

FINNING INTERNATIONAL INC.
ANNUAL INFORMATION FORM
FOR THE YEAR ENDED
DECEMBER 31, 1999

DATED AS OF MARCH 6, 2000

Finning International Inc.
555 Great Northern Way
Vancouver, British Columbia
V5T 1E2

**Additional copies of this document may be obtained upon request from the
Corporate Secretary, Finning International Inc. at the above address
or through the Company's internet site – <http://www.finning.ca>.**

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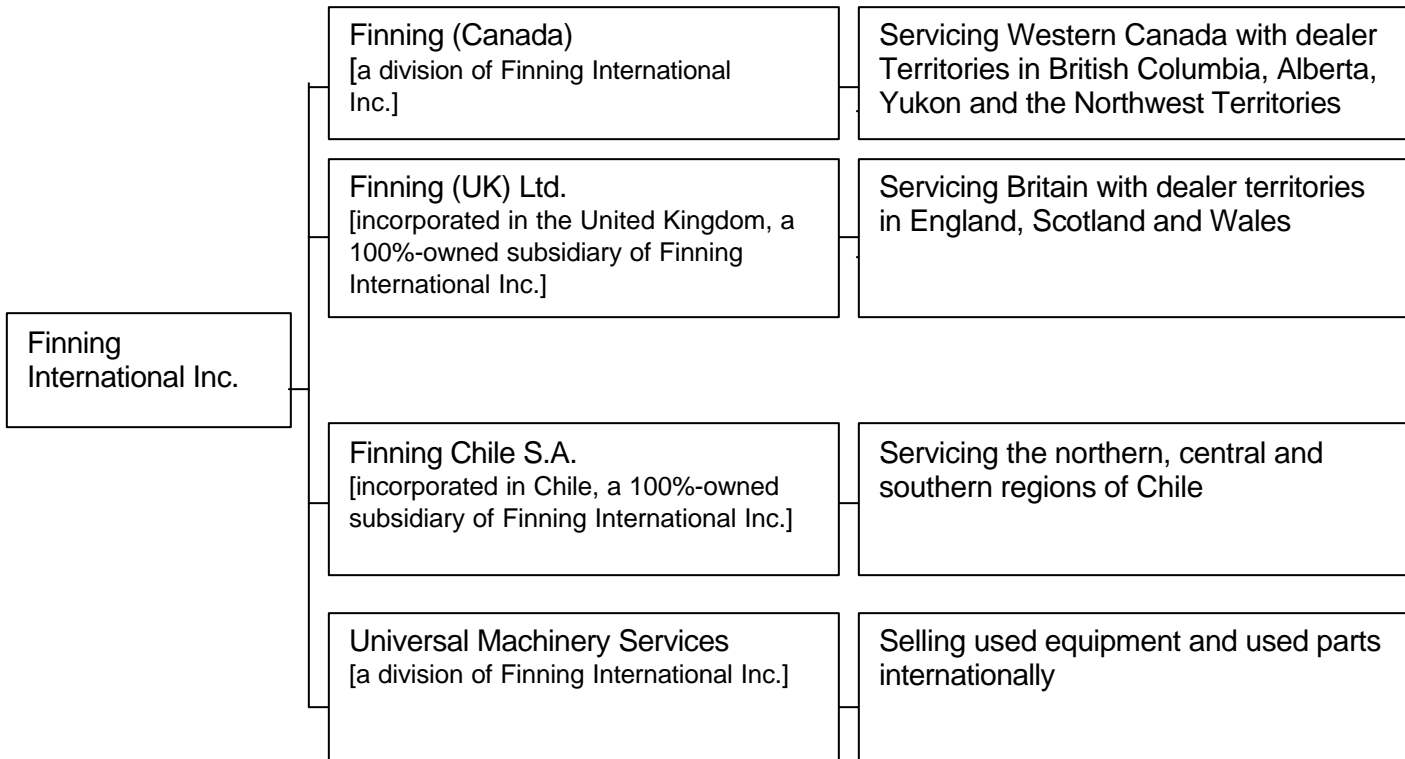
In this Annual Information Form, the term the “Company” means Finning International Inc. and the term “Finning” means the Company and its subsidiaries. All dollars are Canadian dollars unless otherwise indicated.

NAME AND INCORPORATION

The registered and principal office of the Company is located at 555 Great Northern Way, Vancouver, British Columbia, V5T 1E2. The Company was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933 under the Company Act of British Columbia. On September 2, 1969 the Company became a public corporation. The Company was continued under the Canada Business Corporations Act on October 8, 1986 and changed its name to Finning Ltd. on April 23, 1987. On April 25, 1997, the Company changed its name to Finning International Inc.

PRINCIPAL OPERATING SUBSIDIARIES AND DIVISIONS

The following organization chart outlines the Company’s principal operating subsidiaries and divisions and the geographic areas they serve.



GENERAL DEVELOPMENT OF THE BUSINESS

In terms of sales volume, Finning is one of the largest dealers in the world for products distributed by Caterpillar Inc. ("Caterpillar").

Canada

The Company has been the dealer for Caterpillar products since 1933 in British Columbia and since 1977 in the Yukon Territory. In December 1989, the Company acquired all of the shares of R. Angus Alberta Limited ("Angus"), the Caterpillar dealer for Alberta and a portion of the Northwest Territories. By 1995, additional territory was added to the existing area within the Northwest Territories with the result being the Company is now the Caterpillar dealer over an area which comprises all of the Northwest Territories except for the portion of the new Territory of Nunavut which is east of 110 degrees west longitude. The Company services its Canadian dealership territory through its Canadian operating division Finning (Canada).

United Kingdom

In 1983, the Company acquired two Caterpillar dealerships in the U.K. The acquisition of the remaining U.K. dealer, H. Leverton Limited ("H. Leverton") was completed on October 1, 1997. The Company now operates in the U.K. under the name of Finning (UK). Subsequent to the acquisition of H. Leverton, Finning sold its U.K. finance portfolio to Caterpillar Financial Services (UK) Limited on November 13, 1997. In February 1999, Finning (UK) sold BCP Plant Hire, an equipment rental business included in the acquisition of H. Leverton.

Chile

Effective August 1, 1993, the Company acquired Gildemeister S.A.C. ("Gildemeister"), the Caterpillar dealer in Chile. On October 13, 1997, the name of the company was changed to Finning Chile S.A. ("Finning Chile").

International

International operations include the sale of used equipment and used parts worldwide, and the corporate head office located in Vancouver, British Columbia. In January 1998, Finning renamed the international sales operation to Universal Machinery Services ("UMS"), a division of Finning International Inc. UMS was established in 1992 to

focus on the growing international used equipment business. It has subsequently expanded into used parts. UMS has offices located in Canada, the U.K. and the United States.

DESCRIPTION OF THE BUSINESS

Finning's operations consist of five principal components: new equipment, used equipment, equipment rental, customer support services and equipment financing.

Finning serves the following principal markets: forestry, mining and quarrying, construction, pipeline/oil field construction, government, power generation, agriculture, and plant hire (equipment rental with or without an operator).

Finning (Canada) sells, rents, leases and finances Caterpillar and complementary equipment and provides customer support services throughout British Columbia, Alberta, the Yukon Territory, and the major portion of the Northwest Territories. Revenue from Canadian operations was \$1,032.9 million in 1999 compared with \$1,136.9 million in 1998.

Finning (UK) sells and rents Caterpillar and complementary equipment and provides customer support services throughout England, Scotland, Wales and the Channel Islands, and through an agency agreement sells Caterpillar equipment and parts in the Falkland Islands. With the completion of the H. Leverton acquisition in 1997, Finning (UK) became the single Caterpillar dealer in Britain. Revenue from the U.K. operations was \$712.9 million (£296.6 million) in 1999 compared with \$793.0 million (£322.6 million) in 1998.

Finning Chile sells and rents Caterpillar and complementary equipment and provides customer support services throughout Chile. Revenue from Chilean operations was \$377.8 million (129,110 million Chilean pesos) in 1999 compared with \$503.5 million (152,668 million Chilean pesos) in 1998.

In the Company's International operations, UMS primarily sells Caterpillar and allied used equipment and used parts worldwide, with the exception of Finning's domestic territories. In addition, UMS rents, leases and finances used equipment. Revenue from International operations was \$106.2 million in 1999 compared with \$151.9 million in 1998.

Finning has been profitable in every year since its incorporation in 1933. In 1999, Finning derived approximately 46% (1998: 44%) of its revenue from operations in Canada; 32% (1998: 31%) from the U.K.; 17% (1998: 19%) from Chile; and 5% (1998: 6%) from its International operations. Sales from operations outside of Canada contributed 54% of consolidated revenue, down from 56% in 1998.

A summary of the components of revenue is contained in the following table:

REVENUE BY ACTIVITY						
(\$ MILLIONS)		1999		1998		CHANGE
New equipment	\$ 856	38%	\$ 1,103	43%		(22%)
Used equipment	311	14%	425	16%		(27%)
Equipment rental	156	7%	170	7%		(8%)
Operating leases	96	4%	91	3%		5%
Customer support services	798	36%	783	30%		2%
Finance and other	13	1%	13	1%		0%
	\$ 2,230	100%	\$ 2,585	100%		(14%)

New Equipment

Finning markets Caterpillar products, including tractors, loaders, log loaders, tree harvesters, skidders, off-highway trucks, backhoe loaders, excavators, motor graders, paving products, compactors, tractor-scrappers, pipelayers, and engines for use in heavy equipment, marine and industrial, gas compression and electric power generation applications.

To complement its Caterpillar equipment line in Canadian operations, Finning (Canada) distributes and services Caterpillar and Mitsubishi branded lift trucks manufactured by Mitsubishi Caterpillar Forklift Americas Inc., Svedala Reedrill rock drills, CompAir LeROI air compressors, Finning mobile rock drills, JLG aerial work platforms, Kaldnes Scandlog log handlers, Thunderbird logging systems, Risley feller bunchers, Wagner log stackers and chip dozers, LeeBoy motor graders and paving products, Barber-Greene, Gomaco and Rosco paving products, Amida light towers, Brunner drill steel and Elphinstone underground mining equipment.

Finning (UK) markets Caterpillar branded materials handling equipment manufactured by Mitsubishi Caterpillar Forklift Europe B.V., Caterpillar branded warehouse equipment manufactured by Rocla of Finland and also the Caterpillar Olympian line of power generating systems manufactured by F.G. Wilson in Ireland. In Chile, complementary product lines include Ingersoll Rand air compressors and drills, Grove cranes, Kenworth on-highway trucks and Denharco forestry equipment.

Finning also modifies and adapts the products it sells as necessary to meet special application needs and to pursue new market opportunities.

In Canada, the Company operates a licensed insurance agency, with licensed brokers located in Vancouver, which provides physical damage insurance for all makes of heavy equipment.

Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and internationally. Machines are accepted in trade, returned from lease and purchased from customers and others on the open market. Much of this equipment is reconditioned in Finning's service shops and resold under warranty. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment. The used equipment business is generally concentrated in the product lines and types of equipment for which Finning is a dealer.

Equipment Rental

Finning also owns fleets of equipment for short-term rental to customers. Rental agreements are available with buyout options to meet customer needs. The rental business provides customers with the freedom to utilize reliable equipment on a "needs-only basis" to maximize return, without the risks inherent in longer-term capital investment.

In Finning (Canada), the majority of the rental fleet is general line equipment, and is dominated by excavators, tractors, loaders and articulated trucks used in construction projects. Customers use short-term rentals to supplement their own fleets to complete contract work. The fleet is also comprised of materials handling and high-reach equipment, which is used primarily in building construction, warehousing, plant maintenance and mill yard applications. Rental agreement terms are generally from one day to twelve months, but can also be for as long as four years, in the case of materials handling equipment.

Finning (UK) owns fleets of rental equipment mainly consisting of backhoe loaders, hydraulic excavators, articulated dump trucks, telescopic handlers, rollers, acoustic generator sets and diesel, gas or electric lift trucks. Customers served include the construction, plant hire, mining and agricultural industries, food and beverage processing plants, distribution centres and utility companies. Typically, contracts in respect of construction machines range from one month up to twelve months although there are a number of high value contracts extending up to six years. Materials handling contracts can

range from one to three years and power systems contracts are generally one month or less.

Finning Chile operates a fleet of rental equipment consisting of motor graders, compactors, excavators, backhoe loaders, loaders, tractors, compressors, power generators, lifts and light towers. The rental business mainly serves customers in the construction, mining and forestry industries. Tractors rented by construction companies involved in gas pipeline and highway construction dominate the fleet. Rental agreements are generally from two to three months on average.

Financing

Finning (Canada), in conjunction with Caterpillar Financial Services Ltd., extends financing to its customers through conditional sales, leases, and equity loans. Most of the leases are operating leases with residual values set by Finning (Canada) based on estimates of the market value of the equipment at the end of the lease term. Due to its experience in the used equipment market, Finning (Canada) can effectively assess the risks and profitability in financing equipment, particularly in determining the residual value of the equipment. Financing extended to customers generally ranges for terms up to five years on a fixed or variable rate basis, depending upon the type of equipment, its use and the customer's needs and credit worthiness.

In the U.K., financing of equipment is handled by Caterpillar Financial Services (UK) Limited and other external finance companies. In Chile, financing of equipment is handled by Caterpillar Financial Services Corporation and other external finance companies.

Customer Support Services

Finning provides replacement parts and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success.

Finning maintains parts stocks at 80 locations in Western Canada, the U.K. and Chile to provide customers with convenient access to parts supplies. All major Finning centres within each geographic area are connected through sophisticated computer systems, which provide immediate information regarding both Finning and Caterpillar parts inventories.

In Western Canada, under an arrangement with an independent contractor, a fleet of trucks and trailers dedicated to Finning (Canada) make daily deliveries of new and remanufactured parts, components, attachments and small equipment to Finning (Canada)'s major locations. The routes run from distribution centres in Langley, British

Columbia and Edmonton, Alberta; from Caterpillar's parts warehouse in Spokane, Washington; and from various branch locations to other branches throughout the territory. The availability of excess truck capacity on return trips from branches facilitates the supply of used parts and components to Finning (Canada)'s centralized component rebuild centre in Edmonton. This transportation system minimizes inventory, speeds parts delivery and reduces shipping costs compared to those of commercial transport lines.

Finning (UK) sources parts from the Caterpillar parts distribution centre in Grimbergen, Belgium. The parts are then distributed to branches by similar methods to those used in Canada.

In Chile, parts orders are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Morton, Illinois. Parts stock order shipments from Caterpillar are ocean shipped to Finning Chile's distribution centre ("C.D.R.") in Antofagasta, Chile. Through an independent sub-contractor, a dedicated fleet of Kenworth trucks makes daily deliveries of new parts and re-manufactured components to the major Finning branches in northern and central Chile. These same trucks return spent component cores for rebuild in the component rebuild center located adjacent to the C.D.R. in Antofagasta.

UMS sells used parts to the global market. Used parts are sourced from various locations worldwide.

More than half of Finning's employees and facilities are devoted to parts warehousing, equipment repair and overhaul services. In addition to this in-shop capability, Finning provides service at customer locations with specialized personnel and equipment. Finning offers its customers maintenance and repair contracts for the provision of preventative maintenance, planned component replacement and guaranteed cost per hour/cost per ton contracts. This aspect of Finning's business has grown over the last several years and this growth is expected to continue.

There is a continuing demand for component replacement owing to the modular design of Caterpillar's products. To meet this demand, Finning extensively uses remanufactured components from Caterpillar. In addition, Finning has established centralized component rebuild centres in Edmonton, Alberta; in Leeds, England; and in Antofagasta, Chile. Trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, which results in lower prices for customers. These components are used in repairs and in an exchange program whereby the customer replaces a worn component with a repaired or rebuilt one at specified intervals before failure, thus maximizing machine

availability. Finning's inventory of repaired and rebuilt components was approximately \$71.4 million at December 31, 1999 (\$61.1 million in 1998).

Finning (Canada) also designs and fabricates customized attachments in order to satisfy customers' special needs at a centre in Vancouver. In 1993, Finning (Canada) established a chroming and hydraulic rebuild division, Pacific Fluid Power, in Edmonton. In 1999, Pacific Fluid Power, a division of Finning (Canada), entered into an agreement with Phoenix Hydraulics in Alberta for the repair and rebuild of hydraulic pumps and motors and the rechroming of cylinder rods. Finning (UK) offers a full welding and fabrication service from its Cannock facility. This division uses automatic submerged arc-welding processes to rebuild large circular components for heavy industry. This business complements, supports and extends Finning's traditional customer base.

To provide customer support services, Finning employs approximately 1,007 qualified mechanics, welders, technicians, partspersons and other specialized tradespersons in Canada; approximately 668 in the U.K.; and approximately 1,030 in Chile.

Organization of Business

Finning (Canada) has established industry and product specialists in the forestry, mining, construction, petroleum, governmental and agricultural markets. Separate divisions offer specialized product lines and services. These product lines include engines and electric power generation sets, lift trucks, high-reach equipment, compressed air equipment and tools, and rock drills.

Finning (UK) has also established industry and product specialists in the mining and quarrying, construction and plant hire (equipment rental with or without an operator) and specialist markets (demolition, landfill, industrial and paving equipment). Separate divisions specialize in engines and electric power generation sets and lift trucks.

Industry and product specialists in mining, construction and forestry have also been established in Chile. Separate divisions specialize in power systems and on-highway trucks.

Throughout the world, UMS works closely with end users and the established network of Caterpillar dealers. For non-Caterpillar equipment, UMS works either directly with end users or dealers specific to the products sold. In addition, UMS enters into several marketing alliances in order to expand its market penetration and remain competitive throughout the world.

Finning operates through an extensive network of branches, which have sales, parts and repair services; depots, which have repair facilities and limited, fast-moving parts stocks; and residences, where one or more field service representatives provide the same customer support services in communities not otherwise serviced by branches or depots.

Finning (Canada) is represented by 31 branches, 8 depots and 22 residences in Western Canada. Finning (UK) has 15 branches and 7 depots in the U.K. Finning Chile has 7 branches and 17 depots in Chile. Finning (Canada) owns substantially all the land and buildings in which it carries on business. Finning (UK) owns more than half of its locations. Finning Chile owns approximately ninety per cent of its locations.

Markets

CANADA

Canadian operations are concentrated in British Columbia, Alberta, Yukon and the Northwest Territories. In this territory Finning (Canada) serves diverse markets, including mining, forestry, construction, pipeline/oil field construction, governmental and agricultural sectors.

The mining industry is a significant market for Finning (Canada). The Canadian operations provide products and services for use in the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc and other metals and minerals as well as the Alberta oil sands. Most of the mining is done by the open pit method that lends itself to the application of large off-highway trucks, shovels, tractors, loaders and graders. Operations in remote areas also require electric power generation sets. High hour usage of equipment creates substantial demand for parts and repair services from this market sector.

The forest industry in British Columbia and Alberta is also a key market for Finning (Canada). Customers served are involved in almost every phase of the industry, including road building, harvesting and processing trees, silviculture, log transport to mills, and the handling of logs, lumber and finished products in yards and mills.

Another important market is construction, which includes the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services, and similar projects.

In Alberta, northeastern British Columbia and the high Arctic, the pipeline/oil field construction industry is also an important market. Mobile earthmoving equipment is used in exploration and drill site preparation; excavators and pipelayers in gathering and delivery

systems; diesel and natural gas engines in the operation of drill rigs, pumps and compressors; and electric sets for camp power generation.

The governmental sector is also a significant market in Alberta, particularly in municipal highway and road maintenance.

Other important markets for Finning (Canada) include agriculture, marine transportation, fisheries, commercial transport, warehousing, stevedoring and related service industries.

UNITED KINGDOM

The U.K. operations also serve diverse markets, with the principal contributors to revenue being the mining and quarrying, construction, and plant hire industries. The mining and quarrying markets account for most of the sales of the larger Caterpillar tractors, excavators, wheel loaders and off-highway trucks. Open pit mining and reclamation of open pit mine sites, quarrying of limestone, granite and clay, and extraction of sand and gravel are a large part of the mining and quarrying market.

The construction market includes highway construction and maintenance, residential and industrial development, and the installation of sewer, water and other utility services. Backhoe loaders, hydraulic excavators and articulated dump trucks are the popular types of Caterpillar machines in these applications.

A significant market for the U.K. is plant hire in which businesses buy equipment and then rent the equipment, with or without operating personnel, for mining and quarrying, construction, agriculture and other types of work.

Engines and electric power generation sets and support services are supplied to North Sea exploration and production rigs, fishing fleets, marine transport and commercial vessels, and are sold for a wide variety of industrial uses and to original equipment manufacturers.

The Industrial Midlands, the north and south east of England and other centres of population provide an active market for lift truck sales and rentals. Major customers include automobile and other manufacturing plants, distribution centres, potteries, food and beverage processing plants, stevedoring and building materials industries. Most of the lift truck fleet rentals include maintenance and repair contracts.

CHILE

The diverse geography of Chile provides a broad base of industrial markets for Finning Chile. The principal markets include mining, construction, forestry and marine.

In the northern desert, large open pit copper and gold mines require fleets of off-highway trucks, loaders, tractors and other support equipment. In this industry sector, rebuilt components, parts and service, and maintenance and repair contracts are also supplied to support the around-the-clock use of these machines.

The construction market includes highway construction and maintenance, hydro-electric dam construction, site development, natural gas pipeline and gas distribution construction, and residential and commercial construction. The concession method of highway development is becoming the norm. Sections of highway are put out to tender on a build/own/transfer basis. This strategy of private financing is enabling an accelerated highway infrastructure development program without the traditional governmental financial burden of public projects.

The coastal forests in the south represent another important market. To this market, Finning Chile supplies equipment for road building, logging, log transportation and the handling of logs, lumber and finished products in yards and mills and at port facilities.

Chile's 4,300 kilometer coastline creates a strong demand for marine power. The fishing and marine industries provide active markets for both the repowering of existing vessels and the powering of newly constructed vessels.

INTERNATIONAL

UMS serves diverse markets worldwide, including mining, construction, pipeline/oil field construction and quarrying. UMS focuses on selling both Caterpillar and non-Caterpillar used equipment and used parts to these markets for use in a variety of applications.

The majority of UMS' sales in 1999 and 1998 were to customers in the U.S., however, Mexico and South America were also significant markets.

Competition

Finning competes with a large number of vendors of equipment manufactured worldwide. Historical product quality, wide scale servicing, component rebuild, customizing, distribution capabilities, the number of locations, proximity of locations to

customers, financial services and the wide product range offered by Caterpillar enhance Finning's ability to compete throughout its market areas.

Caterpillar manufactures a broad range of products. In addition, Caterpillar expands its line of products through distribution of a few products manufactured for it by others and distributed under the Caterpillar brand name. Caterpillar's competitors provide a more limited range of products, in many cases specific to particular industries and to applications within particular industries. As a result, most of Finning's competitors, worldwide, specialize in more limited and specific lines of equipment and services. Consequently, Finning's share of industry-wide sales varies significantly across product lines and industries.

Dealership and Distributor Agreements

Finning has dealership and distributor agreements with several equipment manufacturers, the most significant of which are with Caterpillar. Under the terms of these agreements, Finning is responsible for marketing and servicing the manufacturer's products in its areas of primary responsibility. These agreements do not preclude other equipment dealers from marketing the same products in Finning's areas of primary responsibility.

Finning has several dealership agreements with Caterpillar. The principal agreements can be terminated on 90 days' notice in Canada and Chile and six months' notice in the U.K. Other agreements can be terminated on three to six months' notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts stock from Finning at cost. Finning has been a Caterpillar dealer since 1933 and has developed a strong relationship with Caterpillar. The management of Finning is not aware of any matter that could result in termination of the dealership agreements with Caterpillar.

Approximately 90% of Finning's equipment, parts and service sales involve Caterpillar products. As such, Finning's business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in the conduct of its business.

The United Auto Workers Union ("UAW") members in Caterpillar's U.S. plants went on strike on June 21, 1994. In early December 1995, UAW leaders informed Caterpillar and their members that they were recessing the strike at eight U.S. facilities. Following the

announcement, the UAW membership rejected the new six-year contract proposal from the company. The company completed the return-to-work process by the end of January 1996. In March 1998, Caterpillar and the UAW reached a six-year labour agreement.

In 1993, Caterpillar sold the majority of the lift truck manufacturing and marketing segment of its business to Mitsubishi. Mitsubishi then formed the companies Mitsubishi Caterpillar Forklift Americas Inc. ("MCFA") and Mitsubishi Caterpillar Forklift Europe B.V. ("MCF") in which Caterpillar Inc. holds a 20% minority interest. MCF manufactures lift trucks and sells basically the same products under the "Caterpillar" and the "Mitsubishi" brand names. Finning (Canada) is the dealer for the Caterpillar brand products and the Mitsubishi brand products. In the U.K. and Chile, Finning is the dealer for the Caterpillar brand name only.

Finning (Canada) has developed dealer relationships for other product lines in order to create new marketing opportunities and to expand its customer support services. Included are relationships with JLG Industries Inc., Rosco Manufacturing Co., Wagner (a division of Allied Systems Company), Ross Corporation, Amida Industries, Inc., Brunner Canada, Inc., Svedala Drilling (a division of Svedala Industries, Inc.), CompAir LeROI International Inc., Gomaco Corporation (a division of Godbersen-Smith Construction Company), and Risley Equipment Ltd. In Chile, distribution relationships include Ingersoll Rand, Grove Manufacturing Company and Paccar International. In the U.K., dealer relationships exist with Eagle Picher.

Human Resources

Finning had 4,954 full-time employees at the end of 1999: 2,271 in Canada; 1,364 in the U.K.; 1,259 in Chile; and 60 in International operations. The majority of these employees are skilled mechanics, technicians, partspersons and apprentices. The International Association of Machinists and Aerospace Workers ("IAM") represents hourly-paid parts and service employees in British Columbia, the Yukon, Alberta and the Northwest Territories. The current contract with the IAM expires on April 14, 2000. This union was certified in 1951 in British Columbia and, in its history, Finning (Canada) has never experienced a work stoppage in British Columbia or the Yukon. A separate local of the IAM represents hourly paid parts and service employees in Alberta and the Northwest Territories. In 1999, a three-year collective agreement was negotiated with this local. This agreement will expire on April 30, 2002. Finning (Canada) has experienced one two-week work stoppage in Alberta and the Northwest Territories since acquisition in 1989.

There have been no serious labour disruptions in the U.K. operations since acquisition in 1983. The current collective agreements with the Transport and General

Workers Union and the Amalgamated Union of Engineers expired on December 31, 1999. Negotiations towards renewed collective agreements began in February 2000. In the meantime, both parties agreed to extend the terms of the current contract until a settlement is reached. Salaries and wages were reviewed in 1999, and the employment terms and benefits for service engineers and parts people formerly employed by H. Leverton were harmonized in July 1999.

There are two sindicatos (unions) in Chile that represent the employees. New three-year collective agreements were negotiated with the unions, without a work stoppage, in December 1999. As part of the settlement, the Company introduced a competency based pay system. Historically, the relationship between Finning Chile and the unions has been positive.

Finning conducts in-house sales, parts and service training programs in all its operations. It operates apprenticeship programs for service and parts personnel. Supervisory and management training courses are also provided. Employees are further encouraged to develop their skills through external education. Programs are in place which reimburse employees for successful new studies. In Canada, training in Finning's quality process continues to be provided for all personnel.

Environment

Finning (Canada) has a program in place to monitor and satisfy environmental protection requirements primarily relating to the disposal and recycling of waste oils and related products. Taking a proactive position regarding waste disposal, re-use and recycling programs, the Manager of Environmental, Health and Safety directs systematic monitoring and spot audits to ensure that Finning (Canada) recycles its waste oils and related products. Finning (UK) disposes of or recycles its waste oils and other related products in a manner that complies with, or exceeds, current regulations. Environmental audits have taken place in the new branches acquired in the H. Leverton acquisition and action plans have been completed to bring them up to the Finning (UK) standard. Finning Chile has an environmental management program to deal with liquid and solid waste issues. Finning Chile contracts with a specialized environmental company to handle and dispose of used oils and solvents. In addition, during 1999, Finning Chile contracted an independent environmental consultant to review its compliance with Chilean environmental regulations and to evaluate Finning Chile's environmental management practices. The Manager of Safety & Environment for Chile directs the implementation of the overall corporate environmental management system.

Regular environmental reports are made to the Environmental, Health and Safety Committee of the Board of Directors. The management of Finning is not aware of any environmental protection requirements that are likely to have a material adverse effect on its capital expenditures, earnings or competitive position.

Health and Safety

Finning is committed to ensuring the health and safety of all its employees. The Manager of Environmental, Health & Safety for Finning (Canada) ensures that health and safety committees at each branch conduct regular site inspections. In addition, Finning (Canada) is investing in health and safety training for its employees through special programs and internal publications. The new behavioural-based safety initiative has been introduced at most locations in Canada. This process is based on peer-to-peer feedback and employee involvement. As the process is expanded, Finning (Canada) expects continuous improvement in safety. In the U.K., branch safety committees continue to emphasize employee involvement in health and safety. The branch committees meet quarterly to review site inspections and accident prevention initiatives. Finning (UK) commenced a behavioural-based safety program at its Glasgow branch. The Manager of Safety & Environment for Finning Chile implemented a new health and safety program in 1999, and it now leads the other operations in the reduction of lost-time accidents. The new program emphasizes employee participation at all levels throughout the company. As part of the program, each branch will report health and safety issues on a monthly basis to the Safety & Environment Manager.

Information Systems

In 1998, Finning completed the implementation of the latest version of Caterpillar's Dealer Business System ("DBS"). DBS consists of five major modules: parts, service and product support, finance, sales and merchandising, and marketing. This system is used by 75% of all Caterpillar's dealers throughout the world. The latest version allows Finning to respond to customers' inquiries and needs quickly and efficiently. DBS software runs on the IBM AS/400 hardware platform and is complemented by other third party software packages. Finning is part of the Dealer Advisory Panel that provides input into future releases of software.

In 1999, Finning (Canada) signed an agreement with ISM-BC for the operation, maintenance and support of its mainframe computer, personal computers and printers and its wide-area and local-area network system. In addition, ISM-BC performs centralized printing and document processing services. The Company has agreements with Catalyst

Solutions PLC in the U.K. and Chile to provide back-up in the event of a major disruption of the Company's computer operations.

Finning (Canada) is currently implementing an Executive Information System ("EIS"). The EIS will allow managers throughout the Company to quickly access operating and financial information in DBS in a detailed or summarized form using point-and-click Windows technology. Manager responsiveness to customers and to asset management focus is expected to be enhanced significantly as the new system is rolled-out to all Canadian branches in 2000.

SUMMARY OF FINANCIAL INFORMATION

Five Year Summary

Years Ended December 31

(\$ thousands except per share amounts)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Revenue from external sources					
Canada	1,032,922	1,136,917	1,146,406	926,653	923,275
U.K. ¹	712,941	793,020	565,376	437,949	416,034
Chile ²	377,777	503,505	514,068	408,616	350,650
International	<u>106,221</u>	<u>151,979</u>	<u>101,214</u>	<u>101,491</u>	<u>62,032</u>
Total	<u><u>2,229,861</u></u>	<u><u>2,585,421</u></u>	<u><u>2,327,064</u></u>	<u><u>1,874,709</u></u>	<u><u>1,751,991</u></u>
Net income (loss)					
Canada ³	43,250	34,747	61,668	40,776	42,509
U.K. ⁴	5,903	(32,211)	20,110	26,308	20,800
Chile ⁵	15,464	3,424	19,535	17,746	12,849
International	<u>(5,017)</u>	<u>(2,775)</u>	<u>2,382</u>	<u>3,354</u>	<u>1,335</u>
Total	<u><u>59,600</u></u>	<u><u>3,185</u></u>	<u><u>103,695</u></u>	<u><u>88,184</u></u>	<u><u>77,493</u></u>
Earnings per common share					
Basic	<u>0.75</u>	<u>0.04</u>	<u>1.32</u>	<u>1.13</u>	<u>1.00</u>
Fully diluted	<u><u>0.72</u></u>	<u><u>0.04</u></u>	<u><u>1.27</u></u>	<u><u>1.09</u></u>	<u><u>0.98</u></u>
Dividends paid per common share					
	<u><u>0.20</u></u>	<u><u>0.20</u></u>	<u><u>0.20</u></u>	<u><u>0.20</u></u>	<u><u>0.20</u></u>
Long-term debt ⁶ (includes current portion)					
	592,920	523,161	521,203	475,464	349,410
Preferred shares ⁷					
	<u>-</u>	<u>996</u>	<u>1,166</u>	<u>1,480</u>	<u>2,417</u>
Total long-term debt and preferred shares					
	<u><u>592,920</u></u>	<u><u>524,157</u></u>	<u><u>522,369</u></u>	<u><u>476,944</u></u>	<u><u>351,827</u></u>

Total assets	<u>2,026,234</u>	<u>2,229,601</u>	<u>2,351,877</u>	<u>1,810,814</u>	<u>1,608,107</u>
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Notes:

- 1 Finning acquired H. Leverton Limited, the Caterpillar dealer for the north, east and southeast regions of England, effective October 1, 1997. The results of H. Leverton Limited have been included in the Consolidated Financial Statements from the date of acquisition. Goodwill of \$33.4 million (£15.0 million), recognized on acquisition, is being amortized to operations over 40 years.
- 2 Finning acquired Finning Chile S.A., the Caterpillar dealer in Chile, effective August 1, 1993. The results of Finning Chile have been included in the Consolidated Financial Statements from the date of acquisition. Goodwill of \$15.3 million, recognized on acquisition, is being amortized to operations over 40 years.
- 3 In 1998, net income in Canada includes a net non-recurring after-tax charge of \$8.2 million (a \$9.6 million charge for restructuring, severance and relocation costs offset by a \$1.4 million gain on the sale of property). The effect on basic earnings per share is 10 cents. In 1997, net income in Canada includes a non-recurring after-tax gain of \$10.0 million related to insurance proceeds and the sale of property. The effect on basic earnings per share is 13 cents.
- 4 In 1998, net income in the U.K. includes a non-recurring after-tax charge of \$6.4 million for the sale of BCP Plant Hire. The effect on basic earnings per share is 8 cents. In 1997, net income in the U.K. includes a non-recurring after-tax gain of \$3.2 million on the sale of the U.K. finance portfolio. The effect on basic earnings per share is 4 cents. In 1996, net income in the U.K. includes a non-recurring after-tax gain on the sale of real estate in Europe of \$7.5 million. The effect on basic earnings per share is 9 cents.
- 5 In 1998, net income in Chile includes a non-recurring charge of \$0.9 million. The effect on basic earnings per share is 1 cent.

- 6 At December 31, 1999 and 1998, Finning had term debt consisting of the following:

LONG-TERM DEBT (\$ thousands)	<u>1999</u>	<u>1998</u>
Debtures		
8.35% due March 22, 2004	\$ 75,000	\$ 75,000
7.75% due November 1, 2004	150,000	-
6.60% due December 8, 2006	75,000	75,000
Bank term facilities	75,576	134,649
Bank term facilities denominated in Pound Sterling	151,541	165,412
Other unsecured loans denominated in U.S. dollars and Chilean pesos, maturing between 2000 and 2004	65,803	73,100
	<u>592,920</u>	<u>523,161</u>
Less current portion of long-term debt	70,494	1,071
Total long-term debt	<u>\$ 522,426</u>	<u>\$ 522,090</u>

For further details regarding the long-term debt, see Note #6 to the Consolidated Financial Statements in Appendix A.

- 7 The Company issued several series of preferred shares under the terms of an employee and director share purchase plan. In 1999, the preferred shares outstanding in 1998 were converted into common shares at a conversion rate of \$6.3675 per common share. For more details see Note #8 to the Consolidated Financial Statements in Appendix A.

Two Year Summary By Quarter (Unaudited)

<u>Fiscal Period</u>	<u>Qtr.</u>	<u>Revenue</u>	<u>Net Income</u>	<u>Earnings Per Common Share</u>	
				<u>Basic</u>	<u>Fully Diluted</u>
		(\$000's)	(\$000's)	\$	\$
1999	1	548,977	6,249	.08	.08
	2	574,714	15,924	.20	.19
	3	503,616	16,233	.20	.20
	4	602,554	21,194	.27	.25
1998	1	689,156	(7,843) ¹	(.10)	(.10)
	2	748,680	20,229	.25	.25
	3	582,267	3,659 ²	.05	.05
	4	565,319	(12,860) ³	(.16)	(.16)

Notes:

- ¹ First quarter, 1998 includes a non-recurring after-tax charge of \$8.5 million to reflect the relocation costs of moving the Canadian operations' head office from Vancouver to Edmonton over the next two years. The effect on basic earnings per share is 11 cents.
- ² Third quarter, 1998 includes a non-recurring after-tax charge in Canada of \$1.9 million on real estate and a non-recurring after-tax charge in Chile of \$0.9 million for severance costs. The effect on basic earnings per share is 2 cents and 1 cent, respectively.
- ³ Fourth quarter, 1998 includes a non-recurring after-tax gain in Canada of \$2.1 million due to restructuring charges and relocation costs being less than those provided for in the first quarter of 1998. In addition, net income includes a non-recurring after-tax charge in the U.K. of \$6.4 million for the sale of BCP Plant Hire. The effect on basic earnings per share is 3 cents and 8 cents, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of Results 1999 to 1998

REVIEW OF OPERATIONS

Highlights

Finning International achieved higher earnings and cash flow in 1999 despite lower revenue in each of its operating units. Net income increased significantly to \$59.6 million, or \$0.75 per share, from \$3.2 million, or \$0.04 per share the previous year. Cash flow from operations was \$251 million, up 11% compared with the twelve months of 1998.

Consolidated revenue decreased in 1999 by 14% to \$2.2 billion compared with \$2.6 billion the previous year. Two of the dealer territories in which Finning operates, namely the U.K. and Chile, experienced lower economic activity. Chile's gross domestic product declined by 1% in 1999 while the U.K. avoided near recession with an increase to GDP of 1.6%.

Despite lower activity levels, earnings improved in 1999 due to higher gross margins and lower operating expenses. The reduction in operating expenses reflected the Company's restructuring program implemented in 1998 and its continued cost reduction efforts in 1999. In addition, as a result of the Company's focus on asset management, equipment and parts inventories declined by \$231 million, or 27% in 1999. This resulted in a reduction of the Company's interest expense by \$9 million, or 12.5%. At year end, Finning's operating debt-to-equity ratio declined to 0.47-to-1.0 compared with 0.97-to-1.0 at December 31, 1998.

REVENUE BY ACTIVITY

(\$ MILLIONS)	1999		1998		Change
New equipment	\$ 856	38%	\$ 1,103	43%	(22)%
Used equipment	311	14%	425	16%	(27)%
Equipment rental	156	7%	170	7%	(8)%
Operating leases	96	4%	91	3%	5%
Customer support services	798	36%	783	30%	2%
Finance and other	13	1%	13	1%	-
	\$ 2,230	100%	\$ 2,585	100%	(14)%

New Equipment Revenue

New equipment sales were down 22% to \$0.9 billion in 1999 as weaker sales were reported in all dealer territories. In particular, new equipment sales in Chile were down \$134 million or 53% because of lower copper mining and decreased construction activity. Total unit deliveries of new equipment declined 17% in 1999.

Used Equipment Revenue

Used equipment sales decreased 27% to \$311 million primarily due to lower sales activity in the U.K. and by Universal Machinery Services. Used equipment sales in the U.K. continued to decline due to strong pound sterling and lower activity. In addition, the 1998 revenue included the one-time sale of \$15 million in excess inventory in the U.K. and a large package of pipeline rental equipment in UMS.

Rental Revenue

Rental revenue declined 8% to \$156 million. In Canada, rental revenue declined 10% primarily due to lower activity in the first half of the year. In the U.K., rental revenue was flat while in Chile revenue declined 29% as a result of lower machine utilization at the Econor gas pipeline project near Antofagasta. Rental revenue was reclassified in 1999 to include the revenue contribution from equipment currently under rental-purchase contracts. In previous years, the principal from rental-purchase billings was included in new and used equipment revenue while the interest portion was included in finance revenue. Under this reclassification, rental revenue includes all revenue from rental purchase equipment as well as revenue from regular rent-to-rent agreements.

Operating Leases

Total operating lease revenue increased 5% to \$96 million in 1999. Leasing revenue is comprised of principal and interest on billings to customers for leased equipment. Previously, the principal amount of the lease was reported as a component of new and used equipment revenue and the interest portion was reported as finance revenue. Finning (Canada)'s revenue from operating leases increased 7% while in Finning Chile it declined below \$1.0 million in 1999. The Finning dealership in the U.K. does not hold any operating leases.

Customer Support Services

Total parts and service revenue was \$798 million, a 2% increase from the prior year. Revenue increased 10% in Chile and declined 2% in Canada. In the U.K., customer

service revenue was flat despite low economic activity levels. The increase in Finning Chile reflected the increased servicing requirements of a higher machine population in the territory. Used parts revenue in Universal Machinery Services was basically flat at \$10 million in 1999.

Finance Revenue

Finance revenue in 1999 was flat at \$13 million. Finance revenue in Finning (Canada) decreased 14% to \$10 million compared with the prior year. Finance revenue in Chile increased to \$3.1 million, while revenue in UMS declined to \$0.1 million. Due to the reclassification of revenue in 1999, the majority of the finance revenue is now being reflected under operating lease revenue and rental revenue. The majority of finance revenue represents interest earned on notes receivable, which increased 51% to \$119 million at the end of 1999. In 1998, the sale of a portion of the Canadian finance portfolio was made to Caterpillar Financial Services Ltd. Finning and Caterpillar Finance have arrangements in place to provide customers with competitive financial services in each of Finning's dealer territories.

CONSOLIDATED REVENUE/ NET INCOME/ EARNINGS PER SHARE

(\$ THOUSANDS)	1999		1998	
New equipment	\$ 856,154		\$ 1,102,585	
Used equipment	311,429		424,593	
Equipment rental	155,659		170,063	
Operating leases	96,014		91,381	
Customer support services	797,472		783,445	
Finance and other	13,133		13,354	
Revenue	\$ 2,229,861		\$ 2,585,421	
Net income	\$ 59,600	\$ 0.75	\$ 3,185	\$ 0.04
Non-recurring items	-	-	15,461	0.19
Adjusted net income	\$ 59,600	\$ 0.75	\$ 18,646	\$ 0.23

Net Income

Net income increased significantly to \$59.6 million, or \$0.75 per share, from \$3.2 million, or \$0.04 per share the previous year. During the twelve months ending December 31, 1998, earnings were negatively affected by non-recurring charges of \$0.19 per share due to the relocation of Finning Canada's head office to Edmonton and other restructuring costs. Excluding these non-recurring items, earnings per share were \$0.75 compared with

\$0.23. Cash flow from operations was \$251 million, up 11% compared with the twelve months of 1998.

Canadian operations improved significantly in 1999 contributing \$43.2 million to consolidated net income, an increase of 25% from 1998. The U.K. operations generated income of \$5.9 million in 1999 compared with a loss of \$32.2 million the previous year. Net income from Chilean operations was \$15.5 million in 1999 compared with \$3.4 million in 1998. International operations, which includes the contribution from Universal Machinery Services, corporate interest charges and head office expenses, showed a loss of \$5.0 million in 1999 compared with a loss of \$2.8 million the prior year.

The Company's overall gross profit margin increased to 26.1% in 1999 compared with 22.5% the previous year. Slightly higher new and used equipment margins contributed to this improvement. In addition, a higher proportion of revenue came from customer services, which generates a higher gross margin than equipment sales. Selling expenses decreased 8% and general and administrative costs were lower by 13% year-over-year. The greatest reductions in operating expenses were made in Canada and the U.K. In total, selling, general and administrative expenses were down 9% to \$432.4 million in 1999.

Finance costs and interest on other indebtedness decreased to \$65.8 million, down 13% from the prior year. This resulted from the Company's asset reduction program that focused on reducing working capital and improving inventory turnover. Each of the operating units reduced their borrowing costs, with Chile achieving the largest year-over-year reduction.

In terms of lines of business, Finning classifies the majority of its new and used equipment sales as well as its customer service business under Operations. In 1999, net income from Operations improved significantly from a net profit of \$0.5 million in 1998 to \$59.7 million in 1999. Each operating unit, with the exception of Universal Machinery Services, generated higher earnings in 1999. The Company's income contribution from Rental Operations decreased 37% due to lower rental equipment utilization in the U.K. and Canada. Income from Finance Operations, including income generated from notes receivable and operating leases, increased 13% in 1999 due primarily to lower loan losses. The Company's segmentation of lines of business and the allocated capital structure for each line is contained on page 40 in this section.

NET INCOME

(\$ THOUSANDS)	1999	1998
Operations	\$ 59,723	\$ 490
Rental	4,918	7,840
Finance	5,464	4,853
Consolidated*	\$ 59,600	\$ 3,185

* eliminating entries not shown in this table

In 2000, the Company expects market conditions to improve in each of its dealerships as commodity prices improve and economic activity is forecast to increase in each territory. Finning expects activity levels in Western Canada to improve modestly in 2000 as the economies of British Columbia and Alberta improve year-over-year. In Chile, the economy is expected to recover with copper prices in the 75 to 85 cent range and the country's national elections completed. In the U.K., the economy is expected to improve in 2000 but largely due to higher retail spending, not large infrastructure expenditures and industrial expansion. Additionally, the Company will continue its cost reduction and asset management programs in 2000 and expects overall results to be higher compared with 1999.

CANADIAN OPERATIONS**Highlights**

Finning (Canada) improved its operating efficiency in 1999 and reported higher income despite a decrease in total revenue of 9%. Net income was \$43.2 million for the 12-month period ending December 31, 1999, an increase of 25% compared with the previous year.

In the second half of 1999, Finning (Canada) experienced a higher rate of activity in many of its sectors. Although new unit deliveries were down 15% in 1999, unit deliveries in the second half of the year were up 21% over the same period in 1998.

Forestry revenues increased 28% in 1999 and contributed to a modest 1% growth in revenue from operations in British Columbia. A weak petroleum sector early in 1999 and lower mining revenues resulting from the downturn in the coal industry contributed to a 16% decline in revenues in Alberta and the Northwest Territories. Higher oil prices in the latter part of 1999, however, started to generate increased activity in the petroleum sector.

During 1999, Finning (Canada) completed the relocation of its head office to Edmonton from the Company's previous location on Great Northern Way in Vancouver. The closure of five branches and the downsizing of five others were also completed during the year and an early retirement program was offered in the first quarter of 1999. At year-end, Finning (Canada) had 31 branches and 8 depots. Employees totaled 2,271 compared with 2,494 at the end of 1998.

CANADA REVENUE/ NET INCOME/ EARNINGS PER SHARE

(\$ THOUSANDS)	1999		1998	
New equipment	\$ 342,435		\$ 417,320	
Used equipment	125,368		143,148	
Equipment rental	89,634		99,567	
Operating leases	95,427		89,296	
Customer support services	370,131		375,992	
Finance and other	9,927		11,594	
Revenue	\$ 1,032,922		\$ 1,136,917	
Net income	\$ 43,250	\$ 0.54	\$ 34,747	\$ 0.44
Non-recurring items	-	-	8,191	0.10
Adjusted net income	\$ 43,250	\$ 0.54	\$ 42,938	\$ 0.54

Financial Review

New Equipment Revenue

New equipment sales declined 18% to \$342 million in 1999. Unit deliveries of new equipment declined 32% but the average price of the delivered units increased, primarily as a result of larger equipment being sold to customers in the Oil Sands. The largest declines in unit deliveries were in the petroleum, mining and construction sectors (down 48%, 20%, and 13% respectively). Power systems revenue fell 30% in 1999. Petroleum and power systems revenue were impacted by lower activity in the energy sector in the first half of the year.

Used Equipment Revenue

Domestic used equipment sales declined \$20 million, down 12% from 1998, reflecting both lower unit sales to the mining sector and competitive pricing pressures.

Rental Revenue

Rental fleet revenue was down 10% in 1999 primarily due to the lower contribution from equipment rental purchase contracts (often referred to as RPOs, or rental-purchase options). Canadian rental purchase assets were down 18% to \$57 million due to lower deliveries into rental-purchase contracts and high conversion rates during the year.

Operating Leases

In 1999, leasing revenue increased 7% to \$95 million. Leasing revenue is comprised of principal and interest on billings to customers for leased equipment. New equipment units delivered into leasing contracts increased 11% compared with the previous year. The amount of equipment leased to customers was \$270 million, an increase of 14% from December 1998.

Customer Support Service

Parts and service revenue decreased slightly to \$370 million, down 2% from the prior year. Parts revenue was down 5% due to lower volumes in Alberta. Customer service revenue increased 14% with improved revenue coming from customer service maintenance contracts. Increased activity in Oil Sands mining, forestry, pipeline construction and diamond mining in the Northwest Territories have provided Finning (Canada) with the opportunity to increase parts and service revenue in these sectors.

Finance Revenue

Finance revenue was down 14% in 1999 due to the June 1998 sale of more than half of Finning's finance portfolio to Caterpillar Financial Services Ltd. Since the sale in mid-year 1998, the instalment notes receivable portfolio has increased by 30% to \$106 million. The majority of the interest on notes receivable is earned on used equipment.

Net Income

Net income from Canadian operations increased 25% to \$43.2 million compared with \$34.7 million in 1998. Excluding non-recurring items in 1998, net income was up 1% over 1998. The net income margin, excluding non-recurring items, increased to 4.2% in 1999 from 3.8% in 1998.

The improvement in net operating earnings despite lower revenues was primarily the result of lower selling expenses, which declined \$19 million, and a decline in general and administrative expenses of \$26 million (\$12 million excluding the pre-tax non-recurring

items mentioned above). In addition, interest expense was \$2 million lower due to lower average debt levels resulting from reduced asset levels.

Gross profit margins improved slightly in 1999 to 29.9% primarily due to a shift in revenue to customer support service from equipment revenue. New equipment margins decreased from 1999 levels, reflecting the significance of lower margin large mining unit sales and general market competitiveness. Used equipment margins were also lower reflecting higher obsolescence charges in the year, sale of aged inventory at lower margins and increased competition. Service margins and parts margins were higher during 1999. Service margins benefited from increased efficiency on customer service maintenance contracts, while parts margins benefited from foreign exchange gains earlier in the year.

Industry Review

Mining

In 1999, depressed coal prices more than offset expansion in Oil Sands mining. As a result, deliveries of new mining units by Finning (Canada) decreased 30% while the average price per unit increased 14% due to the sale of large mining units into the Oil Sands. The decline in mining deliveries occurred primarily in the first half of 1999. Mining unit deliveries during the year accounted for 10% of total new general line equipment deliveries and 35% of the revenue, making it the largest end market for Finning (Canada). In 1999, the first Caterpillar 360-ton 797 mining trucks were delivered to the Oil Sands in northeastern Alberta.

Syncrude Canada Ltd. is continuing its planned expansion of its Oil Sands operation at the Aurora Mine property, north of its Mildred Lake upgrading complex. A further eight 797s have been scheduled for delivery in 2000, along with several large support machines. Suncor Energy is proceeding with its expansion across the Athabasca River to its Steepbank Mine, and with its Millennium expansion project. In addition, Shell Canada Ltd. announced it was proceeding with its Muskeg River project with partners Chevron Canada Resources Ltd. and Western Oilsands Inc. Approval was received for the project in 1999 and production is expected to begin in the fourth quarter of 2001. Finning has a strategic alliance with BHP Diamonds Inc. ("BHP") for all mechanical and parts support requirements at the Ekati diamond minesite in the Northwest Territories, jointly owned by BHP and Dia Met Minerals Ltd.

Petroleum

Deliveries of new units to the petroleum sector by Finning (Canada) decreased 45% in 1999. Compared with last year, deliveries were down 77% in the first half of the year but were up 51% in the fourth quarter. Petroleum related equipment revenues declined 48% from the prior year. The petroleum activity is focused on the oil and gas industry as well as pipeline construction. Drilling activity in Western Canada was flat compared with 1998 as oil prices were low in the first quarter of the year but more than doubled before year end. Drilling activity is anticipated to increase between 40% and 50% in 2000 and 2001. Pipeline construction activity remained high, especially with the building of the Alliance natural gas pipeline from northern B.C. to Chicago, Illinois. Activity for well tie-ins, based on higher natural gas production and exploration, has started and should remain high for the balance of 2000.

Forestry

Unit deliveries of new forestry machines increased 8% in 1999 and the average price per unit increased 18%. The interior forest industry in British Columbia, buoyed by continued growth in the U.S. economy, experienced increased activity in 1999. Louisiana-Pacific Corp. and Ainsworth Lumber Co. Ltd. both announced new mill construction in northeastern B.C. that will require additional log supply from that area. Coastal forestry improved in the second half of the year when Asian demand began to increase modestly. Early in 1999, Canadian Forest Products Ltd. ("Canfor") decided to extend its 'Power by the Hour' agreement with Finning (Canada) to all of its Northern Interior solid wood mills, covering nine operations in B.C. and Alberta. Under the agreement, more than 30 machines have been delivered to Canfor. Finning (Canada) also entered into a supply agreement with Weyerhaeuser Company for wheel loaders and log stackers for their Vancouver Island and Queen Charlotte operations. The initial agreement is for more than 20 units.

Construction

Deliveries of new construction units by Finning (Canada) declined 6% for the year, despite a strong surge in fourth quarter sales. The value of those unit deliveries was down 13% compared with 1998. Overall, construction sales activity in Alberta in 1999 outperformed B.C. due to increased demand in the governmental and commercial sectors. Deliveries of paving equipment, compactors, and articulated dump trucks were lower in 1999 as residential housing starts declined as did orders from public works departments in Alberta.

Power Systems

Power systems revenue declined 30% despite a modest 7% increase in unit deliveries due primarily to fewer large project sales in the year. Unit sales in the second half of 1999 were higher than in the first half of the year. Unit demand rose in the gas compression market and noticeably in electrical power generation, which was influenced by demand for backup power relating to the year 2000 issue. A successful 18-megawatt power station contract for Jupiter Power's C1 project in Cambodia is expected to be a precursor to an additional project of equal size in 2000. The development of the Diavik diamond mine in the Northwest Territories has led to several gensets being placed for a total of 5-megawatt. These units will be used for construction power in 2000.

UNITED KINGDOM OPERATIONS**Highlights**

Total revenue for Finning (UK) in 1999 was \$713 million, a decrease of 10% compared with the previous year. The 1999 results were affected by a 2.2% depreciation of the pound sterling against the Canadian dollar.

Finning (UK)'s operations continued to face a difficult operating environment in 1999. The British economy recorded growth of only 1.6% and aside from the Channel Tunnel Rail Link there were few large infrastructure projects in the UK. The value of the pound sterling continued to be high in 1999, which made the sale of used equipment overseas less competitive and the purchase of European products in the UK market a viable proposition. This led to sustained competition from European produced products.

During the year, five depots in the UK were closed of which three were the result of the sale of BCP Plant Hire in February 1999. In addition, Finning (UK) continued to relocate operations and reorganise functions. This allowed for the closure of Wigan branch and the consolidation of used equipment and rental operations to the Cannock area adjacent to head office. The Windsor branch was also closed with the remaining operations transferred to premises in Slough. During the year, Finning (UK)'s employee workforce increased slightly by 1% to 1,364.

UNITED KINGDOM REVENUE/ NET INCOME/ EARNINGS PER SHARE

(\$ THOUSANDS)		1999	1998
New equipment	\$	394,053	\$ 431,705
Used equipment		76,086	119,521
Equipment rental		46,484	46,642

Operating leases	-		-	
Customer support services	196,318		195,132	
Finance and other	-		-	
Revenue	\$ 712,941		\$ 793,020	
Net income (loss)	\$ 5,903	\$ 0.07	\$ (32,231)	\$ (0.41)
Non-recurring items	-	-	6,408	0.08
Adjusted net income (loss)	\$ 5,903	\$ 0.07	\$ (25,823)	\$ (0.33)

Financial Review

New Equipment Revenue

New equipment revenue was down 9% to \$394 million as unit deliveries decreased 6%. The balance of the shortfall was primarily due to a change in mix in favour of lower-valued, smaller construction machines.

Used Equipment Revenue

Used equipment revenue was \$76 million, a decrease of 36% from the prior year. Fewer refinancing packages were made in 1999 compared with a total of \$23 million completed in 1998.

Customer Support Service

Parts and service revenue had a small increase of 0.6% to \$196 million for the year. Competition from alternative service providers made for a competitive environment in the UK. There is improved focus in respect of customer support with additional management resources being applied at a divisional level.

Rental Revenue

Equipment rental revenue decreased by \$0.2 million to \$46 million in 1999. The BCP Plant Hire Division was sold in February 1999. During the year, Finning (UK) expanded its fleet to meet the needs of the cross hire sector. Cross hire involves renting equipment to customers (plant hirers) who in turn charge a rental fee for its use on projects, either manned or unmanned. The total rental assets increased by 70% to \$74 million in 1999.

Net Income

Finning (UK) reported a profit of \$5.9 million in 1999 compared with a loss of \$32.2 million in 1998. Excluding non-recurring items, the year-over-year improvement in net income was \$31.7 million.

The operation's after-tax margin (excluding non-recurring items) increased to 0.8% from negative 3.3%, while the gross profit margin increased by 5.1% from the prior year. New equipment margins increased slightly in 1999 while used equipment margins experienced significant improvement following the reserves that were taken against overvalued used equipment inventory at the end of 1998. Rental equipment margins were higher while parts margins declined and service margins remained flat.

Selling, general and administrative expenses, excluding non-recurring items, decreased 11% from the prior year. This is a reflection of both lower revenue levels and action taken in 1998 to reduce the cost base in the UK. Cost saving initiatives are continuing into 2000. Interest expense for Finning (UK) declined by 18% during the year, reflecting lower debt levels with continued focus on asset management. The reduction in borrowing rates during the year also contributed to the reduction in interest expense. Interest rates declined during the year with the base rate at the Bank of England moving down 75 basis points lower to 5.5% at the year end.

Industry Review

Construction and Plant Hire

Government approval and spending on infrastructure projects continued to be constrained under the Labour government in 1999. Work on the Channel Tunnel Rail Link began in the first quarter of 1999 that stimulated some activity. The delay in the start of the Birmingham Northern Relief Road continued, although work on this project has been confirmed as starting in the fourth quarter of 2000. Private and commercial investment in construction increased 2% in 1999 with light construction activity outpacing heavy construction. The plant hire business saw a year of consolidation, a trend that is likely to continue into 2000. This trend resulted in very competitive hire rates in the market. In 1999, Finning (UK)'s sales of new equipment to the construction and plant hire industries increased by 18% compared with the previous year. Unit deliveries increased by 19% reflecting demand from the Channel Tunnel Rail Link project. The introduction of Caterpillar's compact construction equipment line was well received in the market with sales only limited by availability of supply. The reliability of the machines has proven to be excellent and expectations for sales in 2000 are high.

Quarrying

National output of crushed rock, sand and gravel, including marine-dredged sand, remained stable at 220 million tons. The demand for these products was sustained by the

requirement for road repair and reconditioning. Consolidation within the quarrying industry continued with a trend towards customer support agreements, preferred suppliers and single source agreements. Finning (UK) entered into five national parts and service contracts with major quarrying companies in 1999. New equipment sales in this sector decreased by 19% with unit deliveries declining by 6%.

Open Pit Mining

New mine development within England and Wales is consistently affected by environmental issues with the majority of open pit mines being located in Scotland. Coal production levels in 1999 remained consistent with 1998 quantities of 15 million tonnes. New equipment sales to this sector decreased by 9% from the prior year with unit deliveries decreasing by 5% reflecting fewer rigid dump truck deliveries.

Power Systems

Revenue in the power system division decreased 11% while unit deliveries improved by 6%. Engine unit deliveries to pleasure craft builders were down by 32% in 1999, although this was partially offset by customers ordering larger engines. Commercial Marine sales declined 14% by value, although orders were higher than the previous year and many of these are scheduled for delivery in 2000. Unit sales of diesel generators increased 225% in 1999, with a significant increase in activity with Internet providers. Industrial engine deliveries remained flat due to the strength of the pound sterling and its impact on UK exports. Rental revenue improved 17% reflecting activity at year end for back-up power requirements and an overall increase in sales coverage. Sales of gas and diesel-fired power generation and engines for the marine pleasure craft industry are expected to increase in 2000.

Materials Handling

Materials handling revenue in Finning (UK) declined 22% in 1999 with unit deliveries of lift trucks down 26%. This was partially due to production delays at Mitsubishi-Caterpillar's plant and a preference in the market to rent rather than buy. Competition remains aggressive and in 1999 regional rental centres were established to provide customers closer proximity to support services.

CHILEAN OPERATIONS

Highlights

Total revenue in Finning Chile decreased 25% to \$378 million in 1999 as unit deliveries of new equipment were lower by 41%. Sales activity levels in the mining and construction industries, which together represent approximately 60% of Finning Chile's total revenue, were down significantly. The main reason for the reduction in activity was the rapid slowdown in the Chilean economy, which went into recession in 1999 with GDP of negative 1%. This was partially due to lower copper prices, which dropped to 61 cents a pound in the first quarter before recovering to 82 cents at the year end. The lower copper prices caused many mining companies to postpone investment in new equipment in 1999. Higher interest rates early in the year stalled private construction activity in both the commercial and residential sectors.

During the year, Finning Chile reorganized several of its branches and reduced its employee count by 7%. To improve customer service levels in northern Chile, Antofagasta branch was reorganized into four locations: Antofagasta; Codelco North; Escondida; and Mantos Blancos. In Southern Chile, Concepcion was established as a regional branch with two other locations reporting to it. At the end of 1999, Finning Chile had 1,259 employees.

CHILE REVENUE/ NET INCOME/ EARNINGS PER SHARE

(\$ THOUSANDS)		1999		1998	
New equipment	\$ 119,665		\$ 253,560		
Used equipment	18,598		24,766		
Equipment rental	14,826		20,852		
Operating leases	587		2,085		
Customer support services	221,008		201,366		
Finance and other	3,093		876		
Revenue	\$ 377,777		\$ 503,505		
Net income	\$ 15,464	\$ 0.19	\$ 3,424	\$ 0.04	
Non-recurring items	-	-	862	0.01	
Adjusted net income	\$ 15,464	\$ 0.19	\$ 4,286	\$ 0.05	

Financial Review

New Equipment Revenue

New equipment sales were down 53% to \$120 million. The decrease in new equipment sales was due to lower demand in the mining and construction industries in 1999 compared with last year which had several large mining orders and increased infrastructure and pipeline activity. In the construction sector, the delivery of 26 units to Dumez GTM was the largest package sale of the year.

Used Equipment Revenue

Used equipment sales were down 25% to \$18.6 million given the slow market conditions. In addition, during 1998 Finning Chile sold a large package of used equipment to the South American leasing operation of Caterpillar.

Rental Revenue

Rental revenue totaled \$15 million in 1999, down 29% from the previous year. The rental fleet serves mining operations, large turn-key construction projects as well as building construction requirements in the Antofagasta, Mejillones and Concepcion area. Rental fleet assets increased 9% to \$12 million at year end. Included in the rental fleet are eight 240-ton mine trucks and three large wheel loaders being rented to mining companies.

Customer Support Services

Parts and service revenue increased 10% to \$221 million in 1999 reflecting an increase in Caterpillar general parts and exchange components. Based on the large number of machines delivered to the mining industry over the past five years, there is continuing demand for both parts and service support in Finning Chile's territory. Several initiatives are being implemented in customer services, including parts pricing based on market segmentation and improved supply chain management.

Net Income

Net income in 1999 was \$15.5 million compared with \$3.4 million in the prior year. The net income margin, excluding non-recurring items of \$0.9 million in 1998, was 4.1% in 1999 compared with 0.9% in the prior year. Overall gross margins improved by 6.4% as parts represented a greater percentage of total sales compared with 1998. New

equipment margins declined marginally while used equipment margins were also lower. Service margins improved during the year as the management of maintenance and repair contracts improved while parts margins were down slightly. Chile reduced its selling, general and administrative expense and interest expense by \$6.4 million or 7% in 1999. Chile's focus on asset management, along with lower sales volumes, contributed to this improvement.

Industry Review

Mining

The expansion and development of new copper mining projects in Chile slowed dramatically in 1999 due to the decline in the global base metal and precious metal prices. However, production from existing copper mines in Chile actually increased. For example, state-owned mining company Codelco increased its annual production of copper by 7.5% in 1999. Large Caterpillar mining equipment packages were delivered to Escondida, Collahuasi and Chuquicamata during 1999. Competition from other equipment dealers in Chile, namely Komatsu, Terex and Letorneau, resulted in aggressive pricing in the mining sector in 1999.

Construction

Construction of large infrastructure projects and highways was drastically affected by the economic recession in Chile. Construction activity levels almost stopped due to reduced government spending, higher interest rates during first half of the year and the large stock of houses available on the market. Deliveries of new construction units by Finning Chile decreased 63% on a year-over-year basis and total revenue decreased 58%.

Power Systems

Activity in the electrical power generation market increased in 1999 while the marine market remained slow. The sale of Olympian power generating units increased as many companies requested independent power following a failure in the Chilean electrical power grid in early 1999. Rental activity for the power system division decreased slightly but overall utilization rates were improved. Five large marine engines were delivered in 1999 and 24 Olympian gensets were sold to Edwards Bank with five-year maintenance contracts.

Forestry

Forestry industry activity remained slow in 1999 primarily due to lower international pulp prices. New equipment sales to this industry decreased 60% from 1998 levels but represented only 2% of Finning Chile's total new equipment sales.

Some major forestry projects have been postponed due to both environmental and native concerns regarding the impact of these potential initiatives. The main projects involved are Trillium, Cascade, and Celulosa Pedro de Valdivia.

Kenworth

Kenworth truck sales decreased by more than 50% in 1999 given the rapid slowdown in the Chilean economy. There are more than 15 dealers competing in the Chilean market for Class 7 and Class 8 truck demand. As a result, competitive pricing had a negative impact on margins. Based on the management's review of the Class 7 and Class 8 truck market, Finning Chile has entered into an agreement with Paccar to exit this business in Chile during the first half of 2000.

INTERNATIONAL OPERATIONS

Highlights

International Operations is comprised of Universal Machinery Services (UMS), a division of Finning International Inc., and the corporate head office of Finning International. This division is involved in selling both Caterpillar and non-Caterpillar used equipment and used parts around the world. During the year, UMS finalized its long-term strategic plan that included restructuring and separating its assets and operations from Finning (Canada) and Finning (UK).

INTERNATIONAL REVENUE/ NET INCOME/ EARNINGS PER SHARE

(\$ THOUSANDS)		1999		1998
New equipment	\$	—	\$	—
Used equipment		91,378		137,158
Equipment rental		4,715		2,981
Operating leases		—		—
Customer support services		10,104		10,955
Finance and other		114		885
Revenue	\$	106,221	\$	151,979

Net loss	\$	(5,017)	\$	(0.06)	\$	(2,775)	\$	(0.03)
Non-recurring items		—		—		—		—
Adjusted net loss	\$	(5,017)	\$	(0.06)	\$	(2,775)	\$	(0.03)

Financial Review

Revenue for UMS totaled \$106 million in 1999, a decrease of 30% compared with \$152 million in the prior year. Equipment revenue was \$91 million, a decrease of 33%. In 1998, revenue included the non-recurring sale of pipeline rental assets for \$22 million as well as the sale of \$15 million of excess inventory as a result of the H. Leverton acquisition in the UK. Total unit deliveries declined 20% compared with 1998 primarily due to weaker market conditions in the global mining sector. Economic conditions stabilized in South America and Europe but remained weak in Asia. In the U.S., used equipment volume and pricing increased. In the U.K. and Europe, activity levels were lower than the previous year. Asian markets began to recover in 1999 following a significant downturn in 1998. Used parts revenue decreased 9% in 1999 to \$10 million, again as a result of lower commodity prices.

The majority of UMS' sales in 1999 were to the U.S., with a large number of deliveries also being made to Mexico and South America. In 1999, UMS began a managed reduction program in aged inventory. Aged inventory decreased due to reductions in pricing, auctions, trading and changing machine locations to more saleable regions. Near the end of 1999, UMS began the due diligence necessary to set up a website for the auction of machinery that is owned by Finning as well as other principals, brokers and dealers.

Due to lower sales volume and a weak pricing environment in 1999, UMS reported a loss \$0.8 million for the year. Combining UMS and the corporate head office expenses, this division reported a loss of \$5 million in 1999 compared with a loss of \$3 million in the prior year. In 1999 increased borrowing by the corporate office resulted in higher interest charges as well as allocated head office expenses associated with Finning International.

LIQUIDITY AND CAPITAL RESOURCES

Finning management 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:

1. operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment and financing provided to customers;

2. investing activities, including acquisitions of complementary businesses, and capital expenditure; and
3. external financing, including bank credit facilities, commercial paper and other capital market activities, providing both short and long-term financing.

Cash flow from operations, before changes in operating assets and liabilities, was \$251 million in 1999 compared with \$226 million in 1998, an increase of 11%. The increase from 1998 was primarily a result of improved earnings from most of the Company's operations.

Cash generated from operating activities increased significantly to \$221 million from \$71 million in 1998. The marked improvement in 1999 reflects the results of the Company's asset management program. During the year, equipment inventories were reduced by \$174 million and parts inventories declined by \$57 million.

Cash used in investing activities totaled \$9 million, representing net capital expenditures of \$9 million compared with \$34 million in 1998. The decline in net capital expenditures reflects the Company's focus on asset reduction in 1999.

To complement the internally generated funds from operating and investing activities, the Company has approximately \$900 million in unsecured bank short-term credit facilities, and \$135 million in unsecured bank term facilities available. The Company also has a commercial paper program for \$300 million, which can be issued against the designated short-term credit facilities amount. At the year end, approximately \$380 million, including commercial paper, was drawn against the bank facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company has a split rating from the two rating agencies in Canada. In 1999, Canadian Bond Rating Service (CBRS) maintained the Company's debenture rating at A (low) and its commercial paper rating at A-1. In the first quarter of 1999, Dominion Bond Rating Service (DBRS) downgraded Finning's debentures to BBB (high) from A (low), and its commercial paper to R-2 (high) from R-1 (low).

In the fourth quarter of 1999, the Company issued \$150 million of 7.75% debentures due November 1, 2004 under its \$300 million Medium Term Note Program. The proceeds of the issue were used to repay bank indebtedness and diversify the Company's funding sources.

The improved cash flow from operations, reduction in working capital, and lower capital requirements resulted in a decrease in short-term debt of \$303 million during the year and long-term debt remained at \$522 million. The current portion of long-term debt is \$70

million compared with \$1 million in 1998, and it is management's intention to refinance the current portion of long-term debt either through its available bank term facilities or through the capital markets.

The Company did not have any equity issues in 1999. Share capital increased slightly to \$210 million from \$209 million at the end of 1998 reflecting the exercise of stock options and the conversion of preferred shares. On February 1, 2000, Finning announced its intention to effect a normal course issuer bid through the facilities of the Toronto Stock Exchange. Under this program, the Company is entitled to purchase up to 6.83 million common shares during a one-year period commencing February 3, 2000 and ending February 2, 2001. The actual number of shares that may be purchased during the one-year period and the timing of any such purchases will be determined by Finning. All shares purchased under the issuer bid will be cancelled.

Finning has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market value. Finning pays a portion of the purchase price to a maximum of 2% of employee earnings. The plan may be cancelled by Finning at any time. At December 31, 1999, 62% of Canadian employees were participating in this plan compared with 59% at the end of 1998.

BALANCE SHEET LEVERAGE

The Company's balance sheet is comprised of three major components, namely its operating, finance and rental activities. Each of these major business segments has a different risk profile. Accordingly, Finning applies a different capital structure and leverage to each business segment.

The finance assets and rental assets are supported by a combination of debt and equity. Finning applies a conservative debt to equity ratio of 7:1 to its finance operation and 5:1 to its rental operation. Total debt and shareholders' equity is allocated to the

operating, finance and rental activities. Deferred income taxes are allocated based on the assets and liabilities assigned to the operating, finance and rental activities.

The following table provides Finning's capital structure on a segmented basis and additional disclosure relating to the returns associated with the business segments.

1999 (\$ thousands)

	<u>Operations</u>	<u>Rental</u>	<u>Finance</u>	<u>Consolidated</u> ¹
Assets	<u>\$ 1,269,999</u>	<u>\$ 354,454</u>	<u>\$ 401,781</u>	<u>\$ 2,026,234</u>
Liabilities & Shareholders' Equity				
Short-term debt and Term debt	\$ 275,652	\$ 285,819	\$ 337,088	\$ 898,559
Deferred income taxes	(7,230)	11,471	13,431	17,672
Other liabilities	<u>410,301</u>	<u>-</u>	<u>3,107</u>	<u>413,408</u>
	678,723	297,290	353,626	1,329,639
Shareholders' equity	<u>591,276</u>	<u>57,164</u>	<u>48,155</u>	<u>696,595</u>
	<u>\$ 1,269,999</u>	<u>\$ 354,454</u>	<u>\$ 401,781</u>	<u>\$ 2,026,234</u>
Debt to equity ratio	0.47:1	5.0:1	7.0:1	1.29:1
Return on average equity	10.2%	8.8%	12.1%	8.7%

1998 (\$ thousands)

	<u>Operations</u>	<u>Rental</u>	<u>Finance</u>	<u>Consolidated</u>
Assets	<u>\$ 1,541,934</u>	<u>\$ 337,139</u>	<u>\$ 350,528</u>	<u>\$ 2,229,601</u>
Liabilities & Shareholders' Equity				
Short-term debt and Term debt	\$ 564,696	\$ 270,369	\$ 297,070	\$ 1,132,135
Deferred income taxes	(12,168)	12,696	11,020	11,548
Other liabilities	<u>409,003</u>	<u>-</u>	<u>-</u>	<u>409,003</u>
	961,531	283,065	308,090	1,552,686
Shareholders' equity	<u>580,403</u>	<u>54,074</u>	<u>42,438</u>	<u>676,915</u>
	<u>\$ 1,541,934</u>	<u>\$ 337,139</u>	<u>\$ 350,528</u>	<u>\$ 2,229,601</u>
Debt to equity ratio	0.97:1	5.0:1	7.0:1	1.67:1
Return on average equity	0.1%	17.6%	9.3%	0.5%

¹ Transactions between segments have been eliminated to arrive at consolidated results

Operations

The Company's debt to equity ratio for its operating activities (excluding finance and rental activities) improved significantly to 0.47:1 from 0.97:1 at the end of last year. The continued improvement in the debt to equity ratio was primarily due to the Company's focused asset management program to reduce current operating assets and short-term borrowings. The Company achieved an improvement in receivables collections, inventory turnover and earnings in 1999 as a result of the program. Based on the allocated capital structure (noted above), the return on average equity by this business segment was 10.2% in 1999 compared with 0.1% in 1998.

Rental

At December 31, 1999, Finning had rental assets of \$354 million compared with \$337 million at the end of 1998. Rental assets include assets in the rent-to-rent fleet, rental purchase contracts and customer accounts receivables.

Based on the allocated capital structure (noted above), the return on average equity by this business segment was 8.8% in 1999 compared with 17.6% in 1998. The decline in 1999 reflects lower earnings due to lower utilization levels of rent-to-rent fleet equipment primarily in Canada, and reduced profitability in the U.K.

Finance

Finance assets, which include notes receivable, leased equipment, and customer accounts receivables, totaled \$402 million at the end of 1999 compared with \$351 million at December 31, 1998. Finning (Canada) was the only operating unit to have significant financing activity in 1999.

Based on the allocated capital structure (noted above), the return on average equity by this business segment was 12.1% in 1999 compared with 9.3% in 1998.

FINANCIAL DERIVATIVES AND RISK MANAGEMENT

The Company uses various financial instruments such as interest rate swaps and forward exchange contracts as hedges against actual assets or liabilities. Derivative financial instruments are always associated with a related risk position. The Company has a policy of arranging its financing such that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. Finning enters into swap agreements, which fix the effective interest rate and

currency of the borrowing. This is an effective and flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations.

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

FINANCIAL RISKS AND UNCERTAINTIES

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

The Company is subject to two direct sources of currency exchange risk. The first source of currency exchange risk relates to fluctuations in the purchase price of inventory. Canada and Chile source the majority of their product from the United States and, as a consequence, exchange rate movements affect the transaction price for most equipment and parts. Finning is generally able to manage this risk through adjustments in the pricing of its product sales, and through the use of financial derivatives.

The second source of exchange risk relates to the fact that the Company's U.K. and Chilean operations are recorded in its financial statements in Canadian dollars, while those operations conduct business primarily in British pounds in the U.K., and Chilean pesos and U.S. dollars in Chile. Changes in the British pound, Chilean peso and U.S. dollar to the Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of the Company's U.K. and Chilean operations.

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

YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is

processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Finning has been planning for the year 2000 since the mid-to-late eighties when it changed all its databases and converted its mainframe systems in Canada and the U.K. to allow for the year 2000. The core systems in all three dealerships have now been replaced by Caterpillar's Dealer Business System version 2.0, which is year 2000 compliant. Third party software components of our core systems, such as the payroll and general ledger packages, are all year 2000 compliant. All future software developed in-house and acquired externally will be year 2000 compliant. Finning is constantly verifying that information technology hardware purchased, such as network servers, is year 2000 compliant. The information systems department has acquired specific software that scans all applications running on PC's in use at Finning in order to verify the year 2000 compliance of the software. Finning has also entered into a PC leasing agreement that saw all older, potentially non-compliant hardware replaced well before the end of 1999.

Finning's core systems and its information systems strategy are closely linked with those of Caterpillar, which took the actions necessary to ensure its products and services continued to operate on and after January 1, 2000. Finning has undertaken a program to address the Year 2000 Issue beyond its information technology department. The program involves all key service providers.

In 1998, Finning engaged Arthur Andersen LLP to conduct a full review of the year 2000 project status. The project's scope covered Canada, the U.K. and Chile. The review began in February 1998 and was completed by mid-year. Finning has already acted on the recommendations of this review. A simulation test of the year 2000 was performed on the AS/400-based systems in 1998 and was successful.

Although the change in date has occurred without incident, there may be some aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, that have not been fully resolved.

SECURITIES MARKET

The Company's common shares are listed and posted for trading on the Toronto stock exchange.

DIVIDENDS

The Board of Directors, in setting dividend payments, considers the Company's recent and projected earnings, its capital investment requirements and its total return to shareholders. Dividends on common shares were \$15.9 million or \$0.20 per share in 1999, compared with \$15.8 million or \$0.20 per share in 1998.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since January 1, 1998. Currently there are no restrictions with respect to the Company's present or future ability to declare or pay dividends.

<u>Declaration Date</u>	<u>Date Paid</u>	<u>Rate Per Share</u>
February 20, 1998	March 20, 1998	\$0.05
May 6, 1998	June 3, 1998	\$0.05
August 3, 1998	August 31, 1998	\$0.05
October 23, 1998	November 20, 1998	\$0.05
February 19, 1999	March 19, 1999	\$0.05
April 23, 1999	May 21, 1999	\$0.05
July 30, 1999	August 27, 1999	\$0.05
October 29, 1999	November 26, 1999	\$0.05
February 18, 2000	March 17, 2000	\$0.05

DIRECTORS AND OFFICERS

Directors

Name and Municipality of Residence	Principal Occupation	Year First Became Director
M. Norman Anderson ^{2, 4} Vancouver, BC	President, Anderson & Associates	1989
Ricardo Bacarreza ^{1, 3} Santiago, Chile	President, Proinvest S.A.	1999
John E. Cleghorn ¹ Toronto, ON	Chairman and Chief Executive Officer, Royal Bank of Canada	2000
James F. Dinning ^{1, 4} Calgary, AB	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	1997
Timothy S. Howden ^{2, 3} Marlow, England	Company Director	1998
Michael M. Koerner ¹ Toronto, ON	President, Canada Overseas Investments Limited	1978
Nicholas B. Lloyd Santiago, Chile	President and Chief Executive Officer, Finning Chile S.A.	1993
Donald S. O'Sullivan ^{3, 4} Edmonton, AB	President, O'Sullivan Resources Ltd.	1991
Conrad A. Pinette ^{1, 4} Vancouver, BC	President and Chief Operating Officer, Lignum Limited	1992
James F. Shepard ^{2, 3} Vancouver, BC	Chairman and Chief Executive Officer, Finning International Inc.	1990
Andrew H. Simon ¹ London, England	Executive Vice Chairman, Diamant Boart S.A.	1999
Douglas W.G. Whitehead Vancouver, BC	President and Chief Operating Officer, Finning International Inc.	1999
John M. Willson ³ Vancouver, BC	Vice Chairman, Placer Dome Inc.	2000
W. Robert Wyman ^{1, 2} West Vancouver, BC	Chairman, Suncor Energy Inc.	1987

- ¹ Member, Audit Committee
- ² Member, Human Resources and Compensation Committee
- ³ Member, Environmental, Health and Safety Committee
- ⁴ Member, Governance Committee

Each of the above-listed directors will be deemed to retire and will be eligible for re-election at the next Annual Meeting of the Company's shareholders. Each of the directors has held his principal occupation set out above for the past five years with the exception of John E. Cleghorn, James F. Dinning, Timothy S. Howden, Nicholas B. Lloyd, James F. Shepard, Andrew H. Simon, Douglas W.G. Whitehead, John M. Willson and W. Robert Wyman whose principal occupations are listed below:

<u>Director</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
John E. Cleghorn	Chairman and Chief Executive Officer, Royal Bank of Canada	Jan. 1995	Present
James F. Dinning	Executive Vice President, Sustainable Development and External Relations, TransAlta Corp.	June 1999	Present
	Executive Vice President, Energy Marketing, TransAlta Energy Corp.	June 1998	June 1999
	Senior Vice President, Corporate Development, TransAlta Energy Corp.	Aug. 1997	June 1998
	Provincial Treasurer, Province of Alberta	Dec. 1992	Mar. 1997
Timothy S. Howden	Company Director	Sept. 1997	Present
	Chairman and Chief Executive Officer, North America, The Albert Fisher Group PLC	Dec. 1996	Aug. 1997
	Group Chief Executive, Europe, The Albert Fisher Group PLC	Apr. 1992	Dec. 1996

Nicholas B. Lloyd	President and Chief Executive Officer, Finning Chile S.A.	Jan. 2000	Present
	Vice Chairman, Finning (UK) Ltd.	Oct. 1999	Jan. 2000
	Managing Director, Finning (UK) Ltd.	Jan. 1992	Oct. 1999
James F. Shepard	Chairman and Chief Executive Officer, Finning International Inc.	Apr. 1996	Present
	President and Chief Executive Officer, Finning International Inc.	June 1991	Apr. 1996
Andrew H. Simon	Executive Vice Chairman, Diamant Boart S.A.	Dec. 1999	Present
	Company Director	Feb. 1993	Dec. 1999
Douglas W.G. Whitehead	President and Chief Operating Officer, Finning International Inc.	Jan. 1999	Present
	President and Chief Executive Officer, Fletcher Challenge Canada Ltd.	Apr. 1992	Dec. 1998
John M. Willson	Vice Chairman, Placer Dome Inc.	Feb. 2000	Present
	Chief Executive Officer, Placer Dome Inc.	Sept. 1999	Feb. 2000
	President and Chief Executive Officer, Placer Dome Inc.	Jan. 1993	Sept. 1999
W. Robert Wyman	Chairman, Suncor Energy Inc.	Jul. 1995	Present
	Chairman of the Board, Finning International Inc.	Aug. 1992	Apr. 1996

The Company has an Audit Committee, a Human Resources and Compensation Committee, an Environmental, Health and Safety Committee, and a Governance Committee. The members are indicated by footnote in the list of directors above. The Company does not have an Executive Committee.

Officers

<u>Name and Municipality of Residence</u>	<u>Position Held</u>
B. C. Bell Coquitlam, BC	Executive Vice President, Customer Support Services, Finning International Inc.
J. A. Carthy Sutton Coldfield West Midlands, U.K.	Managing Director Finning (UK) Ltd.
C. A. Cederberg Santiago, Chile	Vice Chairman, Finning Chile S.A.
A. R. Guglielmin Vancouver, BC	Corporate Treasurer, Finning International Inc.
H. M. Ho Richmond, BC	Executive Vice President, Human Resources, Finning International Inc.
N. B. Lloyd Santiago, Chile	President and Chief Executive Officer, Finning Chile S.A.
R. T. Mahler West Vancouver, BC	Executive Vice President and Chief Financial Officer, Finning International Inc.
I. M. Reid Edmonton, AB	President and Chief Operating Officer, Finning (Canada)
J. F. Shepard Vancouver, BC	Chairman and Chief Executive Officer, Finning International Inc.

J.T. Struthers
Delta, BC

Corporate Secretary,
Finning International Inc.

D.W.G. Whitehead
Coquitlam, BC

President and Chief Operating Officer,
Finning International Inc.

The past five years' occupations held by each of the officers, with the exception of Nicholas B. Lloyd, James F. Shepard and Douglas W. G. Whitehead whose previous principal occupation are listed above, are listed below:

<u>Officer</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
B. C. Bell	Executive Vice President, Customer Support Services, Finning International Inc.	May 1999	Present
	Vice President Logistics & Information Systems, Emco Ltd.	Jan. 1996	May 1999
	Senior Director BPR Canadian Tire Corp.	Aug. 1993	Jan. 1996
J. A. Carthy	Managing Director, Finning (UK) Ltd.	Oct. 1999	Present
	Vice President, Operations, General Manager, Finning Chile S.A.	Jan. 1997	Sept. 1999
	Vice President, Mining and Construction, Finning Chile S.A.	Aug. 1995	Dec. 1996
	General Manager, Construction Operations, Finning (Canada)	Jul. 1992	Jul. 1995
C. A. Cederberg	Vice Chairman, Finning Chile S.A.	Jan. 2000	Present
	President and Chief Executive Officer, Finning Chile S.A.	Aug. 1993	Jan. 2000
	Vice President, Mining and Construction Sales, Canadian Operations, Finning International Inc.	June 1991	Aug. 1993

<u>Officer</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
A. R. Guglielmin	Corporate Treasurer, Finning International Inc.	May 1998	Present
	Treasurer, British Columbia Hydro and Power Authority	Dec. 1992	Apr. 1998
H. M. Ho	Executive Vice President, Human Resources, Finning International Inc.	Feb. 1997	Present
	Vice President, Human Resources, Rolls-Royce Industries Canada Inc.	Feb. 1996	Feb. 1997
	Senior Vice President, Operations and Resources, North American Trust	Sep. 1994	Jan. 1996
	Vice President, Human Resources, Federal Industries, Metals Group	Jul. 1992	Sep. 1994
R. T. Mahler	Executive Vice President and Chief Financial Officer, Finning International Inc.	Aug. 1996	Present
	Vice President and Chief Financial Officer, Finning International Inc.	May 1990	Aug. 1996
I. M. Reid	President and Chief Operating Officer, Finning (Canada)	Nov. 1997	Present
	Vice President, Canadian Operations, Finning International Inc.	Sep. 1996	Nov. 1997
	Regional Manager, England and Wales, Finning (UK) Ltd.	Mar. 1995	Sep. 1996
	General Manager, Branch Operations, Mining, Finning International Inc.	May 1993	Mar. 1995

<u>Officer</u>	<u>Principal Occupation</u>	<u>From</u>	<u>To</u>
J. T. Struthers	Corporate Secretary, Finning International Inc.	June 1997	Present
	Manager, Corporate Services and Insurance, Finning International Inc.	Dec. 1993	June 1997
	Manager, Corporate Services, Finning International Inc.	Jan. 1987	Dec. 1993

OWNERSHIP OF VOTING SECURITIES

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, 0.24% of the Company's voting common shares.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company's consolidated financial statements annexed to this Annual Information Form as Appendix A.

In addition, the Company shall provide to any person, upon request to the Corporate Secretary of the Company:

- (a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
 - (i) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form,
 - (ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the issuer subsequent to the financial statements for the Company's most recently completed financial year,
 - (iii) one copy of the Management Proxy Circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that Management Proxy Circular, as appropriate, and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

- (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Appendix A

Consolidated Balance Sheets
As at December 31

(\$ thousands)

ASSETS	1999	1998
Current assets		
Accounts receivable	\$ 386,561	\$ 400,208
Inventories		
On-hand equipment	406,882	580,488
Parts and supplies	219,423	276,407
Current portion of instalment notes receivable	<u>47,442</u>	<u>52,425</u>
Total current assets	<u>1,060,308</u>	<u>1,309,528</u>
Finance assets		
Instalment notes receivable	71,628	47,505
Equipment leased to customers (Note 2)	<u>272,151</u>	<u>240,060</u>
Total finance assets	<u>343,779</u>	<u>287,565</u>
Rental equipment (Note 3)	341,534	319,879
Land, buildings and equipment (Note 4)	206,254	236,066
Goodwill (Note 5)	<u>74,359</u>	<u>76,563</u>
TOTAL ASSETS	<u><u>\$2,026,234</u></u>	<u><u>\$2,229,601</u></u>

Approved by the Directors:



J.F. Shepard, Director



W.R. Wyman, Director

Consolidated Balance Sheets
As at December 31

(\$ thousands)

LIABILITIES	1999	1998
Current liabilities		
Short-term debt (Note 6)	\$ 305,639	\$ 608,974
Accounts payable and accruals	424,609	421,326
Income tax payable	(11,201)	(12,323)
Current portion of long-term debt (Notes 6 and 7)	70,494	1,071
Total current liabilities	<u>789,541</u>	<u>1,019,048</u>
Long-term debt (Notes 6 and 7)	522,426	522,090
Deferred income taxes	17,672	11,548
Total liabilities	<u>1,329,639</u>	<u>1,552,686</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	209,955	208,579
Retained earnings	502,028	458,366
Cumulative currency translation adjustments (Note 9)	(15,388)	9,970
Total shareholders' equity	<u>696,595</u>	<u>676,915</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$2,026,234</u></u>	<u><u>\$2,229,601</u></u>

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

Consolidated Statements of Income and Retained Earnings
For the years ended December 31

(\$ thousands except per share amounts)

	1999	1998
Revenue		
New equipment	\$ 856,154	\$ 1,102,585
Used equipment	311,429	424,593
Equipment rental	155,659	170,063
Operating leases	96,014	91,381
Customer support services	797,472	783,445
Finance and other	<u>13,133</u>	<u>13,354</u>
Total revenue	2,229,861	2,585,421
Cost of sales	<u>1,648,478</u>	<u>2,004,358</u>
Gross profit	581,383	581,063
Selling, general and administrative expenses	<u>432,471</u>	<u>498,334</u>
Earnings before interest and taxes	148,912	82,729
Finance cost and interest on other indebtedness (Notes 6 and 7)	<u>65,768</u>	<u>75,179</u>
Income before provision for income taxes	83,144	7,550
Provision for income taxes (Note 11)	<u>23,544</u>	<u>4,365</u>
Net income	59,600	3,185
Dividends on preferred shares	<u>19</u>	<u>67</u>
Earnings attributable to common shares	59,581	3,118
Retained earnings, beginning of year	<u>458,366</u>	<u>471,116</u>
	517,947	474,234
Dividends on common shares	<u>15,919</u>	<u>15,868</u>
Retained earnings, end of year	<u>\$ 502,028</u>	<u>\$ 458,366</u>
Earnings per share (Note 12)		
Basic	\$ 0.75	\$ 0.04
Fully diluted	\$ 0.72	\$ 0.04
Weighted average number of common shares outstanding	79,616,362	79,328,826

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

Consolidated Statements of Cash Flow
For the years ended December 31

(\$ thousands)

	1999	1998
OPERATING ACTIVITIES		
Net income	\$ 59,600	\$ 3,185
Add (deduct) items not affecting cash		
Depreciation	184,148	189,627
Amortization of goodwill	2,204	2,204
Deferred income taxes	6,037	(13,163)
Equipment/parts provisions	(429)	33,756
Restructuring charges	-	13,436
Warranty reserves	(4,023)	(3,615)
Other items	3,261	738
	<u>250,798</u>	<u>226,168</u>
Changes in working capital items and other		
Accounts receivable	(14,592)	86,469
Inventories		
On-hand equipment	147,785	(31,444)
Parts and supplies	36,959	194
Instalment notes receivable	(20,116)	101,348
Accounts payable and accruals	37,196	(74,567)
Income taxes	202	(54,277)
	<u>187,434</u>	<u>27,723</u>
Cash provided by working capital items and other		
Rental equipment, net of disposals	(117,866)	(103,994)
Equipment leased to customers, net of disposals	(99,043)	(78,609)
	<u>221,323</u>	<u>71,288</u>
Cash provided by operating activities		

INVESTING ACTIVITY

Cash invested in land, buildings and equipment, net of disposals	<u>(9,020)</u>	<u>(33,868)</u>
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FINANCING ACTIVITIES

Increase in long-term debt	150,000	58,172
Repayment of long-term debt	(66,370)	(68,158)
Conversion and redemption of preferred shares	(996)	(170)
Issue of common shares on conversion of preferred shares and on exercise of stock options	2,372	3,158
Dividends paid	(15,938)	(15,935)
Currency translation adjustments	<u>21,964</u>	<u>(5,443)</u>
Cash provided by (used for) financing activities	<u>91,032</u>	<u>(28,376)</u>
Decrease in short-term debt	303,335	9,044
Short-term debt at beginning of year	608,974	618,018
Short-term debt at end of year	<u>\$ 305,639</u>	<u>\$ 608,974</u>
Cash paid during the year for:		
Interest	<u>\$ 56,698</u>	<u>\$ 70,027</u>

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

Notes to the Consolidated Financial Statements

December 31, 1999 and 1998

(\$ thousands, except the number of shares and per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred.

Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

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

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

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

Assets and liabilities using the exchange rates in effect at the balance sheet dates;

Revenue and expense items at approximate exchange rates prevailing at the time 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 has been a reduction in the net investment in the self-sustaining foreign operation;

The Company has hedged its investments in its foreign subsidiaries by borrowing funds in foreign currency. Exchange gains or losses are accounted for in the cumulative currency translation adjustments.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment. For parts and supplies, approximately 61% is recorded on a first-in, first-out basis and the remainder on an average cost basis.

Instalment Notes Receivable

Instalment notes receivable are recorded net of unearned finance charges.

Equipment Leased to Customers

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

Rental Equipment

Rental equipment is recorded at cost, net of depreciation. Cost is determined on a specific item basis. Rental equipment inventories are depreciated to the estimated residual value of each unit based on usage.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

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

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

Revenue Recognition

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

Pension Costs

The Company and its subsidiaries have defined benefit and defined contribution pension plans.

For defined benefit pension plans, the cost of pension benefits is based on reports prepared by independent actuaries every two years in the U.K. and every three years in Canada, using management's best estimate assumptions and a projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight line basis over the expected average remaining service life of the employee groups covered by the plans.

For defined contribution plans, the cost of pension benefits is a fixed percentage of member earnings for the year.

Goodwill

Goodwill acquired on the acquisition of subsidiaries is amortized to income on a straight line basis over 40 years.

Goodwill is evaluated annually, and is written down when the undiscounted future earnings of the related business is less than its carrying amount.

Income Taxes

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

Prior Year Comparatives

Certain prior year amounts have been reclassified to conform with the 1999 presentation.

2. EQUIPMENT LEASED TO CUSTOMERS

	1999	1998
Cost	\$ 392,366	\$ 347,398
Less accumulated depreciation	<u>(120,215)</u>	<u>(107,338)</u>
	<u>\$ 272,151</u>	<u>\$ 240,060</u>

Depreciation of equipment leased to customers for the year ended December 31, 1999 was \$66,539 (1998: \$59,579).

See Note 3 for the change in classification of customer rental-purchase contracts.

3. RENTAL EQUIPMENT

	1999	1998
Rental equipment	\$ 465,628	\$ 457,160
Less accumulated depreciation	<u>(124,094)</u>	<u>(137,281)</u>
	<u>\$ 341,534</u>	<u>\$ 319,879</u>

Depreciation of rental equipment for the year ended December 31, 1999 was \$91,924 (1998: \$102,257).

During the year, the Company changed its method of presenting customer rental-purchase contracts to reflect them as rental equipment assets. This equipment rental-purchase program totaled \$64,430 at December 31, 1999 (1998: \$77,630) and has been reclassified from equipment leased to customers to rental equipment. Depreciation of customer rental-purchase contracts for the year ended December 31, 1999 was \$21,545 (1998: \$31,598).

4. LAND, BUILDINGS AND EQUIPMENT

	1999	1998
Land	<u>\$ 47,647</u>	<u>\$ 54,090</u>
Buildings and equipment	321,573	368,266
Less accumulated depreciation	<u>(162,966)</u>	<u>(186,290)</u>
	<u>158,607</u>	<u>181,976</u>
Total land, buildings and equipment	<u><u>\$ 206,254</u></u>	<u><u>\$ 236,066</u></u>

Depreciation of buildings and equipment for the year ended December 31, 1999 was \$25,685 (1998: \$27,791).

5. GOODWILL

	1999	1998
Purchased goodwill	\$ 88,619	\$ 88,619
Accumulated amortization	<u>(14,260)</u>	<u>(12,056)</u>
	<u>\$ 74,359</u>	<u>\$ 76,563</u>

Amortization of goodwill for the year ended December 31, 1999 was \$2,204 (1998: \$2,204).

6. SHORT-TERM AND LONG-TERM DEBT

	1999	1998
Short-term debt		
Bank indebtedness, commercial paper and other loans (a)	<u>\$ 305,639</u>	<u>\$ 608,974</u>
Long-term debt		
Debentures (b)		
8.35% due March 22, 2004	75,000	75,000
7.75% due November 1, 2004	150,000	-
6.60% due December 8, 2006	75,000	75,000
Bank term facilities (c)	75,576	134,649
Bank term facilities denominated in Pound Sterling (d)	151,541	165,412
Other unsecured loans denominated in U.S. dollars and Chilean pesos, maturing between 2000 and 2004	65,803	73,100
	<u>592,920</u>	<u>523,161</u>
Less current portion of long-term debt	70,494	1,071
Total long-term debt	<u>\$ 522,426</u>	<u>\$ 522,090</u>

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

The Company has available \$900,000 in unsecured bank short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Other loans include supplier merchandising programs.

(b) **Debentures**

The Company's debentures are unsecured, and interest is payable semi-annually with principal due on maturity. On October 27, 1999, the Company issued \$150,000 of 7.75% debentures due November 1, 2004 under its \$300,000 Medium Term Note Program.

(c) **Bank term facilities**

The Company has available \$135,000 in unsecured bank term facilities. Borrowings under the term facilities are at floating rates of interest which averaged 5.23% in 1999 (1998: 5.48%). Total draws under the term facilities were \$75,576 as at December 31, 1999 (1998: \$134,649). These facilities expire August 31, 2001 and December 31, 2002.

(d) **Bank term facilities denominated in Pound Sterling**

The Pound Sterling term facilities are unsecured and are comprised of a £25,000 floating rate loan at an average interest rate of 6.22% (1998: 7.63%), maturing June 22, 2000; a £15,000 floating rate loan at an average interest rate of 6.09% (1998: 7.305%), maturing May 25, 2003; and a £25,000 fixed rate loan at 7.675%, maturing May 8, 2002. The proceeds of these loans have been used to finance the Company's investment in the U.K.

LONG-TERM DEBT REPAYMENTS

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

2000	\$ 70,494
2001	8,496
2002	136,483
2003	74,249
2004	228,198
Thereafter	75,000
	<u>\$ 592,920</u>

Interest expense includes interest on debt incurred for a term greater than one year of \$34,111 (1998: \$38,795).

7. FINANCIAL INSTRUMENTS

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

Interest Rate Risk Management

The Company has a policy of arranging its financing so that the fixed rate financing offered to its customers on its lease and notes portfolio is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. To meet this objective, the Company enters into interest rate swap agreements, which fix the effective interest rate and currency of the borrowing. At December 31, 1999, interest rate swap agreements having a notional principal amount of \$104,810 (1998: \$73,213) at a weighted average fixed rate of 5.49% (1998: 5.60%) were outstanding. These agreements expire on various dates between 2000 and 2004. The fair value of the interest rate swap agreements as at December 31, 1999 was \$485 (1998: (\$557)) in favour of the Company, taking into account interest rates in effect at the time.

Additionally, the Company has an interest rate swap agreement outstanding at a notional principal amount of \$150,000. The Company will receive a fixed rate of 7.75% and will pay floating bankers' acceptances based rates determined quarterly (6.41% at December 31, 1999). The fair value of the interest rate swap agreement as at December 31, 1999, was \$27 in favour of counterparties. The agreement expires on November 1, 2004.

Foreign Exchange Risk Management

The Company manages foreign exchange risk by matching assets with related liabilities, through adjustments in the pricing of its product sales, and through the use of derivative instruments such as forward exchange contracts. As at December 31, 1999, the aggregate notional amount of forward exchange contracts was \$1,672 (1998: \$22,655).

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 accrued liabilities approximates their recorded values due to the short-term maturities of these instruments.

	Asset (Liability)			
	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (includes current portion)	\$ (592,920)	\$ (590,995)	\$ (523,161)	\$ (533,674)
Interest rate swaps	-	458	-	(557)
Forward exchange contracts	-	(28)	-	(128)

Credit Risk

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

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

8. SHARE CAPITAL

Authorized

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

Issued and outstanding

		1999	1998
-	Preferred shares, Series E (1998: 99,600)	\$ -	\$ 996
79,736,877	Common shares (1998: 79,427,879)	<u>209,955</u>	<u>207,583</u>
		<u>\$ 209,955</u>	<u>\$ 208,579</u>

Common Shares

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in 2002.

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

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 60 days after the date of the bid circular.

A summary of the changes in common shares are as follows:

	1999		1998	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance, beginning of year	79,427,879	\$207,583	79,090,612	\$204,425
Conversion of 99,600 Series E (1998: 16,950) preferred shares	156,352	996	26,611	170
Exercise of stock options	<u>152,646</u>	<u>1,376</u>	<u>310,656</u>	<u>2,988</u>
Balance, end of year	<u><u>79,736,877</u></u>	<u><u>\$209,955</u></u>	<u><u>79,427,879</u></u>	<u><u>\$207,583</u></u>

Stock Options

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

	1999	
	<u>Shares</u>	<u>Option Price</u>
Options outstanding, beginning of year	4,998,340	\$5.49 to \$17.00
Issued	1,213,000	\$9.04 to \$10.95
Exercised	(152,646)	\$5.54 to \$11.86
Cancelled	(125,776)	\$5.49 to \$17.00
Options outstanding, end of year	<u>5,932,918</u>	<u>\$6.00 to \$17.00</u>

A total of 3,758,141 options were exercisable at December 31, 1999 with the remaining options outstanding exercisable at various times to February 11, 2009.

9. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

	1999	1998
Balance, beginning of year	\$ 9,970	\$ 10,472
Gain realized during the year	(5,435)	(2,701)
Translation adjustments for the year	<u>(19,923)</u>	<u>2,199</u>
Balance, end of year	<u>\$ (15,388)</u>	<u>\$ 9,970</u>

Translation gains or losses on the consolidation of foreign subsidiaries financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 1999, 1998 and 1997, the Canadian dollar exchange rates against the British pound were 2.3314, 2.5448 and 2.3472, respectively, and the Chilean peso exchange rates against the Canadian dollar were 367, 308 and 299, respectively.

During 1999, a dividend of £10,000 (1998: £10,000) was paid from Finning Holdings Limited (U.K.) to the Company which generated a foreign exchange gain of \$5,435 (1998: \$2,701).

10. PENSION PLANS

The Company's obligations for pension benefits, under its defined benefit plans at December 31, 1999, were estimated by the plans' actuaries to be \$356,734 (1998: \$329,299). Pension plan assets at December 31, 1999, on an adjusted market value basis, were \$373,182 (1998: \$369,118).

11. PROVISION FOR INCOME TAXES

	1999	1998
Current	\$ 17,507	\$ 17,528
Deferred	<u>6,037</u>	<u>(13,163)</u>
Provision for income taxes	<u>\$ 23,544</u>	<u>\$ 4,365</u>

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

	1999	1998
Combined federal and provincial income tax rates	<u>43.99%</u>	<u>43.73%</u>
Provision for income taxes based on the combined federal and provincial rates	\$ 36,575	\$ 3,302
Increase (decrease) in provision for income taxes resulting from:		
Lower effective rates on the losses (earnings) of foreign subsidiaries	(9,049)	3,321
Benefit of unrecognized tax loss carryforward of foreign subsidiary	(2,320)	(514)
Amortization of goodwill and increase in assigned asset value	433	760
Large corporation tax	2,002	1,530
Income not subject to tax	(2,735)	(1,421)
Other items	<u>(1,362)</u>	<u>(2,613)</u>
Provision for income taxes	<u>\$ 23,544</u>	<u>\$ 4,365</u>

The Company's subsidiary, Finning Chile S.A., has a tax loss carryforward of \$96,130 (1998: \$103,000), denominated in local currency, available to offset future taxable income. This loss was acquired on acquisition of the company in August 1993. These losses are indexed to Chile's inflation rate, which was 2.60% in 1999, and have no expiry date.

12. EARNINGS PER SHARE

Earnings per share has been calculated using the weighted average number of common shares outstanding during each year.

Fully diluted earnings per share has been calculated on the assumption that all the outstanding preferred shares were converted and all outstanding stock options were exercised at the beginning of the year.

13. ECONOMIC RELATIONSHIPS

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

14. SEGMENTED INFORMATION

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

Operating units serve the following geographic areas:

- Canadian operations: British Columbia, Alberta, the western part of the Northwest Territories and the Yukon;
- U.K. operations: England, Scotland, Wales, Falkland Islands and the Channel Islands;
- Chilean operations: throughout the country; and
- International operations: this segment represents the sale of used equipment and used parts worldwide and the expenses associated with the corporate head office.

The reportable geographic segments are:

1999

	<u>Canada</u>	<u>U.K.</u>	<u>Chile</u>	<u>Inter- national</u>	<u>Segment Eliminations</u>	<u>Consolidated</u>
Revenue from external sources	\$ 1,032,922	\$ 723,879	\$ 388,551	\$ 106,221	\$ (21,712)	\$ 2,229,861
Earnings (loss) before interest and taxes	102,480	18,976	29,294	(1,838)	-	148,912
Finance costs and interest on other indebtedness	33,341	10,299	13,830	8,298	-	65,768
Provision for (recovery of) income taxes	25,889	2,774	-	(5,119)	-	23,544
Net income (loss)	<u>\$ 43,250</u>	<u>\$ 5,903</u>	<u>\$ 15,464</u>	<u>\$ (5,017)</u>	<u>\$ -</u>	<u>\$ 59,600</u>
Identifiable assets	<u>\$ 1,242,837</u>	<u>\$ 454,267</u>	<u>\$ 245,725</u>	<u>\$ 362,466</u>	<u>\$ (279,061)</u>	<u>\$ 2,026,234</u>
Capital expenditures	<u>\$ 8,703</u>	<u>\$ 6,106</u>	<u>\$ 6,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,864</u>
Depreciation and amortization of capital assets and goodwill	<u>\$ 145,152</u>	<u>\$ 24,504</u>	<u>\$ 15,846</u>	<u>\$ 850</u>	<u>\$ -</u>	<u>\$ 186,352</u>

1998

	<u>Canada</u>	<u>U.K.</u>	<u>Chile</u>	<u>Inter- national</u>	<u>Segment Eliminations</u>	<u>Consolidated</u>
Revenue from external sources	\$ 1,136,917	\$ 794,356	\$ 503,505	\$ 151,979	\$ (1,336)	\$ 2,585,421
Earnings (loss) before interest and taxes	85,434	(30,429)	25,415	2,309	-	82,729
Finance costs and interest on other indebtedness	35,194	12,613	21,991	5,381	-	75,179
Provision for (recovery of) income taxes	15,493	(10,831)	-	(297)	-	4,365
Net income (loss)	\$ 34,747	\$ (32,211)	\$ 3,424	\$ (2,775)	\$ -	\$ 3,185
Identifiable assets	\$ 1,303,092	\$ 464,770	\$ 354,029	\$ 378,661	\$ (270,951)	\$ 2,229,601
Capital expenditures	\$ 29,332	\$ 6,778	\$ 8,066	\$ -	\$ -	\$ 44,176
Depreciation and amortization of capital assets and goodwill	\$ 147,548	\$ 19,471	\$ 23,315	\$ 1,497	\$ -	\$ 191,831

15. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgements of all information available up to January 28, 2000.

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

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

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

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



R. T. Mahler
Executive Vice President and Chief Financial Officer
January 28, 2000, 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, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.



ARTHUR ANDERSEN LLP, Chartered Accountants
January 28, 2000, Vancouver, BC Canada