Finning had interest rate swap agreements which fixed the semi-annual interest rate on \$89 million (1996: \$209 million) of bank debt at a weighted average rate of 6.06% (1996: 6.88%). Swap agreements outstanding at year-end for \$50.5 million (1996: \$127.7 million) extend beyond one year for varying periods up to March 2002 at an average interest rate of 5.92% (1996: 6.75%).

At December 31, 1997, term debt increased by \$45.7 million over 1996. Total fixed-rate term debt at December 31, 1997 was comprised of: £25.0 million loan (\$58.7 million) at 7.675% maturing on May 8, 2002; Series A Senior Debentures of \$75 million at 8.35% maturing on March 22, 2004; and Series B Senior Debentures of \$75 million at 6.6% maturing on December 8,

2006. Term debt, which provides funding stability, accounted for 45.8% (1996: 53.1%) of total debt outstanding at year-end.

Cash used in investing activities totaled \$172.8 million and included the acquisition of subsidiary companies and capital expenditures.

Finning (UK) acquired H. Leverton for cash consideration of \$26.8 million (£12 million) in respect of common shares, the assumption of short-term debt of \$86.3 million (£38.7 million), and \$22.5 million (£10.1 million) in planned restructuring and acquisition costs (see Note 15 on page 57). Finning (Canada) acquired the Interior Lift Truck group of companies at a purchase price of \$2.1 million, comprised of 82,828 common shares of the Company valued at \$1.32 million, and cash plus acquisition costs.

Gross capital expenditures for 1997 were \$47.1 million, an increase of 9% from 1996. Capital expenditures in 1997 included the renovation and expansion of existing facilities, telecommunication equipment, computers, shop tools, and vehicles used in customer service operations.

Caterpillar's Dealer Business System (DBS) version 2.0 was implemented on July 2, 1997 in Finning (Canada) and August 26, 1997 in Finning (UK). On December 31, 1997, the majority of H. Leverton's systems were converted from DBS version 1.3 to DBS version 2.0. In Chile, the standard accounting package used throughout Finning's operations was implemented in September 1996 and conversion to DBS version 2.0 is planned for the fourth quarter of 1998. All mainframe financial and non-financial systems were affected by the implementation. The system allows interconnectivity and compatibility between Finning, Caterpillar and other dealers. DBS forms the foundation of an information systems strategy which will link Caterpillar, dealers and customers around the globe in the future. Total capitalized DBS expenditures in all operations were \$9.0 million, of which \$3.5 million were incurred in 1997.

In Canada, other significant capital additions in 1997 related to the site acquisition and preparation costs in Port Kells, British Columbia for the consolidation of its branch facilities in the Lower Mainland. In Canada, capital investment plans in 1998 are significant

and are expected to top \$30 million, about twice the level of recent years. Major projects include the completion of the Port Kells service centre, the expansion of the Edmonton Parts Distribution Centre and the refurbishment of the Edmonton head office.

Other expenditures in the U.K. included a new branch at Cardiff, South Wales which was officially opened on June 30, 1997, replacing the previous 40-year old premises. The design incorporates all current U.K. and European construction standards. In August 1997 the branch at Roche, in the South West of England, was relocated to Nanpean within the clay mining complex, responding to new customer needs following the major rationalization in the Cornish china clay industry. Capital investment plans in 1998 include a new branch in Glasgow to replace the one sold in 1996, and capital expenditures needed to integrate the information systems of Finning (UK) and H. Leverton.

In Chile, the main investment in 1997 was in properties and included the acquisition of land for the new head office for US\$6.25 million. In addition, the first Parts Distribution Centre was built in Antofagasta. Total investment amounted to US\$2.2 million of which US\$1.6 million was incurred in 1997. No projects of a significant nature are planned in 1998.

Gross capital expenditures were offset by proceeds on disposal of \$11.5 million, which included the sale of properties in British Columbia.

After providing for these changes in cash flow, short-term debt increased by \$198.1 million in 1997 to \$618 million. Management believes that available sources of funds are adequate to meet the operating requirements of Finning. The Company is rated A (low)

by Canadian Bond Rating Service and Dominion Bond Rating Service. These ratings were reaffirmed twice in the past year, once before the acquisition of H. Leverton and again following the release of the 1997 financial results. Finning continues to access low cost funding in a variety of financial markets, and in January 1998 increased its commercial paper program by \$50 million to \$150 million.

The Company's capital is comprised of both preferred and common shares. The preferred shares outstanding at December 31, 1997 amounted to \$1.2 million (\$1.5 million at December 31, 1996) and are convertible into common shares at a conversion rate of \$6.3675 per common share.

During 1997, 494,292 common shares were issued on the exercise of stock options and 49,370 common shares were issued on the conversion of 31,450 preferred shares. In addition, 82,828 common shares of the Company were purchased in the open market, cancelled and then reissued in the acquisition of the Interior Lift Truck group of companies. The number of stock options outstanding at December 31, 1997 totaled 4,124,890 at exercise prices from \$5.49 to \$15.17.

Finning has an employee common share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market values. Finning pays a portion of the purchase price to a maximum of 2% of employee earnings. The plan may be cancelled by Finning at any time. At December 31, 1997, 63.0% of employees were participating in this plan (49.8% in 1996).

FINANCIAL DERIVATIVES

Finning uses various financial instruments such as interest-rate swaps as hedges against actual assets or liabilities. For example, Finning hedges the finance

portfolio with funding of similar rates and terms. Finning does not use derivatives for speculative purposes. Finning continually evaluates counterparties to further reduce risk.

RISKS AND UNCERTAINTIES

Finning's financial performance is subject to two direct sources of currency exchange risk. The first source of currency exchange risk relates to fluctuations in the purchase price of inventory. Canada and Chile source the majority of their product from the United States and, as a consequence, exchange rate movements affect the transaction price for most equipment and parts. Finning is generally able to realize the cost of exchange rate movements in its transaction prices.

The second source of exchange risk relates to the fact that Finning's U.K and Chilean operations are recorded in Finning's financial statements in Canadian dollars, while those operations conduct business primarily in pounds sterling in the U.K., and Chilean pesos

and U.S. dollars in Chile. Changes in the pound sterling, Chilean peso and U.S. dollar to Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of Finning's U.K. and Chilean operations.

Finning's sales are indirectly affected by fluctuations in commodity prices and exchange rates. In Canada, commodity price movements in the forestry, metals and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile, significant fluctuations in the price of copper and gold can have similar effects. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector. In addition, the strength of the pound sterling relative to other currencies may result in lower activity levels in the used equipment market.

YEAR 2000 ISSUE

The "Year 2000 Issue" is a general term used to refer to certain business implications of the arrival of the new millennium. In simple terms, these implications arise largely because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. On January 1, 2000, when the year is designated as "00", many computer systems could either fail completely or create erroneous data as a result of misinterpretation of the year.

Finning has been planning for the year 2000 since the mid-to-late eighties when it changed all its databases and converted its mainframe systems in Canada and the U.K. to allow for the year 2000. The core systems in Canada and the U.K. have now been replaced by DBS version 2.0, which is fully year 2000 compliant. Finning Chile will convert from DBS version 1.3 to DBS version 2.0 in the fourth quarter of 1998. DBS consists of five major modules – parts, service, finance, product support and merchandising – each consisting of multiple software programs. Third party software components of DBS such as the payroll and general ledger packages are all year 2000 compliant. All future software developed in-house and acquired externally will be year 2000 compliant. Finning is constantly verifying that information technology hardware purchased,

such as network servers, is year 2000 compliant. The information systems department is in the process of acquiring specific software that will scan all PC's in use at Finning in order to verify the year 2000 compliance of the software.

Finning's core systems and information systems strategy are closely linked with Caterpillar, who is taking the actions necessary to ensure its products and services will continue to operate on and after January 1, 2000. Caterpillar's target is to have all products and services ready for the year 2000 by December 31, 1998.

Finning has undertaken a program to address the Year 2000 Issue which will include employee workshops, a review of computer hardware, software and data, and assessment reports and check lists. Finning has engaged Arthur Andersen & Co. to conduct a full review of the year 2000 project status. The project's scope will cover Canada, the U.K. and Chile. The review began in February 1998 and should be completed by mid-1998. Finning plans to act on the recommendations of this review before the end of 1998. A simulation test of the year 2000 will be performed on the AS/400 based systems in 1998. Finning intends to have all action items followed up and to be in full compliance before the end of 1998. The financial impact of making further systems changes is not expected to be material to Finning's financial position or results of operations.

**MANAGEMENT'S
REPORT TO
THE SHAREHOLDERS**

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The Consolidated Financial Statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements of all information available up to January 30, 1998.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, appointed by the shareholders, express an opinion as to whether management's financial statements present fairly the Company's financial position, operating results and changes in financial position in accordance with generally accepted accounting principles.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly

during the year with financial officers of the Company and the external auditors to review internal accounting controls, audit results, quarterly financial results and accounting principles and practices. In addition, the Audit Committee reports its findings to the Board of Directors which reviews and approves the Consolidated Financial Statements contained in this Annual Report.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to Consolidated Financial Statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.



R.T. Mahler
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
JANUARY 30, 1998
VANCOUVER, BC, CANADA

**AUDITORS'
REPORT**

To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheets of Finning International Inc. (a Canada corporation) as at December 31, 1997 and 1996 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in



the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Arthur Andersen & Co.
CHARTERED ACCOUNTANTS
JANUARY 30, 1998
VANCOUVER, BC, CANADA

**CONSOLIDATED
BALANCE
SHEETS**

AS AT DECEMBER 31 (\$ THOUSANDS)	1997	1996
ASSETS		
Accounts receivable	\$ 478,588	\$ 297,054
INVENTORIES		
On-hand equipment	553,179	376,719
Rental equipment (NOTE 2)	222,848	136,362
Parts and supplies	283,734	185,417
	<u>1,059,761</u>	<u>698,498</u>
FINANCE ASSETS		
Instalment notes receivable (NOTE 3)	201,721	260,329
Equipment leased to customers (NOTE 4)	313,533	327,045
	<u>515,254</u>	<u>587,374</u>
Land, buildings and equipment (NOTE 5)	219,507	181,526
Goodwill (NOTE 6)	78,767	46,362
	<u>\$ 2,351,877</u>	<u>\$ 1,810,814</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt (NOTE 7)	\$ 618,018	\$ 419,962
Accounts payable and accruals	460,099	270,238
Income taxes payable	29,776	9,562
Term debt (NOTES 7 AND 8)	521,203	475,464
Deferred income taxes	35,602	39,509
	<u>1,664,698</u>	<u>1,214,735</u>
SHAREHOLDERS' EQUITY		
Share capital (NOTE 10)	205,591	201,570
Retained earnings	471,116	383,232
Cumulative currency translation adjustments (NOTE 11)	10,472	11,277
	<u>687,179</u>	<u>596,079</u>
	<u>\$ 2,351,877</u>	<u>\$ 1,810,814</u>
Approved by the Directors:		
		
J.F. Shepard DIRECTOR	W.R. Wyman DIRECTOR	
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.		

**CONSOLIDATED
STATEMENTS
OF INCOME AND
RETAINED EARNINGS**

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FOR THE YEARS ENDED DECEMBER 31 (\$ THOUSANDS EXCEPT PER SHARE AMOUNTS)	1997	1996
REVENUE		
New equipment	\$ 1,115,203	\$ 850,208
Used equipment	309,014	276,320
Equipment rental	98,544	57,607
Customer support services	743,749	630,310
Finance and other	60,554	60,264
Total revenue	<u>2,327,064</u>	<u>1,874,709</u>
EXPENSES		
Cost of sales	1,718,229	1,347,762
Selling, general and administrative	392,210	338,543
Finance cost and interest on other indebtedness (NOTES 7 AND 8)	67,274	59,901
	<u>2,177,713</u>	<u>1,746,206</u>
Income before provision for income taxes	149,351	128,503
Provision for income taxes (NOTE 13)	45,656	40,319
Net income	103,695	88,184
Dividends on preferred shares	50	87
Earnings attributable to common shares	103,645	88,097
Retained earnings, beginning of year	383,232	310,735
	486,877	398,832
Dividends on common shares	15,761	15,600
Retained earnings, end of year	<u>\$ 471,116</u>	<u>\$ 383,232</u>
EARNINGS PER SHARE (NOTE 14)		
Basic	\$ 1.32	\$ 1.13
Fully diluted	\$ 1.27	\$ 1.09
Average number of common shares outstanding (NOTE 14)	78,809,441	78,003,240
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.		

**CONSOLIDATED
STATEMENTS
OF CASH FLOW**

FOR THE YEARS ENDED DECEMBER 31 (\$ THOUSANDS)	1997	1996
OPERATING ACTIVITIES		
Net income	\$ 103,695	\$ 88,184
Add (deduct) items not affecting cash:		
Depreciation	197,533	155,527
Amortization of goodwill	1,586	1,367
Deferred income taxes	(7,357)	(547)
Other items, net	21,274	378
	316,731	244,909
Changes in Operating Assets and Liabilities		
Accounts receivable	(107,564)	(32,757)
Inventories:		
On-hand equipment	(114,137)	(36,142)
Rental equipment	(142,716)	(56,428)
Parts and supplies	(84,756)	(17,206)
Finance Assets:		
Instalment notes receivable	58,751	1,804
Equipment leased to customers, net of disposals	(104,240)	(159,302)
Accounts payable and accruals	109,982	574
Income taxes payable	21,390	(8,602)
Cash used in operating activities	(46,559)	(63,150)
Dividends paid	(15,811)	(15,687)
INVESTING ACTIVITIES		
Acquisition of subsidiary companies	(51,481)	—
Add: short-term debt assumed, net of cash acquired	(85,726)	—
Cash invested in land, buildings and equipment, net of disposals	(35,615)	(29,760)
Cash used in investing activities	(172,822)	(29,760)
FINANCING ACTIVITIES		
Term loans	45,595	39,794
Issue of Series B Senior Debentures, net of issue costs	—	74,005
Conversion and redemption of preferred shares	(315)	(937)
Issue of common shares on conversion of preferred shares and exercise of stock options	4,335	7,567
Currency translation adjustments	(12,479)	4,494
Cash generated from financing activities	37,136	124,923
(Increase) decrease in short-term debt	(198,056)	16,326
Short-term debt at beginning of year	419,962	436,288
Short-term debt at end of year	\$ 618,018	\$ 419,962

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**NOTES TO
CONSOLIDATED
FINANCIAL STATEMENTS**

December 31, 1997 and 1996 (\$ thousands, except the number of shares and per share amounts)

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1

**SUMMARY
OF SIGNIFICANT
ACCOUNTING POLICIES**

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The significant accounting policies used in these Consolidated Financial Statements are as follows:

PRINCIPLES OF CONSOLIDATION The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd. and Finning Chile S.A.

CURRENCY TRANSLATION Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows: (1) Monetary assets and liabilities at exchange rates in effect at the balance sheet dates; non-monetary items at historical exchange rates; (2) Exchange gains and losses are included in income except where monetary liabilities are considered to be hedges, in which case they are deferred and accounted for in conjunction with the hedged asset. Financial statements of self-sustaining foreign operations are translated into Canadian dollars as follows: (1) Assets and liabilities using the exchange rates in effect at the balance sheet dates; (2) Revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; (3) Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation; (4) The Company has hedged its operations in its foreign subsidiaries by borrowing funds in foreign currency. Exchange gains or losses are accounted for in the cumulative currency translation adjustments.

INVENTORIES Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on-hand and rental equipment. For parts and supplies, approximately 59% is recorded on a first-in, first-out basis and the remainder on an average cost basis. Rental equipment inventories are depreciated to the estimated residual value of each unit based on usage.

EQUIPMENT LEASED TO CUSTOMERS Depreciation of equipment leased to customers is provided in the accounts in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

LAND, BUILDINGS AND EQUIPMENT Land, buildings and equipment are recorded at cost, net of accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives on a declining balance basis using the following annual rates:

Buildings	5%
General equipment	20% - 30%
Automotive equipment	30%

REVENUE RECOGNITION Revenue from sales of products and services is recognized at the time of shipment of products to, and performance of services for customers. Equipment lease and rental revenue is recognized over the term of the lease or rental. Finance income is recognized as earned.

PENSION COSTS The Company and its subsidiaries have defined benefit and defined contribution pension plans. For defined benefit pension plans, the cost of pension benefits is based on reports prepared by independent actuaries every two years, using management's best estimate assumptions and a projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight line basis over the expected average remaining service life of the employee groups covered by the plans. For defined contribution plans, the cost of pension benefits is a fixed percentage of member earnings for the year.

GOODWILL Goodwill acquired on the acquisition of subsidiaries is amortized to income on a straight line basis over 40 years. Goodwill is evaluated annually, and is written down when the undiscounted future earnings of the related business is less than its carrying amount.

INCOME TAXES The Company follows the deferral method of applying the tax allocation basis of accounting for income taxes.

PRIOR YEAR COMPARATIVES Certain prior year amounts have been reclassified to conform with the 1997 presentation.

2
RENTAL
EQUIPMENT

	1997	1996
Rental equipment	\$ 337,016	\$ 207,442
Less accumulated depreciation	<u>(114,168)</u>	<u>(71,080)</u>
	<u>\$ 222,848</u>	<u>\$ 136,362</u>

Depreciation of rental equipment for the year ended December 31, 1997 was \$60,750 (1996: \$47,565).

3
INSTALMENT
NOTES RECEIVABLE

Instalment notes receivable are recorded net of unearned finance charges and include \$87,031 due after one year (1996: \$136,265).

4
EQUIPMENT
LEASED TO CUSTOMERS

	1997	1996
Cost	\$ 434,045	\$ 472,700
Less accumulated depreciation	<u>(120,512)</u>	<u>(145,655)</u>
	<u>\$ 313,533</u>	<u>\$ 327,045</u>

Depreciation of equipment leased to customers for the year ended December 31, 1997 was \$113,338 (1996: \$91,588).

5
**LAND,
 BUILDINGS
 AND EQUIPMENT**

	1997	1996
Land	\$ 51,124	\$ 37,877
Buildings and equipment	337,106	284,576
Less accumulated depreciation	(168,723)	(140,927)
	168,383	143,649
	\$ 219,507	\$ 181,526

Depreciation of buildings and equipment for the year ended December 31, 1997 was \$23,445 (1996: \$16,374).

6
GOODWILL

	1997	1996
Purchased goodwill	\$ 54,628	\$ 54,628
PURCHASED DURING THE YEAR:		
H. Leverton Limited	\$ 33,428	
Interior Lift Truck	563	
Accumulated amortization	(9,852)	(8,266)
	\$ 78,767	\$ 46,362

See Note 15 on page 57

7
**SHORT-TERM
 DEBT**

	1997	1996
Loans	\$ 278,389	\$ 152,870
Commercial paper and bankers' acceptances	339,629	267,092
	\$ 618,018	\$ 419,962

The Company has entered into interest rate swap agreements which fix the semi-annual interest rate on \$89,070 (1996: \$209,012) of debt at a weighted average interest rate of 6.06% (1996: 6.88%). Agreements for \$50,463 (1996: \$127,705) extend beyond one year for varying periods up to March 2002 at an average interest rate of 5.92% (1996: 6.75%).

8

TERM
DEBT

	1997	1996
Loan at 7.675% maturing May 8, 2002 of £25,000 (unsecured)	\$ 58,680	\$ 58,635
Floating rate loan bearing a semi-annual interest rate of 8.52% at December 31, 1997 (1996: 7.14%) maturing June 22, 2000 of £25,000 (unsecured)	58,680	58,635
Series A Senior Debentures at 8.35% with interest payable semi-annually, maturing March 22, 2004 (unsecured)	75,000	75,000
Series B Senior Debentures at 6.60% with interest payable semi-annually, maturing December 8, 2006 (unsecured)	75,000	75,000
Term bank loans bearing interest at floating rates which at December 31, 1997 averaged 4.65% (1996: 3.58%). These loans are repayable March 31, 1999, August 31, 1999 and December 31, 2002 (unsecured)	179,859	179,788
Other loans denominated in U.S. dollars and Chilean pesos maturing between 1998 and 2004 (unsecured)	73,984	28,406
	\$ 521,203	\$ 475,464
Term loans due within one year	\$ 6,362	\$ 60,050

Interest expense in 1997, on indebtedness incurred for a period greater than one year, was \$28,845 (1996: \$26,548). Estimated principal repayments for the next five years are:

1998	\$ 6,362
1999	84,372
2000	105,246
2001	3,575
2002	162,255

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FINANCIAL
INSTRUMENTS

The following table reflects the carrying value and estimated fair value of the Company's financial instruments:

	1997		1996	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
FINANCIAL INSTRUMENTS				
Notes receivable	\$ 201,721	\$ 203,000	\$ 260,329	\$ 268,000
Short-term debt & term debt	\$ 1,139,221	\$ 1,153,000	\$ 895,426	\$ 904,000
OFF BALANCE SHEET HEDGES				
	1997	1996	1997	1996
	NOTIONAL VALUE	MARKET VALUE	NOTIONAL VALUE	MARKET VALUE
Interest rate swaps	\$ 89,070	\$ 90,000	\$ 209,012	\$ 213,000
Forward exchange contracts	\$ 20,767	\$ 20,000	\$ 13,000	\$ 13,000

Financial instruments which subject the Company to credit risk are notes receivable, short-term and term debt, and hedges such as interest rate swaps and forward exchange contracts. At the balance sheet dates there were no significant concentrations of credit risk from exposure to single debtors. The Company's hedges are contracted with high quality financial institutions as counterparties and, as a result, concentration of risk is limited.

10 SHARE CAPITAL

AUTHORIZED

Unlimited Preferred shares without par value of which 4,400,000 are designated as Cumulative Redeemable Convertible Preferred shares

Unlimited Common shares

ISSUED AND OUTSTANDING

		1997	1996
116,550	Preferred shares, Series E (1996: 148,000)	\$ 1,166	\$ 1,480
79,090,612	Common shares (1996: 78,546,950)	204,425	200,090
		<u>\$ 205,591</u>	<u>\$ 201,570</u>

CHANGES DURING THE YEAR

At the Company's annual meeting in April 1997 the shareholders approved the subdivision of the Company's common shares on a two-for-one basis. All common share amounts in these Consolidated Financial Statements reflect this subdivision retroactive to January 1, 1996.

COMMON SHARES

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar. The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights will then separate and will ultimately entitle each holder of common shares (other than the bidder) to purchase common shares of the Company at a 50% discount to the then market price. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights will expire on September 13, 1999 unless redeemed earlier by the Board of Directors. The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that: (1) the offer is made for all outstanding voting shares of the Company; (2) more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and (3) the Takeover Bid expires not less than 75 days after the date of the bid circular. A summary of the changes in common shares are as follows:

	1997		1996	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance, beginning of year	78,546,950	\$ 200,090	77,442,644	\$ 192,523
Conversion of 31,450 Series E (1996: 39,400) preferred shares	49,370	315	187,988	937
Exercise of stock options	494,292	4,020	916,318	6,630
Balance, end of year	<u>79,090,612</u>	<u>\$ 204,425</u>	<u>78,546,950</u>	<u>\$ 200,090</u>

During the year, the Company acquired 82,828 common shares in the open market for cash consideration of \$1,325 that were subsequently cancelled. The Company reissued 82,828 common shares valued at \$1,325 for the acquisition of the Interior Lift Truck group of companies (Note 15).

PREFERRED SHARES

SERIES E PREFERRED SHARES These preferred shares were issued under terms of an employee and director share purchase plan and are redeemable by the Company at its option or retractable at the option of the holder at the issue price. The cumulative preferential cash dividends on the preferred shares are payable quarterly based on the prime interest rate of a specified Canadian chartered bank. The applicable rate for the preferred shares, and price at which the preferred shares are convertible into common shares, is as follows:

	DIVIDEND RATE AS A % OF THE PRIME INTEREST RATE	CONVERSION PRICE
Series E	80% of prime	\$ 6.3675

The preferred shares may be converted into common shares at the option of the holder after two years and up to ten years following the date of issue. All preferred shares outstanding are presently convertible into common shares.

STOCK OPTIONS

The Company has several stock option plans for employees and directors, the details of which are as follows:

	1997	
	SHARES	OPTION PRICE
Options outstanding, beginning of year	3,591,716	\$ 5.49 to \$ 11.86
Issued	1,029,866	\$ 15.17
Exercised	(494,292)	\$ 5.49 to \$ 11.86
Cancelled	(2,400)	\$ 5.54 to \$ 7.58
Options outstanding, end of year	<u>4,124,890</u>	\$ 5.49 to \$ 15.17

A total of 3,072,153 options were exercisable at December 31, 1997 with the remaining options outstanding exercisable at various times to February 13, 2007.

11**CUMULATIVE CURRENCY
TRANSLATION ADJUSTMENTS**

	1997	1996
Balance, beginning of year	\$ 11,277	\$ 1,067
Gain realized during the year	(1,888)	—
Translation adjustments for the year	<u>1,083</u>	<u>10,210</u>
Balance, end of year	<u>\$ 10,472</u>	<u>\$ 11,277</u>

Translation gains or losses on the consolidation of foreign subsidiaries financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 1997, 1996 and 1995, the Canadian dollar exchange rates against the U.K. pound sterling were 2.3472, 2.3454 and 2.1202, respectively, and the Chilean peso exchange rates against the Canadian dollar were 299, 310 and 291, respectively. During 1997, a dividend of £10,000 was paid from Finning Holdings Limited (U.K.) to the Company which generated a foreign exchange gain of \$1,888.

12 PENSION PLANS

The Company's obligations for pension benefits, under its defined benefit plans at December 31, 1997, were estimated by the plans' actuaries to be \$299,875 (1996: \$232,029). Pension plan assets at December 31, 1997, on an adjusted market value basis, were \$335,919 (1996: \$256,248).

13 PROVISION FOR INCOME TAXES

	1997	1996
Current	\$ 53,013	\$ 40,866
Deferred	(7,357)	(547)
Provision for income taxes	\$ 45,656	\$ 40,319

The Company's provision for income taxes is determined as follows:

	1997	1996
Combined federal and provincial income tax rates	43.59%	43.65%
Provision for income taxes based on the combined federal and provincial rates	\$ 65,102	\$ 56,092
Increase (decrease) in provision for income taxes resulting from:		
Lower effective rates on the earnings of foreign subsidiaries	(12,210)	(14,827)
Benefit of unrecognized tax loss carryforward of foreign subsidiary	(2,930)	(2,662)
Amortization of goodwill and increase in assigned asset value	755	745
Large corporation tax	1,108	1,024
Other items	(6,169)	(53)
Provision for income taxes	\$ 45,656	\$ 40,319

The Company's subsidiary, Finning Chile S.A., has a tax loss carryforward of \$90,000 (1996: \$121,150), denominated in local currency, available to offset future taxable income. This loss was acquired on acquisition of the company in August 1993. These losses are indexed to Chile's inflation rate which was 6% in 1997 and have no expiry date.

14 EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of common shares outstanding during each year and has incorporated the current year two-for-one subdivision of common shares retroactively to January 1, 1996. Fully diluted earnings per share has been calculated on the assumption that all the outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year.

15**ACQUISITIONS**

During 1997, the Company made the following acquisitions:

(1) Effective October 1, 1997, the Company acquired 100% of the outstanding share capital of H. Leverton Limited, the Caterpillar dealer for the north, east and southeast regions of England. The purchase makes the Company the sole dealer for Caterpillar equipment in Britain. The purchase price was comprised of cash consideration of \$26,807 (£12,029) in respect of common shares, the assumption of short-term debt of \$86,292 (£38,722), and \$22,555 (£10,120) in planned restructuring and acquisition costs.

(2) Effective May 12, 1997, the Company acquired 100% of the outstanding share capital of Interior Lift Truck Services Inc., Interior Lift Truck Services (Vernon) Inc. and Interior Lift Truck Services (Penticton) Inc. The Interior Lift Truck group sells, rents and services materials handling and high-reach equipment, primarily in the Interior of British Columbia. Total consideration was \$2,119 comprised of 82,828 shares of the Company valued at \$1,325 and cash consideration and acquisition costs totaling \$794.

The acquisitions have been accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets and liabilities based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. The results of operations related to the acquisitions have been included in these Consolidated Financial Statements from the effective date of acquisition. Net assets acquired at assigned values:

	H. LEVERTON LIMITED	INTERIOR LIFT TRUCK	TOTAL
Accounts receivable	\$ 68,907	\$ 478	\$ 69,385
Inventories	80,641	1,399	82,040
Other current assets	865	9	874
Land, buildings and equipment	18,648	337	18,985
	<u>169,061</u>	<u>2,223</u>	<u>171,284</u>
Short-term debt	(86,292)	(299)	(86,591)
Accounts and income taxes payable and accruals	(65,685)	(312)	(65,997)
Deferred income taxes	(1,150)	(2)	(1,152)
Term debt	—	(54)	(54)
	<u>(153,127)</u>	<u>(667)</u>	<u>(153,794)</u>
Net assets acquired at estimated fair value	15,934	1,556	17,490
Goodwill	33,428	563	33,991
Consideration	<u>\$ 49,362</u>	<u>\$ 2,119</u>	<u>\$ 51,481</u>

16**ECONOMIC
RELATIONSHIPS**

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar which has been ongoing since 1933.

17

SEGMENTED
INFORMATION

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing and financing of heavy equipment and related products. Operating units serve the following geographic areas: (1) Canadian Operations: British Columbia, Alberta, the western part of the Northwest Territories and Yukon. (2) U.K. Operations: England, Scotland, Wales and the Channel Islands. (3) Chilean Operations: Throughout the country. (4) International Operations: This segment represents the sale of used equipment and used parts worldwide and the corporate head office. The reportable geographic segments are:

SEGMENT	CANADA	U.K	CHILE	INTERNATIONAL	ELIMINATIONS	CONSOLIDATED
1997						
Revenue from external sources	\$ 1,146,406	\$ 567,365	\$ 514,068	\$ 102,942	\$ (3,717)	\$ 2,327,064
Income before provision for income taxes	\$ 94,718	\$ 31,278	\$ 19,535	\$ 3,820	\$ —	\$ 149,351
Provision for income taxes	33,050	11,168	—	1,438	—	45,656
Net income	\$ 61,668	\$ 20,110	\$ 19,535	\$ 2,382	\$ —	\$ 103,695
Identifiable assets	\$ 1,350,155	\$ 510,100	\$ 386,621	\$ 310,326	\$ (205,325)	\$ 2,351,877
1996						
Revenue from external sources	\$ 926,653	\$ 440,030	\$ 408,616	\$ 104,470	\$ (5,060)	\$ 1,874,709
Income before provision for income taxes	\$ 67,874	\$ 37,510	\$ 17,746	\$ 5,373	\$ —	\$ 128,503
Provision for income taxes	27,098	11,202	—	2,019	—	40,319
Net income	\$ 40,776	\$ 26,308	\$ 17,746	\$ 3,354	\$ —	\$ 88,184
Identifiable assets	\$ 1,123,449	\$ 390,448	\$ 241,099	\$ 264,561	\$ (208,743)	\$ 1,810,814

**TWO YEAR
SUMMARY
BY QUARTER**

FISCAL PERIOD	REVENUE (\$ THOUSANDS)	NET INCOME ¹ (\$ THOUSANDS)	EARNINGS PER COMMON SHARE		DIVIDEND (\$)	CLOSING STOCK PRICE (\$)
			BASIC (\$)	FULLY DILUTED (\$)		
1997						
1st quarter	504,355	22,502	.29	.28	.05	15.33
2nd quarter	561,229	23,013	.29	.27	.05	16.30
3rd quarter	554,609	32,701	.42	.40	.05	19.15
4th quarter	706,871	25,479	.32	.31	.05	18.00
	<u>2,327,604</u>	<u>103,695</u>	<u>1.32</u>	<u>1.27</u>	<u>.20</u>	
1996						
1st quarter	413,828	23,039	.29	.28	.05	11.13
2nd quarter	462,200	22,277	.29	.28	.05	12.13
3rd quarter	484,691	22,483	.29	.28	.05	12.50
4th quarter	513,990	20,385	.26	.25	.05	14.58
	<u>1,874,709</u>	<u>88,184</u>	<u>1.13</u>	<u>1.09</u>	<u>.20</u>	

¹ In 1996, \$7.5 million in non-recurring gains were realized during the year. In 1997, \$13.2 million in non-recurring gains were realized during the year.

**SEGMENTED
INFORMATION**

TWELVE MONTHS ENDED DECEMBER 31 (\$ THOUSANDS)	1997	1996	1995
REVENUE			
Canadian operations	\$ 1,146,406	\$ 926,653	\$ 923,275
U.K. operations	565,376	437,949	416,034
Chilean operations	514,068	408,616	350,650
International operations	101,214	101,491	62,032
Consolidated	<u>\$ 2,327,064</u>	<u>\$ 1,874,709</u>	<u>\$ 1,751,991</u>
NET INCOME			
Canadian operations	\$ 61,668	\$ 40,776	\$ 42,509
U.K. operations	20,110	26,308	20,800
Chilean operations	19,535	17,746	12,849
International operations	2,382	3,354	1,335
Consolidated	<u>\$ 103,695</u>	<u>\$ 88,184</u>	<u>\$ 77,493</u>

**TEN YEAR
FINANCIAL
SUMMARY**

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YEARS ENDED DECEMBER 31 (\$ THOUSANDS EXCEPT PER SHARE DATA)	1997	1996
REVENUE		
Revenue from Canadian operations	\$ 1,146,406	\$ 926,653
Revenue from U.K. operations	565,376	437,949
Revenue from Chilean operations	514,068	408,616
Revenue from International operations	101,214	101,491
	<u>\$ 2,327,064</u>	<u>\$ 1,874,709</u>
INCOME BEFORE PROVISION FOR INCOME TAXES		
As a percent of revenue	\$ 149,351 6.4%	\$ 128,503 6.9%
NET INCOME		
As a percent of revenue	\$ 103,695 4.5%	\$ 88,184 4.7%
EARNINGS PER COMMON SHARE		
Basic	\$ 1.32	\$ 1.13
Fully diluted	\$ 1.27	\$ 1.09
DIVIDENDS		
Total common share	\$ 15,761	\$ 15,600
Per common share	\$ 0.20	\$ 0.20
Payout ratio (% of net income)	15.2%	17.7%
COMMON SHARES OUTSTANDING (THOUSANDS)		
	79,091	78,547
REVENUE PER EMPLOYEE		
	\$ 475,570	\$ 441,940
NET INCOME PER EMPLOYEE		
	\$ 22,119	\$ 20,788
RETURN ON AVERAGE SHAREHOLDERS' EQUITY		
	16.2%	16.0%
GROSS CAPITAL EXPENDITURES		
Total dollars	\$ 47,148	\$ 43,132
Percent of net income	45.5%	48.9%
CASH FLOW		
Cash flow per share	\$ 316,731 \$ 4.00	\$ 244,909 \$ 3.12
RATIOS		
Asset turnover ratio	0.99	1.04
Bank debt to equity	1.66:1	1.50:1
Total debt to equity	2.37:1	1.97:1
Bank debt to equity (excl. Finance Co.¹)	1.16:1	.80:1
BOOK VALUE PER COMMON SHARE		
	\$ 8.69	\$ 7.59
COMMON SHARE PRICE		
High	\$ 20.50	\$ 14.58
Low	\$ 14.43	\$ 9.75
NUMBER OF EMPLOYEES		
Canada	2,496	2,269
U.K.	1,720	925
Chile	1,228	1,008
International	50	40
Total	<u>5,494</u>	<u>4,242</u>

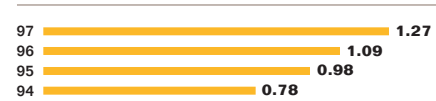
Financial data has been restated to incorporate common share subdivisions occurring during the ten year period and to reflect a retroactive change in accounting for revenue recognition for exchange components implemented in 1992.

¹ Assumes Finance Co. debt to equity ratio of 6:1. Bank debt to equity ratio has been restated to reflect a retroactive change in presenting customer rental-purchase contracts as finance assets.

1995	1994	1993	1992	1991	1990	1989	1988
\$ 923,275	\$ 838,680	\$ 675,490	\$ 553,316	\$ 583,542	\$ 727,321	\$ 542,083	\$ 406,744
416,034	338,499	258,235	251,909	267,828	319,727	335,371	358,433
350,650	241,221	74,464	—	—	—	—	—
62,032	39,138	34,768	27,512	—	—	—	—
<u>\$ 1,751,991</u>	<u>\$ 1,457,538</u>	<u>\$ 1,042,957</u>	<u>\$ 832,737</u>	<u>\$ 851,370</u>	<u>\$ 1,047,048</u>	<u>\$ 877,454</u>	<u>\$ 765,177</u>
\$ 119,392	\$ 95,488	\$ 35,895	\$ 1,728	\$ 3,139	\$ 43,889	\$ 67,885	\$ 61,587
6.8%	6.6%	3.4%	0.2%	0.4%	4.2%	7.7%	8.0%
\$ 77,493	\$ 61,421	\$ 22,271	\$ 2,878	\$ 4,612	\$ 30,283	\$ 42,197	\$ 37,067
4.4%	4.2%	2.1%	0.3%	0.5%	2.9%	4.8%	4.8%
\$ 1.00	\$ 0.80	\$ 0.30	\$ 0.03	\$ 0.05	\$ 0.44	\$ 0.70	\$ 0.65
\$ 0.98	\$ 0.78	\$ 0.30	\$ 0.03	\$ 0.05	\$ 0.43	\$ 0.68	\$ 0.64
\$ 15,451	\$ 9,985	\$ 6,592	\$ 5,042	\$ 6,844	\$ 15,286	\$ 11,826	\$ 8,868
\$ 0.20	\$ 0.13	\$ 0.09	\$ 0.08	\$ 0.10	\$ 0.23	\$ 0.20	\$ 0.16
19.9%	16.3%	29.6%	175.2%	148.4%	50.5%	28%	23.9%
77,442	77,026	76,266	67,370	67,056	66,640	66,196	56,474
\$ 428,674	\$ 374,978	\$ 283,875	\$ 281,425	\$ 260,757	\$ 289,480	\$ 240,267	\$ 311,808
\$ 18,961	\$ 15,802	\$ 6,062	\$ 973	\$ 1,413	\$ 8,372	\$ 11,554	\$ 15,105
16.2%	14.8%	6.5%	0.9%	1.4%	9.8%	17.1%	22%
\$ 25,812	\$ 16,641	\$ 13,752	\$ 7,025	\$ 11,643	\$ 26,116	\$ 24,516	\$ 7,868
33.3%	27.1%	61.8%	244.1%	252.4%	86.2%	58.1%	21.2%
\$ 209,827	\$ 176,764	\$ 116,371	\$ 94,546	\$ 102,180	\$ 114,467	\$ 112,542	\$ 88,346
2.71	2.30	1.53	1.40	1.52	1.72	1.70	1.56
1.09	1.06	0.95	0.86	0.92	1.07	1.19	1.21
1.55:1	1.35:1	1.23:1	1.59:1	1.46:1	1.63:1	1.41:1	1.53:1
2.11:1	1.99:1	1.80:1	2.03:1	1.95:1	2.09:1	1.98:1	2.18:1
.84:1	.66:1	.58:1	.93:1	.85:1	1.18:1	.97:1	.92:1
\$ 6.55	\$ 5.83	\$ 5.00	\$ 4.58	\$ 4.79	\$ 4.79	\$ 4.50	\$ 3.50
\$ 11.63	\$ 12.06	\$ 10.88	\$ 7.25	\$ 7.82	\$ 8.50	\$ 7.88	\$ 6.07
\$ 8.63	\$ 9.19	\$ 5.88	\$ 5.25	\$ 5.88	\$ 5.13	\$ 5.00	\$ 4.50
2,228	2,124	2,025	2,004	2,142	2,531	2,563	1,489
884	873	863	930	1,123	1,086	1,089	965
941	861	759	—	—	—	—	—
34	29	27	25	—	—	—	—
<u>4,087</u>	<u>3,887</u>	<u>3,674</u>	<u>2,959</u>	<u>3,265</u>	<u>3,617</u>	<u>3,652</u>	<u>2,454</u>

FINANCIAL PERFORMANCE

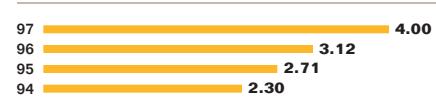
EARNINGS PER SHARE (\$)



Earnings per share on a fully diluted basis is calculated by dividing net income by the weighted average number of common shares outstanding during the year (assuming that all outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year).

In 1997, EPS (fully diluted) increased 16.5% compared with the previous year.

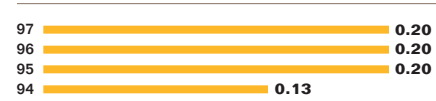
CASH FLOW PER SHARE (\$)



Cash flow per share is calculated by dividing cash generated from operations (excluding changes in operating assets and liabilities) by the total number of shares outstanding at the end of the year.

In 1997, cash flow per share increased 28% compared with the previous year.

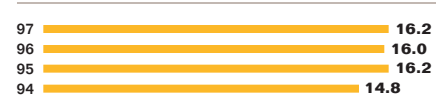
DIVIDENDS PER SHARE (\$)



In setting the dividend payment per common share, the Board of Directors considers the Company's recent and projected earnings, capital investment requirements and total return to shareholders.

In 1997, the common dividend was maintained at \$0.20 per share for a total annual payout of \$16 million.

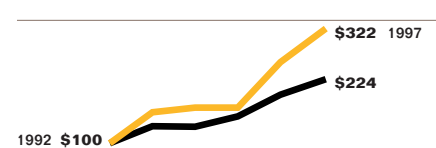
RETURN ON SHAREHOLDERS' EQUITY (%)



The return on shareholders' equity is calculated by dividing net income by the average shareholders' equity during the year (including share capital, retained earnings and cumulative currency translation adjustments).

In 1997, the return on shareholders' equity increased slightly to 16.2% from the previous year.

TOTAL SHAREHOLDER RETURNS (\$) ■ FINNING INTERNATIONAL INC. ■ TSE 300 INDEX



This graph above compares the yearly percentage change in the Company's cumulative total return on its common shares (annual stock price change, plus dividends) with the cumulative total return of the TSE 300 index.

Based on \$100 invested in 1992, Finning's cumulative total return over the five-year period was \$322 compared with \$224 for the TSE 300 index.

SHAREHOLDER INFORMATION

STOCK EXCHANGES

The common shares of Finning International Inc. are listed on both the Toronto and Montreal stock exchanges. (Symbol: FTT)

AUDITORS

Arthur Andersen & Co.
Chartered Accountants, Vancouver, BC, Canada

SOLICITORS

Ladner Downs
Barristers and Solicitors, Vancouver, BC, Canada

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
510 Burrard Street
Vancouver, BC V6C 3B9
Tel (604) 661-9400

ANNUAL MEETING

The Annual Meeting of the shareholders will be held at 11:00 AM, May 6, 1998 at The King Edward Hotel in Toronto, Ontario, Canada.

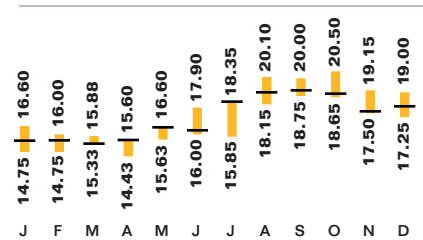
CORPORATE INFORMATION

The Company's head office is located at 555 Great Northern Way, Vancouver, BC, Canada, V5T 1E2. The Company prepares an Annual Information Form (AIF) which is filed with the securities commissions or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's home page on the Internet at <http://www.finning.ca>.

INVESTOR INQUIRIES

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be addressed to: David Climie
Director, Investor and Corporate Relations
Tel (604) 331-4885, Fax (604) 331-4899
E-mail dclimie@finning.ca

STOCK PERFORMANCE (\$)



This graph indicates the high and low closing stock prices for each month in 1997. The black lines indicate the closing price at the end of each month.

**DIRECTORS, OFFICERS
AND COMMITTEES**

PAGE 64

BOARD OF DIRECTORS

M.N. Anderson
PRESIDENT
ANDERSON & ASSOCIATES
VANCOUVER, BC

J. F. Dinning
SENIOR VICE PRESIDENT
TRANSALTA CORP.
CALGARY, ALBERTA

R.B. Hougen
PRESIDENT
HOUGEN'S GROUP OF COMPANIES
WHITEHORSE, YUKON

T. Howden
COMPANY DIRECTOR
MARLOW, ENGLAND

M.M. Koerner
PRESIDENT
CANADA OVERSEAS
INVESTMENTS LIMITED
TORONTO, ONTARIO

N.B. Lloyd
MANAGING DIRECTOR
FINNING (UK) LTD.
BEDNALL, ENGLAND

D.S. O'Sullivan
PRESIDENT
O'SULLIVAN RESOURCES LTD.
EDMONTON, ALBERTA

C.A. Pinette
PRESIDENT AND
CHIEF OPERATING OFFICER
LIGNUM LIMITED
VANCOUVER, BC

J.F. Shepard
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.
VANCOUVER, BC

W.R. Wyman
CHAIRMAN
SUNCOR ENERGY INC.
WEST VANCOUVER, BC

OFFICERS

J.F. Shepard
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.

C.A. Cederberg
PRESIDENT
FINNING CHILE S.A.

D.F. Edwards
EXECUTIVE VICE PRESIDENT
STRATEGIC DEVELOPMENT
FINNING INTERNATIONAL INC.

H.M. Ho
EXECUTIVE VICE PRESIDENT
HUMAN RESOURCES
FINNING INTERNATIONAL INC.

M.E. Hosier
CORPORATE TREASURER
FINNING INTERNATIONAL INC.

N.B. Lloyd
MANAGING DIRECTOR
FINNING (UK) LTD.

R.T. Mahler
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
FINNING INTERNATIONAL INC.

W.F. Merrell
EXECUTIVE VICE PRESIDENT
INTERNATIONAL SALES AND
INFORMATION SYSTEMS
FINNING INTERNATIONAL INC.

I.M. Reid
PRESIDENT AND
CHIEF OPERATING OFFICER
FINNING (CANADA)

J.T. Struthers
CORPORATE SECRETARY
FINNING INTERNATIONAL INC.

AUDIT COMMITTEE

M.M. Koerner
CHAIRMAN

J.F. Dinning

R.B. Hougen

T. Howden

C.A. Pinette

W.R. Wyman

**ENVIRONMENTAL, HEALTH
AND SAFETY COMMITTEE**

D.S. O'Sullivan
CHAIRMAN

C.A. Pinette

J.F. Shepard

GOVERNANCE COMMITTEE

C.A. Pinette
CHAIRMAN

M.N. Anderson

J.F. Dinning

R.B. Hougen

T. Howden

M.M. Koerner

D.S. O'Sullivan

W.R. Wyman

**HUMAN RESOURCES AND
COMPENSATION COMMITTEE**

M.N. Anderson
CHAIRMAN

D.S. O'Sullivan

J.F. Shepard

W.R. Wyman

A black and white photograph showing the back of a worker. The worker is wearing a hard hat and a work shirt. On the back of the shirt, there is a rectangular patch with the word "FINNING" written in large, bold, capital letters. The worker has a beard and is looking towards a bright, possibly outdoor, environment. The image has a halftone or dithered texture.

FINNING

**DIRECTORS, OFFICERS
AND COMMITTEES**

PAGE 64

BOARD OF DIRECTORS

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BEDNALL, ENGLAND

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**we
care
about
each other**

ENVIRONMENT, HEALTH AND SAFETY

ENVIRONMENTAL AFFAIRS

At Finning, we care about each other, the communities in which we operate and the environment.

Based upon our Company's commitment, Finning has established programs and activities designed to help preserve the environment and improve safety in our workplaces.

Concerning our environmental commitment, the Company has developed a policy statement that is being acted upon throughout our operations. We believe the following principles govern our attitudes, actions and performance in the areas of environmental matters:

- **adopt environmental management practices and procedures which meet and exceed the environmental standards of each community;**
- **identify, assess and reduce environmental risk through an environmental audit program;**
- **train employees on changes to environmental laws and regulations;**
- **use suppliers and waste contractors who have high environmental standards and practices; and**
- **ensure that future development of our business, operations and facilities reflects our commitment to environmental issues.**

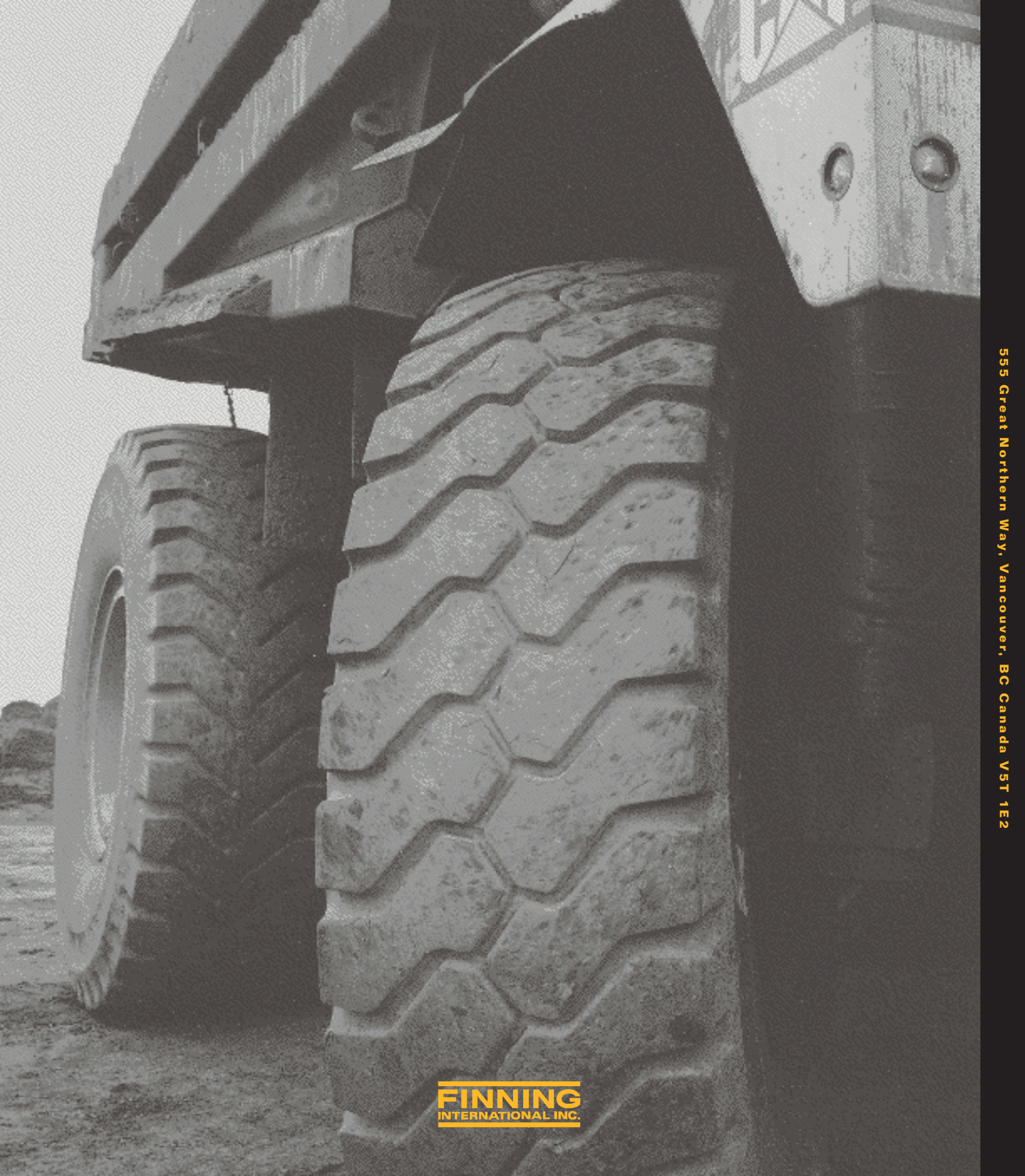
These principles guide Finning's operations in our day-to-day activities. Changes in environmental legislation are monitored to comply with the laws and regulations in each jurisdiction. Finning has undertaken and completed a four-year program to remove 120 underground storage tanks at its branches and depots in Canada. The Company continues to direct hundreds of tons of solid waste to recycling programs annually. Similarly, in the U.K. and Chile, programs are being developed so that waste materials such as antifreeze, oil filters and batteries are properly disposed of or recycled through licensed contractors.

HEALTH AND SAFETY

Our goal at Finning is to improve the health and safety of our employees by striving for an accident-free workplace. Even after steady improvements in the last few years, Finning has continued to achieve reductions in lost-time accident rates in each of its three dealer operations. Based on lost-time accidents per 200,000 hours worked, each country's lost-time accident rate declined in 1997 between 10% to 20% compared with 1996.

In our Canadian operations, a pilot project based on behavioral science theories and techniques was introduced during 1997. The project involved shop floor employees observing the safety practices of their fellow workers. Through this process, observers identified operating behaviors that could result in accidents and provided fellow employees with feedback on these behaviors. Employees consequently became far more aware of hazards and were able to correct many situations before accidents occurred. This behavioral-based safety process is being extended to other operations in 1998. A safety program in our U.K. operations, which also focuses on risk awareness and assessment, contributed to a dramatic reduction in the lost-time accident rate. In Chile, an evaluation of their accident prevention program was carried out in 1997 with a focus on continual improvement of worker safety in branches, workshops and customer maintenance contract sites.

At Finning, we believe that through employee education and participation, as well as the support and leadership of management, we can help preserve our environment, contribute positively to our communities and improve worker safety on the job.



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FINNING
INTERNATIONAL INC.