

UNITED KINGDOM



LANDFILL COMPACTOR - CANNOCK, U.K.



STOCKTON, U.K.



STOKE-ON-KENT, U.K.



SCRAP LOADER - STOKE, U.K.

UP TO THE CHALLENGE

2006 PERFORMANCE IMPROVES

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

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

STRATEGIC REPOSITIONING

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

MATERIALS HANDLING SOLD - FOCUS ON CORE CAT BUSINESS

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

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

FOUR LINES OF BUSINESS

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

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

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

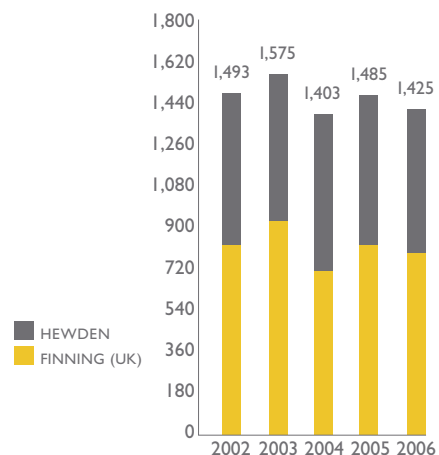
The **Heavy and Core Construction Equipment** sector is Finning's traditional business in the U.K. This group sells and supports the larger Caterpillar equipment used in sectors such as coal mining, quarrying, waste management, and large construction projects. These customers require a complete solution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

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

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

FINNING GROUP, UK REVENUE FROM CONTINUING OPERATIONS* (\$ MILLIONS)



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

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

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

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

Hewden is in the final stages of implementing a new information system designed to significantly improve management's access to operating and financial information. The new system will

improve our ability to measure customer and product profitability, as well as improve rental inventory management, pricing discipline and customer billing, and ultimately enhance customer service. The first components of this system were successfully rolled out in January 2007, and the business support and branch systems are expected to become fully operational by summer 2007.

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

CATERPILLAR SUPPORT

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

GROWING OUR SERVICE BUSINESS

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

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

HEALTHY CONSTRUCTION INDUSTRY

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

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

ATTRACTIVE OUTLOOK

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

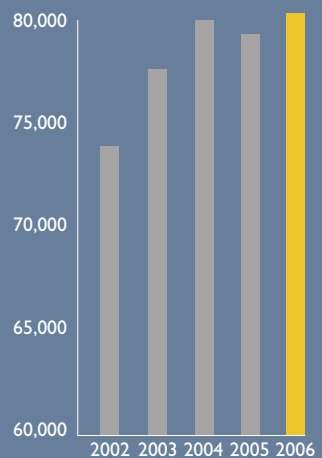
With a number of business improvements still underway, Caterpillar's continuing support and our strong commitment to deliver the best customer solutions in the U.K. market, we expect further improvement in the performance of our U.K. based businesses in 2007.

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TELEHANDLER - HARTLEPOOLE DOCKS, U.K.

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



*U.K. DEPARTMENT OF TRADE & INDUSTRY