



**Second Quarter and Year-to-Date 2002 Results**

**July 25, 2002**

**FINNING ANNOUNCES RECORD QUARTERLY EARNINGS AND INCREASE IN DIVIDEND**

*(\$ millions, except EPS data)*

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Revenue</b>	<b>797.4</b>	849.4	<b>1,569.0</b>	1,578.3
<b>EBIT</b>	<b>71.7</b>	71.5	<b>135.6</b>	119.0
<b>Net Income</b>	<b>34.7</b>	28.9	<b>65.4</b>	46.2
<b>Basic EPS</b>	<b>\$0.46</b>	\$0.38	<b>\$0.86</b>	\$0.61
<b>Diluted EPS</b>	<b>\$0.44</b>	\$0.37	<b>\$0.83</b>	\$0.60
<b>Cash Flow after Working Capital Changes</b>	<b>168.7</b>	92.6	<b>347.5</b>	198.6

**Vancouver, Canada** – Finning International Inc. today reported record second-quarter net income of \$34.7 million, up \$5.8 million, or 20.1% over the second quarter of 2001. As well, Basic EPS increased 21.1% to \$0.46. Earnings Before Interest and Taxes (EBIT) for the quarter was \$71.7 million and comparable to the same period last year. The results for the quarter included net other income of \$0.8 million. Normalized net income was a record high \$33.9 million (2001: \$30.8 million), up 10.0%, and normalized Basic EPS was \$0.44 (2001: \$0.41), up 8.8%.

Cash flow after working capital changes was \$168.7 million for the second quarter; up significantly from \$92.6 million in the second quarter 2001 reflecting continued working capital productivity.

**SIX MONTHS RESULTS**

For the first half of the year, revenues were \$1,569.0 million, 0.6% lower than 2001 while EBIT increased by 13.9% to \$135.6 million and net income increased 41.5% to \$65.4 million, when compared to the same period in 2001. Balance sheet efficiencies generated an increase in cash flow after working capital changes of 75.0% to \$347.5 million.

**CEO COMMENTARY AND OUTLOOK**

Doug Whitehead, President and CEO of Finning International Inc. said: "I am very pleased to announce to our shareholders another record level in quarterly earnings. These results reflect the continued focus on operating and financial performance, our global diversification and the efforts of employees in all our operations. Our results are particularly rewarding considering that the economic environment continues to be challenging in some of the markets we serve.

Revenue year-to-date is consistent with our outlook. The decline in the second quarter was mainly attributable to our Canadian operations, including a loss of revenue from the divestment of the Canadian Material Handling business, and the absence of large mining unit deliveries reflecting a softening in the oil and gas sector.

In the second quarter of 2002, Finning continued to deliver stronger financial earnings despite lower revenues. We maintained our focus on operating and asset efficiencies, which have resulted in the quarter over quarter improvement. This was achieved through continued focus on cost controls, efficiencies within the customer support services and contracts, and optimized working capital. Lower interest rates and borrowing levels, and cost effective tax strategies have further improved our financial performance. Earnings were up in all operations other than Canada.

Significant events during the quarter, included:

- A \$15.0 million investment in Maxim Power Corp., a Calgary-based independent power producer, and the acquisition of 100% of Diperk, the dealer for two Caterpillar-manufactured product lines, Perkins Engines and F.G. Wilson in Chile. Finning also continued to expand its Power and Energy presence, and was awarded rental contracts to supply power in the UK for the Queen's Jubilee celebrations at Buckingham Palace, and in Canada, for the G8 Summit at the Kananaskis Conference site.
- In May, Canadian operations announced approximately \$33.0 million of support equipment sale agreements into the oil sands market that will benefit fourth quarter and next year's results.
- In July, subsequent to the quarter end, Chilean operations announced new mining agreements in excess of \$39 million with Codelco Chile. The contracts included the first introduction of the new 797B CAT truck line accompanied by complete maintenance packages, and a two-year renewal of existing maintenance contract covering 29 pieces of equipment including 13 CAT 793B trucks.

We are also pleased to announce an increase in our quarterly dividend of approximately 15%, or \$0.01 per quarter. This increase is the second this year, following the increase of \$0.02 per quarter announced in February. This increase reflects management's confidence in the earnings and revenue growth for the company going forward.

Looking at the balance of 2002, we are increasingly confident in our outlook in earnings for the year."

Rick Mahler, Executive Vice President and CFO of Finning noted: "Our ability to deliver record earnings in the second quarter was largely attributable to the continued improvement of our balance sheet. Total assets were reduced by \$117.4 million from year-end 2001 due partly to the sale/leaseback of properties in Canada, but also reflecting continued improvement in our global working capital. It is important to note that as a result of the sale/leaseback of our Canadian properties in the first quarter, comparative quarters year-over-year show a higher general and administrative expense for Canadian occupancy charges of approximately \$0.8 million offset by lower interest expense. Our average operating return on assets remained at the first quarter level of 8.9% compared to December 2001 results of 8.5%. Our total debt to equity ratio of 0.62 is the lowest in over ten years and continued to improve from the March 2002 level of 0.70 and the December 2001 level of 0.87."

Complete financial statements and management discussion and analysis can be accessed at [www.finning.com](http://www.finning.com)

Finning International Inc. sells, rents, finances and provides customer support services for Caterpillar equipment and engines, and complementary equipment, in Western Canada, the U.K. and Chile. The corporation's Head Office is located in Vancouver, B.C., Canada. Finning International Inc. ([www.finning.com](http://www.finning.com)) is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT).

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of Operations

Consolidated revenue declined by 6.1% while EBIT levels were maintained quarter over quarter. Hence EBIT as a percentage of revenue, improved to 9.0% for the recent quarter, up from 8.4% a year ago. Basic Earnings Per Share (EPS) for the quarter was \$0.46 compared with \$0.38 in the same period last year, representing a 21.1% increase.

Normalized results exclude the impact of other expenses/(income) items (see note 3 of Notes to the Interim Consolidated Financial Statements) and the 2001 goodwill amortization. Normalized net income for the quarter was up 10.0% to \$33.9 million (2001: \$30.8 million) and Normalized Basic EPS was up 8.8% to \$0.44 (2001: \$0.41).

Cash flow after changes in working capital was \$168.7 million, up \$76.1 million or 82.1% over the same quarter last year. The Company made a net investment of \$67.5 million (2001: \$101.7 million) in revenue-earning assets in this quarter.

The table below sets forth summary financial data for the periods indicated.

	<b>Q2, 2002</b>	Q2, 2001	<b>Q2, 2002</b>	Q2, 2001
	(\$ million)	(\$ million)	(% of Revenue)	
Revenue	<u>797.4</u>	<u>849.4</u>		
Gross profit	239.5	239.4	30.0%	28.2%
Selling, general & administrative expenses	<u>168.8</u>	<u>166.3</u>	<u>21.2%</u>	<u>19.6%</u>
Normalized EBIT	70.7	73.1	8.9%	8.6%
Amortization of goodwill	-	2.6	0.0%	0.3%
Other Expenses/ (Income)	<u>(1.0)</u>	<u>(1.0)</u>	<u>-0.1%</u>	<u>-0.1%</u>
EBIT	<u>71.7</u>	<u>71.5</u>	<u>9.0%</u>	<u>8.4%</u>
Finance costs and interest on other indebtedness	18.9	21.6	2.4%	2.5%
Provision for income taxes	13.8	14.2	1.7%	1.7%
Non-controlling interests	<u>4.3</u>	<u>6.8</u>	<u>0.5%</u>	<u>0.8%</u>
Net income	<u>34.7</u>	<u>28.9</u>	<u>4.4%</u>	<u>3.4%</u>

On a year-to-date basis, summary financial data is as follows:

	Year to Date			
	<b>2002</b>	2001	<b>2002</b>	2001
	(\$ million)	(\$ million)	(% of Revenue)	
Revenue	<u>1,569.0</u>	<u>1,578.3</u>		
Gross profit	463.3	442.5	29.5%	28.0%
Selling, general & administrative expenses	<u>338.5</u>	<u>316.3</u>	<u>21.6%</u>	<u>20.0%</u>
Normalized EBIT	124.8	126.2	8.0%	8.0%
Amortization of goodwill	-	4.6	0.0%	0.3%
Other Expenses/ (Income)	<u>(10.8)</u>	<u>2.6</u>	<u>-0.7%</u>	<u>0.2%</u>
EBIT	<u>135.6</u>	<u>119.0</u>	<u>8.6%</u>	<u>7.5%</u>
Finance costs and interest on other indebtedness	39.3	42.3	2.5%	2.7%
Provision for income taxes	22.6	19.3	1.4%	1.2%
Non-controlling interests	<u>8.3</u>	<u>11.2</u>	<u>0.5%</u>	<u>0.7%</u>
Net income	<u>65.4</u>	<u>46.2</u>	<u>4.2%</u>	<u>2.9%</u>

## **Revenues**

Revenue in the second quarter of 2002 decreased \$52.0 million (6.1%) to \$797.4 million mainly as a result of lower revenues achieved by Canadian operations.

From a line of activity perspective, lower new equipment sales and rental and leasing activity were partially offset by strength in customer support services.

### ***Canada***

As expected, revenues decreased by \$58.2 million or 16.1% in Canada. Declines were experienced in all lines of activity, primarily in new mobile and power & energy systems equipment sales and used equipment sales. Revenue also reflected the absence of revenue contributed by the Materials Handling business (Q2 2001: \$13.6 million) which was sold late 2001. New equipment order backlog and new orders improved from December 2001 and March 2002 levels but were lower than this time last year.

### ***United Kingdom***

Revenues in the UK were lower by \$6.9 million or 3.3%. New equipment revenue was lower than the strong prior year comparative period that included large sales of approximately \$18.4 million to the Birmingham Northern Relief Road project. All other components of revenue were higher than Q2 2001. Power & Energy Systems saw improvements in the EPG gas sector and the Landfill sector. Materials handling opportunities arose from several international companies selecting a preferred supplier for all their European depots.

### ***Chile***

Revenues from Chile increased \$7.9 million or 6.6%. New incremental revenues of \$8.6million in Power & Energy Systems was contributed through the second quarter acquisition of Diperk, while rental revenues increased with the addition of rental fleet units through the 2001 acquisition of Compania Constructora Industrial Comercial Panaericana Ltd ("CIPA") and the development of the CAT rental store. Revenue improved by 10.9% in customer support services through improved performance on customer service contracts. These increases were partially offset by reductions in units delivered into mining as customers delayed purchases.

### ***Hewden***

Hewden revenues increased \$7.4 million or 4.8% compared with the second quarter of 2001. Through an internal reorganization of Hewden's mobile crane business, used equipment sales revenues increased by \$10.5 million reflecting the disposal of most of their large cranes. Other business segments were weaker than the prior year reflecting the softness in the overall rental market.

### ***Other***

The international used parts business previously carried on by Universal Machinery Services was realigned into the other Finning dealership operations in late 2001.

The tables below provide details of revenue by operations and lines of business for the second quarter and year-to-date:

(\$ million)	Canada	UK	Chile	Hewden	Other	Consolidated	Revenue percentage
<b>Q2, 2002</b>							
New mobile equipment	89.4	77.6	35.9	1.9	-	204.8	25.7%
New power & energy systems	11.0	22.1	10.3	-	-	43.4	5.4%
Used equipment	42.1	35.3	2.8	16.4	-	96.6	12.1%
Equipment rental	21.3	14.1	4.0	134.6	-	174.0	21.8%
Operating leases	21.1	-	-	-	-	21.1	2.7%
Customer support services	115.9	55.2	73.9	9.8	-	254.8	32.0%
Finance and other	2.4	-	0.3	-	-	2.7	0.3%
Total	303.2	204.3	127.2	162.7	-	797.4	100.0%
Revenue percentage by operations	38.0%	25.6%	16.0%	20.4%	0.0%	100.0%	

<b>Q2, 2001</b>							
New mobile equipment	96.5	106.2	41.6	1.8	-	246.1	29.0%
New power & energy systems	32.5	17.3	1.7	0.1	-	51.6	6.1%
Used equipment	58.6	23.3	6.6	5.8	0.8	95.1	11.2%
Equipment rental	23.4	12.6	2.8	138.3	-	177.1	20.9%
Operating leases	26.3	-	-	-	-	26.3	3.0%
Customer support services	120.8	51.7	66.7	9.2	1.5	249.9	29.4%
Finance and other	3.3	-	-	-	-	3.3	0.4%
Total	361.4	211.1	119.4	155.2	2.3	849.4	100.0%
Revenue percentage by operations	42.5%	24.8%	14.1%	18.3%	0.3%	100.0%	

(\$ million)	Canada	UK	Chile	Hewden	Other	Consolidated	Revenue percentage
<b>YTD, 2002</b>							
New mobile equipment	158.6	151.3	68.0	4.1	-	382.0	24.3%
New power & energy systems	40.4	46.4	12.7	-	-	99.5	6.3%
Used equipment	82.7	71.5	6.2	23.3	-	183.7	11.7%
Equipment rental	47.1	29.0	7.5	266.4	-	350.0	22.3%
Operating leases	44.9	-	-	-	-	44.9	2.9%
Customer support services	235.8	112.5	136.8	19.5	-	504.6	32.2%
Finance and other	3.9	-	0.4	-	-	4.3	0.3%
Total	613.4	410.7	231.6	313.3	-	1,569.0	100.0%
Revenue percentage by operations	39.1%	26.2%	14.7%	20.0%	0.0%	100.0%	

<b>YTD, 2001</b>							
New mobile equipment	169.2	192.7	64.8	3.9	-	430.6	27.3%
New power & energy systems	66.3	40.0	4.2	0.1	-	110.6	7.0%
Used equipment	104.6	49.3	16.9	9.8	0.8	181.4	11.5%
Equipment rental	48.0	24.9	5.5	234.2	-	312.6	19.8%
Operating leases	48.9	-	-	-	-	48.9	3.1%
Customer support services	235.9	103.2	126.5	16.8	4.8	487.2	30.9%
Finance and other	6.5	-	0.5	-	-	7.0	0.4%
Total	679.4	410.1	218.4	264.8	5.6	1,578.3	100.0%
Revenue percentage by operations	43.0%	26.0%	13.8%	16.8%	0.4%	100.0%	

## Gross profit

Despite lower revenues, gross profit of \$239.5 was the same as the corresponding quarter last year. A revenue mix shift towards customer support services combined with improved margins, delivered a consolidated gross profit percentage of 30.0% compared with 28.2% last year. Improvement in the gross margin percentage was mainly due to improved performance of customer support contracts in the UK and Chilean operations and parts price changes implemented in the UK operation. In Hewden, the gross profit percentage declined as a result of lower hire utilization rates.

On a year-to-date basis when compared to 2001, 2002 gross profit was \$20.8 million (4.7%) higher and the gross margin percentage improved to 29.5% from 28.0%.

## Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") increased \$2.5 million to \$168.8 million in Q2, 2002. The increase was partially attributable to higher occupancy costs in the Canadian operation as a result of the sale/leaseback of Canadian properties in the first quarter of 2002. As a percentage of revenue, SG&A expenses were 21.2% compared with 19.6% in Q2, 2001 reflecting the above transaction and partially as a result of the revenue mix shift towards rentals and customer support services which have a higher cost structure.

For the first half of 2002, SG&A increased \$22.2 million and 1.6% as a percentage of revenue compared to 2001. This increase reflects the effect of only five months inclusion of Hewden in 2001 and a revenue mix shift towards the higher cost structure of rental and customer support services.

## Other expenses / (income)

Other expenses/(income) include unusual items shown separately to facilitate comparison with the corresponding quarter last year. See note 3 of Notes to the Interim Consolidated Financial Statements for further details.

## Earnings before interest and taxes (EBIT)

Earnings before interest and taxes of \$71.7 million was virtually unchanged from the same period last year and does not include amortization of goodwill, \$2.6 million which was included in the Q2 2001 results. EBIT as a percentage of revenue improved to 9.0% from 8.4% in Q2, 2001.

On a year-to-date basis, EBIT was \$135.6 million compared to the 2001 level of \$119.0 million. On a normalized EBIT basis 2002 was \$124.8 million while 2001 was \$126.2 million.

For the segmentation of EBIT by operation, please refer to note 5 of Notes to the Interim Consolidated Financial Statements.

## Finance cost and interest on other indebtedness

Finance cost and interest on other indebtedness at \$18.9 million was \$2.8 million lower from Q2, 2001. Year-to-date finance cost was \$39.3 lower by \$3.0 million compared to 2001. The lower finance cost resulted from lower borrowing levels (partially resulting from the first quarter sale/leaseback of Canadian properties) and lower effective interest rates.

## Provision for income taxes

Provision for income taxes for the quarter amounted to \$13.8 million compared with \$14.2 million for the same period last year. Excluding the tax provision of \$0.2 million on Other expense/(income) (see note 3 of Notes to the Interim Consolidated Financial Statements), provision for income taxes for the quarter was \$13.6 million. The Company's normalized effective tax rate, as a percentage of income before taxes (but after non-controlling interests), was 28.6% compared with 31.0% during the same quarter last year.

Year-to-date income tax expense was \$22.6 million compared to \$19.3 million in 2001. Excluding the tax expense of \$2.3 million on Other expense/(income), provision for income taxes for the year-to-date was \$20.3 million with an effective normalized tax rate of 26.2% compared with 29.0% last year.

Both current quarter and year-to-date income tax provisions reflect a higher proportion of normalized income from lower tax jurisdictions and lower effective Canadian tax rates.

### **Non-controlling interests**

The distribution to the non-controlling partnership interests for the quarter was \$4.3 million, representing a yield of 4.1% compared to \$6.8 million and a yield of 6.5% in the second quarter of 2001. Distribution for the first six months was \$8.3 million (yield of 3.9%) compared to the previous year of \$11.2 million (yield of 6.7%).

### **Net income**

Net income improved by 20.1% to \$34.7 million in Q2, 2002 compared with the same period last year. Basic earnings per share for the quarter improved by 21.1% to \$0.46 from \$0.38.

The results for the quarter included gains on property disposals and other expenses. Excluding these gains and other expenses and goodwill amortization, normalized net income was a record high \$33.9 million (2001: \$30.8 million) and normalized Basic EPS was \$0.44 (2001: \$0.41).

For the six months ended June 30<sup>th</sup>, net income improvement of \$19.2 million (41.5%) is attributable to the gains on property disposals, lower finance costs and lower non-controlling interest distributions. Normalized net income was \$57.0 million compared to \$51.6 million last year and normalized EPS was \$0.75 vs. \$0.68.

### **Liquidity and capital resources**

Cash flow from operating activities was \$101.2 million in the quarter, compared with cash used in operating activities of \$9.1 million in the corresponding period last year, an increase of \$110.3 million. The increase from Q2, 2001 was primarily a result of greater cash flow after working capital changes of \$76.1 million combined with lower net investments of \$34.2 million in revenue earning equipment. On a year-to-date basis, cash flow from operating activities was \$204.8 million up from \$56.5 million in 2001, all as a result of greater cash flow from working capital.

Net cash used for investing activities totaled \$24.9 million as a result of a \$15.0 million equity investment in Maxim (a Calgary-based independent power producer providing innovative distributed power solution in the domestic and international energy markets); a \$6.3 million purchase of Diperk (an engine and generator set distribution company located in Chile); and, modest operational capital expenditures of \$8.8 million (YTD: \$16.3 million) offset by capital divestments of \$5.2 million (YTD: \$17.6 million). On a year-to-date basis, net cash was generated in the amount of \$57.1 million reflecting the above as well as the first quarter proceeds of \$77.0 million from the Canadian property sale/leaseback.

While the Company has an active share repurchase program in effect until September 23, 2002, no common shares were repurchased this quarter. In the quarter, \$9.6 million of cash was generated from the exercise of stock options. (Year-to-date, \$17.8 million was generated).

The Company's short and long-term borrowings of \$783.8 million were lower by \$262.3 million from \$1,046.1 million at December 31, 2001.

### **Financial derivatives and risk management**

The Company uses various financial instruments such as interest rate swaps and forward exchange contracts and options as hedges against actual assets or liabilities.

### **Financial risks and uncertainties**

The Company's financial performance may be influenced either favorably or adversely by fluctuations in foreign exchange and commodity prices (see note 6 of Notes to the Interim Consolidated Financial Statements).

For further details on the explanation and the management of liquidity and capital resources, financial derivatives and financial risks and uncertainties, please refer to the Management Discussion and Analysis as of December 31, 2001.

## INTERIM CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS

(C\$ thousands except per share amounts) (unaudited)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Revenue				
New mobile equipment	\$ 204,795	\$ 246,100	\$ 381,966	\$ 430,568
New power and energy systems	43,368	51,557	99,459	110,517
Used equipment	96,569	95,135	183,688	181,488
Equipment rental	173,994	177,132	349,979	312,643
Operating leases	21,125	26,300	44,920	48,903
Customer support services	254,797	249,958	504,609	487,219
Finance and other	2,738	3,236	4,334	6,995
Total revenue	<b>797,386</b>	849,418	<b>1,568,955</b>	1,578,333
Cost of sales	<b>557,887</b>	610,006	<b>1,105,626</b>	1,135,854
Gross profit	<b>239,499</b>	239,412	<b>463,329</b>	442,479
Selling, general and administrative expenses	<b>168,749</b>	166,264	<b>338,515</b>	316,288
Other expenses/(income) (Note 3)	<b>(1,009)</b>	(972)	<b>(10,761)</b>	2,628
Earnings before interest, taxes, amortization of goodwill and non-controlling interests (EBITA)	<b>71,759</b>	74,120	<b>135,575</b>	123,563
Finance cost and interest on other indebtedness	<b>18,906</b>	21,656	<b>39,286</b>	42,304
Income before provision for income taxes	<b>52,853</b>	52,464	<b>96,289</b>	81,259
Provision for income taxes	<b>13,840</b>	14,152	<b>22,593</b>	19,267
Non-controlling interests	<b>4,323</b>	6,852	<b>8,270</b>	11,224
Amortization of goodwill	-	2,578	-	4,541
Net income available to shareholders	<b>34,690</b>	28,882	<b>65,426</b>	46,227
Retained earnings, beginning of period	<b>615,981</b>	529,401	<b>590,588</b>	521,569
Dividends on common shares	<b>(5,375)</b>	(3,790)	<b>(10,718)</b>	(7,556)
Premium on repurchase of common shares	-	-	-	(5,747)
Retained earnings, end of period	<b>\$ 645,296</b>	\$ 554,493	<b>\$ 645,296</b>	\$ 554,493
Gross profit as a percentage of revenue	<b>30.0%</b>	28.2%	<b>29.5%</b>	28.0%
EBITA as a percentage of revenue	<b>9.0%</b>	8.7%	<b>8.6%</b>	7.8%
Net income as a percentage of revenue	<b>4.4%</b>	3.4%	<b>4.2%</b>	2.9%
Earnings per share (EPS)				
Basic EPS	<b>\$0.46</b>	\$0.38	<b>\$0.86</b>	\$0.61
Diluted EPS	<b>\$0.44</b>	\$0.37	<b>\$0.83</b>	\$0.60
Basic EPS before amortization of goodwill	<b>\$0.46</b>	\$0.41	<b>\$0.86</b>	\$0.67
Diluted EPS before amortization of goodwill	<b>\$0.44</b>	\$0.41	<b>\$0.83</b>	\$0.66
Weighted average number of shares outstanding			<b>76,495,072</b>	75,600,394

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

## INTERIM CONSOLIDATED BALANCE SHEETS

(C\$ thousands) (unaudited)

	June 30 2002	December 31 2001
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable and other	\$ 526,178	\$ 513,599
Inventories		
On-hand equipment	358,572	418,672
Parts and supplies	235,335	237,557
Current portion of instalment notes receivable	67,714	67,350
Total current assets	<u>1,187,799</u>	<u>1,237,178</u>
Finance assets		
Instalment notes receivable	72,342	70,468
Equipment leased to customers	221,042	233,375
Total finance assets	<u>293,384</u>	<u>303,843</u>
Rental equipment	790,793	776,832
Land, buildings and equipment (Note 1)	240,231	312,359
Future income taxes	3,246	2,825
Goodwill (Note 2)	405,912	405,744
Total assets	<u>\$ 2,921,365</u>	<u>\$ 3,038,781</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 176,863	\$ 372,360
Accounts payable and accruals	829,548	758,009
Income tax payable	26,402	11,364
Current portion of long-term debt	102,680	132,986
Total current liabilities	<u>1,135,493</u>	<u>1,274,719</u>
Long-term debt	504,294	540,756
Future income taxes	19,360	22,443
Total liabilities	<u>1,659,147</u>	<u>1,837,918</u>
<b>Non-controlling interests</b>	425,000	425,000
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)	229,944	212,122
Retained earnings	645,296	590,588
Cumulative currency translation adjustments	(38,022)	(26,847)
Total shareholders' equity	<u>837,218</u>	<u>775,863</u>
Total liabilities, non-controlling interests and shareholders' equity	<u>\$ 2,921,365</u>	<u>\$ 3,038,781</u>

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

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(C\$ thousands) (unaudited)

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 34,690	\$ 28,882	\$ 65,426	\$ 46,227
Add				
Depreciation	71,293	75,738	150,176	141,726
Amortization of goodwill	-	2,578	-	4,541
Future income taxes	337	2,811	(3,942)	3,931
Other items	(1,009)	(265)	(10,761)	3,488
Non-controlling interests distribution	4,323	6,852	8,270	11,224
	<u>109,634</u>	<u>116,596</u>	<u>209,169</u>	<u>211,137</u>
Changes in working capital items				
Accounts receivable	19,875	(9,105)	(9,879)	(29,771)
Inventories - On-hand equipment	8,810	30,021	59,986	(20,856)
Inventories - Parts & supplies	3,730	(14,647)	(1,259)	(25,502)
Instalment notes receivable	(1,205)	(21,694)	(2,429)	(8,189)
Accounts payable and accruals	12,871	10,923	76,740	80,637
Income taxes	14,949	(19,494)	15,191	(8,861)
Cash provided after changes in working capital items	<u>168,664</u>	<u>92,600</u>	<u>347,519</u>	<u>198,595</u>
Rental equipment, net of disposals	(71,817)	(78,658)	(123,558)	(114,182)
Equipment leased to customers, net of disposals	4,338	(23,084)	(19,156)	(27,916)
Cash flow from (used in) operating activities	<u>101,185</u>	<u>(9,142)</u>	<u>204,805</u>	<u>56,497</u>
<b>INVESTING ACTIVITIES</b>				
Net cash invested in land, buildings and equipment	(3,656)	(4,912)	1,331	131
Proceeds from Canadian property sale leaseback	-	-	77,049	-
Equity investment in Maxim	(15,000)	-	(15,000)	-
Acquisitions				
Aggregate purchase price	(6,283)	(21,374)	(6,283)	(750,486)
Assumed debt	-	-	-	(110,493)
Less: Initial investment	-	-	-	218,050
Cash used for investing activities	<u>(24,939)</u>	<u>(26,286)</u>	<u>57,097</u>	<u>(642,798)</u>
<b>FINANCING ACTIVITIES</b>				
Repayment of long-term debt	(68,179)	(5,111)	(66,751)	(12,521)
Issue of debenture	-	200,000	-	200,000
Non-controlling interests	-	-	-	425,000
Non-controlling interests distribution	(4,323)	(6,852)	(8,270)	(11,224)
Issue of common shares on exercise of stock options	9,655	5,877	17,822	7,825
Repurchase of common shares	-	-	-	(7,262)
Dividends paid	(5,375)	(3,790)	(10,718)	(7,556)
Currency translation adjustments	(851)	27,521	1,512	5,263
Cash provided by (used for) financing activities	<u>(69,073)</u>	<u>217,645</u>	<u>(66,405)</u>	<u>599,525</u>
Decrease in short-term debt	7,173	182,217	195,497	13,224
Short-term debt at beginning of period	184,036	567,201	372,360	398,208
Short-term debt at end of period	<u>\$ 176,863</u>	<u>\$ 384,984</u>	<u>\$ 176,863</u>	<u>\$ 384,984</u>
Cash flows include the following elements				
Interest paid	\$ 26,582	\$ 24,769	\$ 38,747	\$ 41,903
Income taxes paid	\$ 4,763	\$ 1,136	\$ 14,378	\$ 10,314

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

(C\$ thousands, except for exercise and share prices)

The accompanying unaudited Interim Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited annual financial statements. These unaudited Interim Consolidated Financial Statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the said audited annual financial statements and the notes below.

**1. Land, buildings and equipment**

During the first quarter, the Company sold its interests in various properties in its Canadian operation across Alberta and British Columbia and leased them back for a 20-year term. Total proceeds were \$77,049, resulting in a gain of \$10,281. This gain has been deferred and will be amortized to income over the lease term. The Company's obligations under these operating leases are as follows:

2002 to 2006	\$ 8,064 per annum
2007 and thereafter	\$146,810 total remaining

**2. Goodwill**

	<u>Six months ended</u> <u>June 30, 2002</u>	<u>Year ended</u> <u>December 31, 2001</u>
Purchased goodwill, beginning of year	\$ 429,483	\$ 77,777
Goodwill on acquisitions made during the period	1,459	339,069
Reduction in goodwill in recognition of future income tax asset	-	(10,878)
Reduction in goodwill on divestitures during the year	-	(563)
Foreign exchange translation adjustment	(1,291)	24,078
Purchased goodwill, end of period	<u>429,651</u>	<u>429,483</u>
Accumulated amortization, beginning of year	(23,739)	(13,832)
Amortization for the period	-	(9,969)
Reduction in accumulated amortization of goodwill	-	62
Accumulated amortization, end of period	<u>(23,739)</u>	<u>(23,739)</u>
Net purchased goodwill	<u>\$ 405,912</u>	<u>\$ 405,744</u>

The Company adopted the recommendations of the new accounting standard of the CICA Handbook Section 3062, Goodwill and Other Intangible Assets on January 1<sup>st</sup>, 2002. During April 2002, the Company acquired Distribuidora Perkins Chilena SAC (Diperk), an engine and generator set distribution company located in Chile and its complementary service operation in Chile for a net total of \$6,283 with resulting goodwill of \$1,459.

Also, during the second quarter of 2002, the Company made an equity investment in Maxim Power Corp. ("Maxim"), a Calgary-based independent power producer providing innovative distributed power solutions in domestic and international energy markets. The Company's investment of \$15,000 acquired 36.9% of the common shares of Maxim. As part of this transaction, the Company acquired warrants which entitle the Company to purchase 50 million common shares at a price of \$0.60 each and which, if exercised, would allow the Company to increase its position in Maxim to approximately 45% on a fully diluted basis. The investment in Maxim is accounted for using the equity method.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS** (continued)

**3. Other expenses/(income)**

Other expenses/(income) in the quarter include the following items

	Three months ended June 30,		Six months ended June 30	
	2002	2001	2002	2001
a) Gain on sale of surplus properties in Canada and the U.K.	\$ (1,998)	\$ (972)	\$ (10,950)	\$ (6,372)
b) Amortization of deferred gain on 2001 sale of the Canadian Materials Handling business	-	-	(800)	-
c) Costs incurred on DBSi business process reengineering project	750	-	750	-
d) Loss from equity investment	239	-	239	-
c) Restructuring charges	-	-	-	9,000
	(1,009)	(972)	(10,761)	2,628
Tax (provision)/recovery on other expenses/(income)	(229)	(292)	(2,337)	1,859
Other expenses/(income), net of tax	\$ (780)	\$ (680)	\$ (8,424)	\$ 769

**4. Share capital**

Common Shares

	Six months ended June 30, 2002		Year ended December 31, 2001	
	Shares	Amount	Shares	Amount
Balance, beginning of period	75,816,263	\$ 212,122	75,790,463	\$ 200,629
Exercise of stock options	1,466,218	17,822	1,483,100	15,459
Repurchase of common shares	-	-	(1,457,300)	(3,966)
Balance, end of period	<u>77,282,481</u>	<u>\$ 229,944</u>	<u>75,816,263</u>	<u>\$ 212,122</u>

**Stock and Other Stock-based Compensation Plans**

The Company adopted the recommendations of the new accounting standard of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments on January 1<sup>st</sup>, 2002.

**Stock Options**

The following table summarizes the information about the stock option activity from the previous year-end to June 30, 2002:

Options outstanding, beginning of period	Range of exercise price	Weighted average exercise price	Options exercised	Number of stock options outstanding
				6,154,442
Options exercised:				
	\$ 6 - \$ 9	\$ 6.63	95,934	
	\$ 9 - \$ 12	\$ 10.18	711,580	
	\$ 12 - \$ 15	\$ 12.87	272,198	
	\$ 15 - \$ 17	\$ 16.43	386,506	
Total exercised				1,466,218
Options cancelled:				
	\$ 6 - \$ 17	\$ 13.17	103,800	103,800
Options outstanding, end of period				4,584,424
Total options exercisable, end of period		\$ 13.11		3,707,751

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

### Other Stock-Based Compensation Plans

In addition to the stock based compensation plans that exist at December 31, 2001, during the three months ended June 30, 2002, the Company approved a deferred share unit plan and a share appreciation rights plan for certain of its management and executive.

#### Deferred Share Unit Plan

Under the deferred share unit plan, awards are expensed when the units vest or estimated to vest, and marked to market each reporting period.

The deferred share unit plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. The units granted to the executives become vested at specified percentages if the Company's common share price exceeds, at specified levels, the common share price at the date of grant. The units also vest upon death, disability or retirement of the executive. Units that have not vested within 5 years to the date that they were granted expire.

#### Share Appreciation Rights Plan

Under the share appreciation rights plan, awards will be expensed over the vesting period when the market price of the common shares exceeds the strike price under the plan.

Changes, either increases or decreases, in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting period.

The share appreciation rights plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash if incremental common share price thresholds are achieved or other performance measures are met.

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price and new issues during the current quarter totaled \$1,120 (Q2 2001: \$211) and for the six months ended June 30, 2002 totaled \$1,880 (June 30, 2001: \$1,579) and was recognized in selling, general and administrative expenses on the consolidated statement of income.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Segmented Information

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

**Three months ended June 30, 2002**

	Canada	UK	Chile	Hewden	Other	Consolidated
Revenue from external sources	\$ 303,206	\$ 204,270	\$ 127,247	\$ 162,656	\$ 7	\$ 797,386
Operating costs	242,944	186,482	112,938	108,913	4,066	655,343
Depreciation	29,032	5,511	2,883	33,867	-	71,293
Other expenses / (income)	-	-	-	-	(1,009)	(1,009)
Earnings before interest and tax	\$ 31,230	\$ 12,277	\$ 11,426	\$ 19,876	\$ (3,050)	\$ 71,759
Finance cost and interest on other indebtedness						18,906
Non-controlling interests						4,323
Provision for income taxes						13,840
Net income						\$ 34,690
EBIT as a percentage of revenue	10.3%	6.0%	9.0%	12.2%		9.0%
EBIT percentage by operations	43.5%	17.1%	15.9%	27.7%	-4.2%	100.0%
Identifiable assets	\$ 1,131,539	\$ 441,647	\$ 269,267	\$ 1,067,059	\$ 11,853	\$ 2,921,365
Capital expenditures	\$ 3,602	\$ 283	\$ 1,660	\$ 3,207		\$ 8,752

**Three months ended June 30, 2001**

	Canada	UK	Chile	Hewden	Other	Consolidated
Revenue from external sources	\$ 361,400	\$ 211,143	\$ 119,352	\$ 155,214	\$ 2,309	\$ 849,418
Operating costs	287,636	197,384	105,779	101,569	8,164	700,532
Depreciation	35,979	4,933	2,465	32,361	-	75,738
Amortization of goodwill	246	249	-	2,083	-	2,578
Other expenses / (income)	-	-	-	-	(972)	(972)
Earnings before interest and tax	\$ 37,539	\$ 8,577	\$ 11,108	\$ 19,201	\$ (4,883)	\$ 71,542
Finance cost and interest on other indebtedness						21,656
Non-controlling interests						6,852
Provision for income taxes						14,152
Net income						\$ 28,882
EBIT as a percentage of revenue	10.4%	4.1%	9.3%	12.4%		8.4%
EBIT percentage by operations	52.5%	12.0%	15.5%	26.8%	-6.8%	100.0%
Identifiable assets	\$ 1,332,668	\$ 427,219	\$ 233,009	\$ 1,025,345		\$ 3,018,241
Capital expenditures	\$ 4,644	\$ 457	\$ 646	\$ 3,355		\$ 9,102

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Six months ended June 30, 2002**

	Canada	UK	Chile	Hewden	Other	Consolidated
Revenue from external sources	\$ 613,398	\$ 410,694	\$ 231,576	\$ 313,265	\$ 22	\$ 1,568,955
Operating costs	486,666	376,684	207,932	214,516	8,167	1,293,965
Depreciation	66,664	10,382	5,522	67,608	-	150,176
Other expenses / (income)	-	-	-	-	(10,761)	(10,761)
Earnings before interest and tax	\$ 60,068	\$ 23,628	\$ 18,122	\$ 31,141	\$ 2,616	\$ 135,575
Finance cost and interest on other indebtedness						39,286
Non-controlling interests						8,270
Provision for income taxes						22,593
Net income						\$ 65,426
EBIT as a percentage of revenue	9.8%	5.8%	7.8%	9.9%		8.6%
EBIT percentage by operations	44.3%	17.4%	13.4%	23.0%	2.0%	100.0%
Identifiable assets	\$ 1,131,539	\$ 441,647	\$ 269,267	\$ 1,067,059	\$ 11,853	\$ 2,921,365
Capital expenditures	\$ 6,214	\$ 858	\$ 2,459	\$ 6,746		\$ 16,277

**Six months ended June 30, 2001**

	Canada	UK	Chile	Hewden	Other	Consolidated
Revenue from external sources	\$ 679,375	\$ 410,218	\$ 218,316	\$ 264,770	\$ 5,654	\$ 1,578,333
Operating costs	538,733	383,465	197,368	174,150	16,700	1,310,416
Depreciation	72,111	10,206	4,551	54,858	-	141,726
Amortization of goodwill	492	521	-	3,528	-	4,541
Other expenses / (income)	-	-	-	-	2,628	2,628
Earnings before interest and tax	\$ 68,039	\$ 16,026	\$ 16,397	\$ 32,234	\$ (13,674)	\$ 119,022
Finance cost and interest on other indebtedness						42,304
Non-controlling interests						11,224
Provision for income taxes						19,267
Net income						\$ 46,227
EBIT as a percentage of revenue	10.0%	3.9%	7.5%	12.2%		7.5%
EBIT percentage by operations	57.2%	13.4%	13.8%	27.1%	-11.5%	100.0%
Identifiable assets	\$ 1,332,668	\$ 427,219	\$ 233,009	\$ 1,025,345		\$ 3,018,241
Capital expenditures	\$ 7,861	\$ 1,293	\$ 1,046	\$ 5,559		\$ 15,759

**6. Currency rates**

The Company operates in four main currencies: Canadian dollars, British pound sterling, U.S. dollars and Chilean pesos. At June 30, 2002, December 31, 2001 and June 30, 2001, the Canadian dollar was worth 0.432, 0.432 and 0.468 pounds sterling; 0.658, 0.628 and 0.659 U.S. dollars; and, 451.9, 415.1 and 414.1 Chilean pesos respectively.

## **NEXT QUARTERLY RESULTS – October 30, 2002**

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### **THIRD QUARTER RESULTS AND CONFERENCE CALL**

Finning International's third quarter results for 2002 will be released at 9:30 a.m. EST on October 30, 2002. You are invited to participate in the Finning Shareholder/Analyst Conference Call at 11:00 a.m. EST on October 30, 2002 by dialing one of the following numbers:

**Toll-free number for participants dialling from  
anywhere within Canada and the United States:  
1-877-888-3490**

**Number for participants dialling from  
the Toronto area and overseas:  
(416) 695-9757**

## **ADDITIONAL INFORMATION**

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### **REGISTRAR AND TRANSFER AGENT**

ComputerShare Trust Company of Canada:  
Vancouver, Calgary, Regina,  
Winnipeg, Toronto and Montreal

### **SHARE INQUIRIES**

Inquiries relating to shares or  
dividends: Computershare Trust  
Company of Canada  
Telephone: (604) 661-0222

### **STOCK**

(Symbol: FTT) on  
Toronto Stock Exchange (TSX)

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<http://www.finning.com/investor>

## RECORD QUARTERLY EARNINGS AND INCREASE IN DIVIDEND

### Second Quarter Ending June 30, 2002

Finning International Inc. today reported record second-quarter net income of \$34.7 million, up \$5.8 million, or 20.1% over the second quarter of 2001. As well, Basic EPS increased 21.1% to \$0.46. Earnings Before Interest and Taxes (EBIT) for the quarter was \$71.7 million and comparable to the same period last year. The results for the quarter included net other income of \$0.8 million. Normalized net income was a record high \$33.9 million (2001: \$30.8 million), up 10.0%, and normalized Basic EPS was \$0.44 (2001: \$0.41), up 8.8%.

Cash flow after working capital changes was \$168.7 million for the second quarter; up significantly from \$92.6 million in the second quarter 2001 reflecting continued working capital productivity.

Doug Whitehead, President and CEO said: "I am very pleased to announce to our shareholders another record level in quarterly earnings. These results reflect the continued focus on operating and financial performance, our global diversification and the efforts of employees in all our operations. Our results are particularly rewarding considering that the economic environment continues to be challenging in some of the markets we serve.

We are also pleased to announce an increase in our quarterly dividend of approximately 15%, or \$0.01 per quarter. This increase is the second this year, following the increase of \$0.02 per quarter announced in February. This increase reflects management's confidence in the earnings and revenue growth for the company going forward."

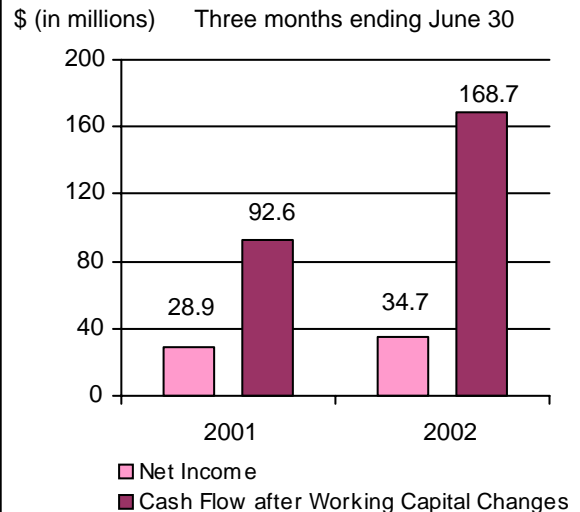
Complete financial statements and management discussion and analysis can be accessed at [www.finning.com](http://www.finning.com)

Three Months Ended		(C\$ millions, except EPS data)	Six Months Ended	
June 30			June 30	
2002	2001		2002	2001
797.4	849.4	Revenue	1,569.0	1,578.3
71.7	71.5	EBIT	135.6	119.0
34.7	28.9	Net Income	65.4	46.2
168.7	92.6	Cash Flow after Working Capital Changes	347.5	198.6
0.46	0.38	Basic EPS	0.86	0.61
0.44	0.37	Diluted EPS	0.83	0.60

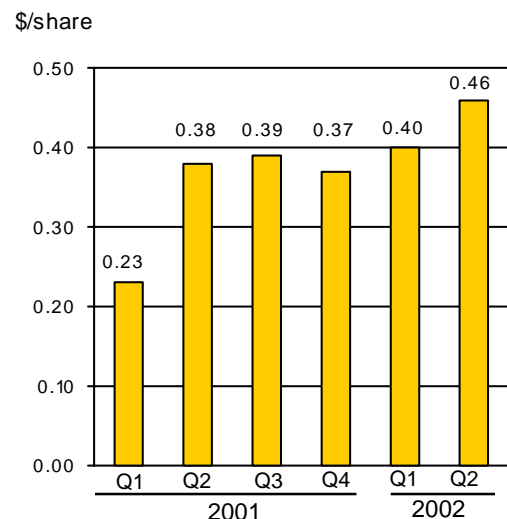
### About Us

Finning International Inc. sells, rents, finances and provides customer support services for Caterpillar equipment and engines, and complementary equipment, in Western Canada, the U.K. and Chile. The corporation's Head Office is located in Vancouver, B.C., Canada. Finning International Inc. ([www.finning.com](http://www.finning.com)) is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT).

### Net Income & Cash Flow



### Quarterly EPS



### Revenue & EBIT Contribution by Operation

