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worldwide

**2000** Annual Report



# The Finning Commitment

## To our Customers

We will be Caterpillar's best global business partner, providing unrivalled services that earn customer loyalty.

## To our Shareholders

### Industry leadership through:

- Continuous growth in shareholder value.
- The best solutions and value for our customers.
- Competitive advantage through innovation.
- Continuous growth in market share.

## To our Employees

### WE CARE.

- We depend on ourselves and each other for our safety and well being.

### WE COMMUNICATE.

- We rely on open, honest, and effective communication to work together.
- All contributions have value.

### WE TAKE RESPONSIBILITY.

- Responsibility and accountability are rewarded.
- Together, we shape the Finning of tomorrow.

### WE EMPOWER.

- We expect the best of each other.
- We encourage and value learning, innovation, and personal growth.

### WE TRUST.

- We work at building honest, constructive relationships with customers, suppliers, and colleagues.

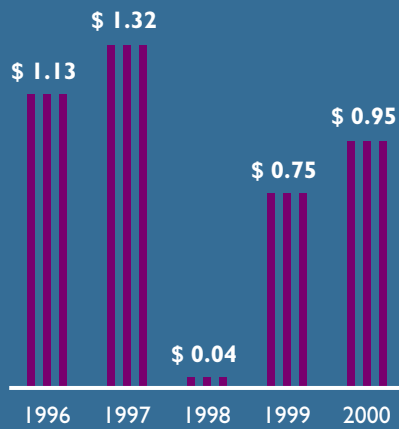
### WE DO OUR BEST.

- We continuously strive to make Finning the best place to work.

## Employee Commitment

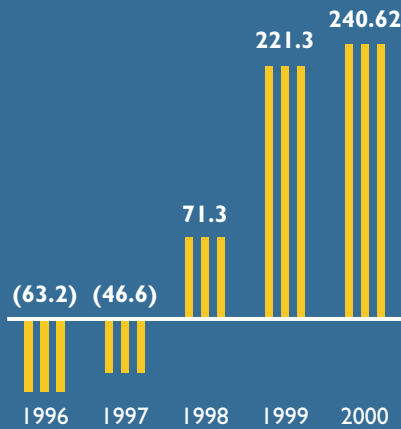
“My job is to make our customers and our company successful”

### Basic EPS

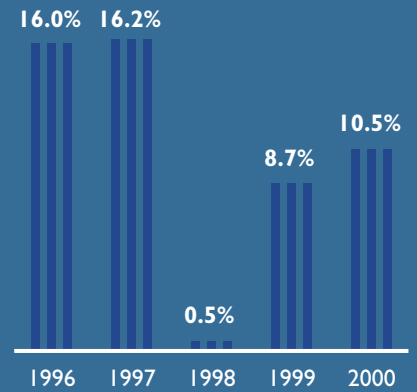


### Cashflow from Operations

(\$ in millions)



### Return on Equity

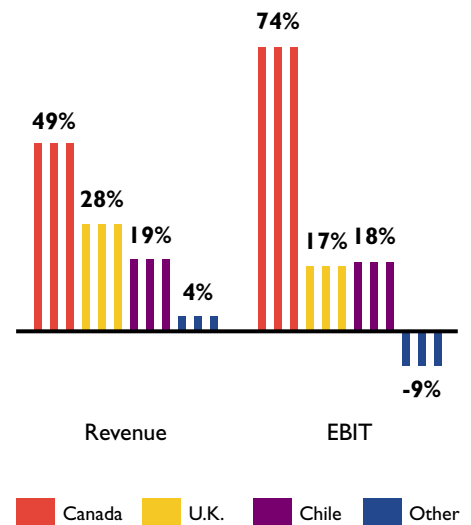


### 12 Months Ended - Dec. 31

(\$ in millions, except EPS data)

	2000	1999
Revenue	2,460.0	2,229.9
EBIT	165.3	148.9
Net Income	73.4	59.6
Operating Cash Flow	240.6	221.3
Basic EPS	0.95	0.75
Diluted EPS	0.94	0.74

### Revenue & EBIT Contribution by Operation



Glasgow Head Office Hewden Stuart Plc

Cannock Head Office Finning (UK) Ltd.



# Year 2000 Highlights

- Strong revenues and earnings
- Global expansion
- Growing customer satisfaction
- Increased employee productivity
- Major improvements in safety
- Ongoing asset reduction



## On the Cover

Finning International's global capabilities in providing Caterpillar equipment and related services is illustrated in this montage.

From top left: a lifeboat powered by twin engines in the United Kingdom; a 797 truck at work in a Chile copper mine; new generator sets power a diamond mine in the Northwest Territories; a rentals center for machines and other products in Britain.

**Vancouver** Headquarters Finning International Inc.

**Edmonton** Head Office Finning (Canada)

**Santiago** Head Office Finning Chile S.A.





# Corporate Profile

FINNING INTERNATIONAL INC. IS A CANADA-BASED INTERNATIONAL CORPORATION WITH EXTENSIVE OPERATIONS IN WESTERN CANADA, THE UNITED KINGDOM AND CHILE. FINNING INTERNATIONAL IS ONE OF THE WORLD'S LARGEST DEALERS FOR NEW CATERPILLAR PRODUCTS AND ALSO SELLS USED EQUIPMENT DOMESTICALLY AND WORLD-WIDE.

## Canada

Finning (Canada) sells, rents, leases and finances Caterpillar and complementary equipment and provides customer support services throughout British Columbia, Alberta, the Yukon and most of the Northwest Territories.

The major emphasis is on the complete line of Caterpillar products. Complementary equipment includes: Caterpillar and Mitsubishi-branded lift trucks, Svedala Reedrill rock drills, CompAir LeROI air compressors, Finning mobile rock drills, JLG aerial work platforms, Kaldnes Scandlog log handlers, Risley feller bunchers, Wagner log stackers and chip dozers, LeeBoy motor graders and paving products, Amida light towers and John Henry rock drills.

Finning (Canada), headquartered in Edmonton, Alberta, is represented by 32 branches, nine depots and 43 residences. There are 2,326 employees in Canadian operations.

## United Kingdom

Finning (UK) Ltd. sells and rents Caterpillar and complementary equipment and provides customer support services throughout England, Wales, Scotland and the Channel Islands. The dealership territory also includes the Falkland Islands for sale of Caterpillar equipment and parts.

Associated product lines include: Caterpillar-branded materials handling equipment manufactured by Mitsubishi Caterpillar Forklift Europe B.V., Caterpillar-branded warehouse equipment manufactured by Rocla of Finland and Caterpillar Olympian power generating systems manufactured by F.G. Wilson, Ireland.

Effective December 22, 2000, Finning (UK) became the distributor for Sabre Perkins power systems in England and Wales and on December 31, 2000, acquired the MaK marine engine distributorship for the U.K. and Ireland.

There are 15 branches and eight depots throughout the United Kingdom. Finning UK has 1,404 employees.

On January 26, 2001, Finning International acquired Hewden Stuart Plc., an equipment rental company with 370 locations and more than 4,300 employees throughout England, Scotland, Wales and Northern Ireland.

## Chile

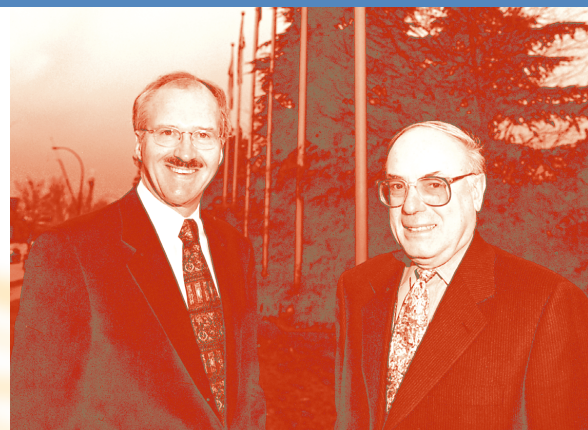
Finning Chile S.A. sells and rents Caterpillar and complementary equipment and provides customer support services throughout Chile. Complementary product lines include: Ingersoll Rand air compressors and drills and Denharco forestry equipment.

There are seven branches, 19 depots and two residences throughout the country. Finning Chile has 1,390 employees.

< Finning International Inc. Board of Directors: (front left) Donald O'Sullivan, Douglas Whitehead, Monica Sloan, Conrad Pinette, Andrew Simon, Ricardo Bacarreza; (rear) John Willson, Jefferson Mooney, John Cleghorn, Norman Anderson, James Dinning, Nicholas Lloyd and Timothy Howden.

# President's Report to the Shareholders

COMPANIES WITH A SHARP CUSTOMER FOCUS, ENGAGED EMPLOYEES, STRICT FINANCIAL DISCIPLINE AND THE SUPPORT OF A WORLD CLASS SUPPLIER CREATE EXCELLENT VALUE FOR THEIR SHAREHOLDERS. FINNING INTERNATIONAL IS SUCH AN ORGANIZATION.



Douglas W.G. Whitehead, President & Chief Executive Officer, Finning International Inc. (left) and Conrad A. Pinette, Chairman, look back on a year of major accomplishments.

After a brief setback in 1998, when all our markets were hammered by the Asian crisis, Finning has resumed its earnings and revenue growth trajectory. With our successful bid for Hewden Stuart in late 2000, we are confident that we will set new records in 2001.

At Finning, our commitment is to achieve maximum shareholder value by being Caterpillar's best global business partner while, in turn, providing unrivalled services that earn our customers' loyalty.

In 2000, our financial performance showed significant improvement over 1999, with revenue growth of

10.3 percent to \$2.5 billion and earnings growth of 23.1 percent to \$73.4 million.

We continued our concentration on asset productivity, spending only \$15 million on capital expenditures and lowering our operating debt/equity ratio to 0.20:1.

In fact, excluding the initial investment in Hewden Stuart, we have reduced assets by \$412 million over the past three years.

Finning (Canada)'s revenue reached record levels in 2000 with an 18 percent increase, while revenue in Chile grew by 26 percent. Operating earnings in the United Kingdom

improved 46 percent and Canada's operating earnings climbed by 20 percent over the previous year.

These improved results for our shareholders, which makes the company profitable for the 68th consecutive year, were reached despite market challenges in all our operations.

Many of our customers in natural resource industries coped with uncertain economies in 2000. Lumber, coal and gold prices remained weak through most of the year while pulp, newsprint and copper prices were stronger, but far from their historical highs. Our greatest opportunities

Cat's new 535 mid-sized skidder was introduced to forestry markets last year. Bee Hooker, of Echofar Enterprises at Big Lake, BC, nearly doubled production over a smaller machine while working in difficult logging conditions in the BC interior.





came from the surging oil and natural gas markets, where Caterpillar equipment and a full range of power systems products are valued by our customers.

We continued to improve asset performance through a \$40 million cost reduction program. We rationalized facilities and reduced parts and equipment inventories, while divesting non-core businesses in Chile and British Columbia.

### New, vibrant community

In mid-year, we listed for sale our 26.5 acre property on Great Northern Way, which has served as corporate headquarters since 1964. The property was earlier rezoned to a more community-compatible designation embracing a broad range of technological, retail, office, hotel and residential uses. The change will also accommodate the rapid light rail expansion. Since 1997, a number of operations on the property, including the Finning (Canada) head office, have been relocated. As we accelerate plans to move our remaining business units in 2001, we are pleased that

a new, vibrant community will emerge to create up to 9,000 new jobs.

The Company accelerated its shift from a selling business that provides product support to a customer support business that sells. Customer call centres, regional parts centres, component rebuild centres, and Internet based customer links are just a few of the new initiatives that were launched in 2000.

We implemented our strategy to enter the profitable small equipment rental market in the United Kingdom with the addition of Hewden Stuart which has 370 branches, 4,300 employees, and generated revenues of \$612 million and operating profits of \$102 million in its last reporting year. This \$700 million acquisition is the largest in Finning's history.

### Better balance of earnings

Hewden Stuart is the U.K.'s leading rental company and will provide Finning with a better balance and more predictable level of earnings, offsetting to some extent, Finning's historical reliance on equipment sales

to the cyclical natural resource industries.

In another strategic move, Finning (UK) acquired the distribution rights for two power systems operations; MaK and Sabre Perkins, both subsidiaries of Caterpillar. These acquisitions complement Caterpillar's strategy for its engine business and enable Finning to be the world's first Cat dealer capable of supplying the entire range of marine engines manufactured by Caterpillar.

Launched in 2000, our Internet auction site has been steadily gaining customer acceptance. This site provides us with another excellent channel to market our used equipment inventory around the world.

Our positive financial results in 2000 are due in large part to the contribution of all employees, who increased productivity and improved customer service. Our employees' focus on safety resulted in numerous innovative improvements and a 32 percent reduction in lost time accidents. Our employees have truly lived up to their commitment of



Mining exploration and development has led to demand for Caterpillar's largest tractors. The D10R is among some 40 pieces of mostly Cat mobile equipment and power systems products working at the Diavik diamond mine in the Northwest Territories.

making both our customers and our company successful.

A number of changes in senior management responsibilities took place during the year as we matched individual talent with job specifications to strengthen our leadership in all operations. We have a talented group of internationally trained managers and executives.

Our pledge to customers to provide the best solutions for their equipment needs by reducing their costs was reinforced through strategic alliances, customer service agreements and other supply contracts.

#### Partnerships with customers

This report highlights some of those partnerships in all three country operations, and for the first time, sections of the report appear in Spanish, a further reflection that we are at our customers' service worldwide.

Our customer commitment could not be achieved without the cooperation and support of Caterpillar Inc. As our business partner, Caterpillar provides the best

heavy-duty equipment in the world, and is recognized for its innovative design, reliability and productivity.

Caterpillar's continued investment in research and development and expansion of its product line and support services promises a bright future for Finning and our customers.

I appreciate the support from the Caterpillar team and the Finning Board during my first year as President and Chief Executive Officer.

At our last annual meeting, Jim Shepard stepped down as Chairman and Chief Executive Officer after 31 years of service and Michael Koerner and Bob Wyman retired as directors.

We are grateful for their contributions to the Company's growth. Also at the meeting, the shareholders elected Canadian business leaders John Cleghorn, Jefferson Mooney, Monica Sloan, and John Willson to the board of directors.

Norm Anderson, who has served as a director for 12 years, is retiring in 2001. Norm was chair of the Human Resources and Compensation Committee and a member of the

Governance Committee. His advice and insight will be missed, and we thank him for his service to the Company.

We are pleased to welcome Paul Jarvis and 4,300 Hewden Stuart employees to the Finning organization and are proud of our association with U.K.'s leading equipment rental company.

Overall, 2000 was a very successful and eventful year, and I am confident that we have strategically repositioned the Company for future success.

#### 2001 outlook positive

The outlook for 2001 remains positive. Finning (Canada) should continue to benefit from activity in the energy sector; Finning (Chile) from stabilized copper prices, and Finning (UK) and Hewden Stuart from the greatly increased government spending on infrastructure.

This bright economic outlook, together with continued productivity improvements and the contribution of Hewden Stuart, should ensure that we have a rewarding year in 2001.

Finning expands into new product lines with the addition of Hewden Stuart, the U.K. leader for equipment rental and related services. Hire centres similar to this one in Northampton operate from 370 locations throughout Britain and Northern Ireland.



Paul Jarvis is Chief Executive of Hewden Stuart.



# Reporte del presidente para los accionistas

**LAS EMPRESAS QUE CENTRAN SU ATENCIÓN EN SU CLIENTELA, TIENEN EMPLEADOS COMPROMETIDOS, UNA ESTRUCTURA FINANCIERA Y CUENTAN CON EL APOYO DE UN FABRICANTE DE CLASE MUNDIAL, CREAN UN EXCELENTE VALOR PARA SUS ACCIONISTAS. FINNING INTERNATIONAL ES UNA DE ESTAS ORGANIZACIONES.**

Luego de un pequeño retraso en 1998, cuando todos nuestros mercados fueron afectados por la crisis asiática, Finning recobró su trayectoria de ganancias y de expansión de ingresos. Con nuestra propuesta ganadora la adquisición de Hewden Stuart a finales de 2000, tenemos confianza de que asentaremos nuevos récords en 2001.

En Finning nos comprometemos a lograr valores máximos para nuestros accionistas, al ser el mejor socio mundial de Caterpillar y a la vez proveer servicios incomparables que atraigan la lealtad de nuestros clientes.

En 2000, nuestro rendimiento financiero tuvo una mejora de importancia en comparación a 1999, con un crecimiento de ingresos del 10,3%, alcanzando los \$2.500 millones y un incremento de utilidades del 23,1%, alcanzando los \$73,4 millones.

Continuamos concentrándonos en la productividad del activo, invirtiendo solamente \$15 millones en gastos de capital y reduciendo nuestra proporción deuda/patrimonio a 0.20:1.

En realidad, excluyendo la inversión original en la adquisición de Hewden Stuart hemos reducido los activos la hoja de balance en \$412 millones en los últimos tres años.

Los ingresos de Finning (Canadá) alcanzaron niveles récord en 2000 con un aumento del 18%, mientras que en Chile aumentaron un 26%. Las utilidades operacionales en el Reino Unido mejoraron en 46% y en Canadá subieron un 20% en comparación al año anterior.

Esta mejora en los resultados para nuestros accionistas hizo que la compañía se encontrara en una posición lucrativa durante 68 años consecutivos, y fue lograda a pesar de los retos del mercado en todas nuestras operaciones.

Muchos de nuestros clientes en industrias de recursos naturales hicieron frente a economías inseguras en 2000. Los precios de la madera, el carbón y el oro se mantuvieron débiles durante la mayor parte del año, mientras que los precios del papel de prensa y del cobre se mantuvieron más fuertes, aunque lejos de sus altos niveles históricos. Nuestras mejores oportunidades provinieron de los repentinos mercados de petróleo y de gas natural, donde los equipos Caterpillar y una amplia gama de productos de sistemas de energía, son valorados por nuestros clientes.

Continuamos mejorando el rendimiento del activo a través de un programa de reducción de costos de \$40 millones. Hemos racionalizado emplazamientos y reducido inventarios de partes y equipos, mientras nos despojamos de negocios no básicos en Chile y en la Columbia Británica.

A mediados del año, pusimos a la venta nuestra propiedad de 26,5 acres en Great Northern Way, la cual ha servido de sede corporativa desde 1964. La propiedad había sido anteriormente reclasificada a una designación más compatible con la comunidad, dentro de la cual cabe una amplia gama de usos tecnológicos, comerciales, residenciales, de oficinas y hotelería. El cambio proporcionará espacio también para la expansión del sistema de transporte público. Desde 1997 se han trasladado un número de operaciones, incluyendo la oficina central de Finning (Canadá). A medida que avanzamos en nuestros planes de reubicar las unidades restantes en 2001, nos complace saber que surgirá una nueva y vibrante comunidad y que la misma creará hasta 9.000 empleos nuevos.

La Compañía apresuró su cambio de ser un negocio dedicado a la venta de servicios de apoyo de los productos, a ser un negocio de apoyo al cliente, que vende. Centros de contactos para el cliente, centros regionales de partes y de reparación de componentes, además de enlaces de Internet para el cliente, son apenas algunas de las iniciativas que lanzamos en 2000.

Implementamos nuestra estrategia de penetrar en el redituable mercado de arriendo de equipos pequeños en el Reino Unido mediante la Incorporación Hewden Stuart cuenta con 370 sucursales y 4.300 empleados, y generó ingresos de \$612 millones y ganancias operativas de \$102 millones en el último año reportado. Esta adquisición, valorada en \$864 millones, es la más grande de la historia de Finning.

Hewden Stuart es la compañía de arriendos de mayor importancia del Reino Unido y le dará a Finning un mejor balance y más predecible nivel de ingresos, compensando en alguna manera la venta de equipos a las industrias cíclicas de recursos naturales.

Como movimiento estratégico, Finning (Reino Unido) adquirió los derechos de distribución de dos operaciones de sistemas de energía; MaK y Sabre Perking, ambas subsidiarias de Caterpillar. Estas adquisiciones complementan la estrategia de Caterpillar de su negocio de motores, permitiendo que Finning se convierta en el primer abastecedor mundial de Cat capaz de abastecer la gama completa de motores marinos manufacturados por Caterpillar.

Nuestro sitio en Internet para remates de maquinarias y productos, lanzado en 2000, ha ido logrando incesantemente la aceptación del cliente. Este sitio nos provee otra excelente oportunidad para comercializar nuestro inventario de equipos usados alrededor del mundo.

Nuestros resultados financieros positivos en 2000 se debieron en gran parte a la contribución de todos los empleados, quienes aumentaron la productividad y mejoraron el servicio al cliente. El enfoque de nuestros empleados en la seguridad dio como resultado numerosas mejoras innovativas y una reducción de un 32% de accidentes que ocasionaran pérdidas de horas laborales. Sin duda alguna, nuestros empleados han cumplido con su compromiso de lograr el éxito tanto de nuestros clientes como de nuestra empresa.

Durante el año se realizó un número de cambios dentro de las responsabilidades gerenciales al ajustar el talento individual con las especificaciones del trabajo para fortalecer nuestro liderazgo en todas las operaciones contamos con un grupo talentoso de gerentes y de ejecutivos con capacitación internacional. Nuestra promesa a los clientes de proveerles las mejores soluciones para sus requerimientos de equipos reduciendo sus costos, fue reforzada a través de alianzas estratégicas, acuerdos de servicio al cliente y otros contratos de abastecimiento.

Este reporte resalta algunas de las asociaciones en las operaciones de los tres países, y por primera vez, secciones del reporte aparecen en castellano, una muestra más de que estamos mundialmente al servicio del cliente.

El compromiso con nuestros clientes no podría lograrse sin la cooperación y el apoyo de Caterpillar, Inc. Como socio nuestro, Caterpillar provee el mejor equipo de maquinaria industrial del mundo, reconocida por sus diseños innovadores, su fiabilidad y productividad.

La constante inversión en investigación y desarrollo y la expansión de su línea de productos y servicios de apoyo de Caterpillar, promete un futuro brillante para Finning y para sus clientes.

Aprecio el apoyo del equipo Caterpillar y de la directiva de Finning durante mi primer año como presidente y director ejecutivo.

En nuestra reunión anual, Jim Shepard entregó su cargo de presidente y director ejecutivo después de 31 años de servicio y Michael Koerner y Bob Wyman se retiraron de sus puestos como directores. Agradecemos sus contribuciones para el crecimiento de la compañía. Durante la reunión, los accionistas eligieron también a John Cleghorn, Jefferson Mooney, Monica Sloan y John Willson, prominentes líderes de negocios canadienses, como miembros de la junta directiva.

Norm Anderson, director durante 12 años, se retirará en 2001. Norm fue el Presidente del Comité de Recursos Humanos y Compensación miembro del Comité Administrativo. Echaremos de menos sus consejos y su perspicacia y le damos las gracias por su servicio a la compañía.

Estamos encantados de darle la bienvenida a Paul Jarvis y a los 4.300 empleados de Hewden Stuart a la organización Finning. Es un orgullo para nosotros estar asociados con la empresa líder en arriendos de equipos del Reino Unido.

En general, 2000 fue un año muy exitoso y cargado de acontecimientos, y tengo la seguridad de que hemos estratégicamente reposicionado la compañía para el éxito futuro.

El panorama para 2001 continúa siendo positivo. Finning (Canadá) continuará beneficiándose de la actividad del sector de energía; Finning (Chile), de los precios estabilizados del cobre, y Finning (Reino Unido), junto a Hewden Stuart, del gran aumento en la inversión por parte del gobierno, en infraestructura. Este brillante panorama económico, junto con las continuas mejoras de productividad, y la contribución de Hewden Stuart, debieran asegurarnos un año provechoso en 2001.

# Financial Highlights

## ACQUISITIONS AND ASSET REDUCTION HIGHLIGHT A REWARDING FINANCIAL YEAR.



Richard T. Mahler, Executive Vice President & Chief Financial Officer, Finning International Inc.

10

Finning International's financial performance for the year ending December 31, 2000, was significantly improved compared with the same period a year earlier. In 2000, revenues were higher by 10.3% to \$2.5 billion, with Canada achieving record revenues of \$1.2 billion. EBIT was higher by 11.0% to \$165.3 million and net income increased by 23.1% to \$73.4 million. Earnings per share were up 26.7% to \$0.95 compared with \$0.75 in 1999.

The major highlight in 2000 was the successful bid for Hewden Stuart Plc., the U.K. leader in small machine rentals. This was the first time that Finning International had acquired a

publicly listed company, let alone in an overseas jurisdiction. This transaction involved the use of several sophisticated financial products, including a non-controlling interest by a group of investors. This structure enabled Finning to finance the purchase without issuing equity, while at the same time maintaining the strength of the Company's balance sheet.

Another important highlight was the Company's continued focus on improved asset utilization. During the year, Finning International reduced its debt (excluding the purchase of Hewden Stuart shares) by \$174 million, despite increased activity in

all of its operations. Since December 1997, Finning International had reduced its assets by \$412 million, which has resulted in an operating debt/equity ratio of 0.20 to 1 as of December, 2000. This is the strongest ratio in the Company's history.

Cash flow from operations was \$240.6 million, an 8.7% improvement compared with 1999.

As a result of the improvement in its financial position, Finning International instituted, for the first time, a share repurchase program on February 1, 2000. During the year, the Company repurchased 4.1 million shares in its continuing effort to increase value for its shareholders.

Low ground pressure tracks on the Cat D6M mid-sized tractor minimize ground disturbance in environmentally sensitive areas. MacMillan Construction's machine treads gently while cutting a seismic line. Last year Finning sold 40 units to oil patch contractors.



# Review of Operations – Customer Support Services

**RESTRUCTURING, CONSOLIDATION AND NEW STRATEGIC INITIATIVES HIGHLIGHTED AN ACTIVE YEAR FOR CUSTOMER SUPPORT SERVICES.**

Major goals for improving customer satisfaction were reached as product support sales teams were increased, component rebuild centres formed into stand-alone operations, information technology expanded, redistribution of used equipment and parts reorganized, and a used equipment Internet auction site launched as part of the Company's e-business initiative.

These objectives were met while overall parts and service revenues increased by 5.6 percent, asset reductions were made in all country operations, and lost time accidents decreased by 32 percent.

The challenges of global information technology facing the Company resulted in strategic action plans, which included the appointment of a new international IT director responsible for outsourcing proposals, staff skills and standardizing network infrastructure for all country operations.



**Brian C. Bell, Executive Vice President, Customer Support Services, Finning International Inc.**

In response to changing market conditions, the used equipment section of our international sales division, Universal Machinery Services, was realigned into Finning's existing country operations. Finning (Canada) now has responsibility for used equipment sales in North American and the Pacific Rim; Finning (UK) for Europe, Africa, India and the Middle East; and Finning Chile for South and Central America.



Auction action is monitored by Finning International sales representative Henry Peters during online bidding for used equipment.

The Company believes this decentralized approach will allow Finning to provide improved customer service.

These organizational changes will improve operating efficiency, reduce costs and target new market growth worldwide. In short, they will strengthen Finning's position in the international used equipment marketplace.

Universal Machinery Services will continue as our international used parts and attachments division, helping to ensure the Company's continuing success in this expanding business.

A new Vice President of Redistribution was appointed and is responsible for the used equipment inventory and market intelligence for all country operations.

### **E-business unit formed**

In support of this new direction, an e-business unit was formed to integrate and coordinate each country's electronic commerce strategy.

Finning's auction web site, Finning-Auctions.com, is an integral part of this new e-business unit.

This new online service for heavy equipment buyers and sellers was launched in May 2000 and is devoted to auctioning quality, used machines and attachments on the Internet.

Finning-Auctions.com has hosted eight successful online auctions, registered 1,000 users, and sold 23 machines resulting in gross sales of approximately \$3.0 million.

Finning's used equipment selection is unmatched, since customers get access to the company's extensive equipment inventories and large customer base. The site will continue to implement new services and features to best serve customers online.

At Finning (Canada), parts and service revenues increased by 9.6 percent as restructuring of parts operations, formation of a centralized customer call centre, installation of an automated warehouse program, and a positive response to a customer satisfaction survey highlighted the year.

The move to a regional parts model will result in one parts distribution centre serving Finning (Canada) from Edmonton. The Langley Parts Distribution Centre will be closed and regional parts centres in Surrey and Prince George will improve customer service and further reduce supply chain costs, which decreased by 10 percent last year.

Automated carousels deliver selected parts to a centralized workstation in the Parts Distribution Centre in Edmonton, resulting in an improved ordering and shipping process.





### 20,000 calls a month

The customer service centre is responding to some 20,000 calls a month as an integrated phone and parts system streamlines service and deliveries.

A customer satisfaction survey, which will be rolled out in Finning Chile and Finning (UK) in 2001, revealed that 86 percent of the respondents were either satisfied or very satisfied with Finning (Canada)'s services.

As part of the customer satisfaction strategy in the United Kingdom, four operations were restructured and parts and service consolidated. A centralized call centre was implemented, which currently dispatches 40 computer-equipped field service engineers to customer job sites.

### Service agreements popular

Customer service agreements, which help reduce customers' machine downtime and increase productivity, were sold on 35 percent of all new equipment, including 53 percent on general line machines.

A new business intelligence software package to assist Finning employees make improved business decisions reduced service work in progress billings from 45 percent to 28 percent.

In Chile, parts and service revenues increased by 11.3 percent as the Company refocused on customer satisfaction through the appointment of a Vice President of Customer Support Services. Re-engineering of the Component Rebuild Centre resulted in customer turnaround of major components being reduced from 45 to 20 days.

The international outlook for customer support services for 2001 remains positive as continued asset performance, ongoing implementation of new technologies and growth of parts and sales business should prove beneficial for both customers and shareholders.



New customer service centre located in Edmonton provides round-the-clock telephone service to customers throughout Western Canada. This centralized support service is now integrated with Finning's parts operation to ensure fast, efficient response to customer requests. A similar centre services U.K. customers.

**INCREASED SALES OF CATERPILLAR CORE PRODUCTS, STRONG RESULTS IN KEY MARKETS, IMPROVED ASSET PERFORMANCE, AND GREATER EMPLOYEE PRODUCTIVITY COMBINED TO GENERATE RECORD REVENUE AND HIGHER EARNINGS FOR FINNING (CANADA).**

**UNIT DELIVERIES OF NEW EQUIPMENT GREW BY OVER 20 PERCENT AND USED MACHINES BY 18 PERCENT, WHICH RESULTED IN THE COMPANY MAINTAINING ITS OVERALL MARKET SHARE IN A CHALLENGING ECONOMIC CLIMATE.**

High energy prices and an upsurge in pipeline activity in Alberta resulted in record sales of petroleum-based equipment and power systems products. Unit deliveries of mobile machines to this industry more than doubled while generation units grew by over 60 percent.

Demand for Caterpillar's large tractors and trucks, engines, electric sets and rental equipment increased dramatically as oil companies made record capital investments in the oil fields. Diamond mine exploration and development accelerated and copper prices increased worldwide.

### **Big tractors, big trucks**

Sale of D10R and D11R tractors to the mining industry tripled and doubled respectively over the previous year while deliveries of Caterpillar's largest truck, the 380 ton 797, remained strong.

Finning (Canada) supplied 40 mid-size D6M tractors equipped with low ground pressure tracks to oil patch contractors. The machine's wide tracks minimize ground disturbance in environmentally sensitive areas.

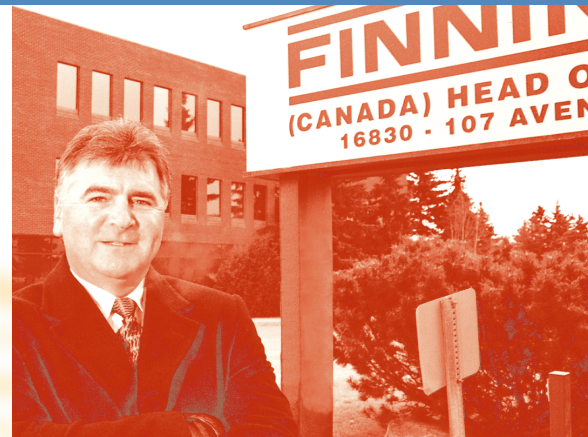
Development of the Diavik diamond mine in the Northwest Territories led to the \$18 million sale of five of Caterpillar's largest generator sets, the 3500 and 3600 series, for emergency and main power.

The Power Systems Division generated another \$7 million through the sale of a 16-megawatt power plant comprising ten 3500-series generator sets to a Calgary-based company contracted to provide power in Cambodia.

Deliveries of heavy-duty and mid-range Caterpillar truck engines reached record levels, gaining the highest market share of any Caterpillar dealer in Canada.

Other markets — construction, forestry and agriculture — remained relatively flat, but new products and strategic alliances with major customers increased unit sales and laid the groundwork for future business.

The entry of Caterpillar's new compact equipment line helped boost building construction product sales to 260 units, double the previous year's level. Over 140 new skid steer loaders were delivered to rental houses,



**Ian M. Reid, President & Chief Operating Officer, Finning (Canada).**

landscapers and contractors engaged in subdivision and utility work. Machine replacement and maintenance by highway privatization contractors and strong demand for Cat paving products helped increase construction industry unit sales by 15 percent.

### **Forestry sales increase**

Forestry unit deliveries increased by 10 percent, sparked by a 46-machine package that was part of a strategic alliance between Canfor and Finning (Canada). The alliance is aimed at minimizing equipment fleet costs through coordinated machine purchase and maintenance programs.

The Caterpillar 535 skidder, a mid-sized machine that improves production while working difficult terrain, was successfully introduced to B.C. interior markets.

Fourteen of Caterpillar's 400 series Lexion combines were delivered to Alberta farmers, helping Finning (Canada) increase agricultural market share. The Lexions provide increased speed and efficiency in harvesting crops.

### New centre opens

Finning (Canada) reinforced its long-term commitment to Caterpillar agricultural products and market potential by opening a new sales and service centre in Edmonton dedicated to serving this industry.

Finning (Canada) entered the rental services market to help grow our compact equipment products business with traditional customers, as well as offer a full range of rental supplies. Further expansion into rental services is planned for 2001.

The Materials Handling Division increased its revenues, although profit margins were eroded by competition in the rental and used equipment markets.

Revenue from external training grew by 33 percent as customers, many representing First Nations and municipalities, took advantage of maintenance and operator training programs.

Finning (Canada) continues to face a shortage of mechanics, but through its worldwide recruitment program was able to add 40 service people to support oil sands customers.

Scheduled performance training for managers and greater employee productivity helped improve asset performance as Finning (Canada) reduced its costs of parts and equipment inventories and facilities.

Under utilized facilities in Port Hardy and Nelson were sold and customer service centralized, parts distribution operations were consolidated and the attachment services business was sold.

### Support services grow

Customer support services showed strong growth as parts and service revenue increased by 9.6 percent. Focus on customer satisfaction was reaffirmed through such initiatives as the centralized service centre that provides phone support 24 hours a day, seven days a week. This service is now fully integrated with all parts operations to ensure fast, efficient response to customer requirements.

Customer service agreements exceeded growth expectations as machine users took advantage of trained service people and sophisticated diagnostic tools to minimize repair and maintenance costs of their equipment.

### Safety record improved

Finning (Canada) reported a 35 percent reduction in lost time accidents, attributed to a strong effort by all employees. Finning (Canada) is committed to further improvement by achieving and sustaining health and safety excellence in all operations.

The electronic commerce business, introduced in 2000, is aimed at making it easier and more efficient for customers to do business with us. For example, Finning's corporate website allows customers to easily access their current and historical oil sampling results and check fluid levels to determine wear of machine engines and other components.



Finning's new agricultural centre in Edmonton is dedicated to Caterpillar farm products and support services.

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**“We are pleased with our strategic alliance with Finning.”**



**David Emerson**, President and CEO  
Canfor

**Number of Caterpillar Machines: 120**

Canada's top lumber producer, Canadian Forest Products Ltd., has been changing ageing yard machines at 14 of its northern BC and Alberta mills and switching to Finning's *Power by the Hour*, whereby all machine costs (the initial purchase or lease, operating costs, and shared management) are reduced to a single fixed hourly cost, based on expected operating hours.

Canfor is looking at replacing about 160 machines at these mills, each with a customized Finning maintenance plan, tailored to individual mill requirements. Canfor expects ultimately to expand the *Power by the Hour* program company-wide.

**“Our goal was to incorporate Finning's expertise with our own to lower operating costs, increase uptime and add efficiencies wherever possible.**

**“Our Power by the Hour agreement includes four components: a machine lease — as opposed to purchase — in order to reduce our initial capital outlay; a Finning maintenance program designed to increase uptime and optionally including planned component replacement schedules for major components; guaranteed machine operating costs through the lease term to stabilize our budgeting process at Canfor; and guaranteed buyback at the end of the lease term to ensure a “no surprise” passage to new units.**

**“In summary, we are pleased with our strategic alliance with Finning.”**



BHP owns and operates Canada's first diamond mine, Ekati, which is located 300 km northeast of Yellowknife in the Northwest Territories. BHP's close alliance with Finning at Ekati goes well beyond what has been attempted in the mining industry anywhere in the world. It's a partnership in total management of the on-site machines, from initial sale, through operation and maintenance, to residual values.

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Cat 793C and 777D trucks haul overburden from the pit at BHP's Ekati diamond mine. Finning has its own full-service branch operation on site, using BHP facilities, to maintain the Cat fleet.

**“What we have achieved is a winning partnership.”**

**“We have a unique concept at Ekati: that we and Finning are in business here together.**

**“Finning and BHP mutually agree on cost and operating targets for the Cat equipment, rather than demanding set-in-stone-guarantees. What we're achieving is a winning partnership based on the cost and production results achieved with the equipment.”**



**Ian Goodwin, Maintenance and Supply Manager  
BHP's Ekati Diamond Mine  
Number of Caterpillar machines: 80**

## “Our cost of doing business has been reduced.”

Lafarge has found that its strategic alliance with Finning, formed five years ago, offers the best solutions for its various construction materials operations across Western Canada

Lafarge has an all Cat fleet of 250 construction and mining machines, including graders, excavators, loaders, trucks and paving products at work in its aggregate, paving, quarrying and landfill operations.



**Mike Smith, President**  
Construction Materials Group - Western Canada  
Lafarge Canada Inc.

**Number of Caterpillar machines: 250**

“Through best practice specifications recommended by Finning, our cost of doing business has been reduced due to extended machine life, durability and productivity of our Caterpillar equipment fleet.

“The product reliability, flexible finance options, combined with the operator and machine maintenance training provided by Finning, has given us the supplier support to help meet our growth objectives.

“This three-way partnership between Finning, Caterpillar and Lafarge has resulted in an excellent working relationship based on trust.”

A new Cat 980G wheel loader loads out sand at Lafarge asphalt plant in Edmonton. Machine is part of extensive fleet covered by strategic alliance between Lafarge and Finning.

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# Review of Operations – United Kingdom

TOTAL REVENUE FOR FINNING (UK) IN POUNDS STERLING SHOWED YEAR-OVER-YEAR IMPROVEMENT OF 2.3 PERCENT. THIS CAME AFTER TWO SUCCESSIVE YEARS OF YEAR-OVER-YEAR DECLINES.



Jack A. Carthy, Managing Director, Finning (UK) Ltd.

The operating environment during 2000 was an extension of trends established in previous years. The overall British economy grew at the rate of three percent but there was a lack of demand for equipment in the traditional markets of coal mining, production of aggregates and major infrastructure development.

During the year, two important changes took place that should provide Finning with more sustainable earnings and vibrant growth in future years.

A new Strategic Business Plan was developed for the overall U.K. markets. This Plan emphasizes the sustainable opportunities available to Finning (UK) as the Caterpillar representative in a country with a population of almost 60 million.

### Emphasis on rentals

The addition of Hewden Stuart by Finning International will assist Finning (UK) and Hewden in gaining share of expanding markets for sales and rentals of equipment and other products.

In addition, the Construction Equipment, Power Systems and Materials Handling Divisions within Finning (UK) developed and implemented plans to maximize growth in the high-density population markets that they serve.

A mid-sized MaK marine diesel engine on a test bed at Caterpillar facilities in Germany. Finning is the MaK distributor for the United Kingdom and Ireland.





The second important change was the Labour Government's policy on infrastructure. In July, 2000, the government announced its intention to invest more than \$400 billion on roads and railways over the next 10 years. The long-anticipated Birmingham Northern Relief Road project was fast tracked and contracts were finalized in the fourth quarter. Large projects involving new bypasses, road improvements and heavy and light railway schemes have also been announced.

These include a major move for urban regeneration and renewal of "Brownfield" sites. These sites, previously occupied by industry, are now being upgraded to current environmental standards.

### **New approaches needed**

The Construction Equipment Division maintained leadership in the heavy construction, mining and quarrying markets despite a decline of 12 percent in unit terms. Gains were made in the small equipment market as Caterpillar continued to introduce new products. The launch of the new compact machines has driven the need to find new and innovative ways to reach a whole new customer group.

Customer relationship management, telemarketing and web-based communication are all being incorporated into a new channel of distribution.

The introduction of Caterpillar's full range of compact equipment products provided an excellent opportunity for Finning (UK) to take advantage of a market that grew 14 percent over 1999.

Finning (UK) developed alliances in the quarrying and mining sectors, and load and haul contracts presented long-term opportunities that provide our customers with a "One-Stop Shop" for equipment parts and services.

Focus on sales and maintenance and repair contracts throughout 2000 has resulted in an increased percentage of equipment being sold with a service contract.

Predicted increased spending on road and rail infrastructure provides a healthy outlook for the heavy construction sector with growing opportunities in the aggregate and surfacing industries.



Caterpillar's new line of compact construction equipment is proving ideal for subdivision and utility work. Two small rubber-tracked excavators, owned by G. Farrell Ltd., work on a residential site near Lymington, England.

Power Systems product sales rose by 13.8 percent. Sales to the Internet/telecommunications sector increased by 300 percent and gains were made in market share. Pleasure craft and industrial market sectors showed good growth. Rentals of power generation units continued to improve with volumes up by 74 percent over two years. The Ministry of Defence awarded Finning (UK) a preferred-supplier contract for power generation rental.

During the year, Finning (UK) became the distributor for Sabre Perkins and also the MaK distributor for the U.K. and Ireland. This closely follows Caterpillar's growth plans and makes Finning (UK) the first dealer to represent all three Caterpillar marine engine brands.

With the acquisition of Sabre Perkins and MaK products, Finning (UK) can now supply and service the entire Caterpillar marine engine range from 65 horsepower to 22,030 horsepower. Finning (UK) can also supply the complete line of propulsion engines and generator sets on a wide-variety of vessels, from small pleasure craft to large ocean-going freighters.

### Market share increased

The Materials Handling business remained active and our market share improved to 7.5 percent. The Division performed better in all areas over the previous year as gross margins increased and costs were maintained at or below 1999 levels, giving a dramatic improvement in overall results.

The economic outlook is positive and it is anticipated that market activity will continue at a similar pace in 2001.

Natural purified water is used at the Finning (UK) branch in Leeds where a bed of reeds and wild grasses filter the wash water used for cleaning equipment. Leeds employee Paul Storey shows where the water is sufficiently clean to return to the city's storm water system. The U.K. environmental agency may adopt this Finning piloted technology.





London storeman Rob Mayers checks out a long-stroke cylinder liner from one of the mid-sized marine diesel engines offered by MaK. Finning has acquired the U.K. business operations of the German diesel engine manufacturer.

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**“We’ve got one source for our equipment  
and one business relationship.”**



**George Crompton, Managing Director,  
AMPL Limited**

**Number of Caterpillar Machines: 204**

**W**ith links back to Roman times, Penrhyn slate quarry in North Wales is still producing high-grade slate. But the seams are getting harder to reach, requiring the removal of massive amounts of rock overburden.

Working closely with Finning (UK), AMPL Limited — an autonomous business unit of the U.K.’s \$1.8 billion Alfred McAlpine Group — supplies and maintains the quarry’s equipment. Recently, AMPL took over the complete operation of a fleet of Cat machines (a 5080 front shovel paired with three 775D haul trucks) to remove up to 1.5 million tonnes of overburden per year.

**“I’m more than pleased with the way our business relationship has developed. Through people and trust, we share the understanding that at the end of the day both companies, AMPL and Finning, have got to achieve profit and shareholder value.**

**“The 5080 and 775 team was introduced after Finning and we carefully studied the quarry operation and realized greater efficiencies could be achieved by widening the benches to accommodate the larger machines.**

**“One of the things I particularly like about dealing with Finning is the fact Caterpillar offers a complete family of equipment, so whatever we need it’s there. We’ve got one source for our equipment and one business relationship.”**



TNT Express and TNT Newsfast — two divisions of U.K.'s largest courier and parcel delivery service TNT Limited — are in the process of upgrading their 170-plus rental fleet of Caterpillar lift trucks. The solution is to reduce running expenses and increase residual values through the use of Finning's satellite-based Transmond information system that will give TNT real-time control over truck operating conditions, provide notification of any accidents, and send regular updates of all operating statistics. All these functions will be handled by remote satellite, which will also limit truck speed to 7 mph, shut off an engine if it idles for more than three minutes or has an operation failure. Sensors on the machine will even log any accidents.

**"When it comes to cost competition, you can only drive the rental price down so far, so we were looking for other ways to improve efficiency and to make cost savings.**

**"Finning has shown great flexibility and willingness to find solutions beyond normal business response. Because of that and the real-time information flow via satellite, we've been able to find several other ways to improve efficiency with the machines and increase residual values by taking better care of the equipment. This helps control costs and drive down our lift truck expenses."**

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A blur of activity at TNT Newsfast's Wellingborough warehouse is normal at this newspaper and magazine distribution arm of TNT UK Ltd. Along with its sister division, TNT Express, TNT Newsfast runs about 170 Cat DP18 lift trucks, in both diesel and natural gas configurations, at their 52 locations.

**"Finning has shown great flexibility."**



**Andrew Stace**  
Senior Buyer, National Services  
TNT UK Ltd.

**Number of Caterpillar Machines: 170**

The RNLI (Royal National Lifeboat Institution) is a U.K. search and rescue organization. It conducts rescues of up to 50 miles offshore and covers the shorelines of England, Scotland, Wales and Ireland. The RNLI utilizes 306 lifeboats stationed in 223 lifeboat stations and has another 114 boats on standby. The organization is completely funded through private donations with no government assistance. Virtually all of its 5,000 crew members are volunteers, as well as its army of fund raisers.

**“We’ve built up a very good relationship.”**



**Bob Cripps**, Engineering Manager  
RNLI (Royal National Lifeboat Institution)

**Number of Caterpillar-powered boats:  
75% of 306-boat fleet**

With a top speed of 25 knots, the RNLI’s Severn Class lifeboat is the fastest and most robust of the fleet, capable of going out in almost any weather, up to Beaufort 12 (beyond gale force). The 17 metre vessels are powered with twin Cat 3412 engines, each developing 1,250 hp at 2,300 rpm.

“What we demand from an organization is 24-hours backup, 365 days a year. And that’s what Finning and Caterpillar provide. We handle all our own boat design and development and first started using Cat engines in the late 1960s in the development of the first “fast” lifeboat that was capable of 18 knots. Since then, we’ve built up a very good relationship with Finning and Caterpillar. I appreciate the good technical support we receive from Finning and the Caterpillar marine development team, particularly at the design stage.”

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# Review of Operations – Chile

THE CHILEAN ECONOMY GREW 5.4 PERCENT IN 2000 COMPARED TO NEGATIVE GROWTH IN 1999 AS THE NEWLY ELECTED GOVERNMENT LED BY PRESIDENT RICARDO LAGOS TOOK OFFICE. THE PRIVATE SECTOR BECAME INCREASINGLY RESPONSIBLE FOR THE MAJORITY OF CHILE'S EXTERNAL DEBT, TAKING ON 85 PERCENT OF NEW FOREIGN LOANS DURING THE YEAR. THIS REFLECTED THE INCREASING IMPORTANCE OF THE PRIVATE SECTOR IN THE CHILEAN ECONOMY AS THE GOVERNMENT CONTINUES ITS PROGRAM OF PRIVATIZATION.

Finning Chile's revenue increased by 26 percent in 2000 to \$474.1 million. This improvement came via higher sales activity in mining, construction and customer support services.

## Copper production up

Production of copper, the country's leading commodity, increased by 4.3 percent to 4.6 million tons with prices ending the year at 83.9 cents per pound. Packages of loading, hauling and drilling equipment were sold both for fleet replacement and new mine expansions.

The year also saw the introduction of the 380-ton 797, Caterpillar's largest mining truck. The first deliveries in South America took place in Chile. Orders for 18 were received with 12 shipped in 2000 and the remainder to be delivered in 2001. Exploration and development by major mining companies at new sites will provide further sales opportunities for this truck.

Finning Chile took advantage of Minexpo 2000 in Las Vegas and Caterpillar's Demonstration Centre near Tucson, Arizona to host 42 executives from 30 leading companies. These events allowed customers to view firsthand the latest in Caterpillar's technological advances, which position Finning to provide unique solutions for customers, including the latest mine site management system - Minestar.

Although the overall construction market remained weak, as indicated by a 25 percent reduction in housing activity, sales revenue increased as the new series of Caterpillar compact products, including skid steer loaders and mini excavators, was introduced. Success with mid-sized hydraulic excavators, backhoe loaders and wheel loaders continued.

## Market share regained

Forest exports from Chile rose by 20 percent for the year with international pulp prices averaging \$600 (USD) per ton. With Caterpillar's specific-designed forestry products line continuing to expand, market share was regained in this industry.



Nicholas B. Lloyd, President & Chief Executive Officer, Finning Chile S.A.

The Power Systems Division had a challenging year as weakness in key markets resulted in a 31 percent decline in revenues. A service agreement was reached with the Ariel Corporation for compressors within Chile as demand for gas compression is forecast to increase significantly in 2001 and onward.

## Energy projects increased

Success in the last quarter of the year saw a large increase in electric power generation projects in the telecommunications/gas industry. Orders worth \$13.5 million were received for installation in 2001.

The decision to exit the Kenworth truck business in 1999 was concluded in 2000 with the priority of guaranteeing that customers did not suffer any disruption in service during the transition process.

A strategic review of the crane market resulted in Finning Chile relinquishing its distribution agreement with Grove Crane.



Customer services revenue rose by 11 percent over the previous year, reflecting continued growth in machine population and Finning Chile's emphasis on providing focused, segmented services to customers in all industries served. Finning believes that customer satisfaction is directly linked with technical competence of its employees.

In conjunction with Caterpillar, a comprehensive ongoing skill development program has been initiated. This ServicePro program will enable Finning technicians to handle the growing complexities of the equipment. It will also ensure we continue to deliver the world-class services that customers demand.

Safety for employees remains a priority. Continued benchmarking with customers helped reduce lost-time accidents during the year by 68 percent versus 1999.



Employee focus on safety at Finning International operations in Chile, Canada and the United Kingdom reduced lost time accidents by 32 percent. Welder used approved safety protection while operating grinding equipment.

Empleados de Finning International, concentrados en la seguridad, logran reducir en un 32% el tiempo perdido por accidentes en sus operaciones en Chile, Canada y el Reino Unido. El soldador usa equipos de protección autorizados durante la operación de la maquinaria.

LA ECONOMÍA CHILENA CRECIÓ EN UN 5.4 % EN 2000 COMPARADO CON UN CRECIMIENTO NEGATIVO EN 1999 DURANTE EL GOBIERNO RECIENTEMENTE ELECTO PRESIDENTE RICARDO LAGOS. EL SECTOR PRIVADO COMENZÓ A RESPONSABILIZARSE CADA VEZ MÁS DE LA MAYORÍA DE LA DEUDA EXTERNA CHILENA, ADQUIRIENDO UN 85% DE LOS NUEVOS CRÉDITOS EXTRANJEROS DURANTE EL AÑO. ESTO REFLEJÓ LA CRECIENTE IMPORTANCIA DEL SECTOR PRIVADO EN LA ECONOMÍA CHILENA MIENTRAS EL GOBIERNO CONTINÚA SU PROGRAMA DE PRIVATIZACIÓN.

Las ganancias de Finning Chile aumentaron un 26% en 2000, alcanzando los \$474.1 millones de dólares. Esta mejora se debe al aumento en las ventas en la minería, en la construcción y en los servicios de apoyo al cliente.

La producción de cobre, la materia prima de mayor importancia del país, aumentó un 4,3 %, alcanzando 4,6 millones de toneladas, con precios al cierre del año de \$1,85/kg. Paquetes de equipos de carga, de transporte y perforadoras fueron vendidas tanto para la renovación de flotas como para nuevas expansiones mineras.

El año 2000 fue testigo también de la introducción del camión minero más grande de Caterpillar: el 797, de 380 toneladas de capacidad de carga. Las primeras entregas en América del Sur se hicieron en Chile. Se recibieron pedidos de 18 unidades, de las cuales 12 se entregaron en 2000 y el resto durante el 2001. Exploraciones y desarrollo por parte de compañías mineras de importancia en nuevos emplazamientos proveerán mayores oportunidades de ventas de este camión.

Finning Chile aprovechó la feria Minexpo 2000 en Las Vegas y en el Centro de Demostración de Caterpillar, cerca de Tucson, Arizona para recibir a 42 ejecutivos de 30 empresas líderes. Estos eventos hicieron posible que nuestros clientes observaran en primera plana los últimos avances tecnológicos de Caterpillar, los cuales colocan a Finning como el proveedor de soluciones únicas para sus clientes, incluyendo 'Minestar', el más reciente sistema de administración de minas.

A pesar de que el mercado general de la construcción ha permanecido débil, como lo indica una reducción de un 25% en el movimiento de viviendas, las ganancias provenientes de las ventas han aumentado con la introducción de la nueva serie de productos compactos de Caterpillar, que incluye mini cargadores y mini excavadoras. Mientras tanto, las excavadoras hidráulicas medianas, retroexcavadoras y cargadores frontales, continúan siendo populares.

Las exportaciones forestales chilenas subieron un 20% anual, con precios internacionales de pulpa de papel que promediaron los U\$5 600 por tonelada. Con la constante expansión de productos Caterpillar diseñados especialmente para la industria forestal se ha logrado la recuperación de la cuota del mercado en esta industria.

La División de Sistemas Energeticos tuvieron un año desafiante debido a la debilidad de los mercados principales, lo cual resultó en una disminución de 31% en los ingresos. Se logró un acuerdo de servicios con Ariel Corporation para compresores dentro de Chile, mientras se espera un aumento importante en la demanda de compresión de gas en 2001 y en adelante.

El último trimestre del año fue testigo de un aumento considerable en proyectos de generación de energía dentro de la industria de telecomunicaciones y de gas. Se recibieron pedidos por un valor de \$13,5 millones de dólares para instalaciones en 2001.

La decisión de salir del negocio de camiones Kenworth en 1999 se finalizó en 2000 con la prioridad de garantizar que los clientes no sufrieran ningún tipo de interrupción de servicios durante el proceso de transición.

Como consecuencia de una revisión estratégica del mercado de grúas, Finning Chile renunció al acuerdo de distribución con Grove Crane.

Las ganancias en servicios al cliente subieron 11% con relación al año anterior, lo cual refleja continuidad en el crecimiento de maquinarias y énfasis de parte de Finning Chile en proveer servicios específicos segmentados para el cliente en todas las industrias que sirve la empresa. Finning considera que la satisfacción del cliente está directamente relacionada con la competencia técnica de sus empleados.

Junto con Caterpillar se inició un programa de desarrollo exhaustivo de capacitación continua. El programa ServicePro le permitirá a los técnicos de Finning a manejar las crecientes complejidades de los equipos. Asimismo, garantizará que continuemos entregando los servicios a nivel mundial que demandan los clientes.

La seguridad del empleado continúa siendo una prioridad. Los parámetros continuos con los clientes nos ayudaron a reducir al 68% el número de accidentes que ocasionaran pérdidas de horas laborales durante el año, comparado con los resultados vistos en 1999.



Fleet of Caterpillar's largest equipment is assembled at El Tesoro copper mine site in Chile. Mine operates 15 Cat machines, including five 789C trucks and three 994D wheel loaders.

Una flota de equipos Caterpillar son armados en la mina de cobre El Tesoro, ubicada en el norte de Chile. El Tesoro opera 15 equipos Cat, incluyendo cinco camiones 789C y tres cargadores 994D.



Míner Escondida Limited produces fine copper sulfate and oxides at its mine located 170 km southeast of Antofagasta, Chile. The mine, which is owned by a consortium of companies, has operated for 10 years and now has over 2100 employees, including 75 Finning contract support staff. Over 80 of the 103 machines in the fleet are Caterpillar. Finning delivered seven 797 trucks to the mine in 2000.

Mínera Escondida Limitada produce sulfato y óxido de cobre de alta calidad en su mina ubicada a 170 km al sudeste de Antofagasta, Chile. La mina, que pertenece a un consorcio de compañías, viene operando desde hace diez años y en la actualidad cuenta con 2.100 empleados, personal que incluye 75 contratados de Finning. Más de 80 de las 103 maquinarias de su flotilla son Caterpillar. Finning entregó siete camiones 797 a la mina en 2000.

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Finning service vehicles are dwarfed by Caterpillar's largest mining truck, the 380-ton 797, working at Chile's Escondida copper mine. Last year, Finning delivered 12 of these trucks to major mining customers in Chile.

Los vehículos de servicio de Finning son pequeñísimos al lado de un 797, el camión minero más grande de Caterpillar (380 toneladas), utilizado en la mina de cobre Escondida. El año pasado, Finning Chile entregó 12 de estos camiones — la primera venta del 797 fuera de Norte América.

**“We’ve begun to work very well together as a team.”**



**Félix Vásquez**

Superintendent, Mine Maintenance / Encargado de Mantenimiento  
Miner Escondida Limited / Minera Escondida Limitada

**Number of Caterpillar machines: 83 / Número de maquinas Cat en operación: 83**

"In making the decision to purchase Cat 797s for the mine's phase four expansion program, our evaluation focused primarily on the support package that Finning and Caterpillar were providing. We found it very attractive in meeting our needs.

"We've begun working very well together as a team. For instance, we've established regular technical meetings for our fleet of 793B/C trucks. These meetings have helped us identify problems and solutions in the fleet and have contributed to increased performance. We also embarked with Finning on a complete training program for personnel involved with this fleet with the result being an improved level of equipment availability."

"Uno de los factores principales que influyeron en nuestra decisión de comprar los Cat 797 para la cuarta fase del programa de expansión, fue el paquete de apoyo que ofrecía Finning y Caterpillar, el cual hallamos sumamente satisfactorio para nuestras necesidades."

"Desde el principio trabajamos muy bien en equipo. Por ejemplo, establecimos reuniones técnicas regulares para nuestra flota de camiones 793B/C. Estas reuniones nos han ayudado a identificar problemas y luego encontrar soluciones, aumentando el rendimiento de estos camiones. También hemos emprendido con Finning, un programa de capacitación para el personal relacionado con la flota, el cual ha mejorado el nivel de disponibilidad de los equipos."



In 1999, Banco de A. Edwards tendered for the installation of 24 generator sets to ensure emergency power and system security for its head office and main branches. Finning Chile S.A. won the contract, which also included a five-year maintenance agreement. Installation of the Caterpillar gen sets began at the end of 1999. The bank continues to purchase from Finning and now has 45 gen sets in operation.

En 1999 Banco de A. Edwards llevó a licitación la instalación de una serie de generadores para asegurar la disponibilidad de energía en casos de emergencia y la seguridad del sistema en su casa matriz y principales sucursales. Finning Chile S.A. logró ganar el contrato que incluyó también un acuerdo de mantenimiento por cinco años. La instalación de los generadores Caterpillar comenzó a fines de 1999. El banco continúa comprando a Finning y cuenta en la actualidad con 45 generadores en operación.

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Generator sets provide emergency and security systems power for Chile bank operations.

Grupos electrógenos suministran electricidad para sistemas de seguridad y contingencia en las operaciones de un banco chileno.

**“We were impressed with the speed and efficiency that Finning delivered.”**



**Didier González**

Project Coordinator / Coordinador de Proyectos  
Banco de A. Edwards

**Number of gen sets in operation: 45 / Número de equipos de generadores en operación: 45**

“We knew the reputation of Cat products. This was one of the factors in awarding Finning the contract, but the other was the support Finning could offer nation wide. With branches all over the country, we needed to know that we could count on support at a moment’s notice. Other suppliers couldn’t guarantee this.

“We were immediately impressed with the speed and efficiency that Finning delivered with the installation of the first 24 units. Installation and trial periods went off without a hitch and certainly gave us the confidence to rely on Finning in the future.

“The units have never failed and continue to perform well. And Finning’s ongoing maintenance has been excellent.”

“Conocíamos la reputación de los productos Cat y ese fue uno de los factores considerados en la entrega del contrato a Finning. El otro factor fue el apoyo que Finning ofrece a nivel nacional. Con sucursales en todo el país, necesitábamos estar seguros de que podríamos contar con asistencia inmediata. Otros proveedores no pudieron garantizarnos eso.”

“Nos impresionó inmediatamente la velocidad y eficiencia de Finning durante la instalación de las primeras 24 unidades. La instalación y las pruebas transcurrieron sin complicaciones dándonos la absoluta seguridad de confianza en Finning en el futuro.”

“La unidades no han fallado jamás y continúan ofreciendo un buen rendimiento. Además, el servicio constante de mantenimiento de Finning ha sido excelente.”

**“We have a very close relationship with Finning people and consider them partners in our business.”**



**Reinaldo Martín Huber**

Partner and Technical Manager / Socio y Gerente Técnico  
Contex Limited / Contex Limitada

**Number of Cat machines in operation: 12 / Número de maquinarias Cat en operación: 12**

**C**ontex Limited is a privately-owned construction firm based in Santiago, which employs up to 400 workers during peak periods. The company specializes in highways and seaport construction as well as subcontract work for mining firms.

Contex Limited, which purchased its first tractor from Finning in 1995, currently has 12 pieces of Caterpillar equipment. The company also rents a wide range of products from The Cat Rental Store.

CONTEX Limitada es una empresa constructora privada con sede en Santiago de Chile. En las temporadas más altas emplea hasta 400 trabajadores. La empresa se especializa en la construcción de carreteras y puertos marítimos como así también en trabajos subcontratados para empresas mineras.

CONTEX Limitada, quien compró su primer tractor a Finning en 1995, cuenta en la actualidad con 12 unidades de equipos Caterpillar. La compañía también arrienda una amplia variedad de productos del Cat Rental Store.



“We have only been a Finning client for the last five years as previously we depended on one dealer for our equipment. We always knew that Cat quality was excellent, but we had a strong relationship with this other dealer and assumed at the time that we were also receiving the best service. Five years ago we had a particular project where we needed a tractor with specifications that only a Cat model provided. We decided to give Finning a try, and I can honestly say we’ve had no regrets.

“There was never any question in our minds that the Cat quality was there, but naturally that comes at a premium. Once we had some Cat equipment in our fleet, we soon realized, however, that there is a tremendous difference in resale values between a Cat machine and its competitors. When you factor this into your operations, the advantages to buying Cat quickly add up. Finning has consistently given us the best trade-in values for our used equipment and this has also kept us going back to them.

“Finning service has truly been excellent. We have a very close relationship with Finning people at the Santiago branch and consider them partners in our business. Once we started dealing with Finning, we found that what we had thought were good levels of service in fact weren’t when we compared it to Finning’s. We’ve been especially pleased with their technical people’s ability to diagnose and fix problems quickly. Parts availability has also never been a concern, and we know Finning has made great efforts to secure parts for us when we’ve needed them in a hurry.”

“Nos hicimos clientes de Finnings a partir de los últimos cinco años, dependiendo anteriormente de una concesionaria para atender nuestras necesidades de maquinarias. Siempre supimos de la excelente calidad Cat, pero teníamos fuertes lazos con esta otra compañía y suponíamos en esa época que recibíamos el mejor de los servicios. Hace cinco años atrás teníamos un proyecto en particular para el que requeríamos de un tractor con especificaciones que sólo proveía un modelo Cat. Decidimos entonces probar con Finning y les aseguro honestamente que no nos hemos arrepentidos.”

“Jamás dudamos sobre la calidad de Cat, pero naturalmente, ello viene acompañado de un precio. Al contar con algunas unidades Cat en nuestra flotilla nos dimos cuenta enseguida de la increíble diferencia entre el precio de reventa de estas maquinarias y el de la competencia. Si incluimos esto dentro de nuestros cálculos operativos, las ventajas que ofrecen los productos Cat se suman rápidamente. Adicionalmente, Finning nos ha ofrecido constantemente los mejores precios por nuestras unidades usadas, lo cual también ha contribuido para que continuemos trabajando con la empresa.”

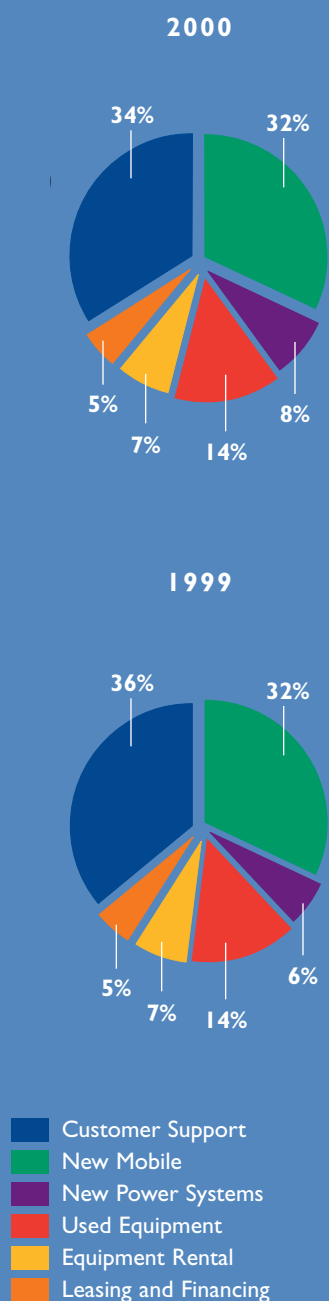
“El servicio de Finning ha sido excelente. Tenemos una relación muy estrecha con la gente de Finning de la sucursal de Santiago y los consideramos socios en nuestro negocio. Cuando comenzamos a trabajar con la compañía, descubrimos que el nivel de servicio que anteriormente considerábamos que era bueno, en realidad no lo era, al compararlo con el que nos ofrecía Finning. Estamos particularmente satisfechos con la habilidad de los técnicos para diagnosticar y resolver problemas. Podemos contar constantemente con la disponibilidad de repuestos y, en casos de urgencia, Finning ha hecho grandes esfuerzos para conseguirnos los repuestos que necesitábamos.”

# Management Discussion and Analysis



Gaining wide market acceptance are Caterpillar's small skid steer loaders, part of Cat's compact equipment product line. Finning sold 140 units to contractors like Marty Franczak, of Petrofit Mechanical Ltd. who uses his machine for subdivision work at Nordegg, Alberta.

Revenue by Activity



Results of Operations

Finning International achieved higher revenues, net income and cash flows from operating activities in 2000 compared with 1999. Consolidated revenues increased 10.3% to \$2,460.0 million, whereas consolidated net income increased 23.1% to \$73.4 million. Earnings per share for the year 2000 were \$0.95 compared with \$0.75 in 1999, representing a 26.7% increase. Cash flow from operating activities for the period increased 8.7% to \$240.6 million.

The table below sets forth certain financial data expressed as a percentage of revenue for the years indicated.

	2000	1999	Change
Revenue	100.0%	100.0%	
Gross profit	25.4%	26.1%	-0.7%
Selling, general & administrative expenses	18.7%	19.4%	0.7%
EBIT	6.7%	6.7%	0.0%
Finance costs and interest on other indebtedness	2.4%	2.9%	0.5%
Income before provision for income taxes	4.3%	3.8%	0.5%
Provision for income taxes	1.3%	1.1%	-0.2%
Net income	3.0%	2.7%	0.3%

During the year, the Company initiated a bid for Hewden Stuart Plc., which was successfully concluded January 2001 (see note on Acquisition of Hewden). Hewden is a leading small equipment rental business in the U.K. In addition, Finning (UK) acquired distribution rights for marine power engines for Sabre Perkins covering England and Wales and acquired the MaK marine engine distribution business for the U.K. and Ireland.

During 2000, the Company divested its non-core attachment fabrication services business in Canada. The Company also decided to exit the Kenworth dealership business in Chile effective March 31, 2000 due to difficult market conditions.

Despite a slowdown of the North American economy, the outlook for 2001 remains positive for all the major operations. Finning (Canada) should continue to benefit from activity in the energy sector, Finning (Chile) from stabilized copper prices, and Finning (UK) and Hewden Stuart from the greatly increased government spending on infrastructure.

## Revenues

In 2000, all lines of business recorded increases over 1999. Consolidated revenues were higher by \$230.2 million (10.3%), new mobile equipment revenues were higher by \$84.2 million (11.8%), new power systems products revenues were higher by \$50.0 million (34.7%), customer support services revenues were higher by \$44.8 million (5.6%) and used equipment revenues were higher by \$31.3 million (10.1%).

The table below provides details of revenue by operations and lines of business.

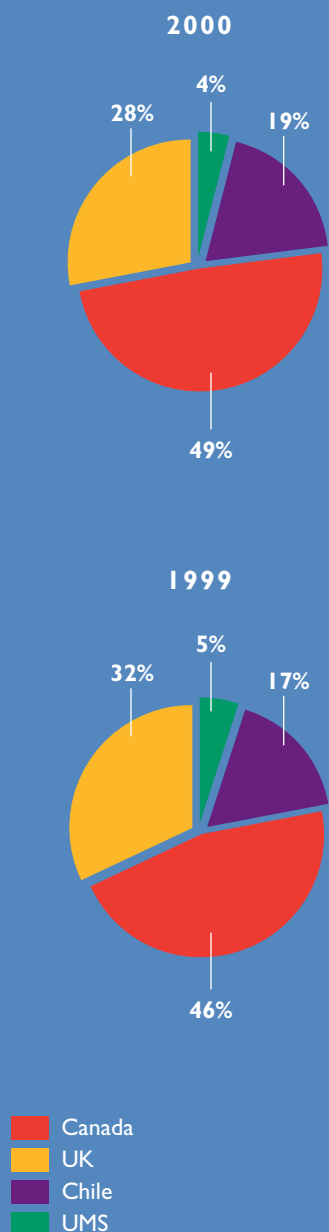
2000 <i>(dollars in thousands)</i>	Canada	UK	Chile	UMS	Corp.	Consol.	Revenue Percentage
New mobile equipment	\$ 344,290	\$287,377	\$164,834	\$	\$	\$ 796,501	32.4%
New power systems products	104,321	78,463	11,122			193,906	7.9%
Used equipment	148,459	85,171	31,145	77,959		342,734	13.9%
Equipment rental	100,202	49,461	14,883	2,225		166,771	6.8%
Operating leases	98,451					98,451	4.0%
Customer support services	405,782	181,690	245,965	8,806		842,243	34.2%
Finance and other	13,011		6,196		23	19,426	0.8%
<b>Total</b>	<b>\$1,214,516</b>	<b>\$682,162</b>	<b>\$474,145</b>	<b>\$ 89,013</b>	<b>\$ 196</b>	<b>\$2,460,032</b>	<b>100.0%</b>
Revenue percentage by operations	49.4%	27.7%	19.3%	3.6%	0.0%	100.0%	

### 1999 *(dollars in thousands)*

New Mobile equipment	\$ 283,916	\$325,082	\$103,255	\$	\$	\$ 712,253	31.8%
New power systems products	58,520	68,971	16,410			143,901	6.5%
Used equipment	125,368	76,086	18,597	91,378		311,429	14.0%
Equipment rental	89,634	46,484	14,826	4,715		155,659	7.0%
Operating leases	95,427		587			96,014	4.3%
Customer support services	370,131	196,318	221,009	10,014		797,472	35.8%
Finance and other	9,926		3,093	109	5	13,133	0.6%
<b>Total</b>	<b>\$1,032,922</b>	<b>\$712,941</b>	<b>\$377,777</b>	<b>\$106,216</b>	<b>\$ 5</b>	<b>\$2,229,861</b>	<b>100.0%</b>
Revenue percentage by operations	46.3%	32.0%	16.9%	4.8%	0.0%	100.0%	

Revenues from Canada, UK, Chile and UMS were 49.4% (1999: 46.3%), 27.9% (1999: 32.0%), 19.3%(1999:16.9%) and 3.6% (1999: 4.8%) respectively. Revenues increased 17.6% in Canada and 25.5% in Chile, whereas UK and UMS recorded revenues lower by 4.3% and 16.2% respectively over 1999.

Revenue by Operations



**Canada**

Led by a resurgent petroleum sector, revenues in Finning (Canada) reached record highs of \$1,214.5 million. Revenues were over 1999 levels in all areas, most notably in new and used equipment sales. New mobile equipment sales increased \$60.4 million (21.3%), power systems product sales increased by \$45.8 million (78.3%), while used equipment sales rose \$23.1 million (18.4%) primarily as a result of mining truck sales. Equipment rental revenue increased 11.8% to \$100.2 million, while leasing and finance revenues increased to \$111.5 million (5.8%).

Oil sands and diamond mining along with improved copper prices, also contributed to the growth in revenues across most of the sectors, most notably customer support services. Customer support services showed strong revenue growth as revenues were up \$35.6 million or 9.6%.

**United Kingdom**

In the U.K., the decrease in revenue of \$30.8 million was attributable to a 6.4% depreciation of the pound sterling against the Canadian dollar. In sterling terms, UK revenue increased 2.3%.

In Canadian dollar terms, new mobile equipment revenue fell by \$37.7 million (11.6%) compared with 1999. The decrease is primarily due to the Construction Equipment Division which experienced a difficult year as only a few infrastructure projects commenced.

Weakness in Construction Equipment was partially offset by growth in the Materials Handling Division that won several national account deals. The Power Systems Division showed strong growth of \$9.5 million (13.8%) largely due to major deals with Internet service providers.

Rental revenue increased \$3.0 million (6.4%) as Materials Handling fleet size increased to over 1000 units at year-end and as the Power Systems rental division benefited from the rental of standby generator equipment over the Millenium period. Demand for rental units also increased due to extreme weather conditions that caused extensive flooding during the last few months of the year. The increase in rental revenue is also a reflection of the trend towards usership from ownership of equipment.

Customer support services revenue decreased \$14.6 million (7.5%) over 1999 revenue in Canadian dollar terms. This was largely due to intense competition in the parts market especially for larger construction equipment parts together with a marketplace trend towards lower value unit equipment.

In July 2000, the U.K. government announced plans to invest 180.0 billion pounds sterling on the roads and the railways in the country. The largest single road project ever in the U.K., the Birmingham Northern Relief Road project, commenced in early 2001. The total government expenditure on this project is 450.0 million pounds sterling. It is expected that this will stimulate demand for heavy equipment in the U.K.

### Chile

Total revenues increased by \$96.4 million (25.5%) mainly due to a strong performance in the mining sector, as copper production in Chile rose slightly above the 1999 levels with stabilization in copper prices.

New mobile equipment sales increased \$61.6 million (59.6%) mainly due to introduction of the new 380 ton truck to the mining sector. Twelve of these trucks were sold to two major mining customers in Chile. In addition, there was a large new equipment package sold to another mining operation. The increase of \$12.5 million (67.5%) in used equipment sales is also attributable to sales to mining contractors.

New power systems products sales were affected by a slowdown across major industrial sectors. Market size for power systems products shrank almost by half in 2000 as economic activity slowed, affecting all major industrial sectors.

Very few major infrastructure and highway projects were started in 2000, as expropriation issues relating to bids awarded in 1999 had yet to be resolved. The Chilean Chamber of Construction reported that the construction activity dropped 20% in 2000 compared with 1999. The forestry industry was dramatically affected by new environmental regulations, diverting investment in plantations to other South American countries.

### Universal Machinery Services (UMS)

Used equipment revenues fell \$13.4 million (14.7%) over 1999. The decrease was attributable to fewer major projects worldwide in the face of weak commodity prices and economic uncertainties. Increased competition in the global used equipment market also contributed to the weakening of sales in 2000.

The majority of used equipment sales for the year were concentrated in North America (62.0%), and Latin America (29.0%) with the balance of revenues distributed amongst Europe, West Africa, India, New Zealand, Australia and the Netherlands.

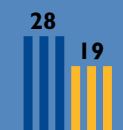
Used Parts revenues were down \$1.2 million (12.1%) compared with 1999. Revenue shift to the domestic used parts divisions, delay of expansion plans into Dubai, U.K. and Miami and softening of the U.S. economy towards the end of 2000 further impacted the revenues on both used equipment and used parts.

The Company held eight online auctions with proceeds approaching \$3.0 million under "Finning Auctions.com" for the sale of used equipment during the year. These auctions were successful in generating traffic and creating awareness among the target audience. The Company plans to conduct online auctions regularly in 2001.

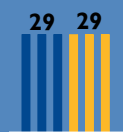
**Operating Income (EBIT)  
by Operations**  
(dollars in millions)



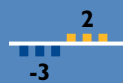
Canada



UK



Chile



UMS



**Gross profits**

Gross profits increased \$43.0 million (7.4%) to \$624.4 million in 2000 compared with 1999. As a percentage of revenue, however, gross profit was lower at 25.4% compared with 26.1% in 1999.

Gross margin as a percentage of revenue was lower in Canada due to a shift in sales mix. Higher gross margin activities such as customer support services did not grow as fast as the lower gross margin power systems for the gas compression and electric markets.

Gross margin as a percentage of revenue was higher in the U.K. due to improvement in rental and materials handling margins. Rental margins improved due to increased volumes in a relatively fixed cost business, whereas materials handling margins benefited from better pricing from suppliers.

Gross margin as a percentage of revenue was lower in Chile due to a shift in sales mix and higher service contract costs. It was also lower in UMS as a result of reducing aged inventory.

**Selling, general and administrative expenses**

Selling, general and administrative expenses increased \$26.7 million (6.2%) to \$459.1 million in 2000 compared with 1999. As a percentage of revenue, however, these expenses were lower at 18.7% compared with 19.4% in 1999.

Selling, general and administrative expenses as a percentage of revenue were lower in Canada, U.K. and Chile due to operating leverage and focus on cost control. Corporate expenses were higher mainly due to foreign exchange losses of \$1.3 million and absence of foreign exchange translation gains of \$5.4 million on inter-company dividends recorded in 1999.

**Earnings before interest and taxes (EBIT)**

EBIT increased by 11.0% to \$165.3 million due to significant increases in Canada and UK. EBIT as a percentage of revenue was 6.7% in both 2000 and 1999 as the effect of lower gross margin percentage was offset by lower selling, general and administrative expense percentage. EBIT contribution from Canada, U.K., Chile and UMS was 74.4% (1999: 68.8%), 16.7% (1999: 12.7%), 17.7% (1999:19.7%) and (1.7%)(1999: 1.1%) respectively.

The table below illustrates EBIT contribution by operations.

<b>2000</b> (dollars in thousands)	<b>Canada</b>	<b>U.K.</b>	<b>Chile</b>	<b>UMS</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue from external sources	\$1,214,516	\$682,162	\$474,145	\$ 89,013	\$ 196	\$2,460,032
Operating costs	943,226	629,309	435,877	91,784	12,042	2,112,238
Depreciation	147,300	24,389	8,987	-	-	180,676
Amortization of goodwill	1,012	843	-	-	-	1,855
Earnings before interest and tax	<u>\$ 122,978</u>	<u>\$ 27,621</u>	<u>\$ 29,281</u>	<u>\$ (2,771)</u>	<u>\$ (11,846)</u>	<u>\$ 165,263</u>
EBIT as a percentage of revenue	10.1%	4.0%	6.2%	-3.1%	-	6.7%
EBIT percentage by operations	74.4%	16.7%	17.7%	-1.7%	-7.1%	100.0%
<b>1999</b> (dollars in thousands)						
Revenue from external sources	\$1,032,922	\$712,941	\$377,777	\$106,216	\$ 5	\$2,229,861
Operating costs	785,290	669,520	332,638	103,734	3,415	1,894,597
Depreciation	144,167	23,668	15,463	850	-	184,148
Amortization of goodwill	984	836	384	-	-	2,204
Earnings before interest and tax	<u>\$ 102,481</u>	<u>\$ 18,917</u>	<u>\$ 29,292</u>	<u>\$ 1,632</u>	<u>\$ (3,410)</u>	<u>\$ 148,912</u>
EBIT as a percentage of revenue	9.9%	2.7%	7.8%	1.5%	-	6.7%
EBIT percentage by operations	68.8%	12.7%	19.7%	1.1%	-2.3%	100.0%

## Finance Costs and Interest on Other Indebtedness

Finance costs and interest on other indebtedness decreased \$7.2 million (10.9%) to \$58.6 million in 2000 compared with 1999, as debt was reduced during the year by focusing on asset management. The overall interest rate for the Company was 98 basis points higher in 2000 compared with the rates in 1999. Also, financing costs in 2000 include \$1.3 million for amounts borrowed for acquiring Hewden shares.

## Provision for Income Taxes

Income tax expense in 2000 amounted to \$33.3 million, reflecting an effective tax rate of 31.2% during the year compared with 28.3% in 1999. The increase in the Company's effective tax rate is mainly due to provision for income taxes in Chile at a nominal rate of 15% (Nil in 1999).

## Net Income

Net Income improved by 23.1% to \$73.4 million in 2000 compared to a year earlier. The stronger earnings performance and the Company's repurchase of 4.1 million common shares during 2000, as part of a normal course issuer bid, contributed to a 26.7% increase in basic earnings per share to \$0.95.



## Acquisition of Hewden Stuart Plc.

Finning International Inc., through a new wholly-owned, U.K.-based subsidiary, reached agreement with the Board of Directors of Hewden Stuart Plc. (Hewden) on the terms of a recommended cash offer for all of the issued and to be issued share capital of Hewden. The offer was for 115 pence in cash for each Hewden share, valuing the existing issued share capital of Hewden at approximately 322 million pounds sterling (\$700 million), based on 280.3 million shares in issue. Finning International's offer, made on November 29, 2000 represented a 68-percent premium to Hewden's closing share price on October 23, the day before Hewden announced that it was in talks on a possible offer for the Company.

On January 12, 2001 Finning International declared its offer for Hewden wholly unconditional. As of January 30, 2001, Finning International owned or had received valid acceptances in respect of approximately 95.7% of Hewden shares. The Company is taking steps to acquire the remaining shares of Hewden and Hewden has been delisted from the London Stock Exchange.

Hewden is a leader in the U.K. for small equipment rental and related services, with approximately 370 locations throughout Scotland, England, Wales and Northern Ireland and more than 4,300 employees. It offers a modern range of equipment to a variety of industry sectors in the General Hire, Tool Hire and Lifting Hire markets. For the year ended January 31, 2000, Hewden reported revenue from continuing operations of 256.0 million pounds sterling (\$612.0 million) and operating profit from continuing operations of 42.8 million pounds sterling (\$102.0 million).

The acquisition of Hewden is consistent with Finning International's growth strategy to expand operations internationally and to diversify through the addition of new product lines and entry into the small equipment rental market. The equipment rental business of Hewden is highly complementary to the business and will enable Finning International to provide comprehensive services to a wider customer base through both channels.

## Liquidity and Capital Resources

Management of the Company assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

- operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment and financing provided to customers;
- investing activities, including acquisitions of complementary businesses, and capital expenditure; and
- external financing, including bank credit facilities, commercial paper and other capital market activities, providing both short and long-term financing.

### Cash flow from operating activities

Cash flow from operating activities was \$240.6 million in 2000 compared with \$221.3 million in 1999, an increase of \$19.3 million.

The increase from 1999 was primarily a result of improved cash earnings of \$4.2 million (\$258.6 vs. \$254.4 million), bolstered by lower net outflow of \$99.7 million on rental and leased equipment (\$117.2 vs. \$216.9 million), but offset by \$ 84.6 million less provided by working capital changes (\$99.2 vs. \$183.8 million)

### Cash used for investing activities

Cash used in investing activities totaled \$229.9 million, representing net capital expenditures of \$7.7 million (1999: \$9.0 million) on tangible assets, \$4.2 million in goodwill paid on the acquisition of MaK and Sabre distribution operations in the U.K. and \$218.1 million in investment in Hewden.

### Financing activities

To complement the internally generated funds from operating and investing activities, the Company has available to itself approximately \$907.8 million in unsecured short-term credit facilities and \$135.0 million in unsecured term facilities. The Company also has a commercial paper program for \$300.0 million, which can be issued against the designated short-term credit facilities amount. At year-end, approximately \$532.5 million, including commercial paper, was drawn against the bank facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). On October 31, 2000, S&P and Canadian Bond Rating Service (CBRS) announced that they have combined operations in Canada. On November 29, 2000, S&P placed the Company on CreditWatch with negative implications following the announcement of the Company's proposed acquisition of Hewden and as a result of the harmonization between CBRS and S&P. On January 24, 2001, S&P subsequently lowered its corporate credit and senior unsecured debt ratings on the Company to BBB with a positive outlook from BBB+. The ratings are expressed on S&P's global ratings scale and the CBRS long-term debt ratings on the Company have been withdrawn and are superseded by the harmonized S&P rating. The outstanding 'A-1 (Low)' CBRS rating on commercial paper issued by Finning has not been harmonized and remains unchanged.

On November 29, 2000, DBRS placed the rating of the Company, Under Review with Developing Implications. DBRS rates Finning's senior debentures and medium term notes BBB (high) and its commercial paper R-2 (high).

As at December 31, 2000 overall debt, after making an investment of \$218.1 million in Hewden, increased by \$44.1 million. Short-term debt increased by \$92.6 million to \$398.2 million during the year while long-term debt was reduced by \$48.5 million from \$592.9 million to \$544.4 million.

The acquisition of Hewden was financed through a combination of operating bank lines and an acquisition finance facility for the Canadian dollar equivalent of 340 million pounds sterling which was arranged for the purposes of making the offer to Hewden shareholders. On February 7, 2001, the Company refinanced \$425.0 million of the facilities, with this financing being recorded as a minority interest.

The Company did not have any equity issues in 2000. Share capital decreased from \$210.0 million in 1999 to \$200.6 million at the end of 2000 reflecting the exercise of stock options and the repurchase of 4.1 million common shares as part of a normal course issuer bid in which the Company was allowed to buy back a maximum of 6.8 million shares.

The Company has an employee 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 value. The Company 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, 2000, over 65% of Canadian employees were contributing to this plan compared with 62% at the end of 1999.

## Financial Leverage

The Company's operations consist of three major components, namely its operating (new and used equipment sales and customer support services), finance (equipment leasing and financing) and equipment rental activities. Each of these major components has a different risk profile. Accordingly, Finning applies a different capital structure and financial leverage to each component based on industry norms.

The finance assets and rental assets are supported by a combination of debt and equity. Finning applies a debt to equity ratio of 7:1 to its finance operation and 5:1 to its rental operation. Total debt and shareholders' equity is allocated to the operating, finance and rental activities. Deferred income taxes are allocated based on the assets and liabilities assigned to the operating, finance and rental activities.

The Company's overall debt to equity ratio improved from 1.29 at the end of 1999 to 1.04 at the end of 2000. Debt to equity ratio for its operating activities (excluding finance and rental activities and the debt and investment in Hewden) also improved significantly from 0.47:1 to 0.20:1 over the same period. The continued improvement in the debt to equity ratio was primarily due to the Company's focused asset management program to improve current operating asset efficiency and short-term borrowings. The Company achieved an improvement in receivables collections, inventory turnover and earnings in 2000 as a result of the program.

## Management Discussion and Analysis

The table below compares financial leverage and operating debt to equity ratio for the Company as at the end of 2000 with the corresponding ratios for 1999.

### As at Dec. 31, 2000

	Operations	Rental	Finance	Consolidated
Total assets	\$1,180,287	\$347,339	\$404,500	\$1,932,126
Payables and accruals	482,328	14,466	3,328	500,122
Future income taxes, net	(15,722)	11,240	13,431	8,949
Liabilities	466,606	25,706	16,759	509,071
Net investment	713,681	321,633	387,741	1,423,055
Short & long term debt	117,308	268,028	339,263	724,599
Shareholders' equity	596,383	53,605	48,468	698,456
Total debt and shareholders' equity	<u>\$ 713,691</u>	<u>\$321,633</u>	<u>\$387,731</u>	<u>\$1,423,055</u>
Debt to equity	0.20	5.00	7.00	1.04

### As at Dec. 31, 1999

Total assets	\$1,269,999	\$354,454	\$401,781	\$2,026,234
Payables and accruals	410,301	-	3,107	413,408
Future income taxes, net	(7,230)	11,471	13,431	17,672
Liabilities	403,071	11,471	16,538	431,080
Net investment	866,928	342,983	385,243	1,595,154
Short & long term debt	275,652	285,819	337,088	898,559
Shareholders' equity	591,276	57,164	48,155	696,595
Total debt and shareholders' equity	<u>\$ 866,928</u>	<u>\$342,983</u>	<u>\$385,243</u>	<u>\$1,595,154</u>
Debt to equity	0.47	5.00	7.00	1.29

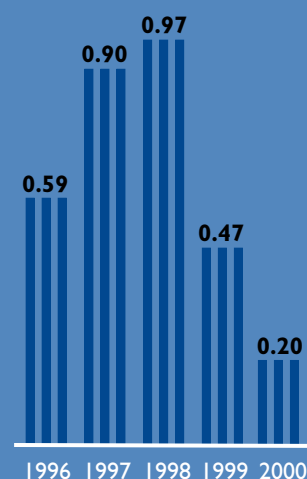
#### Notes:

- i) Transactions between segments have been eliminated to arrive at consolidated results
- ii) Investment in Hewden and debt associated therewith has not been included as the acquisition had not been completed by year-end.

## Financial Derivatives and Risk Management

The Company uses various financial instruments such as interest rate swaps and forward exchange contracts and options as hedges against actual assets or liabilities. Derivative financial instruments are always associated with a related risk position. For example, the Company has a policy of arranging its financing such 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 swap agreements, which fix the effective interest rate and currency of the borrowing. This is an effective and flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations.

### Operating Debt to Equity Ratio



Finning continually evaluates and manages risks associated with financial derivatives. This includes counter-party credit exposure. Finning manages its credit exposure by ensuring there is no substantial concentration of credit risk with a single counter-party, and by dealing only with highly rated financial institutions as counter-parties.

## Financial Risks and Uncertainties

The Company's financial performance may be influenced either favourably or adversely by fluctuations in foreign exchange and commodity prices.

The Company is subject to three main direct sources of foreign exchange risk: transaction, translation and economic. The first source of foreign exchange risk, transaction risk, relates to fluctuations in the purchase price of inventory. The Company's operations in Canada and Chile source the majority of their products 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 manage this risk through adjustments in the pricing of its product sales, and through the use of financial derivatives. Finning uses a combination of forward, option or spot strategies to manage the foreign exchange transaction exposure.

The second source of foreign exchange risk, translation risk, relates to the fact that the Company's U.K. and Chilean operations are recorded in its financial statements in Canadian dollars, while those operations conduct business primarily in British pounds in the U.K., and Chilean pesos and U.S. dollars in Chile. Changes in the British pound, Chilean peso and U.S. dollar to the Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of the Company's U.K. and Chilean operations. The Company hedges its investments in some of its foreign subsidiaries by borrowing funds in foreign currency or with long term cross currency swaps.

The third source of foreign exchange risk, economic risk, is characterized by the risk associated with cash flows from subsidiary companies. To minimize fluctuations in the amount received in GBP currency dividends from its Hewden subsidiary, Finning has entered into a long term cross currency swap that fixes the foreign exchange rate on a certain amount of dividends received.

The Company's sales are also 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 services. 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 British pound and/or Canadian dollar relative to other currencies may result in lower activity levels in the used equipment market and increased competition from competitive imports.



The massive \$4.5 billion, 2,990 km natural gas pipeline from northern BC and Alberta to the United States involved hundreds of pieces of Cat equipment. Waschuk Pipeline Construction uses Cat pipelayers on a section near Grand Prairie, Alberta. The company augmented its own 150-machine fleet with another 50 machines, mostly Cat 689 pipelayers, 345 excavators, and D6M to D8R dozers.

## Management's Report to the Shareholders

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 judgement of all information available up to January 30, 2001.

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 cash flow 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, risk management, 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.

January 30, 2001  
Vancouver, BC Canada



R. T. Mahler  
Executive Vice President and Chief Financial Officer

## Auditors' Report

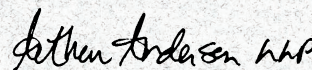
To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheets of Finning International Inc. (a Canadian corporation) as at December 31, 2000 and 1999 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 Canadian 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, 2000 and 1999 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

January 30, 2001  
Vancouver, BC Canada



Arthur Andersen LLP  
Chartered Accountants

# Consolidated Balance Sheets

As at December 31 (\$ in thousands)

Assets	2000	1999
<b>Current assets</b>		
Accounts receivable	\$ 375,208	\$ 386,561
Inventories		
On-hand equipment	395,420	406,882
Parts and supplies	203,579	219,423
Current portion of instalment notes receivable	66,476	47,442
Total current assets	<u>1,040,683</u>	<u>1,060,308</u>
<b>Finance assets</b>		
Instalment notes receivable	72,569	71,628
Equipment leased to customers (Note 2)	253,949	272,151
Total finance assets	<u>326,518</u>	<u>343,779</u>
Rental equipment (Note 3)	311,019	341,534
Land, buildings and equipment (Note 4)	189,961	206,254
Investment (Note 5)	218,050	-
Future income taxes (Note 12)	7,465	-
Goodwill (Note 6)	63,945	74,359
Total assets	<u>\$ 2,157,641</u>	<u>\$ 2,026,234</u>

52

## Liabilities

<b>Current liabilities</b>		
Short-term debt (Note 7)	\$ 398,208	\$ 305,639
Accounts payable and accruals	495,239	424,609
Income tax payable	4,883	(11,201)
Current portion of long-term debt (Note 7)	67,224	70,494
Total current liabilities	<u>965,554</u>	<u>789,541</u>
Long-term debt (Note 7)	477,217	522,426
Future income taxes (Note 12)	16,414	17,672
Total liabilities	<u>1,459,185</u>	<u>1,329,639</u>

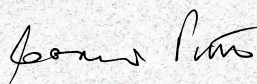
## Shareholders' Equity

Share capital (Note 9)	200,629	209,955
Retained earnings	521,569	502,028
Cumulative currency translation adjustments (Note 10)	(23,742)	(15,388)
Total shareholders' equity	<u>698,456</u>	<u>696,595</u>
Total liabilities and shareholders' equity	<u>\$ 2,157,641</u>	<u>\$ 2,026,234</u>

Approved by the Directors:



D.W.G. Whitehead, Director



C.A. Pinette, Director

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



# Consolidated Statements of Income and Retained Earnings

For the years ended December 31 (\$ in thousands except per share amounts)

	2000	1999
Revenue		
New mobile equipment	\$ 796,503	\$ 712,253
New power systems products	193,906	143,901
Used equipment	342,734	311,429
Equipment rental	166,770	155,659
Operating leases	98,451	96,014
Customer support services	842,244	797,472
Finance and other	19,424	13,133
Total revenue	<u>2,460,032</u>	<u>2,229,861</u>
Cost of sales	1,835,644	1,648,478
Gross profit	624,388	581,383
Selling, general and administrative expenses	459,125	432,471
Earnings before interest and taxes	<u>165,263</u>	<u>148,912</u>
Finance cost and interest on other indebtedness (Notes 7 and 8)	58,552	65,768
Income before provision for income taxes	106,711	83,144
Provision for income taxes (Note 12)	33,320	23,544
Net income	<u>73,391</u>	<u>59,600</u>
Dividends on preferred shares	-	19
Earnings attributable to common shares	73,391	59,581
Retained earnings, beginning of year	<u>502,028</u>	<u>458,366</u>
	575,419	517,947
Dividends on common shares	15,452	15,919
Premium on common share repurchase (Note 9)	38,398	-
Retained earnings, end of year	<u>\$ 521,569</u>	<u>\$ 502,028</u>
Earnings per share (Note 13)		
Basic	\$ 0.95	\$ 0.75
Diluted	\$ 0.94	\$ 0.74
Weighted average number of shares outstanding	77,436,109	79,616,362

# Consolidated Statements of Cash Flow

For the years ended December 31 (\$ in thousands)

	2000	1999
<b>Operating Activities</b>		
Net income	\$ 73,391	\$ 59,600
Add items not affecting cash		
Depreciation	180,676	184,148
Amortization of goodwill	1,855	2,204
Future income taxes	1,774	6,037
Other items	892	2,438
	<u>258,588</u>	<u>254,427</u>
Changes in working capital items and other		
Accounts receivable	(7,840)	(13,770)
Inventories		
On-hand equipment	4,502	147,328
Parts and supplies	27,678	36,959
Instalment notes receivable	(20,074)	(20,116)
Accounts payable and accruals	78,939	33,202
Income taxes	15,987	202
Cash provided by working capital items and other	99,192	183,805
Rental equipment, net of disposals	(68,581)	(117,866)
Equipment leased to customers, net of disposals	(48,584)	(99,043)
Cash flow from operating activities	<u>240,615</u>	<u>221,323</u>
<b>Investing Activities</b>		
Cash invested in land, buildings and equipment, net of disposals	(11,893)	(9,020)
Investment in Hewden Stuart Plc (Note 5)	(218,050)	-
Cash used for investing activities	<u>(229,943)</u>	<u>(9,020)</u>
<b>Financing Activities</b>		
Increase in long-term debt	-	150,000
Repayment of long-term debt	(42,746)	(66,370)
Conversion and redemption of preferred shares	-	(996)
Issue of common shares on conversion of preferred shares and on exercise of stock options	1,472	2,372
Repurchase of common shares	(49,196)	-
Dividends paid	(15,452)	(15,938)
Currency translation adjustments	2,681	21,964
Cash provided by (used for) financing activities	<u>(103,241)</u>	<u>91,032</u>
Decrease/(increase) in short-term debt	(92,569)	303,335
Short-term debt at beginning of year	305,639	608,974
Short-term debt at end of year	<u>\$ 398,208</u>	<u>\$ 305,639</u>
Cash flows include the following elements:		
Interest paid	\$ 59,610	\$ 56,698
Income taxes paid	\$ 14,461	\$ 19,924

## 1. Summary of Significant Accounting Policies

These Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada that 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. Actual amounts could differ from those estimates. The significant accounting policies used in these Consolidated Financial Statements are as follows:

### **Principles of Consolidation**

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "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:

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.

Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary liabilities considered to be hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars as follows:

Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.

Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.

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 is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged its investments 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 basis for on-hand equipment. For approximately two-thirds of parts and supplies, cost is determined on a first-in, first-out basis. An average cost basis is used for the remainder.

**Instalment Notes Receivables**

Instalment notes receivables are recorded net of unearned finance charges.

**Equipment Leased to Customers**

Depreciation of equipment leased to customers is provided 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.

**Rental Equipment**

Rental equipment is recorded at cost, net of accumulated depreciation. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight line or on an actual usage basis.

**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%

56

**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.

**Employee Benefits**

The Company and its subsidiaries have a number of defined benefit and defined contribution plans providing pension and other benefits to most of its employees in Canada and the U.K. Effective January 1, 2000 the Company adopted, on a prospective basis, the method of accounting for these benefits recommended by section 3461 of the CICA handbook. The transitional balance as a result of this change in accounting policy is being amortized over the expected average remaining service life of the employees covered by the plans. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

**Defined benefit plans:**

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The cost of pensions and other retirement benefits is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, changes in assumptions and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plans. The average remaining service life of the employees covered by these plans ranges from 2 to 14 years.

**Defined contribution plans:**

The cost of pension benefits includes the current service cost based on 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 are less than its carrying amount.

**Income Taxes**

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. The Company has applied this accounting change without restatement of prior period financial statements. The impact on the current year financial statements resulting from this change in the current year is an increase in provision for taxes for \$2,836, decrease in current tax liability by \$239, recognition of a future income tax asset of \$7,465, increase in cumulative translation adjustment of \$2,434 and a decrease in net purchased goodwill by \$12,974,

57

**Prior Year Comparatives**

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

**2. Equipment Leased to Customers**

	2000	1999
Cost	\$ 393,604	\$ 392,366
Less accumulated depreciation	(139,655)	(120,215)
	<u>\$ 253,949</u>	<u>\$ 272,151</u>

Depreciation of equipment leased to customers for the year ended December 31, 2000 was \$66,709 (1999: \$66,539).

**3. Rental Equipment**

	2000	1999
Cost	\$ 418,304	\$ 465,628
Less accumulated depreciation	(107,285)	(124,094)
	<u>\$ 311,019</u>	<u>\$ 341,534</u>

Depreciation of rental equipment for the year ended December 31, 2000 was \$96,168 (1999: \$91,924)

**4. Land, Buildings and Equipment**

	<b>2000</b>	1999
Land	\$ 47,017	\$ 47,647
Buildings and equipment	302,215	321,573
Less accumulated depreciation	(159,271)	(162,966)
	<u>142,944</u>	<u>158,607</u>
Total land, buildings and equipment	<u>\$ 189,961</u>	<u>\$ 206,254</u>

Depreciation of buildings and equipment for the year ended December 31, 2000 was \$17,799 (1999: \$25,685).

**5. Investment**

Finning, through a new wholly-owned, U.K.-based subsidiary, reached agreement with the Board of Directors of Hewden Stuart Plc ("Hewden") on the terms of a recommended cash offer for all of the issued and to be issued ordinary share capital of Hewden. The offer was for 115 pence in cash for each Hewden share, valuing the existing issued share capital of Hewden at approximately £322,000 (\$700,000), based on 280.3 million shares in issue. Finning's offer, made on November 29, 2000 represented a 68-percent premium to Hewden's closing share price on October 23, the day before Hewden announced that it was in talks on a possible offer for the company.

Prior to December 31, 2000, Finning had acquired 29.4% of the issued ordinary share capital of Hewden for \$218,050. This acquisition is recorded at cost and reported as an investment on the balance sheet. On January 12, 2001 Finning declared the offer wholly unconditional. As of January 30, 2001 Finning owned approximately 95.7% of Hewden shares. The Company is taking steps to acquire the remaining shares of Hewden and delist them from the London Stock Exchange.

The acquisition of Hewden will initially be financed through acquisition finance facilities for the purposes of making the offer to Hewden shareholders. Following completion of the takeover, Finning intends to refinance this facility through a combination of debt and minority interest.

**6. Goodwill**

	<b>2000</b>	1999
Purchased goodwill, beginning of year	\$ 88,619	\$ 88,619
Goodwill on acquisitions made during the year	4,195	-
Reduction in goodwill in recognition of future income tax asset (Note 12)	(15,257)	-
Foreign exchange translation adjustment	220	-
Purchased goodwill, end of year	<u>77,777</u>	<u>88,619</u>
Accumulated amortization, beginning of year	(14,260)	(12,056)
Amorization for the year	(1,855)	(2,204)
Reduction in accumulated amortization of goodwill (Note 12)	2,283	-
Accumulated amortization, end of year	<u>(13,832)</u>	<u>(14,260)</u>
Net purchased goodwill	<u>\$ 63,945</u>	<u>\$ 74,359</u>

During the year the Company acquired two marine products distribution businesses operating in the U.K. and Ireland, namely MaK parts and service operations and Sabre Perkins operations for \$6,168. The acquisitions are accounted for under the purchase method. The excess of the cost of the acquisitions over the amounts assigned to the identifiable assets acquired less the liabilities assumed is assigned to goodwill.

As a result of the Company changing its method of accounting for income taxes in 2000, the Company adjusted its goodwill to recognize a previously unrecognized future income tax asset with respect to tax loss carry-forwards for \$12,974 that was acquired from the purchase of Finning Chile in 1993.

Amortization of goodwill for the year ended December 31, 2000 was \$1,855 (1999: \$2,204).

## 7 Short-Term and Long-Term Debt

	2000	1999
Short-term debt		
Bank indebtedness, commercial paper and other loans (a)	<u>\$ 398,208</u>	<u>\$ 305,639</u>
Long-term debt		
Debtures (b)		
8.35% due March 22, 2004	75,000	75,000
7.75% due November 1, 2004	150,000	150,000
6.60% due December 8, 2006	75,000	75,000
Bank term facilities (c)	134,291	75,576
Bank term facilities denominated in pound sterling (d)	89,728	151,541
Other unsecured loans denominated in U.S. dollars and Chilean pesos, maturing between 2001 and 2004	<u>20,422</u>	<u>65,803</u>
	544,441	592,920
Less current portion of long-term debt	<u>67,224</u>	<u>70,494</u>
Total long-term debt	<u>\$ 477,217</u>	<u>\$ 522,426</u>

60

### (a) Bank indebtedness, commercial paper and other loans

The Company has available \$907,800 in unsecured short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Other loans include supplier merchandising programs. Included in short-term debt are foreign currency amounts denominated in US \$26,599 (1999: US \$26,428) and in £22,256 (1999: £11,555).

### (b) Debtures

The Company's debtures are unsecured, and interest is payable semi-annually with principal due on maturity.

### (c) Bank term facilities

The Company has available \$135,000 in unsecured term facilities. Borrowings under the term facilities are at floating rates of interest which averaged 6.24% in 2000 (1999: 5.23%). These facilities expire on August 31, 2001 and December 31, 2002.

### (d) Bank term facilities denominated in pound sterling

The pound sterling term facilities are unsecured and are comprised of a £15,000 floating rate loan at an average interest rate of 6.63% (1999: 6.09%), maturing May 25, 2003; and a £25,000 fixed rate loan at 7.675%, maturing May 8, 2002. The proceeds of these loans have been used to finance the Company's investment in the U.K.



**Long-Term Debt Repayments**

Principal repayments on long-term debt in each of the next five years and thereafter are as follows:

2001	\$ 67,224
2002	133,918
2003	36,865
2004	228,217
2005	3,217
Thereafter	75,000
	<u>\$ 544,441</u>

Interest expense includes interest on debt incurred for a term greater than one year of \$36,935 (1999: \$34,111).

**8. Financial Instruments**

The Company uses derivative financial instruments as part of an overall risk management strategy to manage the underlying financial and economic risks of the Company and to achieve lower cost financing. The Company uses derivative financial instruments to manage the mix of fixed and floating interest rate exposure, to manage foreign exchange exposure, and to diversify sources of financing.

**Interest Rate Risk Management**

The Company has a policy of arranging its financing so that the fixed rate financing offered to its customers on its lease and notes portfolio is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. To meet this objective, the Company enters into interest rate swap agreements, which fix the effective interest rate and currency of the borrowing. At December 31, 2000, interest rate swap agreements having a notional principal amount of \$80,043 (1999: \$104,810) at a weighted average fixed pay rate of 5.69% (1999: 5.49%) were outstanding. These agreements expire on various dates between 2001 and 2005. Additionally, the Company had an interest rate swap agreement outstanding at a notional principal amount of \$150,000 (1999: \$150,000). The Company received a fixed rate of 7.75% (1999: 7.75%) and paid a floating bankers' acceptances based rate determined quarterly. This rate was 7.00% at December 31, 2000 (6.41% at December 31, 1999). On January 22, 2001, the Company unwound the swap, thus fixing \$150,000 of its debt portfolio. The market value adjustment of the interest rate swap agreements as at December 31, 2000 was \$4,597 (1999: \$458) in favor of the Company, taking into account interest rates in effect at the time.

**Foreign Exchange Risk Management**

The Company manages foreign exchange risk by matching assets with related liabilities, through adjustments in the pricing of its product sales, and through the use of derivative instruments such as forward exchange contracts. As at December 31, 2000, the Company had forward exchange contracts to sell £95,560 and option contracts to purchase £227,000 to hedge exchange exposure on its investment in Hewden shares (Note 5). Subsequent to the year-end, the Company completed the acquisition of Hewden. The forward and option contracts described above were settled and the Company entered into a long-term forward contract and cross currency swap to hedge its investment in Hewden. Under the terms of the contracts, the Company is obligated to deliver a notional amount of £323,560 and receive Canadian dollars at an exchange rate of 2.189. In addition, Finning has hedged £19,000 of annual cash flows from Hewden. Under the cross currency swap, Finning is obligated to deliver £19,000 annually and receive a floating Canadian dollar amount.

**Fair Values**

The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The fair value of accounts receivable, notes receivable, short-term debt, accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments.

	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (includes current portion)	\$ (544,441)	\$ (545,903)	\$ (592,920)	\$ (590,995)
Interest rate swaps		\$ 4,597		\$ 458
Forward exchange and options contracts		\$ 9,922		\$ (28)

**Credit Risk**

The Company operates internationally as a full service provider (selling, servicing, renting and financing) of heavy equipment and related products. The Company is not dependent on any single customer or group of customers. There is no concentration of credit risk related to the Company's position in trade accounts or notes receivables. Credit risk is minimized because of the diversification of the Company's operations, as well as its large customer base and its geographical dispersion.

The credit risk of the foreign currency contracts and interest rate swap agreements arises from the possibility that the counterparties to the agreements or contracts may default on their obligations; however, the Company does not anticipate such an event to occur. In order to minimize this risk, the Company enters into such agreements only with highly rated financial institutions.

**9. Share Capital**

## AUTHORIZED

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

## ISSUED AND OUTSTANDING

	2000		1999	
	Shares	Amount	Shares	Amount
Balance, beginning of year	79,736,877	\$ 209,955	79,427,879	\$ 207,583
Conversion of preferred shares	-	-	156,352	996
Exercise of stock options	147,406	1,472	152,646	1,376
Repurchase of common shares	(4,093,820)	(10,798)	-	-
	<u>75,790,463</u>	<u>\$ 200,629</u>	<u>79,736,877</u>	<u>\$ 209,955</u>

### 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 may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in 2002.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- 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
- the Takeover Bid expires not less than 60 days after the date of the bid circular.

### Stock Options

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

	Shares	Option Price
Options outstanding, beginning of year	5,932,918	\$ 6.00 to \$17.00
Issued	1,085,917	\$11.96 to \$12.98
Exercised	(147,406)	\$ 7.58 to \$11.86
Cancelled	(252,988)	\$ 7.58 to \$17.00
Options outstanding, end of year	<u>6,618,441</u>	<u>\$ 6.00 to \$17.00</u>

There were 4,494,635 options exercisable at December 31, 2000 with the remaining options outstanding exercisable at various times to July 26, 2010.

### Repurchase of Common Shares

The Company repurchased 4,093,820 common shares during 2000 as part of a normal course issuer bid under which the Company was allowed to buy back a maximum of 6.8 million shares. These shares were repurchased at an average price of \$12.02 for an aggregate cost of \$49,196 which has been allocated to reduce share capital by \$10,798 and retained earnings by \$38,398.

**10. Cumulative Currency Translation Adjustments**

	2000	1999
Balance, beginning of year	\$ (15,388)	\$ 9,970
Gain realized during the year	-	(5,435)
Translation adjustments for the year	(8,354)	(19,923)
Balance, end of year	<u>\$ (23,742)</u>	<u>\$ (15,388)</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, 2000, 1999 and 1998, the Canadian dollar exchange rates against the British pound sterling were 2.2432, 2.3314 and 2.5448 respectively, and the Chilean peso exchange rates against the Canadian dollar were 382, 367 and 308, respectively. The cumulative currency translation adjustment for 2000 resulted from the weakening of the Chilean peso and pound sterling against the Canadian dollar.

During 1999, a dividend of £10,000 was paid from Finning Holdings Limited (U.K.) to the Company which generated a foreign exchange gain of \$5,435.

**64 11. Employee Benefits**

	2000		
	Canada	UK	Total
The expense for the Company's benefit plans, primarily for pension benefits, is as follows:			
<b>Defined contribution plans</b>			
Current service cost	\$ 3,896	\$ -	\$ 3,896
Net benefit plan expense	<u>\$ 3,896</u>	<u>\$ -</u>	<u>\$ 3,896</u>
<b>Defined benefit plans</b>			
Current service cost, net of employee contributions	\$ 4,716	\$ 9,873	\$ 14,589
Interest cost	12,926	15,327	28,253
Expected return on plan assets	(15,420)	(19,492)	(34,912)
Amortization of transitional obligation/(asset)	1,144	(1,307)	(163)
Net benefit plan expense	<u>\$ 3,366</u>	<u>\$ 4,401</u>	<u>\$ 7,767</u>
Total	<u>\$ 7,262</u>	<u>\$ 4,401</u>	<u>\$ 11,663</u>

Information about the Company's defined benefit plans is as follows:

	<b>2000</b>		
	<b>Canada</b>	<b>UK</b>	<b>Total</b>
<b>Accrued benefit obligation –</b>			
Balance at the beginning of the year	\$ 183,926	\$ 279,801	\$ 463,727
Current service cost	6,698	12,176	18,874
Interest cost	12,926	15,327	28,253
Benefits paid	(11,936)	(5,787)	(17,723)
Actuarial gains	-	(3,810)	(3,810)
Foreign exchange rate changes	-	(10,631)	(10,631)
Balance at the end of year	<u>\$ 191,614</u>	<u>\$ 287,076</u>	<u>\$ 478,690</u>
<b>Plan assets –</b>			
Fair value at the beginning of the year	\$ 186,377	\$ 298,760	\$ 485,137
Actual return on plan assets	20,074	(6,147)	13,927
Employer contributions	30	6,756	6,786
Employees' contributions	1,982	2,303	4,285
Benefits paid	(11,936)	(5,787)	(17,723)
Foreign exchange rate changes	-	(11,294)	(11,294)
Fair value at the end of year	<u>\$ 196,527</u>	<u>\$ 284,591</u>	<u>\$ 481,118</u>
Funded status - plan surplus (deficit)	\$ 4,913	\$ (2,485)	\$ 2,428
Unamortized net actuarial loss	(4,654)	21,772	17,118
Unamortized transition obligation (asset)	6,259	(16,936)	(10,677)
Accrued benefit asset	<u>\$ 6,518</u>	<u>\$ 2,351</u>	<u>\$ 8,869</u>

Included in the above accrued benefit obligation and fair value of plan assets at the year-end are the following amounts in respect of plans that are not fully funded:

Accrued benefit obligation	\$ 21,283	\$ -	\$ 21,283
Fair value of plan assets	8,930	-	8,930
Funded status - plan deficit	<u>\$ 12,353</u>	<u>\$ -</u>	<u>\$ 12,353</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

Discount rate	7.0%	5.5%
Expected long-term rate of return on plan assets	8.5%	6.8%
Rate of compensation increase	3.4%	4.5%
Rate of increase in non-pension benefits	4.7%	N/A
Estimated Remaining Service Life (Years)	2-13	14

Plan assets include common shares of the Company having a fair value of \$906 at December 31, 2000.

In 1999, the Company's obligations for pension benefits, under its defined benefit plans, were estimated by the plans' actuaries to be \$356,734. The pension plan assets, on an adjusted market value basis were \$373,182.

**12. Income Taxes****Provision for Income Taxes**

	<b>2000</b>	1999
Current income tax expense	\$ 30,886	\$ 17,507
Future income tax expense	2,434	6,037
Provision for income taxes	<u>\$ 33,320</u>	<u>\$ 23,544</u>

Reconciliation of the Company's effective income tax rate from statutory Canadian tax rates for the years ended December 31, 2000 and 1999 is as follows:

	<b>2000</b>	1999
Combined federal and provincial tax rates	<u>43.79%</u>	<u>43.99%</u>
Provision for income taxes based on the combined federal and provincial rates	\$ 46,729	\$ 36,575
Increase (decrease) in provision resulting from:		
Lower effective rates on the losses (earnings) of foreign subsidiaries	(15,823)	(9,049)
Benefit of unrecognized loss carry-forward of foreign subsidiary	-	(2,320)
Amortization of goodwill and increase in assigned asset value	431	433
Large corporation tax	1,651	2,002
Income not subject to tax	(694)	(2,735)
Other items	1,026	(1,362)
Provision for income taxes	<u>\$ 33,320</u>	<u>\$ 23,544</u>

**Future income tax asset and liability**

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities as at December 31, 2000 and 1999 are described below. As a result of the Company changing its method of accounting for income taxes in 2000, the Company adjusted its goodwill to recognize a previously unrecognized future income tax asset with respect to tax loss carry-forwards for \$12,974 that was acquired from the purchase of Finning Chile in 1993.

As of December 31, 2000 tax loss carry forward of \$49,767 in Chilean pesos equivalent is available to Finning Chile S.A. to offset future taxable income. This loss is indexed to Chile's inflation rate and has no expiry date.

	<b>2000</b>	1999
Future income tax assets:		
Tax loss carry-forwards	\$ 7,465	\$ -
Future income tax liabilities:		
Capital, rental, leased assets, inventories and reserves	(8,009)	(5,475)
Pensions	(3,349)	(6,790)
Other	(5,056)	(5,407)
	<u>\$ (8,949)</u>	<u>\$ (17,672)</u>
Net future income tax liability distributed as such:		
Future income tax asset - non-current	\$ 7,465	\$ -
Future income liability - current	(2,471)	(2,491)
Future income liability - non-current	(13,943)	(15,181)
	<u>\$ (8,949)</u>	<u>\$ (17,672)</u>

### 13. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The comparative diluted earnings per share for 1999 has been restated.

Calculation of earnings per share:

	<b>2000</b>		
	<b>Income (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per Share Amount</b>
Basic earnings per share:			
Income available to common shareholders	\$ 73,391	77,436,109	\$ 0.95
Effect of dilutive securities:			
Stock options		704,950	(0.01)
Diluted earnings per share:			
Income available to common shareholders and assumed conversions	<u>\$ 73,391</u>	<u>78,141,059</u>	<u>\$ 0.94</u>
	<b>1999</b>		
Basic earnings per share:			
Income available to common shareholders	\$ 59,581	79,616,362	\$ 0.75
Effect of dilutive securities:			
Stock options		846,529	(0.01)
Diluted earnings per share:			
Income available to common shareholders and assumed conversions	<u>\$ 59,581</u>	<u>80,462,891</u>	<u>\$ 0.74</u>

68

### 14. 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 that has been ongoing since 1933.



## 15. Segmented Information

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing, renting and financing of heavy equipment and related products.

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, most of the Northwest Territories and the Yukon.
- U.K. operations: England, Scotland, Wales, Falkland Islands and the Channel Islands.
- Chilean operations: throughout the country.
- UMS represents the international used equipment and parts operations.
- Corporate includes corporate head office operations.

The reportable operating segments are:

	<b>2000</b>					
	Canada	UK	Chile	UMS	Corporate	Consolidated
Revenue from external sources	\$1,214,516	\$ 682,162	\$ 474,145	\$ 89,013	\$ 196	\$2,460,032
Operating costs	943,226	629,309	435,877	91,784	12,042	2,112,238
Depreciation	147,300	24,389	8,987	-	-	180,676
Amortization of goodwill	1,012	843	-	-	-	1,855
Earnings before interest and tax	<u>\$ 122,978</u>	<u>\$ 27,621</u>	<u>\$ 29,281</u>	<u>\$ (2,771)</u>	<u>\$ (11,846)</u>	<u>\$ 165,263</u>
Finance cost and interest on other indebtedness						58,552
Provision for income taxes						33,320
Net income						<u>\$ 73,391</u>
Identifiable assets	<u>\$1,195,607</u>	<u>\$ 433,161</u>	<u>\$ 226,422</u>	<u>\$ 82,744</u>	<u>\$ 219,707</u>	<u>\$2,157,641</u>
Capital expenditures	<u>\$ 7,851</u>	<u>\$ 3,862</u>	<u>\$ 3,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,037</u>

69

Corporate assets include \$218,050 investment in Hewden shares.

	<b>1999</b>					
Revenue from external sources	\$1,032,922	\$ 712,941	\$ 377,777	\$ 106,216	\$ 5	\$2,229,861
Operating costs	785,290	669,520	332,638	103,734	3,415	1,894,597
Depreciation	144,167	23,668	15,463	850	-	184,148
Amortization of goodwill	984	836	384	-	-	2,204
Earnings before interest and tax	<u>\$ 102,481</u>	<u>\$ 18,917</u>	<u>\$ 29,292</u>	<u>\$ 1,632</u>	<u>\$ (3,410)</u>	<u>\$ 148,912</u>
Finance cost and interest on other indebtedness						65,768
Provision for income taxes						23,544
Net income						<u>\$ 59,600</u>
Identifiable assets	<u>\$1,242,837</u>	<u>\$ 454,267</u>	<u>\$ 245,725</u>	<u>\$ 83,405</u>	<u>\$ -</u>	<u>\$2,026,234</u>
Capital expenditures	<u>\$ 8,703</u>	<u>\$ 6,106</u>	<u>\$ 6,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,864</u>

# Ten-Year Financial Summary

Years ended December 31 (\$ in thousands except per share data)

	2000	1999	1998	1997
<b>Revenue</b>				
Canadian operations	\$ 1,214,516	1,032,922	1,136,917	1,146,406
U.K. operations	\$ 682,162	712,941	793,020	565,376
Chilean operations	\$ 474,145	377,777	503,505	514,068
International operations	\$ 89,209	106,221	151,979	101,214
Total consolidated	<u>\$2,460,032</u>	<u>2,229,861</u>	<u>2,585,421</u>	<u>2,327,064</u>
Income before provision for income taxes	\$ 106,711	83,144	\$7,550	149,351
As a percent of revenue	4.3%	3.8%	0.3%	6.4%
Net income	\$ 73,391	59,600	3,185	103,695
As a percent of revenue	3.0%	2.7%	0.1%	4.5%
<b>Earnings Per Common Share</b>				
Basic	\$ 0.95	0.75	0.04	1.32
Diluted (2)	\$ 0.94	0.74	0.04	1.27
<b>Dividends</b>				
Total common share	\$ 15,452	15,919	15,868	15,761
Per common share	\$ 0.20	0.20	0.20	0.20
Cash flow from operations	\$ 240,615	221,323	71,288	(46,559)
Cash flow per share	\$ 3.17	2.78	0.90	(0.59)
Gross capital expenditures	\$ 15,037	20,864	44,176	47,148
<b>Ratios</b>				
Asset turnover ratio	1.18	1.05	1.13	0.99
Debt to equity (3)	1.04:1	1.29:1	1.67:1	1.66:1
Liabilities to equity (3)	1.75:1	1.90:1	2.29:1	2.37:1
Operating debt to equity (excluding finance and rental activities (1) (3))	0.20:1	0.47:1	0.97:1	0.90:1
Book value per common share	\$ 9.02	8.74	8.52	8.69
Return on average shareholders' equity	10.5%	8.7%	0.5%	16.2%
<b>Common Share Price</b>				
High	\$ 13.85	15.40	18.50	20.50
Low	\$ 9.85	9.00	10.25	14.43
Common shares outstanding (thousands)	75,790	79,737	79,426	79,091
Revenue per employee	\$ 477,120	450,113	492,367	423,565
Net income per employee	\$ 14,234	12,031	607	18,874
<b>Number of Employees</b>				
Canada	2,326	2,271	2,494	2,496
U.K.	1,404	1,364	1,348	1,720
Chile	1,390	1,259	1,354	1,228
International	36	60	55	50
Total	<u>5,156</u>	<u>4,954</u>	<u>5,251</u>	<u>5,494</u>

Financial data has been restated to incorporate common share subdivision 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 a debt to equity ratio of 7:1 in the finance operation and 5:1 in the rental operation. The debt to equity ratio has been restated to reflect a retroactive change in presenting customer rental purchase contracts as finance assets implemented in 1996.

Ten-Year Financial Summary

1996	1995	1994	1993	1992	1991
926,653	923,275	838,680	675,490	553,316	583,542
437,949	416,034	338,499	258,235	251,909	267,828
408,616	350,650	241,221	74,464	-	-
101,491	62,032	39,138	34,768	27,512	-
<u>1,874,709</u>	<u>1,751,991</u>	<u>1,457,538</u>	<u>1,042,957</u>	<u>832,737</u>	<u>851,370</u>
128,503	119,392	95,488	35,895	1,728	3,139
6.9%	6.8%	6.6%	3.4%	0.2%	0.4%
88,184	77,493	61,421	22,271	2,878	4,612
4.7%	4.4%	4.2%	2.1%	0.3%	0.5%
1.13	1.00	0.80	0.30	0.03	0.05
1.09	0.98	0.78	0.30	0.03	0.05
15,600	15,451	9,985	6,592	5,042	6,844
0.20	0.20	0.13	0.09	0.08	0.10
(63,150)	(150,093)	(104,150)	12,442	(20,917)	53,698
(0.80)	(1.94)	(1.35)	0.16	(0.31)	0.80
43,132	25,812	16,641	13,752	7,025	11,643
1.04	1.09	1.06	0.95	0.86	0.92
1.50:1	1.55:1	1.35:1	1.23:1	1.59:1	1.46:1
1.97:1	2.11:1	1.99:1	1.80:1	2.03:1	1.95:1
0.59:1	0.61:1	0.43:1	0.39:1	0.66:1	0.56:1
7.59	6.55	5.83	5.00	4.58	4.79
16.0%	16.2%	14.8%	6.5%	0.9%	1.4%
14.58	11.63	12.06	10.88	7.25	7.82
9.75	8.63	9.19	5.88	5.25	5.88
78,547	77,442	77,026	76,266	67,370	67,056
441,940	428,674	374,978	283,875	281,425	260,757
20,788	18,961	15,802	6,062	973	1,413
2,269	2,228	2,124	2,025	2,004	2,142
925	884	873	863	930	1,123
1,008	941	861	759	-	-
40	34	29	27	25	-
<u>4,242</u>	<u>4,087</u>	<u>3,887</u>	<u>3,674</u>	<u>2,959</u>	<u>3,265</u>

- In 2000, the diluted earnings per share calculation was changed to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. Only diluted earnings for the years ended 1999 and 2000 have been restated.
- Equity ratios for the 2000 result do not include investment in Hewden Stuart.

## Board of Directors

**M. Norman Anderson**

President  
*Anderson & Associates*  
Vancouver, B.C.

**Ricardo Bacarreza**

Presidente  
*Proinvest SA*  
Santiago, Chile

**John E. Cleghorn**

Chairman and Chief Executive Officer  
*Royal Bank of Canada*  
Toronto, Ontario

**James F. (Jim) Dinning**

Executive Vice President  
Sustainable Development & External Relations  
*TransAlta Corp.*  
Calgary, Alberta

**Timothy S. Howden**

Company Director  
Marlow, Buckinghamshire  
England

**Nicholas B. Lloyd**

President and Chief Executive Officer  
*Finning Chile S.A.*  
Vitacura, Chile

**Jefferson J. Mooney**

Chairman, President and CEO  
*A&W Food Services of Canada Inc.*  
Vancouver, B.C.

**Donald S. O'Sullivan**

President  
*O'Sullivan Resources Ltd.*  
Edmonton, Alberta

**Conrad A. Pinette**

President and Chief Operating Officer  
*Lignum Limited*  
Vancouver, B.C.

**Andrew H. Simon**

Executive Vice Chairman  
*Diamant Boart S.A.*  
Staffordshire  
England

**Monica E. Sloan**

Management and Strategy Consultant  
Calgary, Alberta

**Douglas W.G. Whitehead**

President and Chief Executive Officer  
*Finning International Inc.*  
Coquitlam, B.C.

**John M. Willson**

Company Director  
Vancouver, B.C.

## Officers

### **Brian C. Bell**

Executive Vice President, Customer Support Services  
*Finning International Inc.*

### **Jack A. Carthy**

Managing Director  
*Finning (UK) Ltd.*

### **Anthony R. Guglielmin**

Vice President and Corporate Treasurer  
*Finning International Inc.*

### **Nicholas B. Lloyd**

President and Chief Executive Officer  
*Finning Chile S.A.*

### **Richard T. Mahler**

Executive Vice President and Chief Financial Officer  
*Finning International Inc.*

### **Conrad A. Pinette**

Chairman of the Board  
*Finning International Inc.*

### **Ian M. Reid**

President and Chief Operating Officer  
*Finning (Canada)*

### **John T. Struthers**

Corporate Secretary  
*Finning International Inc.*

### **Douglas W.G. Whitehead**

President and Chief Executive Officer  
*Finning International Inc.*

## Committees

### **Pension Committee**

A.R. Guglielmin  
R.T. Mahler

### **Pension Fund Performance Committee**

J.E. Cleghorn  
A.H. Simon

### **Audit Committee**

J.F. Dinning, Chairman  
R. Bacarreza  
J.E. Cleghorn  
A.H. Simon  
M.E. Sloan

### **Human Resources & Compensation Committee**

M.N. Anderson, Chairman  
T.S. Howden  
J.J. Mooney  
J.M. Willson

### **Governance Committee**

D.S. O'Sullivan, Chairman  
M.N. Anderson  
J.F. Dinning  
T.S. Howden  
C.A. Pinette

### **Environmental, Health & Safety Committee**

T.S. Howden, Chairman  
R. Bacarreza  
D.S. O'Sullivan  
D.W.G. Whitehead  
J.M. Willson

# Shareholder Information

## Stock Exchanges

The common shares of Finning International Inc. are listed on the Toronto Stock Exchange. (Symbol: FTT)

## Auditors

Arthur Andersen LLP, Chartered Accountants,  
Vancouver, Canada

## Solicitors

Borden Ladner Gervais, Barristers and Solicitors  
Vancouver, Canada

## Corporate Head Office

555 Great Northern Way  
Vancouver, Canada, V5T 1E2 (604) 872-4444

## Annual Meeting

The Annual Meeting of the shareholders will be held at 11:00 a.m., May 10, 2001 at the Metro Convention Centre, Toronto.

## Corporate Information

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.com>.

## Registrar and Transfer Agent

Computershare Trust Company of Canada.

To contact the stock transfer office nearest to your location, see below.

## 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 Anthony R. Guglielmin, Vice President and Corporate Treasurer, (604) 331-4937, Fax (604) 331-4852, e-mail: [aguglielmin@finning.ca](mailto:aguglielmin@finning.ca)

## Computershare Trust Company of Canada

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INTERNATIONAL INC.