UPTIME

FINNING INTERNATIONAL INC. 2006 ANNUAL REPORT

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MONETARY AMOUNTS IN THIS ANNUAL REPORT ARE IN CANADIAN DOLLARS UNLESS OTHERWISE NOTED

Capitalizing on continued growth, Finning topped all past performance records in 2006*. Revenues exceeded $5 billion, net income totalled $241 million, and earnings per share rose to $2.69. Key to our success is our on-going focus on complete customer solutions. With renewed commitment to enhancing our parts and service capabilities, empowering our employees and maximizing customer satisfaction, we continue to lead Finning in the only direction that counts: UP

*Financial information from continuing operations

FINNING AT A GLANCE

The Finning Advantage –

- Highly engaged employees committed to service
- Extensive customer support infrastructure

Finning International Inc. is the world's largest Caterpillar equipment dealer. The Company sells, rents and provides customer support services for Caterpillar equipment and engines in western Canada, the United Kingdom and South America (Chile, Argentina, Bolivia and Uruguay). Finning also owns Hewden, the largest equipment rental business in the U.K. Headquartered in Vancouver, British Columbia, Canada, Finning International Inc. is a widely-held, publicly-traded corporation, listed on the Toronto Stock Exchange (symbol FTT).

	TERRITORY	EMPLOYEES	LOCATIONS	INDUSTRIES SERVED
CANADA - Finning (Canada) - OEM	British Columbia, Alberta, Yukon, the Northwest Territories and a portion of Nunavut	4,100	80 locations and presence in 84 communities	Mining (including oil sands), construction, oil & gas, forestry, pipeline
SOUTH AMERICA	Chile, Argentina, Bolivia, Uruguay	3,860	64 locations	Mining, construction, oil & gas, forestry
UNITED KINGDOM - Heavy Construction - General Construction - Power Systems - Hewden Rental	England, Scotland, Wales	4,840	22 dealership branches 330 rental depots	Construction, mining, quarrying, waste management, engineering, petrochemical, manufacturing, telecommunications, utilities and plant hire
POWER SYSTEMS Caterpillar and associated brands engine sales and service	All Finning territories	Number of employees and locations are recorded within the other Finning divisions		Oil & gas, on-highway trucks, marine, industrial, electric power, construction

Complete Customer Solutions

▪ Caterpillar equipment ▪ World-class component remanufacturing & rebuild facilities ▪ Financial strength

2006 ACHIEVEMENTS

- Record earnings from continuing operations - $2.59[1] per share, up 36% from 2005
- Record revenues - $5 billion
- Customer support services revenue up by 17% from 2005
- Profitability, measured by EBIT margin, improved in all dealership operations
- Return on capital from Finning (Canada) and FINSA exceeded risk adjusted target returns
- Profitability from UK Dealership improved significantly
- Divested the Materials Handling division in the U.K.
- Increased quarterly dividend by 23% to $0.16 per share (seven increases in five years)
- Reduced debt to total capital ratio to 42% from 47%
- Hired over 1,800 new employees
- Maintained excellent safety performance: LTI[2] frequency – 0.80
- Completed $60 million by 2006 program to generate $64 million in ongoing annual cost savings

OPPORTUNITIES

- Record order backlog of $1.5 billion as at December 31, 2006
- Growth in higher margin parts and service business
  -Target $2.7 billion in customer support services revenue by 2010, supported by a highly engaged workforce
- Fleet expansion and replacement in the mining industry (including oil sands)
- Strong general construction markets in all territories
- Improved results from restructured UK operations
- Strong demand for electric power generation in all Finning regions
- Focus on profitability and return on capital in all operations

OUR MISSION

Great people
Great solutions
Great results

OUR VISION

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

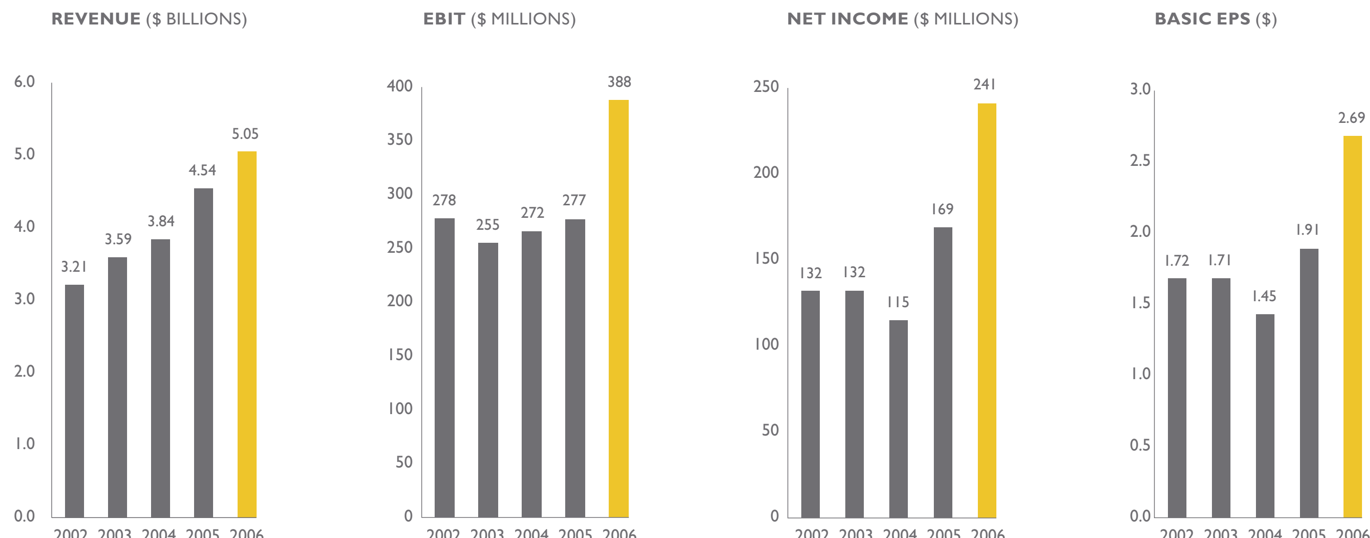
TOTAL SHAREHOLDER RETURN GOAL

15% per annum

[1]Adjusted for gains on sale of assets and costs associated with early debt redemption
[2]LTI is measured as the number of lost time injuries per 200,000 work hours

FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31 ($ MILLIONS, EXCEPT PER SHARE AMOUNTS)	**2006**	2005	2004
OPERATING DATA FROM CONTINUING OPERATIONS			
Revenue	**5,047.3**	4,542.5	3,836.2
Earnings Before Interest & Income Taxes (EBIT)	**387.8**	277.3	271.9
Net Income	**240.8**	169.5	114.9
Basic Earnings Per Share (EPS)	**2.69**	1.91	1.45
Return on Equity (%)	**15.8%**	11.8%	11.0%
Cash Flow from Operations After Working Capital Items	**460.2**	478.8	247.4
BALANCE SHEET DATA			
Total Assets	**4,200.8**	3,736.4	3,804.0
Invested Capital	**2,787.9**	2,644.7	2,694.1
Total Shareholders' Equity	**1,624.4**	1,413.0	1,326.2
Debt to Total Capital	**42%**	47%	51%



The above charts represent results from continuing operations. The results of operations of the U.K. Materials Handling Division have been reclassified as discontinued operations for 2004, 2005 and 2006.

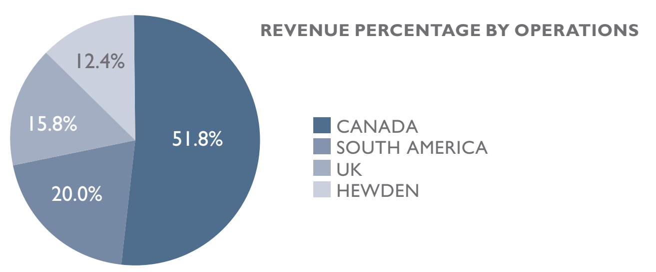
FINANCIAL PERFORMANCE BY CONTINUING OPERATIONS
($ MILLIONS)

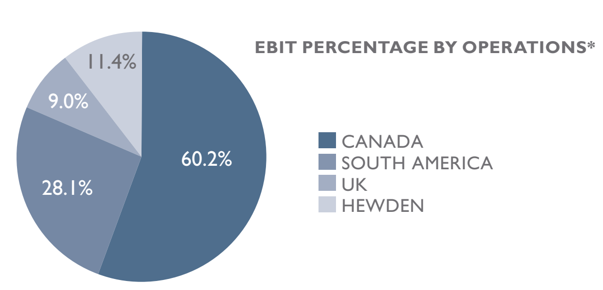
	REVENUE		EBIT	
	2006	2005	**2006**	2005
CANADA	**2,612.6**	2,049.7	**233.3**	149.9
SOUTH AMERICA	**1,009.9**	1,007.3	**108.9**	93.3
UK	**796.1**	830.4	**34.9**	13.5
HEWDEN	**628.7**	655.1	**44.2**	49.8
*POWER SYSTEMS**	***694.1***	*610.1*		

*Power Systems revenues are included within the other Finning divisions

REVENUE BY MAJOR LINES OF BUSINESS - CONTINUING OPERATIONS
($ MILLIONS)

	2006	2005
NEW MOBILE EQUIPMENT	**1,738.7**	1,551.7
NEW POWER & ENERGY SYSTEMS	**419.9**	359.0
USED EQUIPMENT	**407.7**	403.4
EQUIPMENT RENTAL	**849.6**	851.4
CUSTOMER SUPPORT SERVICES	**1,608.7**	1,368.9





*EBIT excludes corporate operating costs and other expenses

TO OUR SHAREHOLDERS:

2006 was a superb year for Finning, for our employees and our shareholders. I am very proud of how our employees consistently rise to the challenges in this period of extraordinary growth. And the growth is set to continue, as our new equipment order book exceeds $1.5 billion, a record level.

With a bright outlook for the future, strong operating and financial performance and an increased dividend, we provided our shareholders with a total return of 30% in 2006.

RECORD RESULTS

In 2006, Finning's revenues crossed the $5 billion mark as our business continued to prosper, driven by strong market conditions in all our territories. Our basic earnings per share from both continuing and discontinued operations increased 23% over the prior year. If we look at just continuing operations, earnings per share, after adjusting for non-operating items increased 36% over 2005 levels ($2.59 vs. $1.91) and delivered a 15.3% return on shareholders' equity. In 2006 we also increased our quarterly dividend by 23% to $0.16 per share.

What made 2006 especially gratifying is the improved level of profitability achieved by most of our operations. EBIT margins increased at all operations but Hewden, where the margin held steady. We are particularly proud of this improvement in profitability given the expense headwinds that we faced over the past two to three years.

Record business growth continued on all fronts in western Canada and South America. Commodity prices remained strong throughout 2006 and underpinned very good demand for heavy equipment in these regions. Overall economic expansion supported construction spending, which also continued to grow at attractive rates. Operations in Canada and South America delivered excellent operating results. Our UK operations also made solid progress in improving financial performance. Profitability at our UK dealership increased considerably as cost savings were implemented and strategic initiatives began to pay off.

In 2006, Finning began to show its true earning power as the growing population of Caterpillar equipment in our service areas generated increasing amounts of parts and service business. Revenue from this important and profitable customer support category was up over 17% compared to 2005. We expect this growth to continue into the future.

PROGRESS IN THE U.K.

A key focus for Finning in 2006 was to improve the performance of our UK operations. I am pleased to report that we have made significant progress in repositioning this business to earn better returns, provide better service to our customers and meet Caterpillar's goal of higher market share going forward.

In September, we announced the divestiture of our UK Materials Handling business. In November, we announced the restructuring of the remaining operations into four lines of business and appointed a new leadership team. The new structure, which is described in greater detail on page 25 of this report, will allow our UK businesses to focus more closely on their Caterpillar related strengths. Financial results of our UK operations showed improvement in the second half of 2006, and we believe we are on track to making meaningful and sustainable headway in this territory.

CUSTOMER SOLUTIONS - THE HEART OF OUR NEW STRATEGIC PLAN

During 2006, our senior executive team met bi-monthly to review our strategic direction and develop a new 5-year plan to position Finning for growth. The updated strategic plan focuses on delivering customer solutions, developing our people and leveraging information technology to support our growing business.

Our primary business is providing customer solutions that maximize equipment uptime while minimizing costs. Finning excels at delivering complete solutions that include supplying the appropriate equipment, adding a comprehensive servicing plan, arranging financing, and in some cases, purchasing the equipment at the end of the job. Finning adds customer value at each step.

Our goal is to increase our share of the servicing business in all our markets. We have been very successful at linking an on-going parts and service revenue stream with our equipment sales to the mining business. We have an excellent opportunity to lever our customer service expertise into other industries, and provide complete solutions to general construction and smaller equipment customers. Our updated strategy calls for doubling customer support services revenue by 2010 to $2.7 billion from 2005 levels, and achieving a 15% compound annual growth rate in revenue from this line of business.

Winning a larger share of the customer support market will involve developing an even greater service mentality and becoming a service company that sells equipment. "We service what we sell" was Earl B. Finning's early philosophy when he founded the Company, and we will foster this approach even further by focusing on "total customer solutions" that will earn customer loyalty to Finning and our service offering.

The key to building a service-focused organization is highly engaged employees who are committed to customer service excellence – a tough challenge in today's supply-constrained labour market. A focused investment in information

RAMPING UP CUSTOMER SERVICE

“In 2006, Finning began to show its true earning power as the growing population of Caterpillar equipment in our service areas generated increasing amounts of parts and service business. Revenue from this important and profitable customer support category was up over 17% compared to 2005. We expect this growth to continue into the future.”

Doug Whitehead
PRESIDENT & CEO

2006 RETURN TO SHAREHOLDERS

In 2006, Finning's common shares provided shareholders with a capital gain of 29% and dividends totaling $0.55 per share. Total return to shareholders was 30%.

Share value (excluding dividends) has grown at an annual compound growth rate as follows:

5 years - 19%
10 years - 13%
20 years - 14%

RELATIVE PRICE PERFORMANCE
FINNING INTERNATIONAL INC. VS. S&P/TSX COMPOSITE INDEX
Dec. 31, 2001 to Dec. 31, 2006

technology will support this evolution in our service culture and help us deliver solutions to satisfy increasingly sophisticated customer needs.

FURTHER GROWTH

Over the years, we have built one of the largest and most comprehensive customer support capabilities in the heavy equipment business. In addition to our extensive branch network throughout western Canada, the southern cone of South America and the United Kingdom, we have invested substantially in component remanufacturing as well as improved parts warehousing and distribution systems. Our OEM remanufacturing facility in Edmonton and component and truck rebuilding centres in Antofagasta, Chile play key roles in servicing our large equipment customers and have the capacity to support the growing demand for component remanufacturing and entire truck rebuilds. To fulfill increased demand for customer service, we hired over 1,800 new employees company-wide in 2006. Finning has also developed comprehensive training programs for new mechanics to ensure we give our people the right knowledge and tools to provide superior service and complete solutions to our customers. Engaged employees are the foundation for delivering on our strategic goals as outlined in our new mission statement: *Great People, Great Solutions, Great Results.*

LOOKING AHEAD

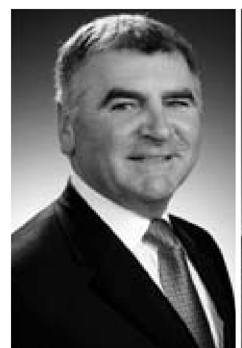
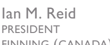
Our large current order backlog, up 60% from December 2005, reflects growing demand for new equipment and provides good visibility for revenue levels in 2007 and early 2008. We have also announced significant orders for new fleets of large mining trucks for delivery in 2009 and 2010, which gives us further confidence in the outlook for the next several years.

Commodity prices, while down from peak levels, remain strong. The outlook for those industries with exposure to commodities in our service territories continues to be attractive. The mining operations in our western Canadian and South American territories will continue to earn very good returns given current commodity prices. The level of capital investment in new mining projects and expansion of existing mines remains high sustaining demand for new and replacement equipment. Finning mining customers operate one of the largest populations of Caterpillar equipment in the world. These sizable fleets generate considerable on-going opportunities for parts, services, maintenance and rebuilds.

In addition, robust economic growth in western Canada and South America continues to drive infrastructure and general construction spending.

Finally, the construction market in the U.K. is expected to grow at a reasonable rate supporting modest growth in our operations in this region.

EXECUTIVE TEAM

Ian M. Reid
PRESIDENT
FINNING (CANADA)

Juan Carlos Villegas
PRESIDENT
FINNING SOUTH AMERICA

Andy S. Fraser
MANAGING DIRECTOR
FINNING GROUP, UK

Stephen Mallett
PRESIDENT
FINNING POWER SYSTEMS

Michael T. Waites
EXECUTIVE VICE PRESIDENT
& CHIEF FINANCIAL OFFICER

Nadine J. Block
SENIOR VICE PRESIDENT
CORPORATE HUMAN RESOURCES

AN OUTSTANDING TEAM

Finning owes its success to over 12,800 employees. Our strong results are a testament to their hard work and ability to meet the needs of our customers. Despite so many new employees joining Finning, we are pleased to report that we were able to maintain our overall safety performance. Safety is a key element of our service culture, and we work hard to provide the safest possible workplace for everyone at Finning.

I'd also like to acknowledge the strong relationship and support from Caterpillar, our key strategic partner. The combination of Caterpillar equipment and Finning service is a partnership for success that we continue to build upon.

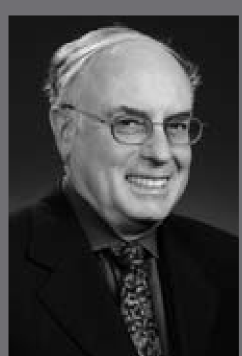
In addition, I'd like to welcome three new individuals to the Finning Board of Directors: John Reid, Bruce Turner and Kathleen O'Neill. I also thank Mike Waites for his service on the Board, and at the same time, formally welcome him as Executive Vice President and Chief Financial Officer of Finning. Mike resigned from the Board in early 2006 when he accepted the role of CFO.

To summarize, 2006 was an extremely rewarding year. We are optimistic looking forward to 2007 as we continue to build upon our past achievements and capitalize on opportunities that will drive our results in the only direction that counts: UP.

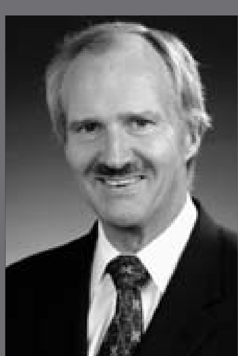
Sincerely,
FINNING INTERNATIONAL INC.

Douglas W.G. Whitehead
President & Chief Executive Officer

FINNING BOARD OF DIRECTORS

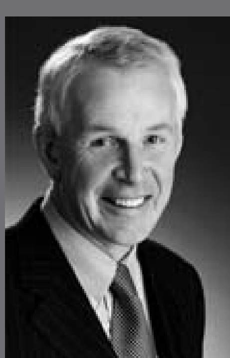


Conrad A. Pinette
CHAIRMAN OF THE BOARD

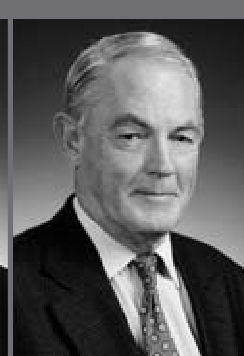


Douglas W.G. Whitehead
PRESIDENT & CEO

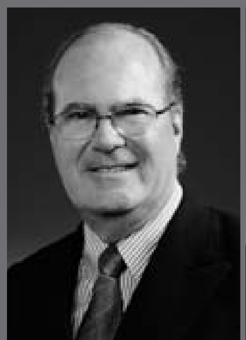
Donald S. O'Sullivan


John M. Reid

Kathleen M. O'Neill

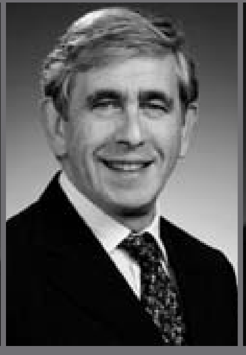

Timothy S. Howden

"Finning delivered outstanding results for its shareholders in 2006. On behalf of the Board of Directors, I thank all Finning employees around the world for their dedication to delivering unrivalled service to our customers and for their contribution to the Company's success."


Ricardo Bacarreza

Bruce L. Turner

Jefferson J. Mooney


Andrew H. Simon

John M. Willson

James F. Dinning

Excellence in corporate governance as well as a culture of integrity and respect for all of the Company's stakeholders are fundamental to Finning's business.

The Finning Board of Directors is a highly experienced and balanced team of corporate leaders with diverse international backgrounds and strong commitment to Company stewardship. The Board continuously evaluates and improves our governance processes to ensure they are effective and drive appropriate conduct.

During 2006, the composition of the Finning Board has undergone some changes. On behalf of the Board of Directors, I would like to thank Mike Waites for his valuable contributions. Mike resigned in May 2006 and accepted the position of Executive Vice President and Chief Financial Officer of Finning International Inc.

I would also like to welcome three new independent directors to the Finning Board: John M. Reid, Bruce L. Turner and Kathleen M. O' Neill. Mr. Reid and Mr. Turner bring considerable expertise from the energy and mining industries. Ms. O' Neill, an FCA (Fellow of the Institute of Chartered Accountants), was appointed to the Board on February 13, 2007 and was designated the "financial expert" on the Audit Committee. Further changes to the Board are expected in 2007 as a result of normal turn-over in membership.

Last year, I mentioned that one of the key issues the Board would monitor closely in 2006 was the progress of the turnaround of the UK operations. Our Board is encouraged by the significant operational improvements at the UK dealership, the organizational changes put in place and the strategic initiatives implemented during 2006. The Board will continue to closely oversee management's progress in bringing Finning's UK operations up to desired profitability levels.

Finning delivered outstanding results for its shareholders in 2006. On behalf of the Board of Directors, I thank all Finning employees around the world for their dedication to delivering unrivalled service to our customers and for their contribution to the Company's success.

For a more complete discussion of our corporate governance policies and practices, I encourage you to review the Finning management proxy circular and to visit the corporate governance section of our website.

On behalf of the entire Board,

Conrad A. Pinette
Chairman of the Board

SERVICE TRUCK - CANNOCK OFFICE, FINNING (UK)

We service what we sell. This has been our motto since Earl B. Finning founded Finning Tractor & Equipment in Vancouver in 1933. Today, our updated strategic goal is to earn and maintain customer loyalty by delivering outstanding customer solutions in all our markets.

UP CLOSE WITH CUSTOMERS

Finning has always taken pride in being a customer focused company with an extensive capability to provide parts, maintenance and repair services to operators of heavy equipment. The key to our success lies in building long-term customer relationships by meeting the equipment needs of customers and delivering unrivalled service solutions that lower operating costs and increase productivity.

STRATEGIC APPROACH TO CUSTOMER SERVICE

Expanding our customer support business has always been an important part of Finning's fundamental strategy. Parts and service work brings in predictable, recurring revenues and earnings that balance the inherently cyclical nature of selling equipment to resource based industries. It is also the more profitable part of our business contributing higher margin revenues and driving our earnings performance.

Over the past five years we have achieved an 11% compound annual growth rate in customer support revenues as a result of our focus on capturing parts and service opportunities on a larger share of the equipment we sell. We have been particularly successful in building partnerships with our mining customers in Canada and South America to deliver the most comprehensive maintenance services.

To increase our customer service capabilities Finning has developed an extensive service infrastructure, including a large branch network, modern component remanufacturing centres, parts distribution centres as well as customer support centres that operate 24 hours a day, 365 days a year. We are expanding our equipment rebuild capabilities which transform a "high hour" piece of equipment into a "like-new" product with the latest design features and technology, complete with a full warranty identical to that of new Caterpillar equipment. Our updated 5-year strategic plan highlights the customer support business as a primary growth driver for Finning and focuses on growing our parts and service business in all markets and industries. Our target is to achieve $2.7 billion in revenue from customer support services by 2010, a doubling of the 2005 revenue and a 15% compound annual growth in this line of business over five years.

To capture a larger share of the available customer support market we will enhance our customer service offering, providing complete service solutions to customers in all industries. We aim to deliver customized equipment and service packages to operators of all types of Caterpillar equipment, from the largest mining fleets to smaller construction machinery, as well as power solutions.

ELEVATING EMPLOYEE ENGAGEMENT

Our people play a key role in building long lasting partnerships by truly understanding unique customer needs and delivering customized service solutions in a timely manner. Engaged employees are vital to service excellence, and we have developed many initiatives to enhance employee engagement and foster a service culture throughout the entire organization. This is a challenge in the current, constrained labour market where demand for skilled employees, including heavy equipment technicians, has outpaced supply. To address the tight labour market, Finning has made our "People Strategy" a high priority. We are actively applying innovative practices in hiring, training and engaging our employees. Our continued focus on investing in training programs will ensure a future supply of skilled employees trained to the highest standards to provide our customers with complete solutions.

ADVANCING INFORMATION TECHNOLOGY

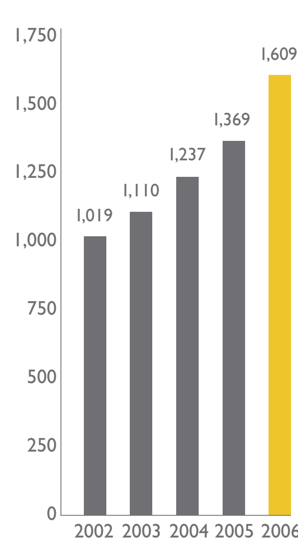
Delivering unrivalled customer solutions in our global operations can be complemented with a modern, versatile information technology (IT) system that provides our customer facing employees with reliable tools and information.

Our goal is to implement cost-efficient yet highly functional IT solutions that support our parts and service offering. Improvements in IT will enable Finning to become more efficient and proactive in meeting customer needs.

EARNING CUSTOMER LOYALTY

While new equipment sales are critical to our business, our customers aren't simply buying a machine; they are purchasing a complete solution to make their business more efficient and successful. This high level of customer satisfaction with Finning's service offering is an important driver of our future new equipment sales, which in turn expands the machine population in our territories. Given the large and growing base of Caterpillar equipment in the field today, Finning is in an excellent position to capitalize on profitable parts and service business and achieve the targets laid out in our strategic plan.

CUSTOMER SUPPORT SERVICES REVENUE ($ MILLIONS)



"Our determined focus on profitability paid off in 2006 as EBIT margins improved considerably in most of our operating units. Supported by excellent growth in revenue and earnings as well as a healthy financial position, Finning is set to continue to prosper."

Mike Waites
Executive Vice President & Chief Financial Officer

1. RECORD FINANCIAL RESULTS

2006 earnings from continuing and discontinued operations were $2.28 per share, up 23% from 2005. Earnings from continuing operations increased to $2.59 per share, up 36% over last year after adjusting for non-operating items in 2006 including:

- a gain on the sale of real estate in Edmonton - $0.12 per share
- a gain on the disposition of a non-core business line by OEM - $0.05 per share and
- costs related to the early, partial redemption of our GBP Eurobond - $0.07 per share

2. FOCUS ON PROFITABILITY

One of our primary internal measures of profitability is EBIT margin, and each operation is responsible for meeting its revenue and EBIT targets. In 2006, a continued focus on expense control and pricing discipline resulted in improved EBIT margins as shown below for all operations except Hewden, which was just under 2005 levels.

	2006	**2005**
Canada	8.2%*	7.3%
South America	10.8%	9.3%
UK	4.4%	1.6%
Hewden	7.0%	7.6%
Consolidated	7.3%*	6.1%

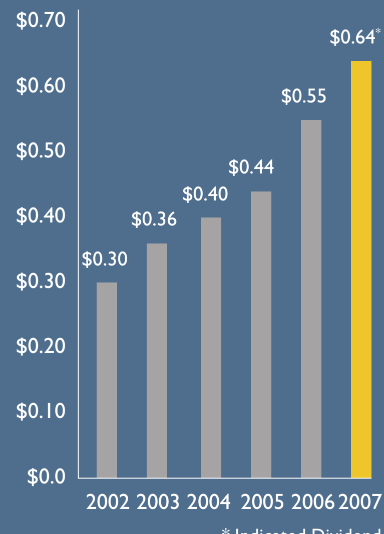
*Adjusted for non-operating items

3. DIVIDEND INCREASED AGAIN

We believe that an attractive and growing dividend represents an important part of total shareholder return. During 2006, quarterly dividends rose 23% from $0.13 to $0.16 per share, the seventh dividend increase in five years. To the extent that earnings growth allows, and subject to the Board's approval, we plan to continue raising shareholder dividends.

4. STRONG FINANCIAL POSITION

Finning's financial position is sound. The strong operating results combined with debt reductions continue to strengthen our balance sheet and provide us with considerable financial flexibility. Debt to total capital is 42%, down from 47% in December 2005, and our investment grade debt ratings were reconfirmed in 2006.



ANNUAL DIVIDEND PER SHARE
5 YEAR COMPOUND ANNUAL GROWTH RATE = 16.4%

5. CASH FLOW REINVESTED TO GROW THE BUSINESS

Cash from operating activities totaled a healthy $599 million in 2006, up 13% from $529 million in 2005 reflecting improved profitability and strong growth in operations.

Strong growth, in turn, requires investment, so Finning reinvested approximately $139 million net in working capital in the form of higher new equipment and parts inventories. A further $344 million net was invested in additional rental fleets, mainly in western Canada, as well as in funding "rental purchase options" (RPOs). These are term rental agreements with customers that include an option to purchase the equipment, usually in 3-6 months. Most RPO contracts originate in Canada, and based on past experience, about 80% become purchases at maturity. Gross capital expenditures totaled $89 million in 2006.

These uses of cash reflect the rapid growth of our business. Once the growth rate begins to moderate, the free cash generated by the business is expected to increase considerably.

6. $60 MILLION BY 2006 COST SAVINGS PROGRAM EXCEEDS TARGET

The program successfully generated $64 million in ongoing annual cost savings from some 85 separate initiatives that were implemented throughout Finning. Many of these projects were evaluated and the savings measured under the 6-Sigma methodology. The training of 6-Sigma experts in Finning is on-going in all operations, so that we can continue applying this methodology to improve processes and generate further cost savings.

7. ACHIEVING GOVERNANCE REQUIREMENTS

Finning is committed to a strong culture of corporate governance and effective risk management. We have designed appropriate disclosure controls and procedures as well as internal controls over financial reporting. This provides reasonable assurance that relevant information is gathered and disclosed publicly and also ensures financial reporting is reliable and in accordance with generally accepted accounting principles in Canada.

CANADA

797 HAUL TRUCK - ALBIAN SANDS, ALBERTA

GRADER - ALBIAN SANDS, ALBERTA

TRUCK SHOP - ALBIAN SANDS, ALBERTA

ALBIAN SANDS, ALBERTA, CANADA

UP HOLDING OUR LEAD

RECORD PERFORMANCE CONTINUES

Our Canadian operations delivered another year of exceptionally strong results as the demand for equipment, parts and service continued to grow across all sectors, driven by attractive commodity prices and robust economic conditions in British Columbia, Alberta and the north.

2006 revenues exceeded $2.6 billion, up 27% from 2005. Profitability also reached record levels, with EBIT[1] increasing 43% to $215 million.

Excellent growth in new equipment sales, up 39% from 2005, continued to add to our expanding Caterpillar fleet supporting future parts and service business. The Canadian operations also achieved a 23% increase in customer support services revenue in 2006, the result of our strong focus on customer service excellence and a growing population of equipment requiring parts and service.

In 2006, the Canadian operations successfully addressed the challenges associated with equipment and parts shortages as well as the unprecedented demand for skilled mechanics. We kept costs under control and translated strong revenue growth to a bottom line that contributed 60% to Finning International's consolidated EBIT.

DELIVERING SUPERIOR SERVICE

Continuously improving the quality of our customer service enabled Finning (Canada) to achieve a 14% annual growth rate in parts and service over the last five years and build lasting partnerships with our customers.

In addition to our extensive branch network, recent initiatives to invest in OEM Remanufacturing and improve parts warehousing and distribution have significantly elevated our capabilities in servicing Caterpillar equipment. In the mining industry, we partner with some of our customers through Maintenance and Repair Contracts to maximize equipment uptime. Growing demand for parts and service in other industries, such as construction, also presents excellent opportunities for Finning to apply product support expertise and add significant value for our customers.

To support a growing business and changing customer needs, Finning is also focusing on technology to connect customers directly to Finning service centres. In 2006, Finning (Canada)'s Customer Support Centre responded to almost 690,000 calls.

As the population of Caterpillar equipment continues to increase in this region, our Canadian operations are well positioned to capture related parts and service business by offering complete service solutions that minimize customer costs.

UNPRECEDENTED DEMAND FOR PEOPLE

Our service personnel had an extremely busy 2006 responding to an upsurge in demand for parts and service, a 24% increase over 2005 total service hours.

To continue providing quality customer service in this strong growth environment, Finning (Canada) hired over 1,000 employees in 2006 and achieved very good progress on its people strategy aimed at recruiting, training, retaining and engaging quality people. We were also very successful in applying innovative hiring practices such as the "Wanted Tour" which traveled across Canada recruiting heavy equipment technicians.

Finning continues our tradition of supporting the Caterpillar Dealer Service Technician program, ThinkBIG, in collaboration with the Northern Alberta Institute of Technology and Caterpillar. On average, ThinkBIG has the capacity to graduate 24 technicians each year, and the majority choose to work for Finning.

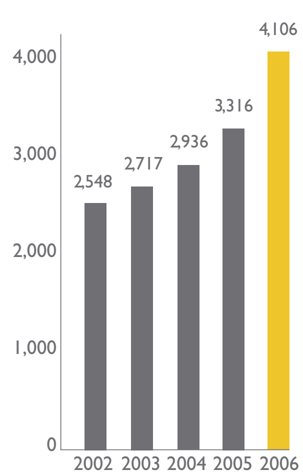
2006 revenues exceeded $2.6 billion, up 27% from 2005. Profitability also reached record levels, with EBIT[1] increasing 43% to $215 million.

In 2007, Finning (Canada) will continue its successful national recruiting program. We expect to see significant headcount growth as we focus on seizing opportunities in parts and service and enhancing our service culture.

EXCELLENT GROWTH PROSPECTS

Western Canada's economy remains very strong, largely as a result of high levels of capital investment from resource-based industries. Mining, non-residential construction and public infrastructure projects are the busiest areas of economic activity.

We anticipate that continued strength in new equipment sales and our focus on customer solutions will accelerate product support revenue growth in 2007 and beyond. With a record order backlog and an outstanding team of people delivering unrivalled customer service, our Canadian operations are poised for another record year.



[1]Excluding gains on sale of assets

MINING

Strong growth continues in the mining sector driven by growing global demand for oil and minerals that is predicted to keep commodity prices at attractive levels for the foreseeable future. Capital investment continues to flow into expansions of existing mines and the development of new projects, both in the oil sands and conventional mining. Oil sands production using the truck and shovel method is estimated to reach 2.5 million barrels per day by 2015, a four-fold increase over 2005 levels of 625,000 barrels per day[1]. Estimated costs of all announced and proposed oil sands expansion projects currently total approximately $100 billion[1]. B.C. mining industry expenditures also continue to grow, with 25 new projects currently in the permitting process.

The mining industry in western Canada represents a tremendous growth opportunity for Finning, both in new equipment sales and the parts and service business. Our mining related revenues are increasing, as we continue to build on our leading position in equipment and service solutions. Mining customers accounted for 26% of all new equipment deliveries in 2006. The Caterpillar mining fleet in western Canada reached 1,354 units in 2006. About a quarter of this fleet is operated by Finning customers in the oil sands in some of the most challenging weather and ground conditions, including 100 Cat 797 trucks – the largest 797 population in the world.

Finning has made significant investments in customer service capabilities to maximize equipment performance for our mining customers. Over 400 employees work around the clock at our three oil sands locations. 34 service bays totaling 125,000 sq. ft. enable Finning mechanics to work concurrently on 16 Cat 797 trucks and additional support equipment. Our parts warehouses at Albian, Mildred Lake and Fort McMurray total 75,000 sq. ft. stocking 13,500 line items of parts inventory.

Our OEM remanufacturing facility is another key element in enhancing Finning's product support capabilities for customers operating large Cat equipment. Remanufacturing provides "like new" components supported by a full warranty, resulting in considerable savings on components, which lowers the overall cost of owning and operating Cat equipment. OEM's modern 286,000 sq. ft. facility currently employs 300 people and has the physical capacity to double output with nominal additional investment. Our ability to accommodate growing demand for remanufacturing from the oil sands and other mining operations is important to Finning's future success in servicing our heavy equipment customers.

CONSTRUCTION

Finning experienced another solid year servicing the construction industry in B.C. and Alberta, as government spending on major public infrastructure upgrades continued, non-residential construction remained strong, and projects associated with the 2010 Winter Olympics in Vancouver started to pick up pace. Construction customers accounted for 24% of all new equipment deliveries in 2006.

The construction market in western Canada is expected to remain very active into 2007 driven by healthy economies in B.C. and Alberta and increased investment in non-residential construction that is expected to grow by about 4%[2]. This provides Finning with a good opportunity to continue expanding the Cat construction fleets and grow our market share of parts and service to customers operating medium and small-sized equipment.

CONVENTIONAL OIL AND GAS

Finning's territory in Canada hosts one of the most active oil and gas markets in North America with well completions reaching approximately 22,000[3] in 2006, roughly double the amount of a decade ago. New equipment deliveries to our petroleum customers accounted for 17% of the total new equipment sales in 2006. While 2007 forecasts call for a slight drop in the number of wells drilled to around 19,000[3], Finning's involvement in all stages of exploration, development and production of these projects continues to present a large business opportunity.

FORESTRY

Finning experienced good demand for forestry equipment in 2006 from the highly mechanized softwood lumber industry in the B.C. interior and Alberta. British Columbia is expected to increase its harvest to record levels over the next four years in an effort to salvage tens of thousands of hectares of forest that has been infested by the mountain pine beetle. Forestry continues to be an important market accounting for 8% of total new equipment deliveries in 2006.

PIPELINE

Global demand for new pipeline capacity is driving opportunities for PipeLine Machinery International (PLM), the global Caterpillar pipeline equipment dealer in which Finning has a 25% share. PLM's global revenue reached $173 million in 2006 and is expected to grow by over 40% in 2007.

The existing export pipelines that support current oil production out of the oil sands are running near capacity. The next few years will see increased activity in some large pipeline expansion projects in western Canada.

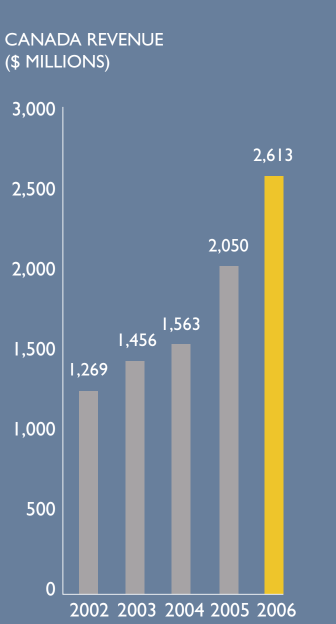
THE CAT RENTAL STORE

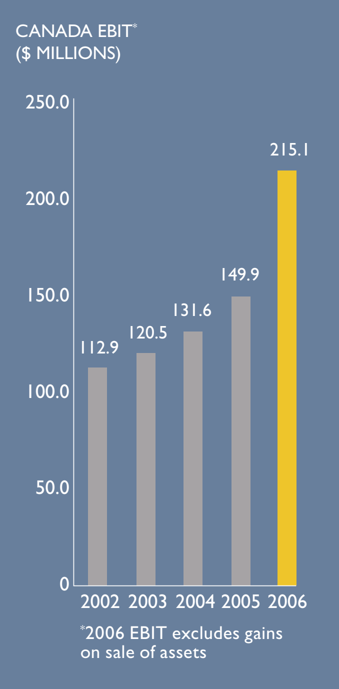
Finning operates 30 Cat Rental Stores in western Canada, the third largest rental network in the region. The Cat Rental Store operations posted very strong results in 2006 with revenues up by 35% and EBIT rising by 60% over 2005. This excellent performance is a result of increased utilization rates, on-going focus on cost efficiencies and the acquisition of three additional rental stores. The general rental markets in B.C. and Alberta are estimated by Finning to be approximately $600 million, and growth is expected to continue.

[1] Alberta Energy and Utilities Board
[2] Canadian Construction Association
[3] Canadian Association of Petroleum Producers

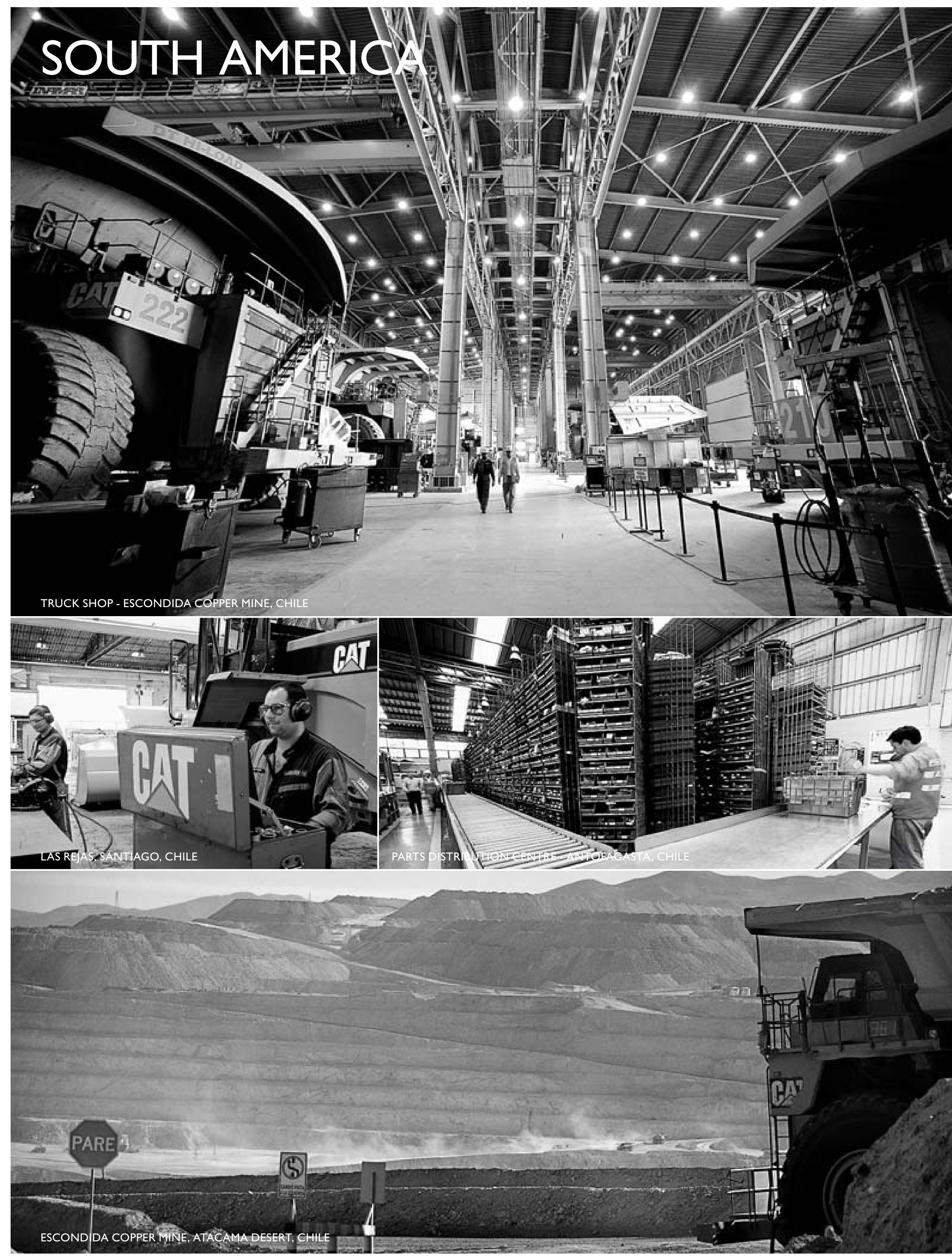
With a record order backlog and an outstanding team of people delivering unrivalled customer service, our Canadian operations are poised for another record year.

EXCAVATOR - ALBIAN SANDS, ALBERTA, CANADA





SOUTH AMERICA



TRUCK SHOP - ESCONDIDA COPPER MINE, CHILE

LAS REJAS, SANTIAGO, CHILE

PARTS DISTRIBUTION CENTRE - ANTOFAGASTA, CHILE

ESCONDIDA COPPER MINE, ATACAMA DESERT, CHILE

SERVICE DRIVES EARNINGS UP

CUSTOMER SERVICE DRIVES 2006 PERFORMANCE

Finning South America achieved record earnings performance in 2006 as a result of strong growth in customer support services, improved price realization and cost management. EBIT increased by 17% from 2005 to a record $109 million as parts and service revenues grew by 18%, contributing almost half of total revenue from Finning South America. In local currency (USD), EBIT increased by 25% while parts and service revenue rose by 26%.

As expected, new mining equipment deliveries softened in 2006, which slowed total revenue growth to 7% in local currency compared to last year. However, new equipment revenues are projected to accelerate again in 2007 with the next wave of mining equipment deliveries from our record order backlog.

Since 2003, Finning South America has capitalized on the tremendous growth in the mining and general machinery sectors driven primarily by global demand for copper and the resulting economic growth in Chile and Argentina. Over this time, Finning has successfully tackled the challenge of merging four different dealerships into one integrated operation and establishing a shared service centre, all while expanding service capabilities to meet growing customer needs.

In 2006, Finning opened a service facility at La Negra, near Antofagasta, Chile to rebuild and overhaul large mining equipment. Over 500 new mechanics out of a total 866 new hires joined the Finning service team last year, and an improved technician development program was initiated to train equipment mechanics to our high standards. Finning South America also introduced a new organizational structure to support a more efficient and customer focused organization.

DELIVERING CUSTOMER SOLUTIONS

Finning continues to build on an outstanding reputation for providing the best equipment and service solutions to over 20,000 customers in mining, construction, oil & gas, forestry and electric power throughout the southern cone of South America. Over the past 13 years, Finning has formed an extensive customer service network including 24 branches servicing general machinery and power systems, 18 on-site branches at customer mines, two component rebuild centres, two parts distribution centres and 12 Cat Rental Stores.

Finning South America customer support revenues have grown rapidly over the last five years as high levels of new equipment sales continued to add to the growing Caterpillar fleet generating further demand for parts and service. Our good financial results from South America in 2006 demonstrate how the customer support business contributes to earnings stability in times of moderate new equipment sales.

A part of Finning South America's 5-year strategic plan is to continue to grow the parts and service business by offering superior service and complete customer solutions, with a target of a 60% market share in machinery and power systems and a 95% market share in the mining industry.

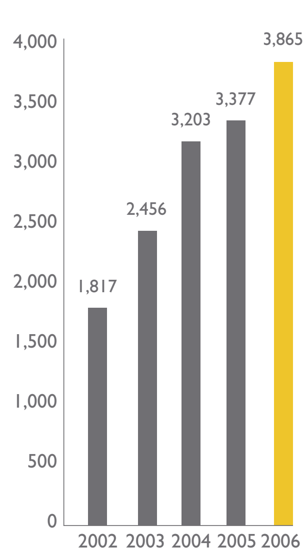
To reach these growth targets, Finning South America continues to invest in a highly skilled labour force and build its customer service capability in the region. We are proceeding with an expanded parts distribution centre in Antofagasta to accommodate the growing demand for parts and components. As well, expansion plans are going ahead at our truck rebuild facility in La Negra.

Our good financial results from South America in 2006 demonstrate how the customer support business contributes to earnings stability in times of moderate new equipment sales.

ATTRACTING THE BEST PEOPLE

To achieve its growth objectives, Finning South America will require an estimated 750 additional people in 2007. Finning is actively involved in developing its own educational program for key service positions including mechanics, supervisors, technicians and senior technicians. In collaboration with local colleges, we have expanded Finning University, a learning and development framework that offers a number of technician, support staff and management programs. Enrolment in these various programs currently stands at about 350 people and is expected to triple over the next five years.

SOUTH AMERICA - HEADCOUNT



EXCELLENT GROWTH PROSPECTS

The southern cone of South America is richly endowed with large deposits of mineral resources that lend themselves to low-cost truck and shovel mining practices. The Chilean copper industry is particularly attractive to investors given current high metal prices and economic stability in this country. Capital investment in mining production in Chile from 2006 to 2010 is expected to total US $11 billion for copper mining and US $2 billion for gold mining[1]. Mineral exploration expenditures have tripled since 2002 in tandem with increasing metal prices[2].

Mining driven economic growth in Chile and Argentina leads to increased expenditures on infrastructure and general construction projects as well as growing demand for electric power generation. This regional economic expansion provides excellent opportunities for Finning to grow our market share in general machinery and power systems.

The current order backlog for new equipment is at record levels pointing to continued growth in new equipment sales for the years ahead. Further strength in product support revenues is driven by the large and expanding Cat fleet in this region as well as our organization-wide focus on delivering complete customer solutions.

MINING

Mining represents about 60% of Finning South America's current revenue and provides excellent opportunities for long-term growth in both new equipment sales and customer support.

Mining expansion in this territory is driven by attractive commodity prices and low operating costs. Chile, the world's largest and lowest-cost copper producing region, has over 50 long-life mines in operation. Argentina is an emerging mining region with six mines currently in production and large areas with rich mineral exploration potential.

Finning mining customers in South America operate one of the largest Cat fleets – over 1,000 machines, including 63 Cat 797 trucks. Finning South America currently has 14 long-term maintenance contracts with large mining customers to provide comprehensive equipment maintenance services.

The La Negra service centre opened in 2006 to increase capacity to rebuild and overhaul major mining equipment. This facility provides Caterpillar Certified Rebuilds, overhauls, structural welding repairs and new equipment preparation. Current estimates indicate that over 500 machines in the Chilean mines have over 30,000 hours in operation, and will require major component replacements or rebuilds in the near future. In 2007, 17 off highway mining trucks are scheduled to undergo complete rebuilds. These trucks have been fully used in their "first life" and will now be rebuilt into "like new" machines, complete with a full warranty and at approximately 60% of the cost of a new truck.

During 2006, two of Finning's service shops located at customers' mine sites were certified by Caterpillar to the Cat "5 Star Contamination Control" standard, the highest possible level. These are the only two mine shops in the world to have obtained this maximum rating from Caterpillar.

Contamination control has been proven to significantly extend component life in large mining vehicles and ensure maximum reliability and performance from major repairs. Our commitment to maintain the highest standard of contamination control is an excellent example of Finning's dedication to providing complete customer solutions that reduce equipment life cycle costs.

Throughout 2006, Finning maintained leadership in providing heavy equipment and related service solutions for the Chilean mining industry. As the tremendous growth potential of this mining region continues to unfold, Finning is committed to ramping up our service capacity, growing our workforce, investing in new facilities and fostering our service culture across the organization.

CONSTRUCTION

Construction and General Machinery, is also an important and growing market accounting for approximately one third of total Finning revenues in South America. In 2006, our construction equipment sales were up by over 8% in local currency driven by increasing levels of activity in heavy construction, general construction and forestry.

The construction industries in Chile and Argentina are expected to remain strong due to rising investment in infrastructure, public works projects and general construction. Growing Caterpillar fleets of construction machinery in this region during the last several years will also create ongoing demand for significant parts and service business.

FORESTRY

Forestry continues to be an important market for Finning South America in both new equipment sales and parts and service. Finning provides a complete line of mechanical harvesting products ideally suited for eucalyptus plantations in southern Chile, Argentina and Uruguay. In addition to eucalyptus harvesting, Finning also delivers equipment and customer support to mill-yards and silviculture operations, as well as loading, hauling and road-building sectors of the forest industry.

There is growing interest among Finning's forestry customers in Chile to secure full maintenance and repair contracts, much like what has become a standard in the mining industry. This shift from "do-it-myself" maintenance provides Finning with a substantial parts and product support opportunity.

[1] Chilean Copper Commission
[2] Metals Economic Group

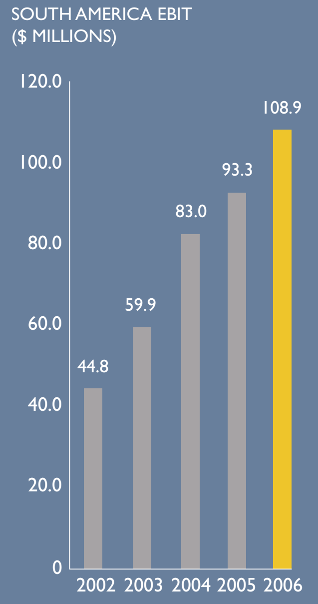
Mining-driven economic expansion supports strong growth in construction markets and electric power development.

WHEEL LOADER - ESCONDIDA COPPER MINE, CHILE

SOUTH AMERICA REVENUE
($ MILLIONS)

2002	2003	2004	2005	2006
445	562	870	1,007	1,010

SOUTH AMERICA EBIT
($ MILLIONS)



UNITED KINGDOM

LANDFILL COMPACTOR - CANNOCK, U.K.

STOCKTON, U.K.

STOKE-ON-KENT, U.K.

SCRAP LOADER - STOKE, U.K.

UP TO THE CHALLENGE

2006 PERFORMANCE IMPROVES

In 2006, Finning made substantial progress in improving the profitability of our Caterpillar dealership in the U.K. While more remains to be done, the financial results were considerably better. Revenue in local currency (GBP) was marginally higher, although down 4% in Canadian dollars. However, EBIT from continuing operations more than doubled from $13.5 million to $34.9 million, reflecting increased customer support services revenue and strong cost controls, which decreased operating expenditures by $59 million from 2005. Overall profitability, as measured by EBIT margin, more than doubled from 1.6% in 2005 to 4.4% in 2006.

Hewden revenue was 1% higher in local currency, down 4% in Canadian dollars. EBIT declined from $49.8 million to $44.2 million reflecting overhead costs of programs undertaken in 2006 to enhance customer service and design and build a new management information system, which will be implemented in 2007. Hewden realized savings in operating costs again in 2006, which decreased by $17 million from 2005.

STRATEGIC REPOSITIONING

During 2006, Finning undertook a full strategic review of its businesses in the U.K. Following that review, a number of changes were implemented including the disposition of the Materials Handling division, the restructuring of our remaining operations into four distinct lines of business, as well as changes to the senior management team. The resulting new business structure and senior management team better align our human and physical resources with market opportunities in the U.K. Finning continues to examine and assess our business model in the U.K. as we pursue our goal to build market share, grow the customer service business and improve returns on invested capital.

MATERIALS HANDLING SOLD - FOCUS ON CORE CAT BUSINESS

We determined that the materials handling or forklift truck distribution business was no longer a core business for Finning. In September 2006, this division was sold and the financial results of prior periods classified as discontinued operations.

The disposition of the Materials Handling division was an important step in our revised strategic plan, which focuses Finning's investment in the U.K. market on the Caterpillar product line and related parts, service and equipment rental opportunities.

FOUR LINES OF BUSINESS

Late in 2006, the U.K. businesses were restructured into the following four lines of business, reporting to one U.K.-based senior executive:

1. Heavy and Core Construction Equipment
2. Power Systems
3. General Construction Equipment
4. Hewden Equipment Rental

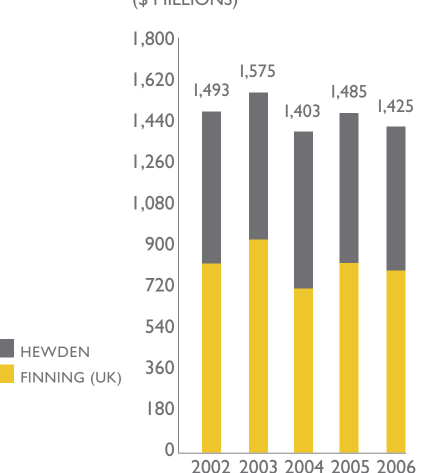
The four business units serve different customer groups. The new structure allows each unit to tailor its business practices to the needs of its customers and lets the operating management establish the best approach for maximizing returns for each business line. Over time, the four lines of business will be supported by a single business support operation that will provide head office services, allowing synergies among the business units.

The ***Heavy and Core Construction Equipment*** sector is Finning's traditional business in the U.K. This group sells and supports the larger Caterpillar equipment used in sectors such as coal mining, quarrying, waste management, and large construction projects. These customers require a complete solution capability, which includes sales, financing, parts,

> In 2006, Finning made substantial progress in improving the profitability of our Caterpillar dealership in the U.K.

service, component rebuild and disposition of used equipment as fleets get replaced. 2006 was a much-improved year for this business. While new equipment revenues in local currency were only marginally higher in 2006, EBIT was up considerably as a result of a growing parts and service contribution and very good focus on cost control. The outlook for 2007 is for further growth in new equipment and parts and service revenues.

The ***Power Systems*** group provides Caterpillar engine and power generation product sales and service to customers in the electric power generation, offshore petroleum, marine and industrial markets. This group is also a full solutions business, providing extensive engineering capabilities to meet customer needs. 2006 results were very good reflecting strength in all market sectors, especially electric power generation with the completion of five separate projects for Greenpark Energy. The outlook for 2007 remains attractive.



*The results of operations of the U.K. Materials Handling Division have been reclassified as discontinued operations for 2004, 2005 and 2006.

The ***General Construction Equipment*** group sells and services small and medium sized Caterpillar equipment, primarily for the construction market. A large amount of the construction equipment in the U.K. is rented by contractors, making the equipment rental companies important customers for this line of business. Newly formed in 2006, this division works closely with Caterpillar to provide an efficient and cost-effective distribution network for small and medium sized products. A new Finning servicing and distribution centre is being established, adjacent to the Caterpillar factory in the U.K. that assembles most of this equipment. Under the new structure, we expect to achieve significant growth in unit sales in 2007 and beyond.

The ***Hewden Equipment Rental*** group is the largest equipment rental operation in the U.K. The rental offering includes a wide variety of equipment such as Caterpillar construction equipment, powered access equipment, a broad selection of tools, smaller Caterpillar electric power generators, mobile cranes, construction site accommodation and hoists. Hewden is also the major provider of rental equipment to the petrochemical and industrial sector through its Hewden Services division. Hewden's product lines are directed to professional contractors and construction companies, and the extensive branch network puts Hewden equipment in easy reach of the majority of the U.K.'s construction activity.

During 2006, Hewden reorganized its sales force to meet the growing customer demand for a single point of contact for all equipment rental needs. In addition, Hewden rationalized its mobile crane business to align the fleet with our core general construction customers' needs for cranes of up to 100 tons.

Hewden is in the final stages of implementing a new information system designed to significantly improve management's access to operating and financial information. The new system will improve our ability to measure customer and product profitability, as well as improve rental inventory management, pricing discipline and customer billing, and ultimately enhance customer service. The first components of this system were successfully rolled out in January 2007, and the business support and branch systems are expected to become fully operational by summer 2007.

Hewden plays an increasingly important role in providing Finning and Caterpillar with access to the large U.K. construction equipment rental market. With over 4,100 Cat general construction machines in its fleet, Hewden will also provide a significant source of used equipment and parts and service opportunities for our General Construction division.

CATERPILLAR SUPPORT

Caterpillar is an important part of Finning's strategy in the U.K., which is aligned with Caterpillar's long term strategy – Vision 2020. Caterpillar has agreed to provide support in growing our U.K. business and improving profitability by enhancing the value proposition that we deliver to customers in the U.K.

GROWING OUR SERVICE BUSINESS

Parts and service revenues increased by 10% in local currency over 2005 as our initiatives to "move closer to our customer" began to pay off. The U.K. dealership operations are now structured to serve customers on a regional basis, delivering more personalized product support. Our regional sales and customer support teams work more closely with their local customers to meet specific equipment needs and deliver customized service solutions.

An enhanced focus on proactive maintenance, rebuild work and customer service agreements will support further growth in parts and service and position Finning as a complete solutions provider with a strong local presence across the U.K.

HEALTHY CONSTRUCTION INDUSTRY

Total construction output in the U.K. increased once again in 2006, supported by a healthy economy, and driven primarily by public and private housing construction, government investment in infrastructure and transportation improvements, and building upgrades. Major construction projects currently underway include preparations for the 2012 Summer Olympics in London, expansions to Heathrow and Luton airports, and the Thames Gateway Region project. The Thames Gateway project is a major redevelopment project in east London estimated to be the largest residential building program undertaken in the U.K. in the past 50 years, with about 200,000 new homes expected to be built.

The U.K. construction industry is one of the largest in the world, generating steady demand for construction equipment for purchase and rent, as well as related parts and service business. Construction output is expected to continue to grow in 2007.

ATTRACTIVE OUTLOOK

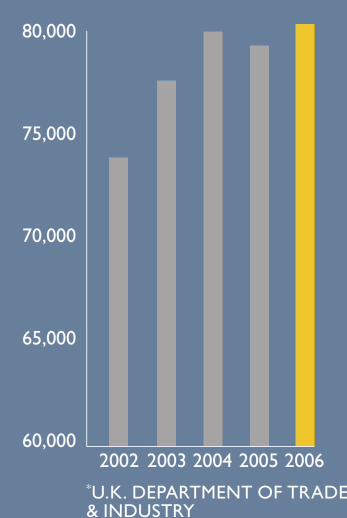
The expected economic growth in the U.K. in 2007 will support healthy demand for equipment, parts and service from the numerous industries we serve. In addition to the construction market, Finning is well positioned to benefit from growing demand from coal mining and quarrying operations, waste management, electric power generation and other industrial customers relying on equipment solutions. Our new equipment order backlog is currently at a record level and is expected to remain strong through 2007.

With a number of business improvements still underway, Caterpillar's continuing support and our strong commitment to deliver the best customer solutions in the U.K. market, we expect further improvement in the performance of our U.K. based businesses in 2007.

The expected economic growth in the U.K. in 2007 will support healthy demand for equipment, parts and service from the numerous industries we serve.

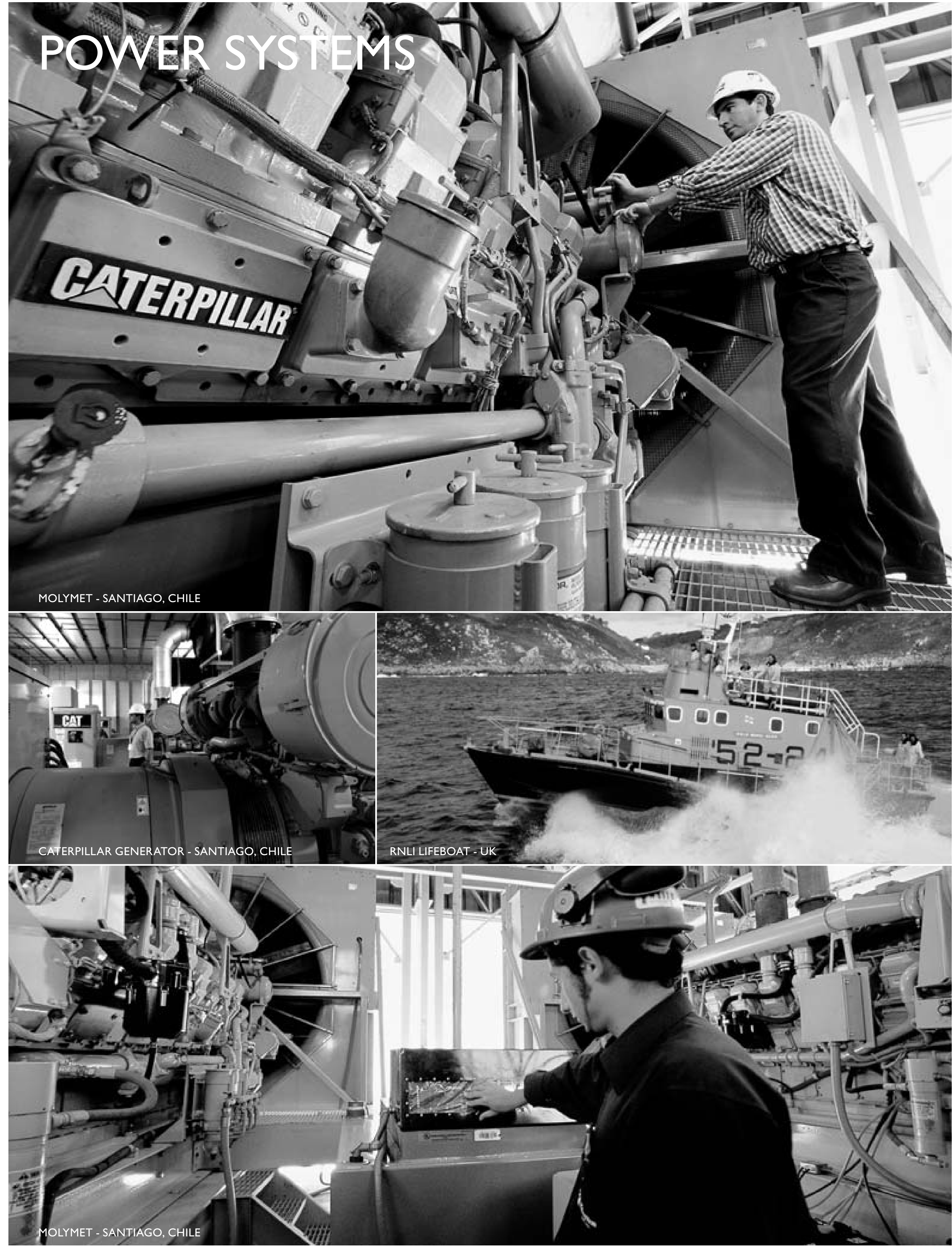
TELEHANDLER - HARTLEPOOLE DOCKS, U.K.

U.K. CONSTRUCTION MARKET TOTAL OUTPUT*
(£ MILLIONS AT 2000 PRICES)



*U.K. DEPARTMENT OF TRADE & INDUSTRY

POWER SYSTEMS



MOLYMET - SANTIAGO, CHILE

CATERPILLAR GENERATOR - SANTIAGO, CHILE

RNLI LIFEBOAT - UK

MOLYMET - SANTIAGO, CHILE

UP SURGE IN DEMAND

STRONG 2006 PERFORMANCE

Finning Power Systems[1] revenues rose 14% in 2006. Favourable market conditions in our territories and strong demand for engines used in natural gas compression, electric power generation (EPG), industrial and marine applications, and "green energy" initiatives boosted our financial performance worldwide.

DELIVERING COMPLETE "POWER" SOLUTIONS

Finning Power Systems has built a solid reputation for providing complete solutions to customers. Our EPG services extend beyond engine sales, incorporating design, engineering, packaging, installation, maintenance and operations expertise. We provide innovative solutions to challenges such as mines-gas fuelled power generation in the U.K. and remote, primary power installations at arctic diamond mines in Canada's Northwest Territories.

MaK – NEW SERVICE TERRITORIES

Finning recently secured exclusive new distribution and service rights for MaK marine engines, which power ocean going vessels. Adding to our territories in B.C. and Chile, we now serve the west coast of the U.S. (executed through a strategic alliance with NC Power Systems Co., the Caterpillar Power Systems dealer for Washington State and Alaska), all of Mexico and Central America, plus Peru, Argentina and Uruguay. This geographic reach significantly expands Finning's presence in the commercial marine market.

CANADA – DIVERSE OPPORTUNITY

Canada currently represents over 50% of Finning's global Power Systems revenues and is a major growth area.

Demand for large engines for oil and gas applications in Alberta and northeastern B.C. softened somewhat, however, overall demand for gas compression engines in this region remains strong. Drilling activity, while down from its peak, is expected to continue at historically high levels. Significant expansion in the oil and gas industry over the last several years resulted in a large installed engine population that is expected to yield ongoing opportunities for parts and service.

Increasing mining activity in B.C. and expansion of diamond operations in the Northwest Territories continue to fuel demand for primary power generation in remote locations.

In addition, Caterpillar's strong market share for heavy duty "on-highway" truck engines in western Canada drives an important parts and service opportunity.

SOUTH AMERICA – GROWING DEMAND FOR EPG

Our Power Systems operations in Chile and Argentina posted another solid year in 2006, delivering solutions for primary and standby power applications.

Chile and Argentina's economic growth drives increasing demand for electric power which is difficult to supply due to lack of hydro electricity in the region and uncertainty surrounding natural gas reserves in Argentina and Bolivia. This presents a large opportunity for diesel fired power generation and peak shaving applications used during periods of high demand. Energy shortages in these countries are expected to persist for several years creating opportunities for Finning in both new engine sales and customer support services.

UK – OUTSTANDING RESULTS

Our UK Power Systems operations achieved exceptional results in 2006, exceeding our internal targets for revenue and EBIT growth in local currency, and contributing about 32% to Finning's total Power Systems revenue for the year.

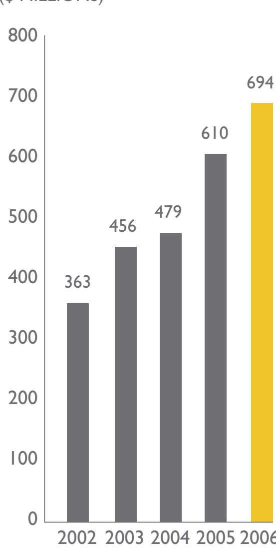
The highlight was delivering a complete solution to the Greenpark Energy project. We designed, built and now operate and maintain five mines-gas fuelled electric power generation sites for this customer. The sites, located at former coal mines, continuously produce 24 MW of electricity. The number of similar power generation projects is expected to increase in the next few years, driven by U.K.'s "green energy" legislation. Additional Greenpark projects are currently in the planning and licensing process.

Our commitment to enhanced service and engineering capabilities ensures our competitive advantage and potential for new opportunities.

Finning's unique expertise and capability to deliver complete customer solutions will support future success in serving the important EPG market.

Other power systems markets in the U.K. remained strong through 2006 led by solid demand for marine engines for pleasure craft and engines for industrial applications as well as conventional electric power generation. We expect this diversified market to continue its attractive growth.

POWER SYSTEMS REVENUE[1]
($ MILLIONS)



[1]Power Systems results are reported within the other Finning divisions

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This discussion and analysis of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise stated.

RESULTS OF OPERATIONS

The results from continuing operations include the performance of acquired businesses from the date of their purchase and exclude results from operations that have been disposed or are classified as discontinued. Results from operations that qualify as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted. Please see the section entitled "Discontinued Operations" for a discussion of these operations.

FOURTH QUARTER OVERVIEW

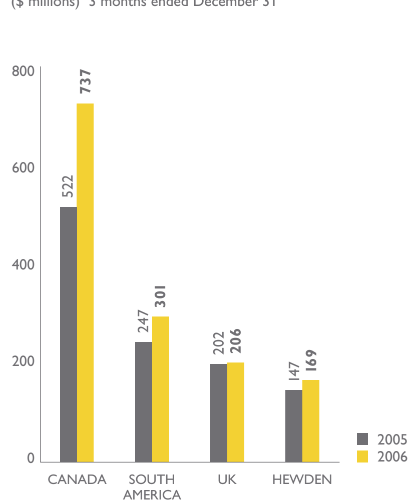
($ MILLIONS)	Q4 2006	Q4 2005	Q4 2006 (% OF REVENUE)	Q4 2005 (% OF REVENUE)
Revenue	$ 1,413.4	$ 1,117.9		
Gross profit	393.2	318.9	27.8%	28.5%
Selling, general & administrative expenses	304.5	256.6	21.5%	22.9%
Other expenses (income)	3.0	0.9	0.2%	0.1%
Earnings from continuing operations before interest and income taxes	85.7	61.4	6.1%	5.5%
Finance costs	17.9	14.4	1.3%	1.3%
Provision for income taxes	15.1	8.6	1.1%	0.8%
Net income from continuing operations	52.7	38.4	3.7%	3.4%
Loss from discontinued operations, net of tax	–	2.2	–	0.2%
Net income	$ 52.7	$ 36.2	3.7%	3.2%

Fourth quarter consolidated revenues from continuing operations of $1,413.4 million continued to be strong, driven by revenue growth of 41.3% from the Company's Canadian operations. Consolidated revenues increased 26.4% from the fourth quarter of 2005. Earnings from continuing operations before interest and income taxes (EBIT) increased 39.6% to $85.7 million and consolidated net income from continuing operations increased by 37.2% to $52.7 million.

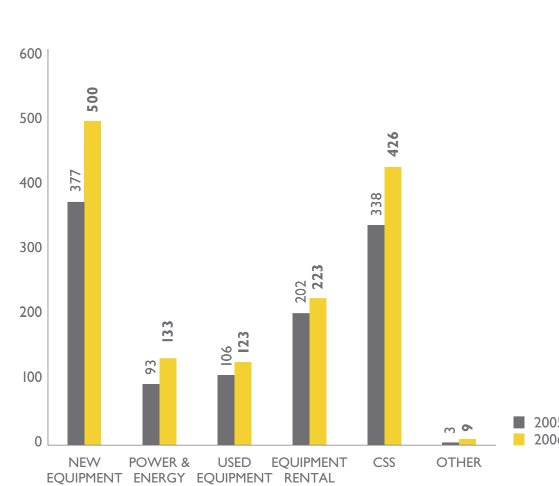
Net income was $52.7 million compared with $36.2 million in the same period in 2005.

Basic Earnings Per Share (EPS) from continuing operations for the quarter was $0.59 compared with $0.43 in the same period last year. Including the loss from discontinued operations, basic EPS was $0.59 in the fourth quarter of 2006 compared with $0.41 in the fourth quarter of 2005.

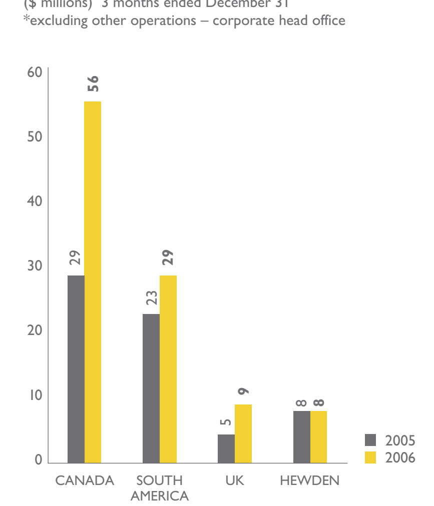
REVENUE FROM CONTINUING OPERATIONS
($ millions) 3 months ended December 31



REVENUE BY LINE OF BUSINESS FROM CONTINUING OPERATIONS
($ millions) 3 months ended December 31



EBIT FROM CONTINUING OPERATIONS*
($ millions) 3 months ended December 31
*excluding other operations – corporate head office



Revenue was higher in the fourth quarter of 2006 in the Company's Canadian operations as a result of robust activity driven by high commodity prices and an increase in infrastructure spending. Revenue from the Company's operations in South America increased 21.9% in Canadian dollars compared with the fourth quarter of 2005 with a strong revenue mix shift to customer support services (CSS). The Company's operations in the U.K. also experienced an increase in revenue in Canadian dollars, year over year.

Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar, and the U.K. pound sterling. The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars. Excluding the impact of foreign exchange when translating results, revenues for the fourth quarter of 2006 in local currency increased by 25.4% in South America and by 8.4% in Hewden, and decreased by 4.3% in the UK Operations when compared to last year's fourth quarter.

Foreign exchange had a minimal impact on consolidated revenues in the fourth quarter compared to the prior year, with a positive impact on revenues of $22 million due to a weaker Canadian dollar relative to the U.K. pound sterling (6.4% weakening), offset by the negative impact on revenues of $32 million due to a stronger Canadian dollar in the quarter relative to the U.S. dollar (2.9% strengthening).

Strong demand continued in the fourth quarter of 2006 for both new equipment and customer support services. On a consolidated basis, all lines of business increased over the 2005 levels maintaining a similar revenue mix. Canada recorded a 66% increase in new equipment revenues as demand in both mining and construction continued to be strong. The UK Operations achieved a 30% increase in customer support services which was offset by lower new equipment deliveries to customers, partially due to product availability constraints. Hewden maintained rental activity at 2005 levels and benefited from a higher level of rental asset disposals in the fourth quarter of 2006. South America posted a strong quarter in new equipment sales and even stronger customer support services benefiting from a higher level of long term service contracts with their customers.

Gross profit of $393.2 million in the quarter increased 23.3% over the same period last year. As a percentage of revenue, gross profit for the quarter decreased slightly from the same period last year due to escalating labour costs in South America and lower rental asset utilization in Hewden. In markets where we have strong demand, some improvement in price realization has been achieved. In the more competitive U.K. market, the UK Operations generated higher gross margins with a revenue mix shift towards customer support services.

EBIT from continuing operations of $85.7 million increased 39.6% year over year, primarily due to the strong performance of the Company's Canadian and South American operations and a notable improvement in the UK Operations. Hewden's contribution to overall EBIT was at the same level compared with the prior year's quarter. EBIT in the fourth quarter of 2006 included higher variable operating costs to support the increased level of activity, higher employee costs, and higher long-term incentive plan (LTIP) charges. The LTIP charges in the fourth quarter of 2006 are higher by $23.4 million compared with the same period in 2005, primarily due to the vesting of three tranches of deferred share units and the mark-to-market impact on the valuation of vested units resulting from the appreciation of the Company's share price in the quarter. Performance in the fourth quarter of 2006 benefited from cost savings achieved globally through the Company's cost reduction program whereas the fourth quarter of 2005 incurred higher costs to support customers amidst the Company's Canadian operations one month labour stoppage.

Net income from continuing operations improved 37.2% in the fourth quarter of 2006 reflecting the solid fourth quarter activity noted above.

Cash flow after changes in working capital for the quarter was $79.0 million, compared with cash flow of $135.2 million generated in the same period last year. The Company's Canadian operations experienced a significant increase in its investment in equipment in the fourth quarter of 2006 to meet strong customer demand and deliveries planned for the first half of 2007. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company's net investment in rental assets of $64.2 million in the fourth quarter was $34.9 million higher than the same period in 2005 with higher demand for Canada's rental business and timing of product delivery in Hewden.

As a result of these items, cash flow from operating activities was $11.7 million in the fourth quarter of 2006 compared to $98.7 million in the fourth quarter of 2005.

ANNUAL OVERVIEW

($ MILLIONS)	2006	2005	2006 (% OF REVENUE)	2005 (% OF REVENUE)
Revenue	**$ 5,047.3**	$ 4,542.5		
Gross profit	**1,460.2**	1,303.1	**28.9%**	28.7%
Selling, general & administrative expenses	**1,078.8**	1,023.5	**21.3%**	22.5%
Other expenses (income)	**(6.4)**	2.3	**(0.1)%**	0.1%
Earnings from continuing operations before interest and taxes (EBIT)	**387.8**	277.3	**7.7%**	6.1%
Finance costs	**75.7**	61.0	**1.5%**	1.4%
Provision for income taxes	**71.3**	46.8	**1.4%**	1.0%
Net income from continuing operations	**240.8**	169.5	**4.8%**	3.7%
Loss from discontinued operations, net of tax	**36.7**	5.5	**0.8%**	0.1%
Net income	**$ 204.1**	$ 164.0	**4.0%**	3.6%

For the fourth consecutive year, revenues reached record levels. Annual revenues from continuing operations of $5,047.3 million increased 11.1%, year over year, primarily as a result of the strong contribution from the Company's Canadian operations.

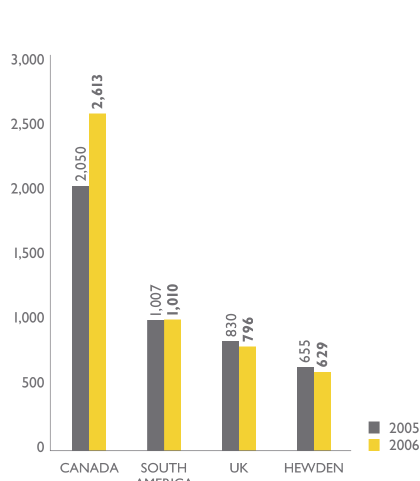
Foreign exchange translation had a negative impact of approximately $250 million on revenues due to the stronger Canadian dollar in 2006 relative to the U.K. pound sterling (5.3% strengthening) and the U.S. dollar (6.4% strengthening), year over year. In local currency, the Company's UK and Hewden operations contributed revenues slightly higher to that of 2005, while revenues earned by the South American operations were 7.0% above the 2005 level.

From a line of business perspective, the strong demand for new equipment was almost equalled by the strong growth in customer support services in 2006. Customer support services, which generally contribute a higher EBIT as a percentage of revenue, are viewed by management as a major potential growth area and related revenues are anticipated to comprise a larger percentage of total revenues in the future. Rental revenue and used equipment revenues are relatively unchanged year over year. Used equipment revenues typically will vary depending on product availability, customer buying preferences, and exchange rate considerations. As new equipment is currently in high demand and certain models are in short supply, customers are utilizing their older units longer and as such, availability of used equipment is low.

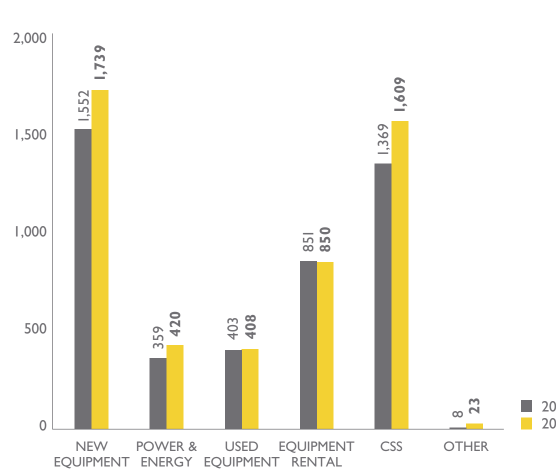
Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) remained strong and achieved a record level of approximately $1,547 million at the end of the fourth quarter of 2006. This is up from the previous record level experienced in the third quarter of 2006 of approximately $1,219 million and the December 2005 level of approximately $968 million.

The Company is dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries and meet the requirements of the Company's service maintenance contracts. Although availability of certain models has improved, Caterpillar continues to have certain medium and large machine models under managed distribution. Finning continues to work closely with Caterpillar and customers to ensure that demand for parts and equipment can be met. Where supply constraints occur, the Company has been supplementing its new equipment inventory by utilizing its rental assets and used equipment to meet demand.

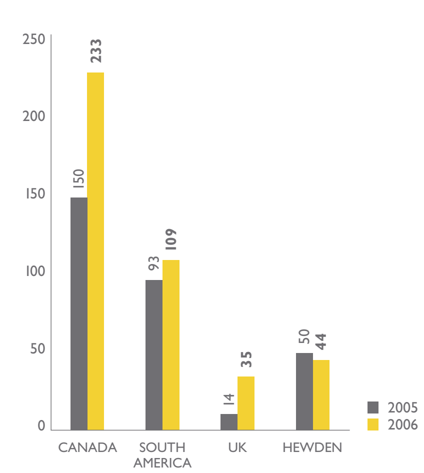
REVENUE FROM CONTINUING OPERATIONS
($ millions) 12 months ended December 31



REVENUE BY LINE OF BUSINESS FROM CONTINUING OPERATIONS
($ millions) 12 months ended December 31



EBIT FROM CONTINUING OPERATIONS*
($ millions) 12 months ended December 31
*excluding other operations – corporate head office



Gross profit of $1,460.2 million in 2006 increased 12.1% over last year and increased slightly as a percentage of revenue. The gross profit margin improvement reflects improved equipment margins due to strong overall demand and higher customer support services margins despite escalating labour costs, particularly in the South American operations.

EBIT from continuing operations increased 39.8% to $387.8 million in spite of the negative impact of foreign exchange in 2006. Annual 2006 EBIT was reduced by approximately $33 million compared to 2005 as a result of the stronger Canadian dollar relative to both the U.S. dollar and the U.K. pound sterling. EBIT in 2006 was also negatively affected by higher LTIP costs compared to 2005. The Company's LTIP includes stock-based compensation plans such as deferred share unit plans, share appreciation rights plans, and stock options. The LTIP costs in 2006 are $5.2 million higher than 2005 primarily due to more stock options outstanding and include the mark-to-market impact on the valuation of LTIP resulting from the appreciation of the Company's share price year over year, which hit a high of $47.79 in the fourth quarter of 2006.

Annual 2006 EBIT benefited from savings realized from the Company's various initiatives to reduce costs by $60 million by the end of 2006. The target savings of $60 million from 2004 was achieved and exceeded at December 31, 2006, with estimated annualized savings going forward of $64 million.

Consolidated net income from continuing operations in 2006 increased by 42.1% to $240.8 million. Basic EPS from continuing operations for the year ended December 31, 2006 was $2.69 compared with $1.91 in the same period last year, up 40.8%. Annual 2006 results include non-recurring gains of approximately $0.17 per share recorded in the first and third quarters of 2006 on the disposal of properties in Canada and the sale of OEM Remanufacturing's railroad and non-Caterpillar engine component remanufacturing business to Caterpillar in the first quarter of 2006. The 2006 results also include $0.07 per share in incremental finance costs incurred on the early repayment of a portion of the Company's previously issued £200 million Eurobond notes.

The increase in 2006 net income from continuing operations, year over year, was primarily due to the continued strong performance of the Company's Canadian operations and the gains from the dispositions noted above partially offset by higher finance costs as a result of the early repayment of a portion of the Eurobond notes. Excluding the gains recorded in the first and third quarters of 2006 from the dispositions noted above and the incremental finance costs, basic EPS from continuing operations would have been $2.59, an increase of 35.6% from the prior year.

DISCONTINUED OPERATIONS

Following an extensive strategic review of the Company's U.K. based businesses, it was determined that the Materials Handling Division in the U.K. no longer represented a core business for Finning. On September 29, 2006, the Materials Handling Division was sold and is now classified as discontinued operations within the consolidated financial statements for all periods presented.

The sale of the business resulted in a one-time after-tax loss of approximately $32.7 million (approximately £15.5 million) in the third quarter of 2006, which included the write-off of the goodwill and intangible assets associated with this business.

Net income after discontinued operations for 2006 was $204.1 million compared with $164.0 million for 2005, reflecting the loss incurred on the sale discussed above.

CASH FLOW AFTER CHANGES IN WORKING CAPITAL

Cash flow after changes in working capital for year ended December 31, 2006 was $460.2 million, a decrease of 3.9% from $478.8 million generated last year. Strong cash flow from operations was used to fund growth in inventories to meet customer demand in Canada. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company's net spending on rental assets increased marginally with a net investment of $343.6 million in 2006 (year ended December 31, 2005: $310.7 million). Rental additions were lower in the U.K. due to the sale of the Materials Handling Division in 2006 as well as management focus on increasing asset utilization at Hewden. Growth in rental assets occurred primarily in Canada to accommodate customer demand.

As a result of the above, cash flow from operating activities for the year was $97.2 million compared with $158.3 million for 2005.

RESULTS BY BUSINESS SEGMENT

The Company and its subsidiaries operate primarily in one principal business, that being the selling, servicing, and renting of heavy equipment and related products in various markets worldwide as noted below.

Finning's operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, Uruguay, and Bolivia.
- UK operations: England, Scotland, Wales, Falkland Islands, and the Channel Islands.
- Hewden operations: Equipment rental in England, Scotland, Wales, and Jersey.
- Other: corporate head office.

The table below provides details of revenue by operations and lines of business for continuing operations. Comparative periods have been reclassified to conform to the 2006 presentation.

For year ended December 31, 2006 ($ MILLIONS)	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	**$ 1,033.1**	**$ 389.5**	**$ 304.1**	**$ 12.0**	**$ 1,738.7**	**34.4%**
New power & energy systems	**196.8**	**69.8**	**153.3**	**–**	**419.9**	**8.3%**
Used equipment	**248.3**	**38.7**	**80.8**	**39.9**	**407.7**	**8.1%**
Equipment rental	**240.4**	**38.1**	**33.9**	**537.2**	**849.6**	**16.9%**
Customer support services	**873.4**	**471.7**	**224.0**	**39.6**	**1,608.7**	**31.9%**
Other	**20.6**	**2.1**	**–**	**–**	**22.7**	**0.4%**
Total	**$ 2,612.6**	**$ 1,009.9**	**$ 796.1**	**$ 628.7**	**$ 5,047.3**	**100.0%**
Revenue percentage by operations	**51.8%**	**20.0%**	**15.8%**	**12.4%**	**100.0%**	

For year ended December 31, 2005 ($ MILLIONS)	Canada	South America	UK	Hewden	Consolidated	Revenue percentage
New mobile equipment	$ 739.5	$ 454.7	$ 345.7	$ 11.8	$ 1,551.7	34.2%
New power & energy systems	143.7	75.4	139.9	–	359.0	7.9%
Used equipment	253.0	29.8	91.8	28.8	403.4	8.9%
Equipment rental	195.4	45.5	37.8	572.7	851.4	18.7%
Customer support services	712.2	399.7	215.2	41.8	1,368.9	30.1%
Other	5.9	2.2	–	–	8.1	0.2%
Total	$ 2,049.7	$ 1,007.3	$ 830.4	$ 655.1	$ 4,542.5	100.0%
Revenue percentage by operations	45.1%	22.2%	18.3%	14.4%	100.0%	

The table below provides selected income statement information by business segment for continuing operations:

For year ended December 31, 2006 ($ MILLIONS)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	**$ 2,612.6**	**$ 1,009.9**	**$ 796.1**	**$ 628.7**	**$ –**	**$ 5,047.3**
Operating costs	**2,251.3**	**876.3**	**734.5**	**446.6**	**32.9**	**4,341.6**
Depreciation and amortization	**145.7**	**24.7**	**24.2**	**129.7**	**–**	**324.3**
Other expenses	**(17.7)**	**–**	**2.5**	**8.2**	**0.6**	**(6.4)**
Earnings before interest and taxes	**$ 233.3**	**$ 108.9**	**$ 34.9**	**$ 44.2**	**$ (33.5)**	**$ 387.8**
Earnings before interest and taxes						
– percentage of revenue	**8.9%**	**10.8%**	**4.4%**	**7.0%**	**–**	**7.7%**
– percentage by operations	**60.2%**	**28.1%**	**9.0%**	**11.4%**	**(8.7)%**	**100.0%**

For year ended December 31, 2005 ($ MILLIONS)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	$ 2,049.7	$ 1,007.3	$ 830.4	$ 655.1	$ –	$ 4,542.5
Operating costs	1,783.8	886.2	793.6	463.9	31.0	3,958.5
Depreciation and amortization	115.7	25.6	27.1	136.0	–	304.4
Other expenses	0.3	2.2	(3.8)	5.4	(1.8)	2.3
Earnings before interest and taxes	$ 149.9	$ 93.3	$ 13.5	$ 49.8	$ (29.2)	$ 277.3
Earnings before interest and taxes						
– percentage of revenue	7.3%	9.3%	1.6%	7.6%	–	6.1%
– percentage by operations	54.0%	33.6%	4.9%	18.0%	(10.5)%	100.0%

CANADIAN OPERATIONS

The Canadian operating segment primarily reflects the results of the Company's operating division, Finning (Canada). This reporting segment also includes the Company's interest in OEM Remanufacturing Company Inc. (OEM), which is separately managed from Finning (Canada). OEM is a component remanufacturing business located in Edmonton, Alberta and became fully operational late in the second quarter of 2005.

The table below provides details of the results from the Canadian operating segment:

For years ended December 31 ($ MILLIONS)	2006	2005
Revenue from external sources	$ 2,612.6	$ 2,049.7
Operating costs	2,251.3	1,783.8
Depreciation and amortization	145.7	115.7
Other expenses (income)	(17.7)	0.3
Earnings before interest and taxes	$ 233.3	$ 149.9
Earnings before interest and taxes		
– as a percentage of revenue	8.9%	7.3%
– as a percentage of consolidated earnings before interest and taxes	60.2%	54.0%

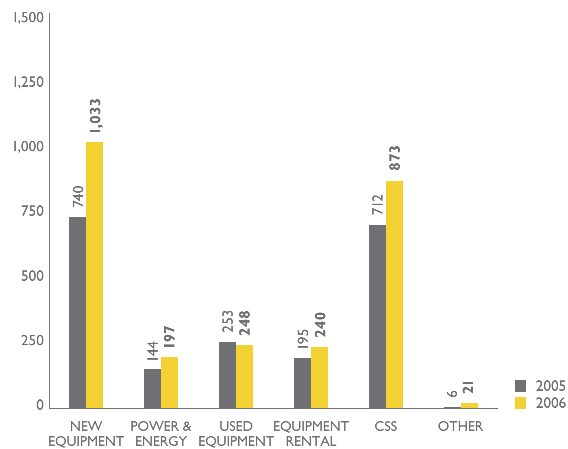
Record results were again achieved in the Company's Canadian operations in 2006. Revenues increased 27.5% over the 2005 levels to $2,612.6 million. Revenues from all lines of business in Canada, except for used equipment, increased over 2005 levels, most notably in new equipment and customer support services. This occurred in spite of a 6.4% strengthening of the Canadian dollar relative to the U.S. dollar year over year.

The increase in new equipment revenues was attributable to significant strength in the construction, mining, and petroleum sectors driven by strong commodity and energy prices as well as higher levels of infrastructure spending.

Higher revenues from customer support services were a result of servicing a growing Caterpillar fleet in our Canadian dealership territory and the resulting strong demand for Caterpillar parts. Rental revenues increased over 2005 as a result of a higher investment in rental assets required to meet increased customer demand including increased investment in the Company's Cat Rental Stores and its joint venture investment in PipeLine Machinery International, LLP, both of which continue to generate good return on assets.

In the third quarter of 2006, Finning (Canada) acquired the assets and business operations of Wirtanen Electric Ltd., an electric distribution rental company based in Alberta, for cash of approximately $10.3 million. This acquisition increased the number of the Company's Cat Rental Stores in operation in western Canada to 29 at December 31, 2006, compared with 27 stores at December 31, 2005. A 30th Cat Rental Store was added in January 2007.

CANADA – REVENUE BY LINE OF BUSINESS
($ millions) 12 months ended December 31



New equipment orders from customers continued to outpace prior year volumes and as a result, the backlog achieved new record levels at the end of 2006. Backlog reflects the strong activity in the mining, petroleum, and construction sectors where the Canadian operations operate.

In Canada, higher gross profits were achieved in all lines of business. Gross profit as a percentage of revenue increased slightly from that achieved in 2005 partially due to a modest shift in the mix of revenues in 2006 towards customer support services, which attract a higher margin than the equipment sales business. In addition, strong customer demand has led to higher equipment margins.

Selling, general, and administrative (SG&A) costs increased in 2006 largely due to a higher number of employees supporting record activity levels and meeting customer demands. As a percentage of revenue, SG&A is lower in 2006 compared with last year, reflecting cost efficiencies. Key factors affecting the SG&A increase in 2006 compared with 2005 for the Company's Canadian operations include:

- As a result of increased customer demand and continued strength in resource based businesses and infrastructure spending in western Canada, headcount for Finning (Canada) increased by approximately 770 or 25% compared to December 2005. As a result, higher salaries, benefit, pension, recruitment, relocation, and training costs were incurred in 2006.
- Variable selling costs such as warranty, freight, and building occupancy costs have increased in proportion with the increase in revenue.
- Higher LTIP costs due to the appreciation of the Company's share price.

Other income for 2006 includes a $12.9 million total pre-tax gain on the sale of certain properties at Finning (Canada) and a $5.3 million pre-tax gain recorded on the sale of a portion of OEM's remanufacturing business.

- Finning (Canada) sold certain properties pursuant to a sale leaseback type transaction in which Finning (Canada) will lease back the properties involved over lease terms ranging from 2 to 22 years. Net proceeds from this transaction were $12.7 million, resulting in a pre-tax gain in the third quarter of 2006 of $7.8 million. Finning (Canada) also sold surplus properties during the year for a pre-tax gain of $5.1 million.
- OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar in the first quarter of 2006, resulting in a pre-tax gain of $5.3 million. Caterpillar and OEM have signed an initial two-year agreement under which OEM will provide remanufacturing services to Caterpillar for these lines of business.

Strong revenues due to demand and activity in the Canadian operations and gain on property and business sales, partially offset by demand related SG&A costs, translated into a significant contribution by the Company's Canadian operating segment which achieved an EBIT of $233.3 million in 2006 compared with $149.9 million in 2005. As a result of improved margins and cost efficiencies, the Canadian operating segment experienced an improved EBIT margin (EBIT divided by revenues) of 8.9% in 2006, up from 7.3% last year. EBIT margin, excluding the gains from dispositions described above would be 8.2% compared with 7.3% in 2005.

SOUTH AMERICA

The Company's South American operations include the results of its Caterpillar dealerships in Chile, Argentina, Uruguay, and Bolivia.

The table below provides details of the results from the South American operations:

For years ended December 31 ($ MILLIONS)	2006	2005
Revenue from external sources	$ 1,009.9	$ 1,007.3
Operating costs	876.3	886.2
Depreciation and amortization	24.7	25.6
Other expenses (income)	–	2.2
Earnings before interest and taxes	$ 108.9	$ 93.3
Earnings before interest and taxes		
– as a percentage of revenue	10.8%	9.3%
– as a percentage of consolidated earnings before interest and taxes	28.1%	33.6%

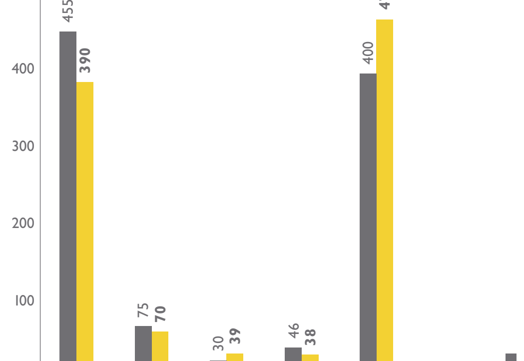
Annual 2006 revenues of $1,009.9 million achieved record levels in both Canadian and local currency, despite the negative impact of a 6.4% strengthening of the Canadian dollar relative to the U.S. dollar. In local currency (U.S. dollar), Finning South America revenues increased 7.0% reflecting higher revenues from customer support services in 2006. The strong commodity cycle and continued high metal prices, together with strong economic growth in the countries in which Finning South America operates, continues to fuel the demand for equipment, although at a slightly lower level in 2006. New equipment order backlog achieved record levels at the end of 2006 with strong new customer orders.

Significant growth experienced in customer support services is primarily the result of servicing the numerous mining maintenance and repair contracts entered into over the past couple of years. The Company's South American operations experienced a revenue mix shift from equipment sales towards higher margined customer support services in 2006.

In both Canadian and local currency, gross profit increased in 2006 in absolute terms and as a percentage of revenue. This occurred partially due to the revenue mix shift toward customer support services but was also due to stronger margins earned in new equipment and rentals, partially through price realization. In South America, high commodity prices have also driven labour costs upward as wages increase to support demand in a highly competitive market for skilled workers. South America operations were adversely impacted by these higher wage demand settlements and by some degree of inefficiencies of newly hired employees to meet customer demand. As a result, margin returns from customer support services have decreased slightly from 2005 levels.

In order to meet strong customer service demand arising from a higher number of service maintenance contracts, 607 additional revenue-generating employees and support staff have been hired, representing a 15% increase over December 2005 levels. As a result, higher salaries and benefit costs were incurred in 2006. Parts availability constraints also increased costs to expedite delivery of product to customers. Other operating costs reflect the upward pressure of inflationary increases, especially from Argentina which continues to have a high rate of inflation. In spite of the increase in SG&A costs to manage growth in demand, SG&A as a percentage of revenue decreased in 2006 as a result of numerous initiatives to manage costs. Management continues to undertake cost saving initiatives to drive efficiencies in work flow processes and improving working capital management. These costs were mostly offset by lower variable equipment selling costs and productivity improvements.

SOUTH AMERICA – REVENUE BY LINE OF BUSINESS
($ millions) 12 months ended December 31



In local currency, EBIT improved 24.7% in 2006 compared to the prior year. When translated into Canadian dollars, EBIT of the Company's South American operations of $108.9 million in 2006 was 16.7% higher than 2005. EBIT as a percentage of revenue for Finning South America at 10.8% was up from 9.3% in 2005 as a result of the revenue mix shift to higher margined customer support services and cost saving initiatives.

UNITED KINGDOM ("UK") GROUP

In the fourth quarter of 2006, Finning implemented a new organizational structure for its UK Group and appointed a new management team. Effective November 1, 2006, Finning Group, UK will be organized along four core lines of business; Heavy Construction, General Construction, Power Systems, and Hewden. These four business units will, over time, be supported by a single back office operation that will provide centralized head office services, allowing further synergies among the business units.

For most of the 2006 year, the Company's operations in the U.K. operated separately as UK Operations and Hewden Operations as noted below. The changes implemented in the fourth quarter are expected to improve the performance of the Company's operations in the U.K.

UK OPERATIONS

The continuing operations of this segment reflect the results of Finning (UK), the UK Caterpillar dealership operation, and Diperk UK, which distributes and services Perkins engines in the U.K.

In September 2006, Finning (UK) sold its Materials Handling Division and as a result, the results from the Materials Handling Division are recorded as discontinued operations with prior period results restated accordingly.

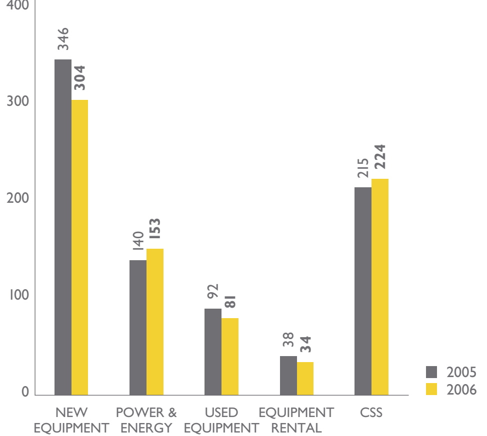
The table below provides details of the results of the continuing operations from the UK Operations:

For years ended December 31

($ MILLIONS)	2006	2005
Revenue from external sources	$ **796.1**	$ 830.4
Operating costs	**734.5**	793.6
Depreciation and amortization	**24.2**	27.1
Other expenses (income)	**2.5**	(3.8)
Earnings before interest and taxes	$ **34.9**	$ 13.5
Earnings before interest and taxes		
– as a percentage of revenue	**4.4%**	1.6%
– as a percentage of consolidated earnings before interest and taxes	**9.0%**	4.9%

Annual 2006 revenues of $796.1 million were down 4.1% from the prior year. Excluding the impact of foreign currency translation resulting from the 5.3% strengthening of the Canadian dollar relative to the U.K. pound sterling, revenues in the UK Operations increased marginally by 1% in local currency compared to the prior year.

UK – REVENUE BY LINE OF BUSINESS FROM CONTINUING OPERATIONS
($ millions) 12 months ended December 31



MANAGEMENT'S DISCUSSION & ANALYSIS

Revenues, in local currency, from customer support services and power and energy solutions were higher in 2006 compared to the prior year, partially offset by lower revenues from new and used equipment sales and rentals. Power and energy solutions increased in 2006 supported by the completion of a number of large power generation projects and higher activity in the offshore petroleum market.

New order backlog at December 2006 achieved record levels.

Gross profit, in local currency, for 2006 for the UK Operations was 9.9% higher in absolute terms compared with last year. Gross profit margin as a percentage of revenue was higher than 2005 due to higher margins achieved across all lines of business.

SG&A costs decreased in 2006 compared with 2005, in both Canadian and local currency, mainly as a result of various initiatives and management's focus on realizing cost efficiencies. The UK Operations incurred lower information system charges as well as lower pension costs as changes to employee pensionable benefits were implemented in the first quarter of 2006.

In 2006, the UK Operations contributed $34.9 million of EBIT, a significant increase compared with the EBIT of $13.5 million recorded in 2005, primarily due to cost containment initiatives, higher levels of product support, and improved margins in all lines of business.

EBIT as a percentage of revenue for the UK Operations increased to 4.4% in 2006 from 1.6% last year and the UK Operations contributed 9.0% of the Company's consolidated EBIT, a significant improvement from 4.9% last year.

DISCONTINUED OPERATIONS – MATERIALS HANDLING DIVISION

Following an extensive strategic review of the Company's U.K. based businesses, the Finning Board of Directors determined that the Materials Handling Division of Finning (UK) was no longer a core business for Finning. On September 29, 2006, this division was sold and is classified as discontinued operations within the consolidated income statements for all periods presented.

The sale of this business resulted in an after-tax loss of approximately $32.7 million (approximately £15.5 million) in the third quarter, which included the write-off of the goodwill and intangible assets associated with this business.

The table below provides details of the discontinued operations of Finning (UK)'s Materials Handling Division excluding the loss on sale:

($ MILLIONS)	**Nine months ended September 30, 2006**	Twelve months ended December 31, 2005
Revenue from external sources	**$ 183.5**	$ 292.1
Operating costs	**147.6**	233.3
Depreciation and amortization	**31.1**	50.8
Earnings before interest and taxes	**$ 4.8**	$ 8.0

Approximately 1,000 employees were transferred with the sale of the Materials Handling Division.

HEWDEN OPERATIONS

Hewden is an equipment rental and associated services operation in the United Kingdom.

The table below provides details of the results from Hewden:

For years ended December 31 ($ MILLIONS)	2006	2005
Revenue from external sources	$ 628.7	$ 655.1
Operating costs	446.6	463.9
Depreciation and amortization	129.7	136.0
Other expenses (income)	8.2	5.4
Earnings before interest and taxes	$ 44.2	$ 49.8
Earnings before interest and taxes		
– as a percentage of revenue	7.0%	7.6%
– as a percentage of consolidated earnings before interest and taxes	11.4%	18.0%

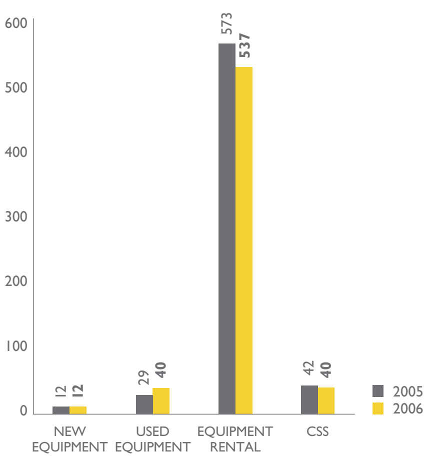
Hewden revenues decreased 4.0% to $628.7 million for the year ended 2006 compared with 2005. In local currency, revenues increased marginally by 1.3%. The increase in local currency revenues was primarily a result of rental asset sales during the year partially offset by a reduction in rental revenues. This was somewhat attributable to continued competitive pressures in the U.K. rental marketplace with limited opportunities for price realization and rental revenue growth.

Gross profit for 2006 decreased in absolute terms and as a percentage of revenue. Positively affecting margins in 2006 was the disposal of retired rental assets, including several auctions, which partially offset the lower rental margins being achieved due to lower utilization.

In local currency, Hewden's SG&A costs decreased 2.2% in 2006, largely achieved through cost containment actions, improved credit and collection efforts, and managed headcount savings. At December 2006, headcount was 116 or 3.2% lower than at December 2005.

Hewden's rental revenue decreased in 2006 due in part to lower utilization rates and its inability to achieve price realization due to a competitive market in the U.K. A renewal of Hewden's strategic focus and structure is expected to improve operational excellence and consequently operating results. Hewden's business model is being evolved through an assessment of products, network, and structure to ensure it continues to meet the needs of its customers. These activities, in conjunction with Hewden's new information technology system which will be implemented in 2007, are expected to be key elements in meeting customers' needs, increasing asset utilization, and reducing operating costs. Project costs relating to these initiatives are expected to continue throughout 2007. Other expenses incurred in 2006 primarily related to these projects. Progress on these projects continued throughout the year, albeit slow in some areas, while focus was placed on the implementation of Hewden's new information technology system. This system is expected to simplify and standardize business processes and provide improved management and customer information to improve performance.

HEWDEN – REVENUE FROM LINE OF BUSINESS
($ millions) 12 months ended December 31



MANAGEMENT'S DISCUSSION & ANALYSIS

In the fourth quarter of 2006, to better serve its customers and improve returns, Hewden restructured its Cranes business converting from a widespread rental depot approach to an approach centered in three regions with management focus on each region together with a more customer aligned product offering. Projects such as this may result in a short-term adverse impact on revenues as resources and management are deployed in the implementation of these initiatives to generate longer term benefits. Anticipated annualized savings from this reorganization are $3.7 million.

Hewden contributed $44.2 million of EBIT in 2006 compared with $49.8 million in 2005, an 11.2% decrease, reflecting the impact on revenues, margins, SG&A, and other items discussed above, and the adverse impact of a stronger Canadian dollar when translating Hewden's results from U.K. pound sterling. In local currency, EBIT decreased 6.3% compared to that reported in 2005.

EBIT as a percentage of revenues decreased from 7.6% last year to 7.0% in 2006.

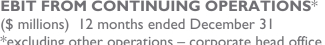
CORPORATE AND OTHER OPERATIONS

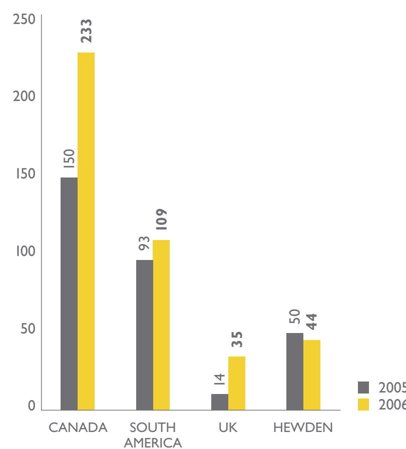
For years ended December 31 ($ MILLIONS)		2006		2005
Operating costs	$	**32.9**	$	31.0
Other expenses (income)		**0.6**		(1.8)
Earnings before interest and taxes	$	**(33.5)**	$	(29.2)

For the year ended December 31, 2006, operating costs were $32.9 million, compared with $31.0 million for the same period in 2005. LTIP costs incurred in 2006 were $5.2 million higher than 2005, partially offset by improved performance from the Company's investment in Energyst B.V. In 2005, the Company reported a $1.8 million gain as other income on the sale of its investment in Maxim Power Corp.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

On a consolidated basis, EBIT from continuing operations in 2006 increased by 39.8% over 2005 to $387.8 million, primarily due to the strong demand and activity at the Company's Canadian and South American operations. In addition, improvements were evident in the UK Operations due to the realization of cost efficiencies. Gross profit increased $157.1 million to $1,460.2 million in 2006 compared with 2005. Although SG&A costs were higher in 2006 compared with 2005 reflecting higher costs incurred to meet customer demand and also higher LTIP charges, overall SG&A costs as a percentage of revenue were lower in 2006 as a result of global cost saving initiatives. EBIT was also negatively impacted in 2006 due to the strengthening Canadian dollar relative to the U.S. dollar and U.K. pound sterling. The foreign exchange variance is mainly due to translating foreign currency based results into Canadian dollars. EBIT as a percentage of revenue increased from 6.1% in 2005 to 7.7% in 2006. The increase in EBIT was also partially due to the gains realized in the first and third quarters of 2006 on the disposal of surplus properties in Canada and a portion of OEM Remanufacturing's business. Excluding these gains, EBIT would have been $369.6 million and EBIT as a percentage of revenue would have been 7.3%.





Major components of the annual EBIT variance were:

($ MILLIONS)		
2005 EBIT	**$**	**277.3**
Net growth in operations		140.2
Gain on sale of OEM's railroad and non-Cat remanufacturing business		5.3
Gain on sale of properties in Canada		12.9
Higher LTIP costs		(5.2)
Foreign exchange impact		(33.2)
Other net expenses (see Note 2 to the Consolidated Financial Statements)		(9.5)
2006 EBIT	**$**	**387.8**

FINANCE COSTS

Finance costs for the year ended December 31, 2006 of $75.7 million were 24.1% higher than 2005 primarily due to the following:

- Following the sale of the Company's Materials Handling Division in the U.K., the Company used a portion of the proceeds to redeem £75 million of its £200 million Eurobond Notes. As a result, the Company recorded a charge of approximately $8.9 million, reflecting costs associated with the recognition of deferred financing costs and related redemption costs.
- Higher short-term interest rates.
- Higher average short-term debt levels at the Company's Canadian operations to support working capital requirements.

These increases were partially offset by the following:

- Favourable foreign exchange impact of translating U.S. and U.K. pound sterling denominated finance costs in 2006 with a stronger Canadian dollar; and
- Lower average short-term debt levels at the Company's U.K. and South America operations.

PROVISION FOR INCOME TAXES

Finning's 2006 annual income tax expense was $71.3 million (22.9% effective tax rate) compared with $46.8 million (21.6% effective tax rate) for 2005. The higher effective tax rate in 2006 reflects the change in the Company's earnings mix with more income earned in the higher tax jurisdictions of the Canadian and UK Operations, partially offset by a lower capital tax rate on gains on property sales in Canada in 2006.

Management anticipates that for 2007, the consolidated effective tax rate will approximate 25 - 30%.

NET INCOME

Finning's net income from continuing operations increased 42.1% to $240.8 million in 2006 compared with $169.5 million in 2005 reflecting improved contributions from all operations, particularly from the Company's operations in Canada and South America. The Company realized improved margins, controlled spending, and the gains on the sale of surplus properties and business divestitures in Canada in 2006. This was partially offset by higher costs to meet customer demand, higher LTIP costs and the incremental finance costs incurred on the early partial repayment of the Eurobond notes. Annual 2006 results were tempered by the unfavourable foreign exchange impact of approximately $22 million after-tax, primarily due to translating foreign currency based earnings with a stronger Canadian dollar. Basic earnings per share from continuing operations increased 40.8% to $2.69 in 2006 compared with $1.91 last year. Excluding gains on the sale of properties in Canada and a portion of the OEM remanufacturing business, as well as the incremental finance costs, basic earnings per share would have been $2.59, 35.6% higher than 2005.

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 expenditures; 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

For the year ended December 31, 2006, cash flow after working capital changes was $460.2 million, a decrease from cash flow of $478.8 million generated last year. While cash flow strengthened from the higher operating results in the year, the decrease in cash flow after working capital changes was primarily due to strong demand for product at the Company's Canadian operations. Investment in inventories was significantly higher in 2006 compared with 2005 in order to meet customer delivery requirements.

The Company made a net investment in rental assets of $343.6 million during 2006 compared to $310.7 million in 2005. Rental expenditures increased in Canada as rental fleets were being replenished in 2006 as a result of rental assets being utilized in 2005 to support customer demand and help offset product availability issues. Continuing the 2005 trend, expenditures in Hewden's rental assets were deferred as rental utilization rates have declined. In 2006, Hewden's gross expenditures on rental assets were 19.7% lower than in 2005.

Overall, cash flow provided by operating activities was $97.2 million in 2006 compared to cash flow of $158.3 million in 2005.

CASH USED FOR INVESTING ACTIVITIES

Net cash provided by investing activities in 2006 totalled $107.8 million compared with cash invested of $44.9 million in 2005. The primary source of cash in 2006 was the proceeds of $170.6 million received on the sale of the Materials Handling division.

Gross capital additions for the year ended December 31, 2006, including capital leases, were $89.4 million which is comparable with $81.1 million for the year ended December 31, 2005. The capital additions in 2006 reflect general capital spending to support operations and also included the capitalization of certain costs related to the development of Hewden's new information system. The capital additions in 2005 related primarily to cash invested in OEM's new component rebuild facility which became fully operational late in the second quarter of 2005.

Other cash flow items related to investing activities include:

2006:
- $10.3 million investment in a new Cat Rental Store by Finning (Canada).
- Payment of the $22.4 million (U.S.$ 20.0 million) performance based purchase price adjustment for the Argentina business acquired in 2003.

2005:
- Additional $9.5 million investment in Energyst B.V.
- $16.0 million of proceeds were received on the sale of the Company's investment in Maxim Power Corp.

The Company's planned capital expenditures for 2007 are projected to be in the range of $75 million to $125 million and will be funded through operations' cash flows. Net rental additions for 2007 are projected to be in the $325 million to $375 million range.

The Company believes that internally generated cash flow, supplemented by borrowing from existing financing sources, if necessary, will be sufficient to meet anticipated capital expenditures and other cash requirements in 2007. At this time, the Company does not reasonably expect any presently known trend or uncertainty to affect our ability to access our historical sources of cash.

FINANCING ACTIVITIES

To complement the internally generated funds from operating and investing activities, the Company has approximately $1,358 million in unsecured credit facilities. Included in this amount is a five-year global syndicated bank credit facility entered into in 2005. During the year, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. At December 31, 2006, approximately $212.0 million was drawn on the Company's credit 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). In 2006, the Company's short-term and long-term debt ratings were both reconfirmed at R-1 (low) and BBB (high), respectively, by DBRS. In addition, the Company's long-term debt rating was reconfirmed at BBB+ by S&P. The Company continues to utilize the Canadian commercial paper market as its principal source of short-term funding in Canada. The Company's commercial paper program has a maximum authorized limit of $500 million, and is backstopped by the global syndicated credit facility.

As at December 31, 2006, the Company's short and long-term borrowings totalled $1,163.6 million, a decrease of $68.2 million or 5.5% since December 31, 2005 primarily due to the early redemption of £75 million of the outstanding £200 million Eurobond with the proceeds received from the sale of the UK Materials Handling Division.

During 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

As a result of management's confidence in the future earnings for the Company and its ongoing commitment to the return of value to its shareholders, the Company increased its quarterly dividend in February 2006 by two cents to thirteen cents per common share, and in November 2006 by three cents to sixteen cents per common share. As a result, dividends paid to shareholders increased in 2006 by $10.1 million to $49.2 million.

CONTRACTUAL OBLIGATIONS

Payments on contractual obligations in each of the next five years and thereafter are as follows:

($ MILLIONS)	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt							
– principal repayment	$ 2.2	$ 203.1	$ 0.1	$ –	$ 247.4	$ 285.3	$ 738.1
– interest	43.6	35.7	28.6	28.6	27.2	16.1	179.8
Operating leases	62.9	51.8	42.1	32.3	26.9	164.4	380.4
Capital leases	6.0	6.0	5.6	5.3	5.3	18.3	46.5
Total contractual obligations	$ 114.7	$ 296.6	$ 76.4	$ 66.2	$ 306.8	$ 484.1	$ 1,344.8

OFF-BALANCE SHEET ARRANGEMENT

The Company has sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the "Trust"), net of overcollateralization. Under the terms of the agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust's co-ownership interest. The Trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2006, the Company is carrying a retained interest in the transferred receivables in the amount of $9.5 million (as at December 31, 2005: $7.1 million), which equals the amount of overcollateralization in the receivables it sold, and is reported on the consolidated balance sheet in other current assets.

For the year ended December 31, 2006, the Company recognized a pre-tax loss of $2.0 million (2005: $1.4 million) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2006	Range for year ended 2006
Cost of funds	4.32%	3.64% - 4.62%
Weighted average life in days	31.4	28.1 - 34.0
Average credit loss ratio	0.043%	0.000% - 0.327%
Average dilution ratio	7.10%	5.65% - 8.82%
Servicing fee rate	2.0%	
Fair value of retained interest	$ 9.4 million	

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately $0.3 million and $0.7 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately $0.9 million and $1.6 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

Proceeds from revolving reinvestment of collections were $520.6 million in 2006 (2005: $495.5 million).

EMPLOYEE SHARE PURCHASE PLAN

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 the current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2006, 71% of Canadian employees were contributing to this plan. The Company has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three shares the employee purchases. At December 31, 2006, 27% and 12% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

ACCOUNTING ESTIMATES AND CONTINGENCIES

ACCOUNTING, VALUATION AND REPORTING

Changes in the rules or standards governing accounting can impact our financial reporting. We employ numerous professionally qualified accountants throughout our finance group and all of our divisional financial officers have a reporting relationship to our Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting systems. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing and cash disbursement, and restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and the Audit Committee. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The Company's significant accounting policies are contained in note 1 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because the likelihood that materially different amounts could be reported under different conditions or using different assumptions. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee of the Board of Directors. The more significant estimates include: fair values for goodwill impairment tests, reserves for warranty, provisions for income tax, employee future benefits, and costs associated with maintenance and repair contracts.

A significant portion of goodwill relates to Hewden Stuart plc, acquired in 2001. The Company performs impairment tests on its goodwill balances on at least an annual basis or as warranted by events or circumstances. During the year, the Company performed an assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows, which resulted in no impairment in 2006.

Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

TAX COMPLIANCE

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, the possibility exists that certain matters may be reviewed and challenged by the tax authorities. The Company regularly reviews the potential for adverse outcomes and the adequacy of its tax provisions and believes it has adequately provided for these matters. Should the ultimate outcomes materially differ from the provisions, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved. The Company mitigates this risk through ensuring tax staff are well trained and supervised and that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

FINANCIAL LEVERAGE

The Company's overall debt to total capital ratio decreased from 47% at the end of 2005 to 42% at the end of 2006. This decrease in the overall debt to total capital ratio was primarily due to growth in retained earnings and the redemption of £75 million ($156.6 million) of its previously issued £200 million Eurobond following the sale of the Company's Materials Handling Division in the U.K. The debt to total capital ratios are calculated on a fully consolidated basis.

DESCRIPTION OF NON-GAAP MEASURE

EBIT is defined herein as earnings from continuing operations before interest expense, interest income, and income taxes and is a measure of performance utilized by management to measure and evaluate the financial performance of its operating segments. It is also a measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. EBIT does not have any standardized meaning prescribed by generally accepted accounting principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, this measure should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

Reconciliation between EBIT and net income from continuing operations:

For years ended December 31

($ THOUSANDS)	**2006**	2005
Earnings from continuing operations before interest and income taxes (EBIT)	**$ 387,793**	$ 277,344
Finance costs	**75,712**	61,023
Provision for income taxes	**71,343**	46,764
Net income from continuing operations	**$ 240,738**	$ 169,557

RISK MANAGEMENT

Finning and its subsidiaries are exposed to market, financial, and other risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management (ERM) approach in identifying, prioritizing, and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization to assist the Company in achieving its strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed, and reported. The Company discloses all of its key risks in its most recent Annual Information Form (AIF) with key financial risks also included herein. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A.

FINANCIAL DERIVATIVES

The Company uses various financial instruments such as interest rate swaps and forward foreign exchange contracts to manage its foreign exchange and interest rate exposures (see Notes 3 and 4 of Notes to the Consolidated Financial Statements). The Company's derivative financial instruments are always associated with a related underlying risk position and are not used for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

FINANCIAL RISKS AND UNCERTAINTIES

INTEREST RATES

The Company's debt portfolio comprise both fixed and floating rate debt instruments, with terms to maturity ranging up to ten years. In relation to its debt financing, the Company is exposed to potential changes in interest rates, which may cause the Company's borrowing costs to fluctuate. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Fluctuations in current or future interest rates could result in a material adverse impact on the Company's financial results by causing related finance expense to rise. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company utilizes derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

MANAGEMENT'S DISCUSSION & ANALYSIS

CREDIT RISK

The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Although there is usually no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its foreign exchange derivative contracts. There is a risk that counterparties to these derivative contracts may default on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring, and by dealing only with highly rated financial institutions.

FINANCING ARRANGEMENTS

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

COMMODITY PRICES

The Company's revenues can be affected by fluctuations in commodity prices; in particular, changes in views on long-term commodity prices. In Canada, commodity price movements in the forestry, metals, coal, and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects, and customers base their decisions on the long-term outlook for metals. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector. The Company anticipates continued strong activity in mining and the oil and gas sectors in the upcoming year in the areas in which we operate.

FOREIGN EXCHANGE EXPOSURE

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso. As a result, the Company has a certain degree of foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company can be categorized as follows:

INVESTMENT IN FOREIGN OPERATIONS

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Any unrealized translation gains and losses are deferred and included in a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the Company's net investment in the foreign operations.

It is the Company's objective to minimize its exposure in net foreign investments. The Company has hedged a significant portion of its foreign investments through foreign currency denominated loans and other derivative contracts (forward contracts and cross currency swaps). Any exchange gains or losses arising from the translation of the hedging instruments are deferred and accounted for in the cumulative currency translation adjustment account. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2006 month end rates, assuming the same current level of hedging instruments, would result in an after tax deferred unrealized loss of approximately $50 million.

TRANSACTION EXPOSURE

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs throughout the world using different currencies. This potential mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. It may also impact the Company's competitive position as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

It is the Company's objective to minimize the impact of exchange rate movements and volatility in results. Each operation manages the majority of its transactional exposure through effective sales pricing policies. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows. As a result, the foreign exchange impact on earnings with respect to transactional activity is minimal.

TRANSLATION EXPOSURE

The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars each reporting period. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the U.S. dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the U.K. and South American operations in Canadian dollar terms. In addition, the Company's Canadian results are impacted by the translation of their U.S. dollar based earnings. Some of the Company's earnings translation exposure is offset by interest on foreign currency denominated loans and derivative contracts associated with the net investment hedges.

SENSITIVITY TO VARIANCES IN FOREIGN EXCHANGE RATES

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2006 month end rates, without any change in local currency volumes or hedging activities.

Currency	**December 31, 2006 month end rates**	**Increase (decrease) in annual net income**
		$ MILLIONS
USD	**1.1653**	**(19)**
GBP	**2.2824**	**(3)**
CHP	**0.0022**	**3**

The sensitivities noted above ignore the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

CONTROLS AND PROCEDURES CERTIFICATION

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

- The Disclosure Policy sets out accountabilities, authorized spokespersons, and our approach to the determination, preparation, and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- The Disclosure Committee, or its delegates, review all financial information prepared for communication to the public to ensure it meets all regulatory requirements and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee's approval.

As required by Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities regulatory authorities, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2006, by and under the supervision of management, including the CEO and CFO. The evaluation included documentation review, enquiries, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls were effective as of December 31, 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SELECTED QUARTERLY INFORMATION

($ MILLIONS, EXCEPT FOR SHARE AND OPTION DATA)

	2006				2005			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue(1)								
Canada	**$ 737.0**	**$ 594.7**	**$ 681.0**	**$ 599.9**	$ 521.5	$ 531.1	$ 509.5	$ 487.6
South America	**301.0**	**261.0**	**216.2**	**231.7**	246.9	258.9	274.3	227.2
UK	**206.3**	**195.3**	**195.1**	**199.4**	202.2	200.6	230.1	197.5
Hewden	**169.1**	**165.7**	**147.6**	**146.3**	147.3	170.8	174.4	162.6
Total revenue	**$ 1,413.4**	**$ 1,216.7**	**$ 1,239.9**	**$ 1,177.3**	$ 1,117.9	$ 1,161.4	$ 1,188.3	$ 1,074.9
Net income (loss)								
from continuing operations	**$ 52.7**	**$ 72.8**	**$ 57.7**	**$ 57.6**	$ 38.4	$ 46.1	$ 45.8	$ 39.2
from discontinued operations	**–**	**(34.9)**	**(1.1)**	**(0.7)**	(2.2)	(1.3)	(0.2)	(1.8)
Total net income	**$ 52.7**	**$ 37.9**	**$ 56.6**	**$ 56.9**	$ 36.2	$ 44.8	$ 45.6	$ 37.4
Basic earnings (loss) per share(2)								
from continuing operations	**$ 0.59**	**$ 0.81**	**$ 0.64**	**$ 0.65**	$ 0.43	$ 0.52	$ 0.52	$ 0.44
from discontinued operations	**–**	**(0.39)**	**(0.01)**	**(0.01)**	(0.02)	(0.02)	–	(0.02)
Total basic EPS	**$ 0.59**	**$ 0.42**	**$ 0.63**	**$ 0.64**	$ 0.41	$ 0.50	$ 0.52	$ 0.42
Diluted earnings (loss) per share(2)								
from continuing operations	**$ 0.59**	**$ 0.81**	**$ 0.64**	**$ 0.64**	$ 0.42	$ 0.52	$ 0.51	$ 0.44
from discontinued operations	**–**	**(0.39)**	**(0.01)**	**(0.01)**	(0.02)	(0.02)	–	(0.02)
Total diluted EPS	**$ 0.59**	**$ 0.42**	**$ 0.63**	**$ 0.63**	$ 0.40	$ 0.50	$ 0.51	$ 0.42
Total assets(1)	**$ 4,200.8**	**$ 3,786.4**	**$ 3,900.2**	**$ 3,868.0**	$ 3,736.4	$ 3,754.3	$ 3,916.8	$ 3,905.3
Long-term debt								
Current	**$ 2.2**	**$ 79.3**	**$ 79.1**	**$ 80.3**	$ 80.3	$ 6.3	$ 4.1	$ 5.1
Non-current	**735.9**	**710.7**	**851.5**	**848.9**	844.6	843.0	866.6	885.3
Total long-term debt(3)	**$ 738.1**	**$ 790.0**	**$ 930.6**	**$ 929.2**	$ 924.9	$ 849.3	$ 870.7	$ 890.4
Cash dividends paid per common share	**$ 0.16**	**$ 0.13**	**$ 0.13**	**$ 0.13**	$ 0.11	$ 0.11	$ 0.11	$ 0.11
Common shares outstanding (000's)	**89,545**	**89,404**	**89,389**	**89,371**	89,202	89,138	88,906	88,608
Options outstanding (000's)	**1,952**	**2,151**	**2,165**	**1,305**	1,474	1,545	1,810	1,812

(1) On September 29, 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division. Results from the Materials Handling Division qualify as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.37 per share. Revenues from the UK Materials Handling Division have been excluded from the revenue figures above. Assets from the Materials Handling Division have been included in the total assets figures for periods prior to its sale – see Note 14 to the Consolidated Financial Statements.

(2) Earnings per share (EPS) for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

(3) In the third quarter of 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

NEW ACCOUNTING PRONOUNCEMENTS

CHANGE IN ACCOUNTING POLICIES IN 2006

STOCK BASED COMPENSATION

During the year ended December 31, 2006, the Company adopted the Canadian Institute of Chartered Accountants (CICA) new accounting requirements on stock-based compensation, Emerging Issues Committee 162 *Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date*. The new rules require that stock-based compensation granted to employees eligible to retire be expensed at the time of grant or at the time that the employee becomes eligible to retire. Previously, these costs were amortized over the vesting period. Comparative periods have not been restated to reflect the change in accounting policy as the impact is not significant. The new rules resulted in a decrease in net income of approximately $1 million in the Consolidated Statement of Income for the year ended December 31, 2006.

FUTURE CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME

The CICA has issued new accounting rules on financial instruments (Section 3855 *Financial Instruments – Recognition and Measurement*), hedges (Section 3865 *Hedges*) and comprehensive income (Section 1530 *Comprehensive Income*) that require all derivatives to be recorded on the balance sheet at fair value. The new standards, effective for the Company January 1, 2007, also establish new accounting requirements for hedges. In addition, these standards provide guidance for reporting items in other comprehensive income, which will be included on the Consolidated Balance Sheets as a separate component of shareholders' equity.

If the derivative qualifies as a hedge, depending on the nature of the hedge, the effective portion of changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of designated hedges will be recognized immediately in income.

The Company is currently evaluating the impact of adopting the new standards. Prior periods will not be restated in accordance with the prospective application required by the new standards.

MARKET OUTLOOK

The general outlook for Finning's business continues to be very good.

In western Canada, the region's resource based industries continue to prosper and drive strong overall economic growth that in turn fuels construction spending for infrastructure, commercial, and residential projects. Demand for heavy equipment from the resource and construction industries remains strong and Finning's operations in this region are producing record results. Notwithstanding some weakness in the natural gas sector, very strong economic conditions, and good demand for heavy equipment are expected to continue.

Similarly, in South America, attractive commodity prices are driving strong profitability for the mining industry. This in turn generates considerable economic expansion for the private sector as well as significant revenue to the governments supporting both public and private sector construction activity. Finning's operations in South America are also producing record results and the outlook for continued growth in the region is very good. Inflationary pressure on wage rates is occurring in the region, however to date there has been no significant impact on the Company's results.

Global economic conditions remain good. Demand for energy and the key mineral commodities remains strong and supply increases appear to be reasonable. While commodity prices are no longer at peak levels, prices remain at levels where commodity producers can earn attractive returns. As a result, the outlook for Finning's business in western Canada and South America is expected to continue to be very positive.

The outlook for the UK operations is also good. Demand for heavy equipment in the U.K., both the purchase of equipment as well as equipment rental, is primarily a function of a healthy construction industry. The outlook for U.K. construction activity is expected to remain healthy as demand for new housing, upgrading of existing buildings, and renewal and expansion of infrastructure is expected to underpin the construction industry in the near and medium term. The outlook for the U.K. economy is good.

In addition to new equipment sales, as the size of the Caterpillar fleet in Finning's geographic regions grows, a larger proportion of the Company's business is being driven by more stable, higher-margin parts and service revenue. This revenue stream is less sensitive to commodity prices and in some instances is countercyclical as equipment owners will keep their equipment longer in less buoyant economic times and as a result, require more parts and service on the older equipment.

In order to meet the growth in business that is projected, Finning will require a large number of additional human resources. Recruiting efforts are ongoing and to date have been successful in attracting sufficient numbers of appropriate new employees. Finning is confident it will continue to have success in attracting additional human resources as required to meet future growth requirements.

Some challenges are occurring in meeting customer demand as a result of constrained supply of some equipment, engines, components, and parts from Caterpillar. The Company is working with Caterpillar to manage these supply constraints as effectively as possible. It is anticipated that supply will improve over the next 12 months.

The Company's order backlog is at record levels and most of the Company's key customers are very profitable and growing. The current economic environment, attractive commodity prices, and launched and pending cost efficiency initiatives, together, provide a positive outlook for the Company's medium to long-term growth opportunities.

February 13, 2007

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT FOR SHARE DATA)	**2006**	2005	2004
Total revenue[1]	**$ 5,047.3**	$ 4,542.5	$ 3,836.2
Net income (loss)[1]			
from continuing operations	**$ 240.8**	$ 169.5	$ 114.9
from discontinued operations	**(36.7)**	(5.5)	–
Total net income	**$ 204.1**	$ 164.0	$ 114.9
Basic earnings (loss) per share[1]			
from continuing operations	**$ 2.69**	$ 1.91	$ 1.45
from discontinued operations	**(0.41)**	(0.06)	–
Total basic EPS	**$ 2.28**	$ 1.85	$ 1.45
Diluted earnings (loss) per share[1]			
from continuing operations	**$ 2.68**	$ 1.89	$ 1.43
from discontinued operations	**(0.41)**	(0.06)	–
Total diluted EPS	**$ 2.27**	$ 1.83	$ 1.43
Total assets[1]	**$ 4,200.8**	$ 3,736.4	$ 3,804.0
Long-term debt[2]			
Current	**$ 2.2**	$ 80.3	$ 6.5
Non-current	**735.9**	844.6	889.6
	$ 738.1	$ 924.9	$ 896.1
Cash dividends declared per common share	**$ 0.55**	$ 0.44	$ 0.40

(1) On September 29, 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division. Results from the Materials Handling Division qualify as discontinued operations and have been reclassified to that category for the years ended December 31, 2006, 2005 and 2004. Included in the loss from discontinued operations for the year ended December 31, 2006 is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.37 per share. Revenues from the UK Materials Handling Division have been excluded from the 2006, 2005 and 2004 revenue figures above. Assets from the Materials Handling Division have been included in the total assets figures for periods prior to its sale – see Note 14 to the Consolidated Financial Statements.
(2) In 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

OUTSTANDING SHARE DATA

As at February 9, 2007	
Common shares outstanding	89,596,955
Options outstanding	1,837,510

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) are the responsibility of Finning International Inc.'s management. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada which recognize the necessity of relying on some of management's best estimates and informed judgments.

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, Deloitte & Touche LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2006.

The Board of Directors oversees management's responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee. The Audit Committee of the Board of Directors is composed solely of directors who are neither officers nor employees of the Company. The Committee meets regularly during the year with management of the Company and the Company's independent auditors to review the Company's interim and annual financial statements and MD&A. The Audit Committee also reviews internal accounting controls, risk management, internal and external audit results, and accounting principles and practices. The Audit Committee is responsible for approving the remuneration and terms of engagement of the Company's independent auditors. The Audit Committee also meets with the independent auditors, without management present, to discuss the results of their audit and the quality of financial reporting. On a quarterly basis, the Audit Committee reports its findings to the Board of Directors, and recommends approval of the interim and annual Consolidated Financial Statements.

The Consolidated Financial Statements and MD&A 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 the Consolidated Financial Statements.

D.W.G. Whitehead
President and Chief Executive Officer

M.T. Waites
Executive Vice President and Chief Financial Officer

February 13, 2007
Vancouver, BC, Canada

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, 2006 and 2005 and the consolidated statements of income, retained earnings, and cash flow for each of the years in the two year period ended December 31, 2006. 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, 2006 and 2005, and the results of its operations and its cash flow for each of the years in the two year period ended December 31, 2006, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP, Chartered Accountants
February 13, 2007
Vancouver, BC, Canada

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For years ended December 31 ($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2006	2005
Revenue		
New mobile equipment	$ 1,738,651	$ 1,551,743
New power and energy systems	419,954	359,002
Used equipment	407,690	403,401
Equipment rental	849,580	851,427
Customer support services	1,608,690	1,368,857
Other	22,765	8,089
Total revenue	5,047,330	4,542,519
Cost of sales	3,587,179	3,239,453
Gross profit	1,460,151	1,303,066
Selling, general and administrative expenses	1,078,782	1,023,461
Other expenses (income) (Note 2)	(6,424)	2,261
Earnings from continuing operations before interest and income taxes	387,793	277,344
Finance costs (Notes 3 and 4)	75,712	61,023
Income from continuing operations before provision for income taxes	312,081	216,321
Provision for income taxes (Note 5)	71,343	46,764
Net income from continuing operations	240,738	169,557
Loss from discontinued operations, net of tax (Note 14)	36,662	5,527
Net income	$ 204,076	$ 164,030
Retained earnings, beginning of year	$ 975,254	$ 850,321
Net income	204,076	164,030
Dividends on common shares	(49,159)	(39,097)
	$ 1,130,171	$ 975,254
Earnings (loss) per share – basic		
From continuing operations (Note 9)	$ 2.69	$ 1.91
From discontinued operations	(0.41)	(0.06)
	$ 2.28	$ 1.85
Earnings (loss) per share – diluted		
From continuing operations (Note 9)	$ 2.68	$ 1.89
From discontinued operations	(0.41)	(0.06)
	$ 2.27	$ 1.83
Weighted average number of shares outstanding		
Basic	89,370,667	88,851,343
Diluted	89,899,470	89,524,005

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

CONSOLIDATED BALANCE SHEETS

December 31 ($ THOUSANDS)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ **78,485**	$ 27,683
Accounts receivable	**666,602**	569,098
Inventories		
On-hand equipment	**839,819**	648,853
Parts and supplies	**450,612**	382,963
Other assets (Note 10)	**196,509**	186,180
Total current assets	**2,232,027**	1,814,777
Finance assets (Note 11)	**34,046**	19,826
Rental equipment (Note 12)	**1,038,640**	1,050,490
Land, buildings and equipment (Note 13)	**365,656**	332,504
Intangible assets (Note 13)	**24,931**	16,401
Goodwill (Note 15)	**381,870**	364,827
Other assets (Note 10)	**123,583**	137,563
	$ **4,200,753**	$ 3,736,388
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	$ **425,423**	$ 306,792
Accounts payable and accruals	**1,176,531**	886,179
Income tax payable	**33,554**	50,758
Current portion of long-term debt (Note 3)	**2,224**	80,294
Total current liabilities	**1,637,732**	1,324,023
Long-term debt (Note 3)	**735,926**	844,638
Long-term obligations (Note 16)	**131,294**	98,083
Future income taxes (Note 5)	**71,395**	56,666
Total liabilities	**2,576,347**	2,323,410
Commitments and Contingencies (Notes 23 and 24)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**573,482**	568,121
Contributed surplus (Note 7)	**7,791**	2,739
Cumulative currency translation adjustments (Note 17)	**(87,038)**	(133,136)
Retained earnings	**1,130,171**	975,254
Total shareholders' equity	**1,624,406**	1,412,978
	$ **4,200,753**	$ 3,736,388

Approved by the Directors:

D.W.G. Whitehead, Director

C.A. Pinette, Director

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 ($ THOUSANDS)	2006	2005
OPERATING ACTIVITIES		
Net income	$ **204,076**	$ 164,030
Add items not affecting cash		
Depreciation and amortization	**358,089**	356,834
Future income taxes	**(9,518)**	(2,627)
Stock-based compensation	**25,783**	20,650
Loss (gain) on disposal of capital assets (Note 2)	**(21,359)**	(8,274)
Loss on disposal of discontinued operations (Note 14)	**33,974**	–
Other	**8,191**	(1,826)
	599,236	528,787
Changes in working capital items (Note 18)	**(139,026)**	(50,030)
Cash provided after changes in working capital items	**460,210**	478,757
Rental equipment, net of disposals	**(343,564)**	(310,669)
Equipment leased to customers, net of disposals	**(19,490)**	(9,784)
Cash flow provided by operating activities	**97,156**	158,304
INVESTING ACTIVITIES		
Additions to capital assets	**(76,074)**	(81,111)
Payment of contingent consideration (Note 15)	**(22,350)**	–
Proceeds from sale of discontinued operations (Note 14)	**170,595**	–
Net proceeds on sale of equity investment (Note 2)	**–**	16,000
Acquisition of business (Notes 10 and 15)	**(10,250)**	(9,479)
Proceeds on sale of business (Note 2)	**5,331**	–
Proceeds on disposal of capital assets	**34,171**	20,976
Proceeds on settlement of foreign currency forwards	**6,383**	8,753
Cash provided by (used in) investing activities	**107,806**	(44,861)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	**117,926**	(157,902)
Increase (repayment) of long-term debt	**(71,570)**	89,369
Repayment of Eurobond and premium paid (Note 3)	**(159,413)**	–
Issue of common shares on exercise of stock options (Note 6)	**5,140**	10,381
Dividends paid	**(49,159)**	(39,097)
Cash used in financing activities	**(157,076)**	(97,249)
Currency translation adjustments	**2,916**	(4,354)
Increase (decrease) in cash and cash equivalents	**50,802**	11,840
Cash and cash equivalents, beginning of year	**27,683**	15,843
Cash and cash equivalents, end of year	$ **78,485**	$ 27,683

See supplementary cash flow information, Note 18

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

December 31, 2006, and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars, unless otherwise stated.

The significant accounting policies used in these Consolidated Financial Statements are as follows:

(A) PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company"), which includes the Finning (Canada) division, Finning's wholly owned subsidiaries, and investments in joint ventures. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., Hewden Stuart plc ("Hewden"), Finning Argentina S.A. and Finning Soluciones Mineras S.A. (in Argentina), Finning Uruguay S.A., and Finning Bolivia S.A.

For interests acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

(B) USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. Actual amounts may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, fair values for goodwill impairment tests, reserves for warranty, provisions for income tax, employee future benefits, and costs associated with maintenance and repair contracts.

(C) FOREIGN CURRENCY TRANSLATION

Transactions undertaken in foreign currencies are translated into Canadian dollars at 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 designated as hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of foreign operations, all considered self-sustaining, 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 some of its investments in foreign subsidiaries using derivatives and foreign denominated borrowings. Exchange gains or losses arising from the translation of the hedge instruments are accounted for in the cumulative currency translation adjustments account on the consolidated balance sheet.

(D) CASH AND CASH EQUIVALENTS

Short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, are considered to be cash equivalents and are recorded at cost, which approximates current market value.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) SECURITIZATION OF TRADE RECEIVABLES

In 2002 and 2004, the Company sold a co-ownership interest in certain present and future accounts receivable in Canada to a securitization trust (the "Trust"). These transactions are accounted for as sales to the extent that the Company is considered to have surrendered control over the interest in the accounts receivable and receives proceeds from the Trust, other than a beneficial interest in the assets sold. Losses on these transactions are recognized in selling, general, and administrative expenses and are dependent in part on the previous carrying amount of the receivable interest transferred, which is allocated between the interest sold and the interest retained by the Company, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, dilution rates, and credit loss ratios. The Company continues to service the receivables and recognizes a servicing liability on the date of the transfer, which is amortized to income over the expected life of the transferred receivable interest.

(F) 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 remaining inventory of parts and supplies.

(G) OTHER ASSETS

Costs incurred in the development of new businesses which benefit future periods are deferred and upon commencement of operations are amortized on a straight-line basis over the expected period of benefit, or expensed upon abandonment of the project.

Costs related to the issuance of long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issues.

Investments in which the Company exercises significant influence, but not control, are accounted for using the equity method. Other investments are stated at cost. An investment is considered impaired if its fair value falls below its cost, and the decline is considered other than temporary.

(H) INCOME TAXES

The asset and liability method of tax allocation is used in accounting for income taxes. 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.

(I) FINANCE ASSETS

Finance assets comprise instalment notes receivable and equipment leased to customers on long-term financing leases.

Instalment notes receivable represents amounts due from customers relating to financing of equipment sold and are recorded net of unearned finance charges.

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.

(J) RENTAL EQUIPMENT

Rental equipment is available for short and medium term rentals and 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.

(K) CAPITAL ASSETS

Land, buildings and equipment are recorded at cost, net of accumulated depreciation. Depreciation is recorded in selling, general, and administrative expenses in the consolidated statement of income.

Buildings and equipment are depreciated over their estimated useful lives on either a declining balance or straight-line basis using the following annual rates:

Buildings	2% - 5%
General equipment	10% - 33%
Automotive equipment	20% - 33%

Intangible assets with indefinite lives are not amortized. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives to a maximum period of ten years. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of income.

(L) GOODWILL

Goodwill represents the excess cost of an investment over the fair value of the net assets acquired and is not amortized.

(M) ASSET IMPAIRMENT

The Company reviews both long-lived assets to be held and used and identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the assets, whereas assets to be disposed of are reported at the lower of carrying amount or fair value less estimated selling costs. During 2005, the Company recognized asset impairment charges as described in Note 13. As at December 31, 2006, the Company determined that there were no other triggering events requiring an impairment analysis.

Goodwill and intangible assets with indefinite lives are subject to an annual assessment for impairment unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill and intangible assets with indefinite lives are assessed primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected discounted future cash flows. The Company also considers projected future operating results, trends, and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill or intangible asset exceeds their fair value.

(N) LEASES

Leases entered into by the Company as lessee are classified as either capital or operating leases. Leases where all of the benefits and risks of ownership of property rest with the Company are accounted for as capital leases. Equipment under capital lease is depreciated on the same basis as capital assets. Gains or losses resulting from sale/leaseback transactions are deferred and amortized in proportion to the amortization of the leased asset. Rental payments under operating leases are expensed as incurred.

(O) ASSET RETIREMENT OBLIGATIONS

The Company recognizes its obligations to account for the retirement of certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) REVENUE RECOGNITION

Revenue recognition, with the exception of cash sales, occurs when there is a written arrangement in the form of a contract or purchase order with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved, and ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;
- Revenue from power and energy solutions includes construction contracts with customers that involve the design, installation, and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;
- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and
- Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At the completion of the contract, any remaining deferred revenue on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

(Q) STOCK-BASED COMPENSATION

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees which are described in Note 8. Stock-based awards are measured and recognized using a fair value-based method of accounting.

For stock options granted after January 1, 2003, fair value is determined on the grant date of the stock option and recorded as compensation expense over the vesting period, with a corresponding increase to contributed surplus. For stock options granted prior to January 1, 2003, the Company recorded no compensation expense and will continue to use the intrinsic value-based method of accounting for those stock options. When stock options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Compensation expense which arises from fluctuations in the market price of the Company's common shares underlying other stock-based compensation plans is recorded with a corresponding accrual in long-term obligations or accounts payable and accruals on the consolidated balance sheet. Compensation expense is reported in selling, general, and administrative expenses and cost of sales in the consolidated statement of income.

(R) DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company uses financial instruments such as interest rate swaps, cross-currency swaps, and forward foreign exchange contracts as hedges against actual exposures. These instruments are always associated with a related risk position and are not used for trading or speculative purposes. The Company's policy is to utilize derivative financial instruments for hedging purposes only.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified risk characteristics of the specified hedge exposure, hedge accounting is applied to these derivative instruments. Hedge accounting requires that gains, losses, revenue, and expenses of a hedging item be recognized in the same period that the associated gains, losses, revenue, and expenses of the hedged item are recognized. Realized and unrealized gains or losses associated with derivative instruments, which have been terminated for hedge accounting purposes or cease to be effective prior to maturity, are deferred in current liabilities or current assets on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

FOREIGN EXCHANGE

The Company hedges the foreign currency exposure on its net investment in foreign self-sustaining operations by entering into offsetting forward exchange contracts and cross-currency swap contracts, when it is deemed appropriate. Foreign exchange translation gains and losses on derivative financial instruments used to hedge foreign net investments are recorded as assets or liabilities, as appropriate, and recognized in the cumulative currency translation adjustments account on the balance sheet, offsetting the respective translation losses and gains recognized on the underlying foreign net investments. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

The Company also enters into foreign exchange contracts to hedge purchase commitments and accounts payable denominated in foreign currencies. Foreign exchange translation gains and losses on forward contracts used to hedge purchase commitments are recognized as an adjustment of the purchase cost when the purchase is recorded.

INTEREST RATES

The Company enters into interest rate swaps to manage the fixed and floating interest rate exposures in its debt portfolio. The Company designates its interest rate swap agreements as hedges of the underlying debt or cash flows. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. As a result, hedge accounting treatment for interest rate swaps results in interest expense on the related debt being reflected at hedged rates rather than the original contractual interest rates.

(S) EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in the Canadian and the UK operations. These plans include defined benefit and defined contribution plans.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. The Company accrues its obligations to employees under these indemnity plans based on the actuarial valuation of anticipated payments to employees.

Defined benefit plans: For the purpose of calculating the expected return on plan assets, those assets are valued at market 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 assumptions including expected plan investment performance and salary escalation rate, along with the use of a discount rate as prescribed under Canadian Institute of Chartered Accountants Section 3461 *Employee Future Benefits*.

Past service costs from plan amendments are deferred and amortized on a straight-line basis over the expected average remaining service life of employees active at the date of amendment.

Actuarial gains and losses arise from the difference between the actual and expected long-term rate of return on plan assets for a period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

The Company is amortizing the transitional obligation on a straight-line basis over 13 years in Canada and Hewden plans and over 14 years in the Finning (UK) plan, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000, the transition date.

Defined contribution plans: The cost of pension benefits includes the current service cost based on a fixed percentage of member earnings for the year.

(T) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2006 presentation. The consolidated income statement has been restated for discontinued operations (see Note 14).

2. OTHER EXPENSES (INCOME)

Other expenses (income) include the following items:

For years ended December 31 ($ THOUSANDS)	2006	2005
Gain on sale of properties in Canada (a)	$ (12,854)	$ –
Gain on sale of railroad and non-Cat remanufacturing business in Canada (b)	(5,331)	–
Restructuring and project costs	14,935	12,362
Gain on sale of other surplus properties	(3,174)	(8,274)
Gain on sale of equity investment (c)	–	(1,827)
	$ (6,424)	$ 2,261

The tax expense on other expenses for the year ended December 31, 2006, was $0.5 million (2005: tax recovery of $0.8 million on other income).

(a) In March 2006, the Company sold certain surplus properties at Finning (Canada) for cash proceeds of $6.3 million, resulting in a pre-tax gain of $5.1 million. In September 2006, the Company sold its interest in its Canadian operation's head office properties in Edmonton. As part of this transaction, the Company also terminated lease agreements for land and building in the same area and assigned the repurchase option to the buyer so as to lease back the entire property over lease terms ranging from 2 to 22 years. Net proceeds from this transaction were $12.7 million, resulting in a pre-tax gain of $7.8 million and a deferred gain of $2.5 million, which will be amortized to income over the lease terms.
(b) In March 2006, the Company sold its railroad and non-Cat engine component remanufacturing business for cash proceeds of $5.3 million, resulting in a pre-tax gain of approximately $5.3 million.
(c) In March 2005, the Company sold its 36% interest in Maxim Power Corporation for cash of $16.0 million, resulting in a pre-tax gain of approximately $1.8 million.

3. SHORT-TERM AND LONG-TERM DEBT

December 31 ($ THOUSANDS)	2006	2005
Short-term debt	$ 425,423	$ 306,792
Long-term debt:		
Debenture		
6.60% due December 8, 2006	–	75,000
Medium Term Notes		
7.40% due June 19, 2008	200,000	200,000
4.64% due December 14, 2011	150,000	150,000
5.625% Eurobond due May 30, 2013	285,301	400,720
Other unsecured term loans (a)	102,849	99,212
	738,150	924,932
Less current portion of long-term debt	2,224	80,294
Total long-term debt	$ 735,926	$ 844,638

(a) Other unsecured loans include U.S. $83.6 million of borrowings under a five-year committed bank facility that is classified as long-term debt, and other unsecured term loans primarily from supplier merchandising programs.

SHORT-TERM DEBT

Short-term debt primarily consists of commercial paper borrowings and other short-term bank indebtedness.

The Company maintains a maximum authorized commercial paper program of $500 million which is utilized as its principal source of short-term funding. This commercial paper program is backstopped by credit available under an $800 million long-term committed credit facility. In addition, the Company also maintains, as required, certain other unsecured bank credit facilities to support its local operations. As at December 31, 2006, the Company had approximately $1,358 million of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $830 million of capacity remained available.

Included in short-term debt is foreign currency denominated debt of U.S. $38.1 million (2005: U.S. $17.9 million), £8.0 million (2005: £nil), and Chilean peso nil (2005: Chilean peso 23,614.1 million).

The average interest rate applicable to the consolidated short-term debt for 2006 was 4.8% (2005: 3.9%).

LONG-TERM DEBT

The Company's Canadian dollar denominated medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity. The Company's £125.0 million (2005: £200.0 million) 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity. Following the September 2006 sale of the Company's Materials Handling Division in the U.K. (see Note 14), the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the £200 million Eurobond.

The Company recorded a pre-tax charge of approximately $8.9 million, reflecting the early recognition of deferred financing costs and other costs associated with this redemption.

In December 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

During 2005, the Company entered into an $800 million unsecured syndicated revolving credit facility. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. During the year, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. At December 31, 2006, $97.4 million (2005: $88.7 million) was drawn on this facility.

COVENANT

The Company is subject to a maximum debt to capitalization level pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2006, the Company is in compliance with this covenant.

LONG-TERM DEBT REPAYMENTS

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

For years ended December 31

($ THOUSANDS)		
2007	$	2,224
2008		203,121
2009		78
2010		–
2011		247,426
Thereafter		285,301
	$	738,150

FINANCE EXPENSE

Finance costs as shown on the consolidated statement of income comprise the following elements:

For years ended December 31

($ THOUSANDS)		**2006**		2005
Interest on debt securities:				
Short-term debt	$	**16,618**	$	23,317
Long-term debt		**53,822**		51,518
		70,440		74,835
Interest on swap contracts		**(319)**		(1,099)
Costs associated with debt redemption		**8,864**		–
Amortization of deferred debt costs, other finance related expenses and sundry interest earned		**7,257**		3,127
		86,242		76,863
Interest expense related to discontinued operations		**10,530**		15,840
Finance costs from continuing operations	$	**75,712**	$	61,023

Amortization of deferred debt costs for the year ended December 31, 2006 was $2.7 million (2005: $2.1 million).

4. FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE

The Company has an exposure to foreign currency exchange rates primarily because the net assets and earnings of certain investments are denominated in foreign currencies. The Company utilizes perpetual cross-currency interest rate swaps and forward contracts to hedge a portion of the foreign exchange exposure relating to these net investments. The Company also uses forward foreign exchange contracts to hedge foreign exchange exposure to certain other liabilities, firm commitments or forecasted transactions.

INTEREST COSTS

The Company monitors its debt portfolio mix of fixed and variable rate instruments and at times, will use forward interest rate agreements, swaps, and collars to manage this balance of fixed and floating rate debt. At December 31, 2005 the Company had a fixed to floating interest rate swap, with a notional value of $100.0 million outstanding. The Company had no interest rate swaps outstanding as at December 31, 2006.

FAIR VALUES

The following fair value information is provided solely to comply with financial instrument disclosure requirements. The Company cautions readers in the interpretation of the impact of these estimated 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.

The fair values of the derivatives below have been estimated using year-end market information as at December 31, 2006 and 2005. These fair values approximate the amount the Company would receive or pay to terminate the contracts:

($ OR £ THOUSANDS)	Notional Value	Term to Maturity	Fair Value Receive (Pay)
2006			
Foreign Exchange			
Cross Currency Interest Rate Swap			
Sell £ (buy CAD $); pay £ fixed / receive CAD $ fixed (a)	**£ 150,000**	**perpetual**	**$ (1,094)**
Forward Buy U.S. $ (sell CAD $)	**U.S. $215,998**	**1-12 months**	**$ 9,806**
Forward Buy U.S. $ (sell CLP)	**U.S. $ 32,000**	**1-2 months**	**$ 278**
Forward Sell £ (buy CAD $) (b)	**£ 155,000**	**perpetual**	**$ (28,612)**
2005			
Interest rates			
Interest rate swaps (CAD $ pay floating, receive fixed)	$ 100,000	2.5 years	$ 1,041
Foreign Exchange			
Cross Currency Interest Rate Swap			
Sell £ (buy CAD $); pay £ fixed / receive CAD $ fixed (a)	£ 150,000	perpetual	$ 25,497
Forward Buy U.S. $ (sell CAD $)	U.S. $ 237,170	1-12 months	$ (3,362)
Forward Buy CLP (sell U.S. $)	U.S. $ 24,000	1-12 months	$ 1,739
Forward Sell £ (buy CAD $) (b)	£ 80,000	perpetual	$ 4,147

(a) The perpetual cross currency interest rate swap hedges a portion of the Company's net investment in Hewden. At December 31, 2006, $14.2 million of the fair value, representing the mark-to-spot rate loss on the forward foreign exchange component of the swap, has been recognized on the balance sheet in long-term other obligations and offset to cumulative currency translation adjustments (2005: $27.6 million gain was recorded in long-term other assets).

(b) The forward foreign exchange contract hedges a portion of the Company's net investment in Finning's UK operations. At December 31, 2006, $27.3 million of the fair value, representing the mark-to-spot rate loss on the contract, has been recognized on the balance sheet in accounts payable and accruals and offset to cumulative currency translation adjustments (2005: $4.4 million gain was recorded in long-term other assets).

LONG-TERM DEBT

The fair value of the Company's long-term debt is estimated as follows:

December 31	2006		2005	
($ THOUSANDS)	**Book Value**	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 738,150**	**$ 745,734**	$ 924,932	$ 953,796

CREDIT RISK

The Company operates internationally as a full service provider (selling, servicing, and renting) of heavy equipment and related products. The Company is not overly dependent on any single customer or group of customers. There is no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable. 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 associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. However, the credit risk is limited to those contracts where the Company would incur a loss in replacing the instrument. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

5. INCOME TAXES

PROVISION FOR INCOME TAXES

As the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The components of the Company's income tax provision are as follows:

For years ended December 31 ($ THOUSANDS)	2006	2005
Provision for income taxes		
Current		
Canada	**$ 51,703**	$ 25,113
International	**29,158**	24,278
	80,861	49,391
Future		
Canada	**(10,459)**	(3,386)
International	**941**	759
	(9,518)	(2,627)
	$ 71,343	$ 46,764

An income tax recovery of $0.9 million (2005: an income tax provision of $6.4 million) was directly charged to shareholders' equity resulting from the tax impact on foreign exchange gains or losses realized on loans and derivatives hedging investments in self-sustaining foreign operations.

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income from continuing operations before income taxes as follows:

For years ended December 31 ($ THOUSANDS)	2006		2005	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 103,624**	**33.21%**	$ 73,946	34.18%
Increase / (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(33,270)**	**(10.66)%**	(27,627)	(12.77)%
Large corporation tax	**–**	**–**	1,428	0.66%
Income not subject to tax	**158**	**0.05%**	(779)	(0.36)%
Non-taxable capital gain	**(2,817)**	**(0.90)%**	(1,120)	(0.52)%
Other	**3,648**	**1.16%**	916	0.43%
Provision for income taxes	**$ 71,343**	**22.86%**	$ 46,764	21.62%

5. INCOME TAXES (continued)

FUTURE INCOME TAX ASSET AND LIABILITY

Included in other assets on the consolidated balance sheets are a current future income tax asset and long-term future income tax asset of $47.6 million (2005: $35.0 million) and $5.2 million (2005: $28,000), respectively.

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities are as follows:

December 31 ($ THOUSANDS)	2006	2005
Future income tax assets:		
Accounting provisions not currently deductible for tax purposes	$ 47,151	$ 37,420
Loss carry-forwards	9,885	10,505
Other stock-based compensation	11,128	8,636
Goodwill of foreign subsidiaries	965	3,452
Other	5,911	223
	75,040	60,236
Future income tax liabilities:		
Capital, rental, and leased assets	(71,368)	(65,873)
Employee benefits	(22,252)	(16,013)
	(93,620)	(81,886)
Net future income tax liability	$ (18,580)	$ (21,650)

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income and capital gains expiring through 2026 for Canada and available indefinitely for International:

December 31 ($ THOUSANDS)	2006	2005
Canada	$ 23,652	$ 15,521
International	9,229	18,116
	$ 32,881	$ 33,637

6. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2006 and 2005.

The Company is authorized to issue an unlimited number of common shares. Common shares issued and outstanding are:

For years ended December 31	2006		2005	
($ THOUSANDS, EXCEPT SHARE AMOUNTS)	Shares	Amount	Shares	Amount
Balance, beginning of year	89,201,664	$ 568,121	88,389,881	$ 557,740
Issued – stock options	343,705	5,361	811,783	10,381
Balance, end of year	89,545,369	$ 573,482	89,201,664	$ 568,121

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 Inc.

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, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2008.

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.

7. CONTRIBUTED SURPLUS

December 31 ($ THOUSANDS)	**2006**	2005
Balance, beginning of year	**$ 2,739**	$ 878
Stock option expense recognized	**5,273**	1,861
Charged to share capital upon exercise of stock options	**(221)**	–
Balance, end of year	**$ 7,791**	$ 2,739

8. STOCK-BASED COMPENSATION PLANS

The Company has a number of stock-based compensation plans, which are described below.

STOCK OPTIONS

The Company has several stock option plans for certain employees and directors with vesting occurring over a three-year period. The exercise price of each option is based on the closing price of the common shares of the Company on the date of the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 are exercisable over a ten-year period. Under the 2005 Stock Option Plan, the Company may issue up to 2.4 million common shares pursuant to the exercise of stock options.

Details of the stock option plans are as follows:

	2006		2005	
For years ended December 31	**Options**	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**1,474,293**	**$ 19.54**	2,016,058	$ 15.08
Issued	**884,700**	**$ 39.50**	290,800	$ 32.47
Exercised / cancelled	**(407,230)**	**$ 18.16**	(832,565)	$ 13.26
Options outstanding, end of year	**1,951,763**	**$ 28.88**	1,474,293	$ 19.54
Exercisable at year end	**845,987**	**$ 17.17**	1,043,383	$ 14.64

In May 2006, the Company issued 884,700 common share options to senior executives and management of the Company (May 2005: 290,800 common share options). In 2006, long-term incentives for executives and senior management were all made in the form of stock options. In prior years, deferred share units were also issued as long-term incentives. It is the Company's practice to grant and price stock options only when it is felt that all material information has been disclosed to the market.

The Company determines the cost of all stock options granted since January 1, 2003 using the fair value-based method of accounting for stock options. This method of accounting uses an option-pricing model to determine the fair value of stock options granted which is amortized over the vesting period. The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006 Grant	2005 Grant
Dividend yield	**1.16%**	1.17%
Expected volatility	**21.32%**	24.15%
Risk-free interest rate	**4.21%**	3.95%
Expected life	**5.5 years**	5.5 years

The weighted average grant-date fair value of options granted during the year was $8.8 million (2005: $2.5 million). Total stock option expense recognized in 2006 was $5.3 million (2005: $1.9 million).

8. STOCK-BASED COMPENSATION PLANS (continued)

The following table summarizes information about stock options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$9 - $12	94,250	2.11 years	$ 9.10	94,250	$ 9.10
$12.01 - $15	441,501	3.69 years	$ 12.96	441,501	$ 12.96
$15.01 - $17	111,411	0.94 years	$ 16.67	111,411	$ 16.67
$29 - $33	431,401	4.93 years	$ 31.17	198,825	$ 30.64
$33.01 - $40	873,200	6.40 years	$ 39.50	–	$ –
	1,951,763	4.93 years	$ 28.88	845,987	$ 17.17

During the year ended December 31, 2006, the Company adopted the Canadian Institute of Chartered Accountants' new accounting requirements for stock-based compensation. The new rules require that stock-based compensation granted to employees eligible to retire be expensed at the time of grant. Previously, these costs were amortized over the vesting period. Comparative periods have not been restated to reflect the change in accounting policy as the impact is not significant. The new rules resulted in a decrease in net income of approximately $1 million in the Consolidated Statement of Income for the year ended December 31, 2006.

OTHER STOCK-BASED COMPENSATION PLANS

The Company has other stock-based compensation plans in the form of deferred share units and stock appreciation rights plans that use notional common share units. These notional units, upon vesting, are valued based on the Company's common share price on the Toronto Stock Exchange and are marked to market at the end of each fiscal quarter. Changes in the value of the units as a result of fluctuations in the Company's share price and new issues as they vest are recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated balance sheet in long-term obligations. Details of the plans are as follows:

DIRECTORS

DIRECTORS' DEFERRED SHARE UNIT PLAN A (DDSU)

The Company offers a Deferred Share Unit Plan (DDSU) for members of the Board of Directors. Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their annual compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable for cash or shares only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were allocated a total of 11,476 share units in 2006 (2005: 14,886 share units), which were issued to the Directors and expensed equally over the 2006 calendar year.

EXECUTIVE

DEFERRED SHARE UNIT PLAN A (DSU-A)

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. This plan utilizes notional units that are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of employment and must be redeemed by December 31st of the year following the year in which the termination occurred.

No units have been awarded under the DSU-A plan since 2001.

DEFERRED SHARE UNIT PLAN B (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested at specified percentages or become vested partially on December 30th of the year following the year of retirement, death or disability. These specified levels and vesting percentages are based on the Company's common share price at those specified levels exceeding, for ten consecutive days, the common share price at the date of grant. Vested deferred share units are redeemable for a period of 30 days after termination of employment, or by December 31st of the year following the year of retirement, death or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Executives of the Company were not awarded any deferred share units in 2006 (2005: 125,400 deferred share units).

The specified levels and respective vesting percentages are as follows:

		Common Share Price			
	Vesting %	2005 Plan	2004 Plan	2003 Plan	2002 Plan
Grant Price	0	$ 32.44	$ 29.38	$ 26.95	$ 26.05
10% improvement	25	$ 35.68	$ 32.32	$ 29.65	$ 28.66
20% improvement	50	$ 38.93	$ 35.26	$ 32.34	$ 31.26
30% improvement	75	$ 42.17	$ 38.19	$ 35.04	$ 33.87
40% improvement	100	$ 45.42	$ 41.13	$ 37.73	$ 36.47

As at December 31, 2006, all outstanding DSU units have vested.

Details of the deferred share unit plans, which reflect the vestings in the year as well as mark-to-market adjustments, are as follows:

For years ended December 31	**2006**				2005			
UNITS	**DSU-A**	**DSU-B**	**DDSU**	**Total**	DSU-A	DSU-B	DDSU	Total
Outstanding, beginning of year	**51,783**	**755,086**	**158,479**	**965,348**	52,716	723,301	163,072	939,089
Additions	**699**	**8,340**	**20,661**	**29,700**	637	132,400	23,511	156,548
Exercised/cancelled	**–**	**(86,678)**	**–**	**(86,678)**	(1,570)	(100,615)	(28,104)	(130,289)
Outstanding, end of year	**52,482**	**676,748**	**179,140**	**908,370**	51,783	755,086	158,479	965,348
Vested, beginning of year	**51,783**	**668,761**	**158,479**	**879,023**	52,716	388,050	163,072	603,838
Vested	**699**	**86,415**	**20,661**	**107,775**	637	365,190	23,511	389,338
Exercised/cancelled	**–**	**(78,428)**	**–**	**(78,428)**	(1,570)	(84,479)	(28,104)	(114,153)
Vested, end of year	**52,482**	**676,748**	**179,140**	**908,370**	51,783	668,761	158,479	879,023
LIABILITY ($ THOUSANDS)								
Balance, beginning of year	**$ 1,923**	**$ 24,838**	**$ 5,886**	**$ 32,647**	$ 1,844	$ 13,578	$ 5,706	$ 21,128
Expensed	**585**	**10,682**	**2,675**	**13,942**	142	14,402	1,195	15,739
Exercised/cancelled	**–**	**(3,178)**	**–**	**(3,178)**	(63)	(3,142)	(1,015)	(4,220)
Balance, end of year	**$ 2,508**	**$ 32,342**	**$ 8,561**	**$ 43,411**	$ 1,923	$ 24,838	$ 5,886	$ 32,647

MANAGEMENT SHARE APPRECIATION RIGHTS PLAN (SAR)

Beginning in 2002, awards under the SAR were granted to senior managers within Canada and the U.K. The exercise price is determined based on the Company's common share price on the Toronto Stock Exchange on the grant date. Under the SAR Plan, awards are expensed over the vesting period of three years when the market price of the common shares exceeds the exercise price under the plan for vested units. Changes, either increases or decreases, in the quoted market value of common shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting period. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange.

8. STOCK-BASED COMPENSATION PLANS (continued)

In 2006, there were no SAR units issued to management. In 2005, 255,872 SAR units were granted to management in the U.K. and Canada at a grant price of $32.44. Details of the SAR plans are as follows:

For years ended December 31

UNITS	2006	2005
Outstanding, beginning of year	715,000	649,367
Additions	–	255,872
Exercised/cancelled	(133,934)	(190,239)
Outstanding, end of year	581,066	715,000
Vested, beginning of year	286,700	205,073
Vested	204,528	235,408
Exercised/cancelled	(109,867)	(153,781)
Vested, end of year	381,361	286,700
LIABILITY ($ THOUSANDS)		
Balance, beginning of year	$ 4,655	$ 3,520
Expensed	6,588	3,050
Exercised/cancelled	(1,278)	(1,915)
Balance, end of year	$ 9,965	$ 4,655
Strike price ranges:	$26.05 - $32.44	

SUMMARY – IMPACT OF STOCK BASED COMPENSATION PLANS

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price and the impact of new issues, including stock options, was an expense of $25.8 million in 2006 (2005: $20.6 million).

9. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income available to common 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 applying the treasury stock method.

Earnings used in determining earnings per share from continuing operations are presented below. Earnings used in determining earnings per share from discontinued operations are the earnings from discontinued operations as reported within the consolidated statements of income and retained earnings.

For years ended December 31

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Income	Shares	Per Share
2006			
Basic EPS from continuing operations:			
Net income from continuing operations	$ 240,738	89,370,667	$ 2.69
Effect of dilutive securities: stock options	–	528,803	–
Diluted EPS from continuing operations:			
Net income from continuing operations and assumed conversions	$ 240,738	89,899,470	$ 2.68
2005			
Basic EPS from continuing operations:			
Net income from continuing operations	$ 169,557	88,851,343	$ 1.91
Effect of dilutive securities: stock options	–	672,662	–
Diluted EPS from continuing operations:			
Net income from continuing operations and assumed conversions	$ 169,557	89,524,005	$ 1.89

10. OTHER ASSETS

December 31 ($ THOUSANDS)	2006	2005
Other assets – current:		
Future income taxes (Note 5)	$ 47,611	$ 34,988
Value Added Tax receivable	14,416	21,777
Prepaid expenses	20,980	19,742
Current portion of finance assets (Note 11)	14,274	17,255
Supplier claims receivable	42,630	21,456
Short-term swap contract receivable	–	13,723
Retained interest in transferred receivables (Note 20)	9,481	7,133
Income taxes recoverable	5,337	7,372
Other	41,780	42,734
	$ 196,509	$ 186,180
Other assets – long-term:		
Accrued defined benefit pension asset (Note 19)	$ 77,285	$ 53,748
Long-term swap contracts receivable	–	31,322
Deferred financing costs	8,937	16,085
Investment in Energyst B.V. (a)	16,388	14,674
Matreq S.A. receivable (Note 15)	–	4,664
Deferred project costs	2,988	4,315
Future income taxes (Note 5)	5,204	28
Asset retirement obligation	3,876	–
Other	8,905	12,727
	$ 123,583	$ 137,563

(a) In April 2005, the Company increased its interest in Energyst B.V. (Energyst) by purchasing 100,000 new shares that were issued from treasury for cash of $9.5 million (EUR 6.0 million). As a result of this transaction, the Company's equity interest in Energyst increased to 24.4% from 15.2%. The Company accounts for its investment in Energyst using the equity method of accounting.

11. FINANCE ASSETS

December 31 ($ THOUSANDS)	2006	2005
Instalment notes receivable	$ 27,176	$ 25,543
Equipment leased to customers	38,303	17,648
Less accumulated depreciation	(17,159)	(6,110)
	21,144	11,538
Total finance assets	48,320	37,081
Less current portion of instalment notes receivable	14,274	17,255
	$ 34,046	$ 19,826

Depreciation of equipment leased to customers for the year ended December 31, 2006 was $9.9 million (2005: $1.6 million).

12. RENTAL EQUIPMENT

December 31 ($ THOUSANDS)	2006	2005
Cost	$ 1,918,880	$ 1,948,277
Less accumulated depreciation	(880,240)	(897,787)
	$ 1,038,640	$ 1,050,490

Rental equipment under capital leases of $19.4 million (2005: $20.1 million), net of accumulated amortization of $6.8 million (2005: $2.9 million), is included above.

Depreciation of rental equipment for the year ended December 31, 2006, was $275.4 million (2005: $266.7 million).

13. CAPITAL ASSETS

LAND, BUILDINGS AND EQUIPMENT

December 31	2006			2005		
($ THOUSANDS)	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 58,805	$ –	$ 58,805	$ 51,394	$ –	$ 51,394
Buildings and equipment	516,274	209,423	306,851	468,903	187,793	281,110
	$ 575,079	$ 209,423	$ 365,656	$ 520,297	$ 187,793	$ 332,504

Land, buildings and equipment under capital leases of $13.0 million (2005: $1.3 million), net of accumulated amortization of $11.7 million (2005: $8.8 million), are included above.

Depreciation of buildings and equipment for the year ended December 31, 2006, was $34.9 million (2005: $32.9 million).

INTANGIBLE ASSETS

December 31	2006			2005		
($ THOUSANDS)	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Subject to amortization						
Customer contracts and related customer relationships	$ 9,400	$ 4,095	$ 5,305	$ 10,828	$ 2,922	$ 7,906
Software	28,431	9,451	18,980	15,548	7,699	7,849
	37,831	13,546	24,285	26,376	10,621	15,755
Indefinite lives						
Distribution rights	646	–	646	646	–	646
	$ 38,477	$ 13,546	$ 24,931	$ 27,022	$ 10,621	$ 16,401

The Company acquired intangible assets subject to amortization of $15.1 million in 2006 (2005: $4.6 million). Amortization of intangible assets subject to amortization for the year ended December 31, 2006, was $2.9 million (2005: $2.8 million).

Certain intangible assets are considered to have indefinite lives because they are expected to generate cash flows indefinitely. As a result of the assessment of the recoverability of long-lived assets, management determined that the carrying amount of certain distribution rights from the Canada reporting segment were not recoverable and recorded an impairment charge to selling, general, and administrative expenses of $2.3 million in 2005.

14. DISPOSITION OF DISCONTINUED OPERATION

Finning's Board of Directors approved the sale of the Materials Handling Division of the Company's UK subsidiary, Finning (UK), following an extensive strategic review of the Company's U.K. based businesses and determining that this division no longer represents a core business for Finning. On September 29, 2006, the Company sold its Materials Handling Division for cash proceeds of approximately $170.6 million (approximately £81.7 million), net of costs.

The sale of this business resulted in a one-time after-tax loss of approximately $32.7 million (approximately £15.5 million) in 2006, which includes the write-off of the goodwill and intangible assets associated with this business.

The results of operations of the Materials Handling Division have been included in the consolidated statements of cash flow up to the date of disposition and as discontinued operations in the consolidated statements of income up to the date of disposition. The results of the Materials Handling Division had previously been reported in the UK segment.

Income (loss) from the Materials Handling Division to the date of disposition is summarized as follows:

($ THOUSANDS)	**Jan 1, 2006 - Sep 29, 2006**	Jan 1, 2005 - Dec 31, 2005
Revenue	**$ 183,563**	$ 292,059
Loss before provision for income taxes	**(5,690)**	(7,899)
Loss on sale of discontinued operations	**(33,974)**	–
Provision for income taxes – recovery	**3,002**	2,372
Loss from discontinued operations	**$ (36,662)**	$ (5,527)

The assets and liabilities of the Materials Handling Division have been removed from the Consolidated Balance Sheet upon disposition and are not presented on the December 31, 2006 Consolidated Balance Sheet. The carrying amounts of assets and liabilities related to the Materials Handling Division as at the date of disposition and for the comparative period presented were as follows:

($ THOUSANDS)	**September 29, 2006 (date of disposition)**	December 31, 2005
ASSETS		
Current assets		
Accounts receivable	**$ 33,806**	$ 37,894
Inventories	**24,740**	26,245
Total current assets	**58,546**	64,139
Rental equipment	**131,406**	150,160
Capital assets	**8,554**	8,447
Goodwill	**28,274**	27,139
Intangible assets	**5,454**	5,824
	$ 232,234	$ 255,709
LIABILITIES		
Current liabilities		
Accounts payable and accruals	**$ 27,913**	$ 35,770
Total current liabilities	**$ 27,913**	$ 35,770

The significant net cash flows from the Materials Handling Division to the date of disposition are as follows:

For years ended December 31

($ THOUSANDS)	**2006**	2005
Cash flow provided by operating activities	**$ 28,052**	$ 71,644

15. GOODWILL

The change in the carrying amount of goodwill is as follows:

December 31, 2006 ($ thousands)	**Canada**	**South America**	**UK**	**Hewden**	**Consolidated**
Goodwill, beginning of year	**$ 30,304**	**$ 29,862**	**$ 49,631**	**$ 255,030**	**$ 364,827**
Acquired (a)	**2,084**	**–**	**–**	**–**	**2,084**
Adjustment to purchase price (b)	**–**	**3,402**	**–**	**–**	**3,402**
Disposed (Note 14)	**–**	**–**	**(28,274)**	**–**	**(28,274)**
Foreign exchange translation adjustment	**–**	**78**	**4,265**	**35,488**	**39,831**
Goodwill, end of year	**$ 32,388**	**$ 33,342**	**$ 25,622**	**$ 290,518**	**$ 381,870**

December 31, 2005 ($ thousands)	Canada	South America	UK	Hewden	Consolidated
Goodwill, beginning of year	$ 30,287	$ 5,296	$ 57,127	$ 293,547	$ 386,257
Acquired	17	–	–	–	17
Adjustment to purchase price (c)	–	24,732	–	–	24,732
Disposed	–	–	–	–	–
Foreign exchange translation adjustment	–	(166)	(7,496)	(38,517)	(46,179)
Goodwill, end of year	$ 30,304	$ 29,862	$ 49,631	$ 255,030	$ 364,827

(a) In September 2006, the Company acquired the assets and business operations of Wirtanen Electric Ltd., an electric distribution rental company based in Alberta, Canada, for cash of approximately $10.3 million.

(b) In April 2003, the Company acquired 100% of the voting shares of Matreq S.A. (subsequently renamed Finning Bolivia S.A.), the Caterpillar dealership in Bolivia. As part of this agreement, additional contingent consideration of U.S. $4.0 million was advanced to the seller in April 2003, and was settled in 2006 for U.S. $3.8 million. The agreed consideration was reclassified from other assets to goodwill and future income tax asset.

(c) In January 2003, the Company acquired 100% of the voting shares of Macrosa Del Plata S.A. (subsequently renamed Finning Argentina S.A.) and Servicios Mineros S.A. (subsequently renamed Finning Soluciones Mineras S.A.), the Caterpillar dealerships in Argentina. As part of this agreement, the sellers were entitled to additional future consideration based on the realization of certain performance criteria over a six-year period ending December 31, 2008 for the Argentina operations. Any additional consideration would be payable only if certain performance criteria were achieved and maintained for a stipulated period. The strong performance of the dealership in Argentina since acquisition to the end of 2005 indicated that the maximum future consideration criteria would likely be met, and was recorded in 2005 in accordance with the agreement as $24.7 million (U.S. $21.2 million) to goodwill.

In June 2006, a provisional payment of this additional consideration of approximately $14.8 million (U.S. $13.2 million) was paid directly to the sellers, and an additional $7.6 million (U.S. $6.8 million) was paid in trust as partial security and will be paid upon achievement of the performance criteria.

16. LONG-TERM OBLIGATIONS

December 31 ($ THOUSANDS)	2006	2005
Stock-based compensation (Note 8)	$ 53,376	$ 37,302
Leasing obligations (a) (Note 23)	28,453	22,555
Employee future benefit obligations	14,727	16,754
Long-term swap contract payable	14,170	–
Sale leaseback deferred gain	9,230	8,935
Asset retirement obligations (b)	6,223	–
Argentina additional consideration (Note 15)	1,414	10,777
Other	3,701	1,760
	$ 131,294	$ 98,083

(a) Capital leases issued at varying rates of interest from 3.5% - 6.8% and maturing on various dates up to 2026.

(b) Asset retirement obligations relate to estimated future costs to remedy dilapidation costs on certain operating leases in the U.K. and Canada and are based on the Company's prior experience, including estimates for labour, materials, equipment, and overheads such as surveyor and legal costs. To determine the recorded liability, the future estimated cash flows have been discounted using the Company's credit-adjusted risk-free rate of 4% - 6%. Should changes occur in estimated future dilapidation costs, revisions to the liability could be made. The total undiscounted amount of estimated cash flows is $7.3 million, and the expected timing of payment of the cash flows is estimated to be between two and thirty years.

17. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

December 31 ($ THOUSANDS)	2006	2005
Balance, beginning of year	$ (133,136)	$ (82,734)
Translation adjustments for the year	46,098	(50,402)
Balance, end of year	$ (87,038)	$ (133,136)

The Company operates in three functional currencies: Canadian dollars, U.K. pound sterling, and U.S. dollars. Translation gains or losses on the consolidation of the financial statements of self-sustaining foreign operations are accumulated in the Cumulative Currency Translation Adjustments account on the consolidated balance sheet. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. The cumulative currency translation adjustment for 2006 mainly resulted from the 14% strengthening of the U.K. pound sterling against the Canadian dollar.

The exchange rates of the Canadian dollar against the following foreign currencies were as follows:

December 31 Exchange rate	2006	2005
U.S. dollar	1.1653	1.1659
U.K. pound sterling	2.2824	2.0036
For years ended December 31 Average exchange rates		
U.S. dollar	1.1341	1.2116
U.K. pound sterling	2.0886	2.2066

18. SUPPLEMENTAL CASH FLOW INFORMATION

CHANGES IN WORKING CAPITAL ITEMS

For years ended December 31 ($ THOUSANDS)	2006	2005
Accounts receivable and other	$ (127,177)	$ (29,491)
Inventories – on-hand equipment	(186,024)	(39,177)
Inventories – parts and supplies	(66,344)	(47,646)
Accounts payable and accruals	255,050	14,385
Income taxes	(14,531)	51,899
	(139,026)	(50,030)

COMPONENTS OF CASH AND CASH EQUIVALENTS

December 31 ($ THOUSANDS)	2006	2005
Cash	$ 13,059	$ 26,897
Short-term investments	65,426	786
Cash and cash equivalents	$ 78,485	$ 27,683

INTEREST AND TAX PAYMENTS

For years ended December 31 ($ THOUSANDS)	2006	2005
Interest paid	$ (89,045)	$ (81,528)
Income taxes received (paid)	$ (84,258)	$ 7,459

19. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their permanent employees.

The defined benefit pension plans are registered pension plans that provide a pension based on the members' final average earnings and years of service while participating in the pension plan.

- In Canada, defined benefit plans exist for eligible employees. Final average earnings are based on the highest 5-year average salary and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan and this defined benefit plan was subsequently closed to all new non-executive employees. The defined benefit pension plan continues to be open to new executives. Pension benefits that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) provides a defined benefit plan for all employees hired prior to January 2003. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new non-executive employees and replaced with a defined contribution pension plan. The defined benefit plan was temporarily re-opened in June 2003, on a one-time basis, to allow for the transfer of employees assumed upon the acquisition of the Lex Harvey business. These employees were allowed to join the Finning (UK) defined benefit pension plan, for future service only. With the sale of the UK Materials Handling business, certain employees became non-active members of the defined benefit plan.
- Hewden has two defined benefit plans that are open to eligible management and executive members by invitation only. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation.

The defined contribution pension plans are registered pension plans that offer a base contribution rate for all members. For certain plans, the Company will partially match employee contributions to a maximum of 1% of employee earnings.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. The Company has recorded a liability to employees based on an actuarial valuation of anticipated payments to employees. An amount of $3.2 million was expensed in 2006 (2005: $3.7 million) for a total obligation of $14.7 million (2005: $12.5 million).

The expense for the Company's benefit plans, primarily for pension benefits, is as follows:

For years ended December 31	2006				2005			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Defined contribution plans								
Net benefit plan expense	**$ 12,838**	**$ 948**	**$ 244**	**$ 14,030**	$ 9,815	$ 920	$ 255	$ 10,990
Defined benefit plans								
Current service cost, net of employee contributions	**$ 8,465**	**$ 9,557**	**$ 2,673**	**$ 20,695**	$ 6,375	$ 13,002	$ 2,663	$ 22,040
Interest cost	**15,956**	**21,137**	**9,808**	**46,901**	15,636	21,291	9,952	46,879
Actual return on plan assets	**(30,932)**	**(43,336)**	**(9,639)**	**(83,907)**	(21,154)	(54,042)	(19,672)	(94,868)
Actuarial (gains) losses	**(4,349)**	**28,202**	**(8,776)**	**15,077**	42,824	48,907	18,041	109,772
Plan curtailment	**–**	**3,342**	**–**	**3,342**	–	–	–	–
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**(10,860)**	**18,902**	**(5,934)**	**2,108**	43,681	29,158	10,984	83,823
Adjustments to recognize the long-term nature of employee future benefit costs:								
Difference between expected return and actual return on plan assets for year	**12,882**	**19,944**	**(98)**	**32,728**	3,967	32,408	10,607	46,982
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	**8,348**	**(21,515)**	**11,452**	**(1,715)**	(40,967)	(42,120)	(15,373)	(98,460)
Difference between amortization of past service costs for year and actual plan amendments for year	**298**	**(3,739)**	**–**	**(3,441)**	298	–	–	298
Amortization of transitional obligation / (asset)	**1,047**	**(1,213)**	**1,552**	**1,386**	1,047	(1,282)	1,640	1,405
Defined benefit costs recognized	**11,715**	**12,379**	**6,972**	**31,066**	8,026	18,164	7,858	34,048
Total	**$ 24,553**	**$ 13,327**	**$ 7,216**	**$ 45,096**	$ 17,841	$ 19,084	$ 8,113	$ 45,038

Total cash payments for employee future benefits for 2006, which is made up of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $55.8 million and $14.0 million, respectively (2005: $38.0 million and $11.0 million, respectively).

19. EMPLOYEE FUTURE BENEFITS (continued)

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

For years ended December 31	2006				2005			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation								
Balance at beginning of year	**$307,646**	**$ 415,787**	**$192,306**	**$ 915,739**	$ 256,462	$ 417,596	$ 193,160	$ 867,218
Current service cost	**10,190**	**13,446**	**4,039**	**27,675**	8,026	17,304	4,065	29,395
Interest cost	**15,956**	**21,137**	**9,808**	**46,901**	15,636	21,291	9,952	46,879
Benefits paid	**(16,008)**	**(12,910)**	**(8,783)**	**(37,701)**	(15,302)	(15,733)	(5,086)	(36,121)
Actuarial (gains) losses	**(4,349)**	**28,202**	**(6,792)**	**17,061**	42,824	48,907	18,041	109,772
Foreign exchange rate changes	**–**	**62,795**	**26,414**	**89,209**	–	(60,162)	(27,826)	(87,988)
Plan curtailment (a)	**–**	**3,342**	**–**	**3,342**	–	–	–	–
Plan amendments (b)	**–**	**–**	**(1,984)**	**(1,984)**	–	(13,416)	–	(13,416)
Balance at end of year	**$313,435**	**$ 531,799**	**$215,008**	**$1,060,242**	$ 307,646	$ 415,787	$ 192,306	$ 915,739
Plan assets								
Fair value at beginning of year	**$269,358**	**$ 312,418**	**$125,848**	**$ 707,624**	$ 249,187	$ 295,814	$ 120,273	$ 665,274
Actual return on plan assets	**30,932**	**43,336**	**9,639**	**83,907**	21,154	54,042	19,672	94,868
Employer contributions	**9,012**	**26,928**	**13,730**	**49,670**	12,668	18,421	7,533	38,622
Employees' contributions	**1,725**	**3,889**	**1,366**	**6,980**	1,651	4,303	1,401	7,355
Benefits paid	**(16,008)**	**(12,910)**	**(8,783)**	**(37,701)**	(15,302)	(15,733)	(5,086)	(36,121)
Foreign exchange rate changes	**–**	**51,321**	**18,992**	**70,313**	–	(44,429)	(17,945)	(62,374)
Fair value at end of year	**$295,019**	**$ 424,982**	**$160,792**	**$ 880,793**	$ 269,358	$ 312,418	$ 125,848	$ 707,624
Funded status – plan surplus/(deficit)	**$ (18,416)**	**$(106,817)**	**$ (54,216)**	**$ (179,449)**	$ (38,288)	$(103,369)	$ (66,458)	$(208,115)
Unamortized net actuarial loss	**58,732**	**149,223**	**47,661**	**255,616**	79,962	119,208	52,588	251,758
Unamortized past service costs	**2,365**	**(9,791)**	**–**	**(7,426)**	2,663	–	–	2,663
Contributions remitted after valuation date	**505**	**6,818**	**1,915**	**9,238**	517	1,364	591	2,472
Unamortized transitional obligation/asset	**(121)**	**(9,194)**	**8,621**	**(694)**	926	(9,235)	9,056	747
Accrued benefit asset/ (liability) (c)	**$ 43,065**	**$ 30,239**	**$ 3,981**	**$ 77,285**	$ 45,780	$ 7,968	$ (4,223)	$ 49,525

(a) As a result of the sale of the Materials Handling Division, the Company recognized a curtailment to reflect the impact of the significant reduction of the expected years of future services of active employees participating in the Finning (UK) defined benefit plan.

(b) The plan amendment of $2.0 million in 2006 in Hewden and $13.4 million in 2005 in Finning (UK) related to a reduction in the accrued benefit obligation of the defined benefit pension plans due to pension benefit changes that were agreed between the Company and the plans' trustees and communicated with the employee members of the plans. It was agreed that employee members' pension benefits would cease to be linked to their final pensionable salary after April 2010. From April 2010, employee members' pension benefits will increase broadly in line with inflation, as opposed to future salary increases. This resulted in a reduction in the pension plans' accrued benefit obligation because employee members' pension benefits are now assumed to increase in line with the salary increase assumption until April 2010 and then in line with the lower inflation assumption thereafter.

(c) Accrued benefit asset or liability is classified as either other assets or long-term obligations, respectively, on the consolidated balance sheets.

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:

For years ended December 31	2006				2005			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation	**$256,477**	**$531,800**	**$215,009**	**$1,003,286**	$ 251,154	$ 415,787	$ 192,306	$ 859,247
Fair value of plan assets	**229,213**	**424,983**	**160,793**	**814,989**	207,513	312,418	125,848	645,779
Funded status – plan deficit	**$ 27,264**	**$106,817**	**$ 54,216**	**$ 188,297**	$ 43,641	$ 103,369	$ 66,458	$ 213,468

Plan assets are principally invested in the following securities at November 30, 2006:

	Canada	UK	Hewden
Equity	60%	72%	67%
Fixed-income	40%	28%	33%

For measurement purposes, assets and liabilities of the plans are valued as at November 30. Plan assets no longer include direct investment in common shares of the Company at December 31, 2006 (2005: $0.8 million).

The significant actuarial assumptions are as follows:

	2006			2005		
	Canada	**UK**	**Hewden**	Canada	UK	Hewden
Discount rate – obligation	**5.25%**	**5.30%**	**5.30%**	5.15%	4.95%	4.95%
Discount rate – expense	**5.15%**	**4.95%**	**4.95%**	6.00%	5.40%	5.40%
Expected long-term rate of return on plan assets	**7.25%**	**7.00%**	**7.25%**	7.50%	7.50%	7.75%
Rate of compensation increase	**3.50%**	**3.50%**	**3.50%**	3.20%	3.25%	3.50%
Estimated remaining service life (years)	**10-15**	**14**	**13**	10-15	14	13

Defined benefit pension plans are country and entity specific. The major defined benefit plans and their respective valuation dates are:

Defined Benefit Plan	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2003	December 31, 2006
Canada – Executive Supplemental Income Plan	December 31, 2005	December 31, 2006
Canada – General Supplemental Income Plan	December 31, 2003	December 31, 2006
Canada – Alberta Defined Benefit Plan	December 31, 2005	December 31, 2008
Finning UK Defined Benefit Scheme	January 1, 2006	January 1, 2009
Hewden Stuart Pension Scheme	December 31, 2005	December 31, 2008
Hewden Pension Plan	January 1, 2005	January 1, 2008

20. ACCOUNTS RECEIVABLE SECURITIZATION

The Company sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the "Trust"), net of overcollateralization. Under the terms of the agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retains a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust's co-ownership interest. The Trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2006, the Company is carrying a retained interest in the transferred receivables in the amount of $9.5 million (as at December 31, 2005: $7.1 million), which equals the amount of overcollateralization in the receivables it sold, and is reported on the consolidated balance sheet in other current assets (Note 10).

For the year ended December 31, 2006, the Company recognized a pre-tax loss of $2.0 million (2005: $1.4 million) relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

	December 31, 2006	**Range for year ended 2006**
Cost of funds	**4.32%**	**3.64% - 4.62%**
Weighted average life in days	**31.4**	**28.1 - 34.0**
Average credit loss ratio	**0.043%**	**0.000% - 0.327%**
Average dilution ratio	**7.10%**	**5.65% - 8.82%**
Servicing fee rate	**2.0%**	
Fair value of retained interest	**$9.4 million**	

20. ACCOUNTS RECEIVABLE SECURITIZATION (continued)

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately $0.3 million and $0.7 million, respectively. The impact of an immediate 10 percent and 20 percent adverse change in the weighted average life in days on the current fair value of the retained interest would be reductions of approximately $0.9 million and $1.6 million, respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

The table below shows certain cash flows received from and paid to the Trust:

For years ended December 31

($ THOUSANDS)	**2006**	2005
Proceeds from new securitization	**$ –**	$ –
Proceeds from revolving reinvestment of collections	**$ 520,626**	$ 495,456

21. 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 Inc. that has been ongoing since 1933.

22. SEGMENTED INFORMATION

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

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, Uruguay, and Bolivia.
- UK operations: England, Scotland, Wales, Falkland Islands, and the Channel Islands.
- Hewden operations: Equipment rental in England, Scotland, Wales, and Jersey.
- Other: corporate head office.

The reportable operating segments are:

For year ended December 31, 2006

($ THOUSANDS)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	**$2,612,597**	**$1,009,906**	**$ 796,080**	**$ 628,741**	**$ 6**	**$5,047,330**
Operating costs	**2,251,348**	**876,286**	**734,447**	**446,641**	**32,916**	**4,341,638**
Depreciation and amortization	**145,664**	**24,660**	**24,269**	**129,730**	**–**	**324,323**
Other expenses (income)	**(17,729)**	**–**	**2,467**	**8,190**	**648**	**(6,424)**
Earnings from continuing operations before interest and taxes	**$ 233,314**	**$ 108,960**	**$ 34,897**	**$ 44,180**	**$ (33,558)**	**$ 387,793**
Finance costs						**75,712**
Provision for income taxes						**71,343**
Net income from continuing operations						**240,738**
Loss from discontinued operations, net of tax						**36,662**
Net income						**$ 204,076**
Identifiable assets	**$1,691,743**	**$ 779,817**	**$ 570,997**	**$1,121,215**	**$ 36,981**	**$4,200,753**
Gross capital expenditures	**$ 41,817**	**$ 15,003**	**$ 6,270**	**$ 26,280**	**$ –**	**$ 89,370**
Gross rental asset expenditures	**$ 295,512**	**$ 42,157**	**$ 68,588**	**$ 132,068**	**$ –**	**$ 538,325**

For year ended December 31, 2005 ($ THOUSANDS)	Canada	South America	UK	Hewden	Other	Consolidated
Revenue from external sources	$ 2,049,675	$ 1,007,341	$ 830,412	$ 655,091	$ –	$ 4,542,519
Operating costs	1,783,724	886,222	793,659	463,819	31,054	3,958,478
Depreciation and amortization	115,790	25,573	27,031	136,042	–	304,436
Other expenses (income)	223	2,283	(3,756)	5,338	(1,827)	2,261
Earnings from continuing operations before interest and taxes	$ 149,938	$ 93,263	$ 13,478	$ 49,892	$ (29,227)	$ 277,344
Finance costs						61,023
Provision for income taxes						46,764
Net income from continuing operations						169,557
Loss from discontinued operations, net of tax						5,527
Net income						$ 164,030
Identifiable assets	$ 1,304,802	$ 646,286	$ 748,976	$ 957,023	$ 79,301	$ 3,736,388
Gross capital expenditures	$ 45,858	$ 13,601	$ 5,756	$ 15,607	$ 289	$ 81,111
Gross rental asset expenditures	$ 208,490	$ 44,283	$ 96,762	$ 164,480	$ –	$ 514,015

23. CONTRACTUAL OBLIGATIONS

Future minimum lease payments due under capital lease contracts and payments due under various operating lease contracts are as follows:

For years ended December 31 ($ THOUSANDS)	Capital Leases	Operating Leases
2007	$ 6,053	$ 62,928
2008	5,996	51,764
2009	5,593	42,065
2010	5,272	32,312
2011	5,290	26,885
Thereafter	18,295	164,485
	46,499	380,439
Less imputed interest	13,832	n/a
	32,667	380,439
Less current portion	4,214	n/a
Total	$ 28,453	$ 380,439

24. CONTINGENCIES

Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

25. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount based on an estimate of the future value of the fair market price at that time. As at December 31, 2006, the total estimated value of these contracts outstanding is $181.2 million coming due at periods ranging from 2007 to 2013. The Company's experience to date has been that the equipment at the exercise date of the contract is worth more than the contract value. The total amount recognized as a provision against these contracts is $1.4 million.

As part of the Materials Handling Division Purchase and Sale Agreement, Finning has provided indemnifications to the third party purchaser, covering environmental, tax, litigation, and other matters, as well as breaches of representation and warranties set forth in the agreement. Claims may be made by the third party under this agreement for various periods of time depending on the nature of the claim. The maximum potential exposure of Finning under these indemnifications is 75% of the purchase price. As at December 31, 2006, Finning had no material liabilities recorded for these indemnifications.

In the normal course of operations, the Company has several long-term maintenance and repair contracts with various customers which contain cost per hour guarantees.

During the year, the Company entered into various other commercial letters of credit in the normal course of operations.

TEN YEAR FINANCIAL SUMMARY

For years ended December 31 ($ THOUSANDS EXCEPT PER SHARE DATA)	2006	2005	2004	2003
REVENUE[1]				
Canadian operations	**$ 2,612,597**	$ 2,049,675	$ 1,562,584	$ 1,456,357
South American operations	**$ 1,009,906**	$ 1,007,341	$ 869,893	$ 561,964
UK operations	**$ 796,080**	$ 830,412	$ 717,877	$ 934,193
Hewden	**$ 628,741**	$ 655,091	$ 685,930	$ 640,757
International operations	**$ 6**	$ –	$ 15	$ 24
TOTAL CONSOLIDATED	**$ 5,047,330**	$ 4,542,519	$ 3,836,299	$ 3,593,295
Earnings before interest and income taxes (EBIT)[1]	**$ 387,793**	$ 277,344	$ 271,933	$ 255,168
As a percent of revenue	**7.7%**	6.1%	7.1%	7.1%
Net income[1]	**$ 240,738**	$ 169,557	$ 114,946	$ 131,951
As a percent of revenue	**4.8%**	3.7%	3.0%	3.7%
EARNINGS PER COMMON SHARE[1]				
Basic	**$ 2.69**	$ 1.91	$ 1.45	$ 1.71
Diluted[2]	**$ 2.68**	$ 1.89	$ 1.43	$ 1.68
DIVIDENDS				
Per common share	**$ 0.55**	$ 0.44	$ 0.40	$ 0.36
Cash flow after working capital changes	**$ 460,210**	$ 478,757	$ 247,422	$ 384,210
Cash flow per share	**$ 5.14**	$ 5.37	$ 2.80	$ 4.94
Gross capital expenditures	**$ 89,370**	$ 81,111	$ 106,202	$ 89,657
RATIOS				
Asset turnover ratio	**1.27**	1.28	1.15	1.09
Debt to total capitalization[3]	**42%**	47%	51%	44%
Book value per common share	**$ 18.14**	$ 15.84	$ 15.00	$ 12.33
Return on average shareholders' equity[1]	**15.8%**	11.8%	11.0%	14.3%
COMMON SHARE PRICE				
High	**$ 47.79**	$ 41.39	$ 35.39	$ 33.20
Low	**$ 36.10**	$ 32.25	$ 28.85	$ 23.00
Year end	**$ 47.79**	$ 37.14	$ 34.99	$ 30.00
Common shares outstanding (THOUSANDS)	**89,545**	89,202	88,390	77,755
Revenue per employee	**$ 392,605**	$ 377,554	$ 338,918	$ 314,953
Net income per employee	**$ 18,726**	$ 12,810	$ 9,360	$ 11,566
NUMBER OF EMPLOYEES				
Canada	**4,106**	3,316	2,936	2,717
UK	**1,354**	2,471	2,373	2,387
South America	**3,865**	3,377	3,203	2,456
Hewden	**3,487**	3,603	3,724	3,804
International	**44**	38	44	45
TOTAL	**12,856**	12,805	12,280	11,409

Certain comparative figures have been reclassified to conform to the 2006 presentation. In addition, financial data has been restated to incorporate common share subdivision occurring during the ten year period.

1. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK) sold its Materials Handling Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2006, 2005, and 2004 only. Therefore, revenue, EBIT, net income, earnings per common share, and return on average shareholders' equity reflect results from continuing operations for those years. Results from Materials Handling Division prior to 2004 are considered not significant.
2. 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. Diluted earnings for the years ended 1999 to 2006 have been stated using this method.
3. Equity ratio for the 2000 year does not include investment in Hewden Stuart; equity ratio for years 2001 to 2003 included non-controlling interests that were treated as equity.

2002	2001	2000	1999	1998	1997
$ 1,269,275	$ 1,398,623	$ 1,214,516	$ 1,032,922	$ 1,136,917	$ 1,146,406
$ 444,644	$ 448,005	$ 474,145	$ 377,777	$ 503,505	$ 514,068
$ 828,246	$ 804,084	$ 682,162	$ 712,941	$ 793,020	$ 565,376
$ 665,266	$ 587,482	$ –	$ –	$ –	$ –
$ 55	$ 8,849	$ 89,209	$ 106,221	$ 151,979	$ 101,214
$ 3,207,486	$ 3,247,043	$ 2,460,032	$ 2,229,861	$ 2,585,421	$ 2,327,064
$ 277,783	$ 241,601	$ 165,263	$ 148,912	$ 82,729	$ 216,625
8.7%	7.4%	6.7%	6.7%	3.2%	9.3%
$ 132,253	$ 103,917	$ 73,391	$ 59,600	$ 3,185	$ 103,695
4.1%	3.2%	3.0%	2.7%	0.1%	4.5%
$ 1.72	$ 1.37	$ 0.95	$ 0.75	$ 0.04	$ 1.32
$ 1.68	$ 1.34	$ 0.94	$ 0.74	$ 0.04	$ 1.27
$ 0.30	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20
$ 472,804	$ 445,623	$ 357,780	$ 438,232	$ 253,891	$ 200,397
$ 6.09	$ 5.88	$ 4.72	$ 5.50	$ 3.20	$ 2.53
$ 47,426	$ 51,180	$ 15,284	$ 20,864	$ 44,176	$ 47,148
1.05	1.25	1.18	1.05	1.13	0.99
38%	47%	57%	56%	63%	62%
$ 11.99	$ 10.23	$ 9.02	$ 8.74	$ 8.52	$ 8.69
15.7%	14.1%	10.5%	8.7%	0.5%	16.2%
$ 28.85	$ 20.35	$ 13.85	$ 15.40	$ 18.50	$ 20.50
$ 19.65	$ 12.10	$ 9.85	$ 9.00	$ 10.25	$ 14.43
$ 25.55	$ 20.00	$ 12.70	$ 13.50	$ 10.95	$ 18.00
77,580	75,816	75,790	79,737	79,426	79,091
$ 327,462	$ 331,230	$ 477,120	$ 450,113	$ 492,367	$ 423,565
$ 13,502	$ 10,601	$ 14,234	$ 12,031	$ 607	$ 18,874
2,548	2,629	2,326	2,271	2,494	2,496
1,578	1,553	1,404	1,364	1,348	1,720
1,817	1,516	1,390	1,259	1,354	1,228
3,813	4,066	–	–	–	–
39	39	36	60	55	50
9,795	9,803	5,156	4,954	5,251	5,494

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New director as of February 2007
Member and the designated "financial expert" for the Audit
Committee and a member of the Human Resources Committee

DONALD S. O'SULLIVAN
Calgary, Alberta, Canada
President, O'Sullivan Resources Ltd.
Director since 1991
Member of the Corporate Governance Committee
(Chairman) and the Audit Committee

CONRAD A. PINETTE (Chairman of the Board)
Vancouver, British Columbia, Canada
Director of A&W Revenue Royalties Income Fund, TimberWest
Forest Corporation and Northgate Minerals Corporation
Director since 1992
Member of the Corporate Governance Committee

JOHN M. REID
Vancouver, British Columbia, Canada
Director of Methanex Corporation
Director since 2006
Member of the Audit Committee and the Human Resources
Committee

ANDREW H. SIMON, OBE
London, England
Director of SGL Carbon AG, Dalkia Plc, Travis Perkins Plc,
Management Consulting Group Plc and Brake Brothers Ltd.
Chairman of Meretec Ltd.
Director since 1999
Member of the Audit Committee (Chairman) and
the Corporate Governance Committee

BRUCE L. TURNER
Santiago, Chile
President, Turner Minerals S.A.
Director since 2006
Member of the Human Resources Committee and
the Environment, Health and Safety Committee

DOUGLAS W.G. WHITEHEAD
West Vancouver, British Columbia, Canada
President and Chief Executive Officer, Finning International Inc.
Director of Ballard Power Systems Inc., Kinder Morgan Inc., Belkorp
Industries Inc. and The Conference Board of Canada
Director since 1999
Member of the Environment, Health and Safety Committee

JOHN M. WILLSON
Vancouver, British Columbia, Canada
Director of Nexen Inc., Pan American Silver Corporation
and Aber Diamond Corporation
Director since 2000
Member of the Environment, Health and Safety Committee
(Chairman) and the Human Resources Committee

Please refer to the Company's management proxy circular for complete biographies of Finning directors.

CORPORATE OFFICERS

CONRAD A. PINETTE
CHAIRMAN OF THE BOARD
FINNING INTERNATIONAL INC.

DOUGLAS W.G. WHITEHEAD
PRESIDENT AND CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.

NADINE J. BLOCK
SENIOR VICE PRESIDENT,
CORPORATE HUMAN RESOURCES
FINNING INTERNATIONAL INC.

ANDY S. FRASER
MANAGING DIRECTOR
FINNING GROUP, UK

SEBASTIAN T. GURIDI
CORPORATE SECRETARY
FINNING INTERNATIONAL INC.

NICHOLAS B. LLOYD
VICE CHAIR
FINNING GROUP, UK

STEPHEN MALLETT
PRESIDENT, POWER SYSTEMS
FINNING INTERNATIONAL INC.

ANNA P. MARKS
VICE PRESIDENT,
CORPORATE CONTROLLER
FINNING INTERNATIONAL INC.

TOM M. MERINSKY
VICE PRESIDENT,
INVESTOR RELATIONS
FINNING INTERNATIONAL INC.

IAN M. REID
PRESIDENT
FINNING (CANADA)

JUAN CARLOS VILLEGAS
PRESIDENT
FINNING SOUTH AMERICA

MICHAEL T. WAITES
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
FINNING INTERNATIONAL INC.

SHELLEY C. WILLIAMS
VICE PRESIDENT,
CORPORATE TREASURER
FINNING INTERNATIONAL INC.

CORPORATE GOVERNANCE

The Corporation's Board of Directors and management are committed to the highest standards of good corporate governance and understand that such standards are central to the efficient and effective operation of the Corporation in a manner that ultimately enhances shareholder value.

BOARD MANDATE AND COMPOSITION

The Board of Directors has overall responsibility for conduct of the business and affairs of the Corporation. The Board discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Corporation.

The Board of Directors is currently made up of 12 members. All directors, other than Douglas Whitehead (who is the President and Chief Executive Officer of the Corporation) are independent.

In addition, in order to ensure that the Board can function independently from management, the Corporation has separated the role of Chairman of the Board (currently Conrad A. Pinette) and Chief Executive Officer (currently Douglas Whitehead).

Finally, each year the Board (with the assistance of the Corporate Governance Committee) formally reviews its own performance, the performance of each committee of the Board, the performance of the Chairman of the Board, the performance of each individual director (peer assessment) and the performance of the Chief Executive Officer.

COMMITTEES OF THE BOARD OF DIRECTORS

There are currently 4 committees of the Board of Directors: the Corporate Governance Committee, the Audit Committee, the Human Resources Committee and the Environment, Health and Safety Committee. Each committee operates in accordance with Board-approved terms of reference.

The Corporate Governance Committee

The mandate of the Corporate Governance Committee is to enhance corporate performance by assessing and making recommendations regarding Board effectiveness and by establishing a process for identifying, recruiting, appointing and re-appointing directors and providing for the on-going development of current Board members.

The Audit Committee

The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Corporation's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) compliance with legal and regulatory requirements; (g) financial arrangements and liquidity; and (h) risk identification, assessment and management program. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Corporation. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Corporation. It is also empowered to retain outside counsel or other experts as required.

The Human Resources Committee

One of the key mandates of the Human Resources Committee is to analyze, in depth, the policies and strategies developed by management in the areas of human resources, compensation and pension. This includes establishing a market competitive total compensation program for the executive officers and other key employees. In addition, the Human Resources Committee reviews and approves the succession plan for the Chief Executive Officer and for the executive leadership team; reviews and approves any significant changes to the organizational structure; and reviews engagement of the workforce. The Committee also reviews, with the Corporation's management pension committee: (a) the pension fund investment strategy; (b) the choice of fund manager(s) for the Corporation's pension funds; (c) the ongoing performance of the fund manager(s); (d) the design and benefits of the Corporation's pension plans; and (e) contribution levels and funding status of the Corporation's pension plans.

The Environment, Health and Safety Committee

The mandate of the Committee is to encourage, assist and counsel the management of the Corporation in its drive towards attaining and maintaining a high level of performance in areas relating to the environment, health and safety. In carrying out its purpose, the Committee seeks to ensure, through the management of the Corporation, that the Corporation's employees and contractors enjoy a safe and healthy workplace.

The Company's management proxy circular issued in connection with the 2007 Annual General Meeting and the corporate governance section of the website provide a full discussion of Finning's corporate governance policies and practices.

SHAREHOLDER INFORMATION

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

AUDITORS
Deloitte & Touche LLP
Vancouver, Canada

SOLICITORS
Borden Ladner Gervais LLP
Vancouver, Canada

CORPORATE HEAD OFFICE
Suite 1000-666 Burrard Street
Vancouver, British Columbia
Canada V6C 2X8
Telephone: 604-691-6444

ANNUAL GENERAL MEETING
May 9, 2007
11:00 AM PDT

Four Seasons Hotel
Park Ballroom
791 West Georgia Street
Vancouver, British Columbia

CORPORATE INFORMATION
The Company prepares an Annual Information Form (AIF), which is filed with the securities commission 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 website at www.finning.com

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 directed to Tom Merinsky, Vice President, Investor Relations. Telephone 604-331-4950, Fax 604-691-6440
Email: investor_relations@finning.ca

FORWARD LOOKING STATEMENTS
This report contains forward-looking statements and information, which reflect the current view of Finning International Inc. with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning's actual results of operations could differ materially from historical results or current expectations. Finning assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

Refer to Finning's annual report, management information circular, annual information form and other filings with the Ontario Securities Commission and Toronto Stock Exchange, which can be found at www.sedar.com, for further information on risks and uncertainties that could cause actual results to differ materially from forward-looking statements contained in this report.

www.finning.com

FINNING INTERNATIONAL INC. 2006 ANNUAL REPORT