



FINNING[®]

2018

FINNING INTERNATIONAL INC.

Financial report

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 20, 2019

This **MD&A** of **Finning** should be read in conjunction with the **Annual Financial Statements** for the year ended December 31, 2018 and the accompanying notes thereto, which have been prepared in accordance with **IFRS**. All dollar amounts presented in this MD&A are expressed in **CAD**, unless otherwise stated. Additional information relating to the Company, including its current **AIF**, can be found under the **Company's** profile on the **SEDAR** website at www.sedar.com.

Finning (**TSX:FTT**) is the world's largest **Caterpillar** equipment dealer delivering service to customers for 85 years. The Company sells, rents, and provides parts and service for equipment and engines to customers in various industries, including mining, construction, petroleum, forestry, and a wide range of power systems applications. Finning aims to consistently deliver solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

The 2017 comparative results described in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. Details of the impact of IFRS 15 and IFRS 9 for the date of initial application and the 2017 comparative period can be found in note 2 of the Company's Annual Financial Statements.

A glossary of defined terms is included on page 55. The first time a defined term is used, it is shown in bold italics.

2018 Annual Highlights

- Basic **EPS** in 2018 was \$1.38 and in 2017 was \$1.28. Results in both years include items which management does not consider indicative of operational and financial trends. In 2018, these items include the write-off of the Company's investment in **Energyst**, tax impact of the significant devaluation of the **ARS**, and insurance proceeds related to the 2016 Alberta wildfires. In 2017, these items include insurance proceeds, severance costs, and the payment of a premium on the early redemption of long-term debt. These items are described on pages 7 and 8.
- Excluding the items noted above, Adjusted EPS ⁽¹⁾⁽²⁾ of \$1.65 in 2018 was 24% higher than Adjusted EPS of \$1.33 earned in 2017 due to strong results from the Company's Canadian and UK & Ireland operations reflecting improved market conditions.
- Revenue of \$7.0 billion was up 12% from 2017, including 26% growth in new equipment sales. All operations reported higher revenue compared to 2017, particularly in the Company's Canadian operations, which recorded a record \$1 billion of revenue in Q4 2018. Revenue in the Company's South American operations was negatively impacted by a slowdown in the processing and delivery of parts and components to mining customers following the new **ERP** system launch in Chile in mid-November. This resulted in an estimated \$50 million shortfall in mining product support revenues in Q4 2018. The Company is actively working to resolve the business process delays and expects to return to normal parts revenue run rates in Q2 2019.
- **SG&A** relative to revenue was lower than 2017, down 140 basis points, due to leverage of incremental revenues on fixed costs in the Company's Canadian and UK & Ireland operations.
- **EBIT** of \$423 million and EBIT margin of 6.0% were reported for 2018 compared to \$392 million and 6.3% in 2017, respectively. Adjusted EBIT ⁽¹⁾ was \$446 million and Adjusted EBIT margin ⁽¹⁾ was 6.4% compared to \$393 million and 6.3% in 2017, respectively. The 13% improvement in Adjusted EBIT reflected higher sales in the Company's Canadian and UK & Ireland operations partially offset by a reduction in product support revenue in the Company's South American operations.
- Adjusted **EBITDA** ⁽¹⁾⁽²⁾ of \$633 million was 9% higher than 2017 Adjusted EBITDA of \$577 million. Adjusted EBITDA margin ⁽¹⁾⁽²⁾ of 9.0% was slightly lower than the 2017 Adjusted EBITDA margin of 9.2%.
- 2018 free cash flow ⁽²⁾ was \$78 million representing the sixth consecutive year of positive free cash flow generation.
- Invested capital turnover ⁽²⁾ of 2.12 times was the highest level since 2012.
- 2018 Adjusted **ROIC** ⁽¹⁾⁽²⁾ improved over 2017 due to improved profitability and capital efficiencies in the Company's Canadian and UK & Ireland operations.

⁽¹⁾ Certain 2018 and 2017 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 7 and 8 of this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

⁽²⁾ These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under IFRS, which are also referred to herein as **GAAP**, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

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Strategic Framework

The Company's customer-centric growth strategy is based on three pillars – Develop, Perform, Innovate – which provide a strong foundation for the Company's five Global Strategic Priorities and are summarized below:

- Customer Centricity – be our customers' trusted partner by providing consistent and innovative services that add value to their business;
- Lean & Agile Global Finning – maintain relentless focus on productivity, efficiency, and our customers' total cost of equipment ownership;
- Global Supply Chain – transform our globally-leveraged supply chain to enhance the omni-channel customer experience while increasing working capital efficiencies and generation of free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers' experience, enable data-driven decisions, and reduce cost to serve; and,
- Growth & Diversification – achieve profitable and capital efficient growth.

All regions are committed to delivering our strategy by focusing on these Global Strategic Priorities.

PURPOSE

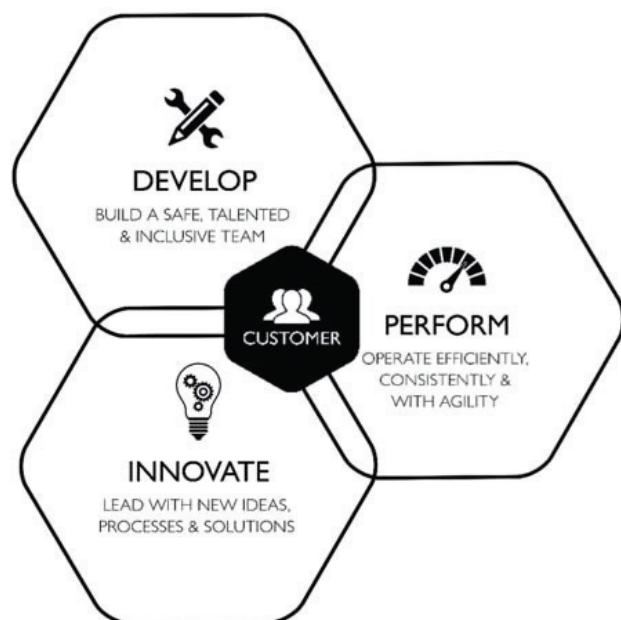
We believe in partnering and innovating to build and power a better world.

VISION

Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.

VALUES

We are trusted
We are collaborative
We are innovative
We are passionate



GLOBAL STRATEGIC PRIORITIES



Customer Centricity



Lean & Agile Global Finning



Global Supply Chain



Digital Enterprise



Growth & Diversification

The Company's capital investments and allocation of resources are directly linked to the five Global Strategic Priorities and the key investments planned for 2018-2020 are summarized below. A large portion of the investment in strategic initiatives is success-based.



A reduced cost structure and sustainable operating improvements are expected to generate earnings torque, while global supply chain initiatives are expected to continue to increase capital efficiencies and support positive annual free cash flow.

Sustainability

Sustainability is an integral part of Finning's purpose, vision and values, and is embedded in the Company's strategy and operations.

During its 85-year history, Finning has worked hard to strengthen its governance, improve safety, reduce environmental impact, engage employees, and create a positive impact in communities.

In 2017, the Company formalized its sustainability focus, and in May 2018, Finning published its first Sustainability Report, reporting on the Company's sustainability performance in 2017. The Sustainability Report covers the sustainability topics that are most important to Finning and its stakeholders: governance, safety & health, environment (including **GHG** emissions), people & workplace (including employee engagement, talent development, inclusion and diversity), and community. The Company's performance in key sustainability metrics is calculated using standard industry and regulatory methodologies. Those key metrics are highlighted below and in summary, the Company:

- Reduced total recordable injury frequency from 0.99 in 2013 to 0.49 in 2018. Despite it being a challenging year for the Company with two fatalities in 2018, total recordable incident frequency remains low.
- Had only one reportable spill occur in the Company's operations in 2018.
- Established a GHG measurement protocol to enable consistent tracking and reporting of GHG emissions in each of its regions.
- Developed a five-year plan with a goal of increasing inclusion and diversity in the Company's business:
 - Aim to attract, retain, and advance women at all levels of the organization, with a spotlight on women in leadership and operational roles; and,
 - Aim to have at least 30 percent female representation on the **Board**.
- Has focused community investment efforts on promoting **STEM** education by collaborating with non-profit partners.

Finning is defining and implementing a five-year sustainability roadmap that prioritizes actions to address gaps with best standards and recognized practices and strengthens engagement with stakeholders. The Company expects the content of future reports to evolve as it implements the sustainability roadmap.



Finning is committed to creating value for all its stakeholders by operating and growing in a sustainable manner. For more information on the Company's sustainability journey and to access the Sustainability Report, please visit www.finning.com.

2018 Annual Overview

(\$ millions, except per share amounts)	2018	2017 (Restated) ⁽¹⁾	% change fav (unfav)
Revenue	\$ 6,996	\$ 6,256	12%
Gross profit	1,768	1,654	7%
SG&A	(1,327)	(1,271)	(4)%
Equity earnings of joint ventures and associate	12	7	n/m
Other income	—	2	n/m
Other expenses	(30)	—	n/m
EBIT	\$ 423	\$ 392	8%
Net income	\$ 232	\$ 216	8%
Basic EPS	\$ 1.38	\$ 1.28	8%
EBITDA ⁽²⁾	\$ 610	\$ 576	6%
Free cash flow	\$ 78	\$ 165	(53)%
Adjusted EBIT	\$ 446	\$ 393	13%
Adjusted net income ⁽³⁾	\$ 277	\$ 224	24%
Adjusted EPS	\$ 1.65	\$ 1.33	24%
Adjusted EBITDA	\$ 633	\$ 577	9%
<i>Gross profit margin</i>	<i>25.3%</i>	<i>26.4%</i>	
<i>SG&A as a percentage of revenue</i>	<i>19.0%</i>	<i>20.3%</i>	
<i>EBIT margin</i>	<i>6.0%</i>	<i>6.3%</i>	
<i>EBITDA margin ⁽²⁾</i>	<i>8.7%</i>	<i>9.2%</i>	
<i>ROIC ⁽²⁾</i>	<i>12.8%</i>	<i>13.1%</i>	
<i>Adjusted EBIT margin</i>	<i>6.4%</i>	<i>6.3%</i>	
<i>Adjusted EBITDA margin</i>	<i>9.0%</i>	<i>9.2%</i>	
<i>Adjusted ROIC</i>	<i>13.5%</i>	<i>13.1%</i>	

- (1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's Annual Financial Statements.
- (2) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.
- (3) Certain 2018 and 2017 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 7 and 8 of this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

Non-GAAP Financial Measures

Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out in this MD&A, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

During the periods reported and discussed in this MD&A, there were significant items that management does not consider indicative of future operational and financial trends of the Company either by nature or amount. As a result, management excludes these items when evaluating its consolidated operating financial performance and the performance of each of its operations. These items may not be non-recurring, but management believes that excluding these significant items from financial results reported solely in accordance with GAAP provides a better understanding of the Company's consolidated financial performance when considered along with the GAAP results. Financial metrics that have been adjusted to take into account these significant items are referred to as "Adjusted" metrics. Adjusted metrics are intended to provide additional information to users of the MD&A. This information should not be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP. In addition, because non-GAAP financial measures do not have a standardized meaning under GAAP, they may not be comparable to similar measures presented by other companies. Significant items identified in prior periods, described on pages 42 - 45 of this MD&A, impact certain reported metrics included in the Annual Key Performance Measures section for the years ended December 31, 2018 and 2017.

Significant items that affected reported annual 2018 and 2017 results, which are not considered by management to be indicative of operational and financial trends, either by nature or amount, included:

2018 significant items:

- Insurance proceeds received in 2018 related to the final settlement of the Company's business interruption insurance claim resulting from the Alberta wildfires in 2016.
- Following the Company's review of its investment in Energyst, it was determined that Energyst was no longer a strategic fit and that it was held-for-sale at September 30, 2018. As a result, the Company wrote off its investment and released cumulative foreign translation losses to the income statement upon Energyst's sale of its wholly-owned subsidiary in Argentina in 2018.
- The ARS experienced a rapid devaluation in 2018, losing approximately 45% of its value in the third quarter of 2018 (annual devaluation of approximately 100%) and reaching a new historic low of \$1 USD to 41.25 ARS in September 2018. This devaluation resulted in higher tax expense in 2018 than the same prior year period, primarily relating to the revaluation of deferred tax balances.

2017 significant items:

- Severance costs incurred in the Company's Canadian and South American operations related to facility and cost optimization.
- Insurance proceeds received related to the Company's business interruption insurance claim resulting from the 2016 Alberta wildfires.
- Redemption costs on the early repayment of long-term debt.

The magnitude of these items, and reconciliation of the non-GAAP financial measures to their most directly comparable GAAP measures, is shown in the following table:

For year ended December 31, 2018 (\$ millions, except per share amounts)	EBIT				Net Income	EPS
	Canada	South America	UK & Ireland	Consol	Consol	Consol
EBIT, net income, and EPS	\$ 297	\$ 142	\$ 51	\$ 423	\$ 232	\$ 1.38
Significant items:						
Write-off and loss related to Energyst	—	—	—	30	30	0.18
Tax impact of devaluation of ARS	—	—	—	—	20	0.12
Insurance proceeds from Alberta wildfires	(7)	—	—	(7)	(5)	(0.03)
Adjusted EBIT, Adjusted net income, and Adjusted EPS	\$ 290	\$ 142	\$ 51	\$ 446	\$ 277	\$ 1.65

For year ended December 31, 2017 (\$ millions, except per share amounts)	EBIT				Net Income	EPS
	Canada	South America	UK & Ireland	Consol	Consol	Consol
EBIT, net income, and EPS (Restated) ⁽¹⁾	\$ 225	\$ 184	\$ 37	\$ 392	\$ 216	\$ 1.28
Significant items:						
Severance costs	3	2	—	5	4	0.03
Redemption cost on the early payment of long-term debt	—	—	—	—	7	0.04
Insurance proceeds from Alberta wildfires	(4)	—	—	(4)	(3)	(0.02)
Adjusted EBIT, Adjusted net income, and Adjusted EPS (Restated) ⁽¹⁾	\$ 224	\$ 186	\$ 37	\$ 393	\$ 224	\$ 1.33

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's Annual Financial Statements.

Annual Key Performance Measures

The Company utilizes the following **KPIs** to enable consistent measurement of performance across the organization.

For years ended December 31	2018	2017 (Restated) ⁽¹⁾	2016	2015	2014
ROIC (%)					
Consolidated	12.8%	13.1%	5.6%	(3.0)%	15.3%
Canada	16.6%	13.3%	5.3%	5.5%	17.1%
South America	12.2%	17.8%	13.3%	(12.8)%	14.6%
UK & Ireland	14.2%	12.8%	(4.5)%	(1.4)%	16.3%
EBIT ⁽²⁾ (\$ millions)					
Consolidated	423	392	165	(105)	504
Canada	297	225	87	98	284
South America	142	184	137	(174)	196
UK & Ireland	51	37	(12)	(5)	50
EBIT Margin (%) ⁽²⁾					
Consolidated	6.0%	6.3%	2.9%	(1.7)%	7.3%
Canada	8.1%	7.3%	3.1%	3.1%	7.8%
South America	6.6%	8.5%	7.4%	(8.4)%	8.8%
UK & Ireland	4.4%	3.6%	(1.1)%	(0.5)%	4.8%
Invested Capital ⁽³⁾ (\$ millions)					
Consolidated	3,163	2,830	2,797	3,240	3,106
Canada	1,675	1,621	1,595	1,760	1,475
South America	1,190	983	996	1,122	1,348
UK & Ireland	336	250	216	321	284
Invested Capital Turnover ⁽³⁾ (times)					
Consolidated	2.12x	2.09x	1.90x	1.78x	2.10x
Canada	2.05x	1.82x	1.70x	1.74x	2.19x
South America	1.86x	2.09x	1.80x	1.52x	1.66x
UK & Ireland	3.22x	3.56x	3.54x	2.93x	3.43x
Inventory (\$ millions)	2,061	1,708	1,601	1,800	1,661
Inventory Turns ⁽³⁾ (times)	2.68x	2.82x	2.49x	2.38x	2.81x
Working Capital to Sales Ratio ⁽³⁾	26.6%	27.4%	30.4%	32.2%	26.1%
Free Cash Flow (\$ millions)	78	165	370	325	483
EBITDA ⁽²⁾ (\$ millions)					
Consolidated	610	576	357	126	720
Canada	393	324	187	219	396
South America	204	242	199	(92)	268
UK & Ireland	79	63	18	23	82
EBITDA Margin (%) ⁽²⁾					
Consolidated	8.7%	9.2%	6.3%	2.0%	10.4%
Canada	10.7%	10.6%	6.6%	7.0%	10.9%
South America	9.4%	11.2%	10.7%	(3.3)%	12.0%
UK & Ireland	6.9%	6.1%	2.0%	2.3%	7.8%
Net Debt to EBITDA Ratio ⁽²⁾⁽³⁾	1.7	1.5	2.5	9.5	1.4

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(2) Certain of these reported financial metrics have been impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount. The financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics and are summarized on page 10 of this MD&A.

(3) These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Annual Adjusted KPIs

Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 7 and 8 and 42 - 45 of this MD&A, and the financial metrics which have been adjusted to take these items into account are referred to as “Adjusted” metrics. The impact of these items on certain KPIs is shown below:

For years ended December 31	2018	2017 (Restated) ⁽¹⁾	2016	2015	2014
Adjusted ROIC (%)					
Consolidated	13.5 %	13.1 %	9.3 %	10.9 %	16.2 %
Canada	16.2 %	13.2 %	9.3 %	10.6 %	17.5 %
South America	12.2 %	18.1 %	15.0 %	14.0 %	16.2 %
UK & Ireland	14.2 %	12.8 %	5.9 %	9.0 %	16.7 %
Adjusted EBIT (\$ millions)					
Consolidated	446	393	273	383	533
Canada	290	224	154	189	290
South America	142	186	155	190	218
UK & Ireland	51	37	16	33	51
Adjusted EBIT Margin (%)					
Consolidated	6.4 %	6.3 %	4.9 %	6.1 %	7.6 %
Canada	7.9 %	7.3 %	5.5 %	6.1 %	7.8 %
South America	6.6 %	8.7 %	8.4 %	9.2 %	9.7 %
UK & Ireland	4.4 %	3.6 %	1.8 %	3.1 %	4.8 %
Adjusted EBITDA ⁽²⁾ (\$ millions)					
Consolidated	633	577	465	604	749
Canada	386	323	254	305	402
South America	204	244	217	267	290
UK & Ireland	79	63	46	61	83
Adjusted EBITDA Margin (%)					
Consolidated	9.0 %	9.2 %	8.3 %	9.6 %	10.8 %
Canada	10.5 %	10.5 %	9.0 %	9.8 %	11.1 %
South America	9.4 %	11.3 %	11.7 %	12.9 %	13.0 %
UK & Ireland	6.9 %	6.1 %	4.8 %	5.7 %	7.8 %
Net Debt to Adjusted EBITDA Ratio ⁽³⁾	1.7	1.5	1.9	2.0	1.3

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(2) Of the significant items described on pages 42 - 45 of this MD&A, \$10 million was recorded in depreciation and amortization expense in 2015.

(3) These financial metrics, referred to as “non-GAAP financial measures” do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” later in this MD&A.

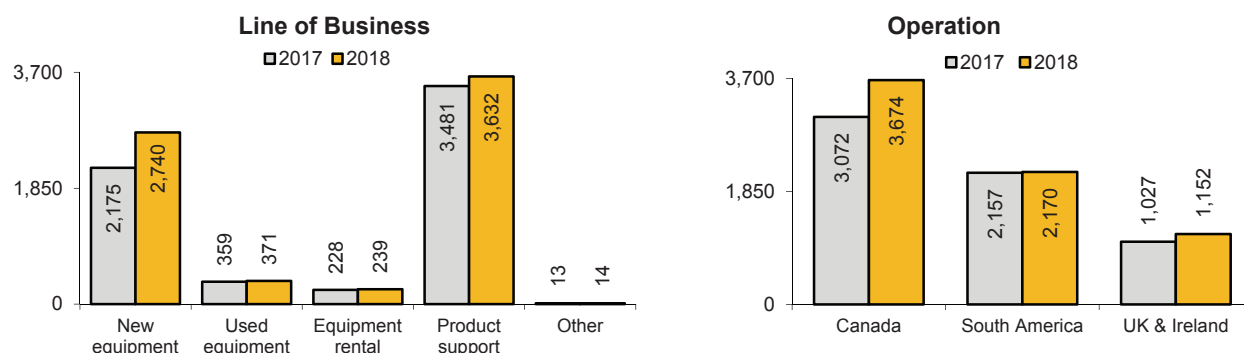
Annual Results

Revenue

Revenue by Line of Business and by Operation

For years ended December 31

(\$ millions) (2017 Restated)



The Company generated revenue of just under \$7.0 billion during 2018, an increase of 12% from 2017. Revenue was up in all operations, with the Canadian operations contributing over 80% of the overall revenue growth. In addition, revenue was up in all lines of business, particularly new equipment.

New equipment revenue increased 26% compared to 2017, up in all operations, but primarily in the Company's Canadian operations, reflecting improved demand, increased volumes in the mining sector, and higher industry activity in the construction sector. In the Company's UK & Ireland operations, higher revenues were driven by increased demand in the power systems sector, specifically for power and industrial business units. The Company's South American operations also reported higher new equipment revenue, higher in all markets in Chile, partially offset by reduced activity in the construction sector in both Argentina and Bolivia.

Equipment backlog ⁽¹⁾ was \$1.3 billion at December 31, 2018, comparable to December 31, 2017 but down slightly from \$1.5 billion at September 30, 2018 and June 30, 2018, reflecting strong equipment deliveries.

Product support revenue was 4% higher compared to 2017 driven primarily by the Company's Canadian operations, with strong parts activity in all sectors in 2018. Product support revenue in 2018 was also up from 2017 in the Company's UK & Ireland operations partially offset by lower product support revenue in the Company's South American operations, particularly in Argentina.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately \$35 million, primarily due to the weaker CAD relative to the **GBP** on average in 2018 compared to last year and was not significant at the EBITDA level.

EBITDA and EBIT

2018 gross profit of \$1.8 billion was up 7% compared to 2017, primarily due to higher volumes from improved market activity. Gross profit margin of 25.3% was lower than the 26.4% earned in 2017, with a revenue mix shift to higher new equipment revenue. On a consolidated basis, new equipment revenue as a proportion of the overall sales mix was 39%, compared to 35% in 2017.

⁽¹⁾ These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definition, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

SG&A of \$1.3 billion in 2018 included a \$30 million write-off of the Company's investment in Energyst and \$7 million of insurance proceeds received by the Company's Canadian operations in relation to the business interruption insurance claim resulting from the Alberta wildfires. 2017 SG&A of \$1.3 billion included \$5 million of severance costs in the Company's South American and Canadian operations and \$4 million of insurance proceeds received relating to the Alberta wildfires. Excluding the investment write-down, severance costs, and the insurance proceeds, 2018 SG&A was up 5% compared to 2017 on 12% higher revenues primarily due to volume related variable costs.

EBITDA for 2018 was \$610 million and EBITDA margin was 8.7% (2017: EBITDA was \$576 million and EBITDA margin was 9.2%). Excluding significant items noted above and on pages 7 and 8 of this MD&A, 2018 Adjusted EBITDA was \$633 million and Adjusted EBITDA margin was 9.0%, compared with Adjusted EBITDA of \$577 million and Adjusted EBITDA margin of 9.2% for the prior year. Adjusted EBITDA was up from the prior year due to higher earnings in the Company's Canadian and UK & Ireland operations, partially offset by lower earnings in the Company's South American operations.

The net debt to EBITDA ratio at December 31, 2018 was 1.7x and slightly higher compared to December 31, 2017.

The Company reported EBIT of \$423 million in 2018 compared to the \$392 million earned in 2017. EBIT margin was 6.0% in 2018 compared to 6.3% in 2017. As noted earlier, the Company was impacted by significant items management does not consider indicative of operational and financial trends. Excluding these significant items, 2018 Adjusted EBIT was \$446 million with an Adjusted EBIT margin of 6.4%, higher than an Adjusted EBIT of \$393 million and an Adjusted EBIT margin of 6.3% in the prior year. The Company's Canadian and UK & Ireland operations experienced operating leverage in 2018 resulting from improved demand and operating efficiencies. The Company's South American operations had a lower EBIT margin in 2018 due to a revenue mix shift to higher new equipment revenue as well as higher SG&A relative to total revenue. The annual results in South America were primarily affected by weak economic conditions in Argentina.

Finance Costs

Finance costs in 2018 were \$76 million, lower than the \$100 million reported in 2017 due to lower long-term debt and interest rates in 2018 as well as \$9 million of redemption costs paid in 2017 on the early repayment of the \$350 million 6.02% **MTNs** due June 1, 2018.

Provision for Income Taxes

Income tax expense for the year ended December 31, 2018 was \$115 million, compared to \$76 million in 2017.

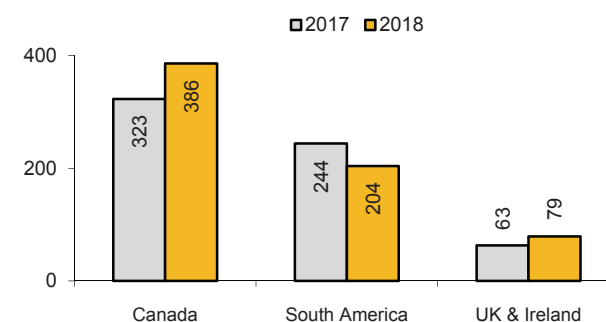
The effective income tax rate for 2018 was 33.1%, compared to 26.1% in the prior year. The effective tax rate in 2018 was higher due to the non-deductibility, for tax purposes, of the write-off of the Company's investment in Energyst as well as the impact of the significant devaluation of the ARS relative to the USD, primarily relating to the revaluation of deferred tax balances. Excluding these items, the effective tax rate in 2018 would have been 25.0%.

Management expects the Company's effective tax rate to generally be within the 25-30% range on an annual basis, but it may fluctuate from period to period as a result of changes in the source of income from various jurisdictions, changes in the estimation of tax reserves, and changes in tax rates and tax legislation.

Adjusted EBITDA by Operation ⁽¹⁾

For years ended December 31

(\$ millions) (2017 Restated)

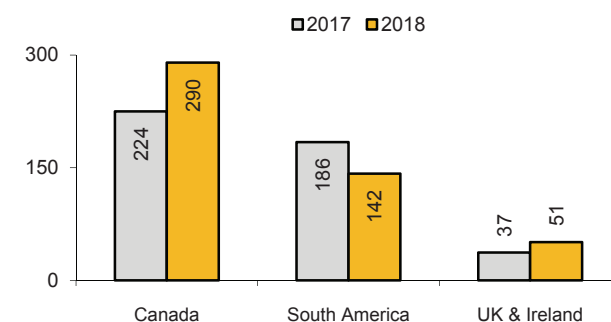


⁽¹⁾ Excluding Other Operations

Adjusted EBIT by Operation ⁽¹⁾

For years ended December 31

(\$ millions) (2017 Restated)



⁽¹⁾ Excluding Other Operations

Net Income

Net income was \$232 million in 2018 compared to \$216 million earned in 2017, and basic EPS was \$1.38 in 2018 compared with \$1.28 in 2017. Excluding significant items noted on pages 7 and 8, Adjusted EPS in 2018 of \$1.65 was 24% higher than 2017 Adjusted EPS of \$1.33. The increase in Adjusted EPS was primarily due to higher sales volumes and improved profitability due to savings from cost reduction measures and leverage of incremental revenues on fixed costs, particularly in the Company's Canadian operations partially offset by lower earnings in the Company's operations in Argentina.

Invested Capital

(\$ millions, unless otherwise stated)	December 31, 2018	September 30, 2018	(Decrease) increase from		December 31, 2017 (Restated) ⁽¹⁾	Increase from December 31, 2017
			September 30, 2018	September 30, 2018		
Consolidated	\$ 3,163	\$ 3,431	\$ (268)	\$ 2,830	\$ 333	
Canada	\$ 1,675	\$ 1,889	\$ (214)	\$ 1,621	\$ 54	
South America	\$ 1,190	\$ 1,173	\$ 17	\$ 983	\$ 207	
UK & Ireland	\$ 336	\$ 404	\$ (68)	\$ 250	\$ 86	
South America (USD)	\$ 872	\$ 906	\$ (34)	\$ 784	\$ 88	
UK & Ireland (GBP)	£ 193	£ 239	£ (46)	£ 147	£ 46	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Compared to September 30, 2018:

Consolidated invested capital decreased \$268 million from September 30, 2018 to December 31, 2018. Offsetting this decrease is approximately \$70 million of foreign exchange from translating the invested capital balances of the Company's South American operations, primarily as a result of the 4% weaker CAD relative to the USD.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$340 million from September 30, 2018 to December 31, 2018 reflecting:

- an increase in deferred revenue in all operations, largely due to higher customer deposits received in the Company's Canadian operations;
- higher accounts payable balances in all operations, primarily in the Company's South American operations; largely matched to customer delivery commitments;
- lower rental equipment in the Company's Canadian and UK & Ireland operations; and,
- strong collections in all operations offset by higher deliveries in the Company's Canadian and UK & Ireland operations.

Compared to December 31, 2017:

Consolidated invested capital increased \$333 million from December 31, 2017 to December 31, 2018. This increase includes the impact of approximately \$105 million of foreign exchange from translating the invested capital balances of the Company's South American operations, primarily as a result of the 9% weaker CAD relative to the USD.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$228 million from December 31, 2017 to December 31, 2018 reflecting:

- an increase in equipment inventory in all operations, as well as an increase in parts inventory primarily in the Company's South American operations;
- higher spend on rental equipment supporting the RUN Strategy, largely in the Company's Canadian operations; and,
- higher spend on intangible assets, largely due to additional costs for the ERP system implemented in the Company's South American operations,
- partially offset by higher deferred revenue in all operations, driven by the Company's Canadian operations.

ROIC and Invested Capital Turnover

	December 31, 2018	September 30, 2018	December 31, 2017 (Restated) ⁽¹⁾
ROIC			
Consolidated	12.8 %	13.7 %	13.1 %
Canada	16.6 %	16.4 %	13.3 %
South America	12.2 %	16.2 %	17.8 %
UK & Ireland	14.2 %	14.0 %	12.8 %
Adjusted ROIC			
Consolidated	13.5 %	14.5 %	13.1 %
Canada	16.2 %	16.0 %	13.2 %
South America	12.2 %	16.4 %	18.1 %
UK & Ireland	14.2 %	14.0 %	12.8 %
Invested Capital Turnover (times)			
Consolidated	2.12x	2.14x	2.09x
Canada	2.05x	1.98x	1.82x
South America	1.86x	2.01x	2.09x
UK & Ireland	3.22x	3.30x	3.56x

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

ROIC

On a consolidated basis, ROIC was 12.8% at December 31, 2018, compared to 13.1% at December 31, 2017 and 13.7% at September 30, 2018. Adjusting for significant items that management does not consider indicative of operational and financial trends, as noted on pages 7 - 8 of this MD&A, Adjusted ROIC at December 31, 2018 was 13.5%, an increase from Adjusted ROIC at December 31, 2017 of 13.1%. The increase in Adjusted ROIC compared to the prior year end reflects the Company's focus on capital efficiency.

Adjusted ROIC at December 31, 2018 in the Company's Canadian and UK & Ireland operations improved compared to Adjusted ROIC at December 31, 2017 due to EBIT margin improvement year over year. Adjusted ROIC in the Company's South American operations decreased due to lower EBIT in 2018 than 2017 in Argentina as well as higher average invested capital levels.

Canadian Operations

- Higher Adjusted ROIC at December 31, 2018 reflects growth in Adjusted EBIT outpacing the increase in average invested capital levels in the twelve-month period demonstrating improved capital efficiency.

South American Operations

- Lower Adjusted ROIC at December 31, 2018 reflects lower Adjusted EBIT in 2018, largely due to lower EBIT in Argentina combined with higher average invested capital.

UK & Ireland Operations

- Higher ROIC at December 31, 2018 reflects higher EBIT in 2018, outpacing the growth in average invested capital levels in the twelve-month period, demonstrating improved capital efficiency.

Invested capital turnover

Consolidated invested capital turnover at December 31, 2018 was 2.12 times, up from 2.09 times at December 31, 2017, driven by significant improvement in the Company's Canadian operations, partially offset by the Company's South American and UK & Ireland operations. The consolidated invested capital turnover rate in each quarterly period in 2018 improved over its comparable quarter in 2017 with higher revenues in the last twelve month period outpacing the growth in average invested capital levels.

Annual Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets worldwide as noted below. Finning's reportable segments are as follows:

- *Canadian Operations*: British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut
- *South American Operations*: Chile, Argentina, and Bolivia
- *UK & Ireland Operations*: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland
- *Other Operations*: Corporate head office.

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

For year ended December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 1,288	\$ 714	\$ 738	\$ 2,740	39%
Used equipment	233	54	84	371	5%
Equipment rental	154	50	35	239	4%
Product support	1,997	1,348	287	3,632	52%
Other	2	4	8	14	—
Total	\$ 3,674	\$ 2,170	\$ 1,152	\$ 6,996	100%
Revenue percentage by operation	53%	31%	16%	100%	

For year ended December 31, 2017 (\$ millions) (Restated) ⁽¹⁾	Canada	South America	UK & Ireland	Consol	Revenue percentage
New equipment	\$ 873	\$ 645	\$ 657	\$ 2,175	35%
Used equipment	236	53	70	359	6%
Equipment rental	147	50	31	228	4%
Product support	1,814	1,405	262	3,481	55%
Other	2	4	7	13	—
Total	\$ 3,072	\$ 2,157	\$ 1,027	\$ 6,256	100%
Revenue percentage by operation	49%	35%	16%	100%	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Canadian Operations

The Canadian reporting segment includes Finning (Canada), **OEM**, and a 25% interest in **PLM**. The Canadian operations sell, service, and rent mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

The table below provides details of the results from the Canadian Operations:

For years ended December 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue	\$ 3,674	\$ 3,072
Operating costs	(3,297)	(2,760)
Equity earnings of joint ventures	16	12
EBITDA	\$ 393	\$ 324
Depreciation and amortization	(96)	(99)
EBIT	\$ 297	\$ 225
EBITDA margin	10.7%	10.6%
EBIT margin	8.1%	7.3%
Adjusted EBITDA	\$ 386	\$ 323
Adjusted EBITDA margin	10.5%	10.5%
Adjusted EBIT	\$ 290	\$ 224
Adjusted EBIT margin	7.9%	7.3%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Revenue for 2018 increased 20% to \$3.7 billion compared to last year, primarily driven by higher new equipment and product support revenues. The revenue increase was driven by higher activity levels across all industry segments. In the oil sands, significant production activity has increased machine utilization and demand for associated product support, particularly component exchange and equipment rebuilds. New and reactivated coal and precious metal mines have generated higher demand for equipment and product support. In addition, strong infrastructure project activity continues to drive new equipment and product support demand.

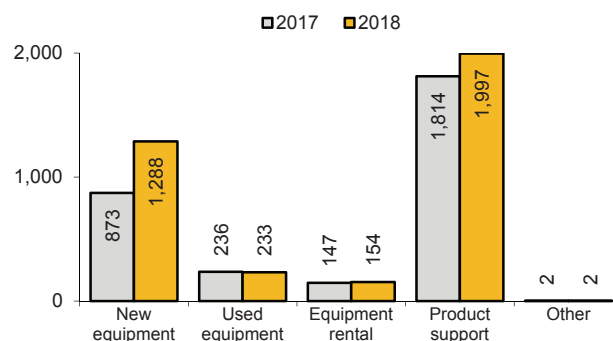
New equipment revenue in 2018 was up 48% from 2017, due to increased demand from mining and construction customers. Equipment backlog at December 31, 2018 was up slightly from December 31, 2017, reflecting higher order intake in the construction sector due to strong infrastructure activity in both British Columbia and Alberta offset by strong deliveries in the mining sector.

Product support revenue was 10% higher than last year, up in all industries, but particularly driven by continued strong demand for parts in the construction and oil & gas sectors and increased activity in the mining sector.

Gross profit in 2018 was higher than the prior year, reflecting higher sales volumes in most lines of business. Overall gross profit margin decreased in 2018 compared to 2017 primarily due to a revenue mix shift to new equipment, particularly in mining which typically generates a lower gross profit margin. In 2018, new equipment revenue comprised 35% of total revenue compared to 28% in the prior year.

Canada – Revenue by Line of Business

For years ended December 31
(\$ millions) (2017 Restated)



SG&A for 2018 included the favourable impact of \$7 million of insurance proceeds received in relation to the Company's business interruption insurance claim resulting from the Alberta wildfires in 2016. SG&A for 2017 included \$4 million of business interruption insurance proceeds, partially offset by severance costs of \$3 million. Excluding these significant items, SG&A was 5% higher compared to the same period in 2017, on 20% higher revenue. This increase was primarily due to higher variable costs associated with strong revenue growth. SG&A relative to revenue was down 270 basis points from the prior year period, reflecting leverage of incremental revenues on fixed costs and disciplined spending.

The Canadian operations contributed EBITDA of \$393 million in 2018 compared to \$324 million earned in the prior year. EBITDA margin was 10.7% compared to the 10.6% earned in 2017. Excluding significant items noted above, Adjusted EBITDA margin was 10.5% in 2018, comparable to 2017 with lower gross profit margin due to a revenue mix shift offset by lower SG&A relative to revenue.

South American Operations

Finning's South American operations sell, service, and rent mainly Caterpillar equipment and engines in Chile, Argentina, and Bolivia. The South American operations' markets include mining, construction, forestry, and power systems.

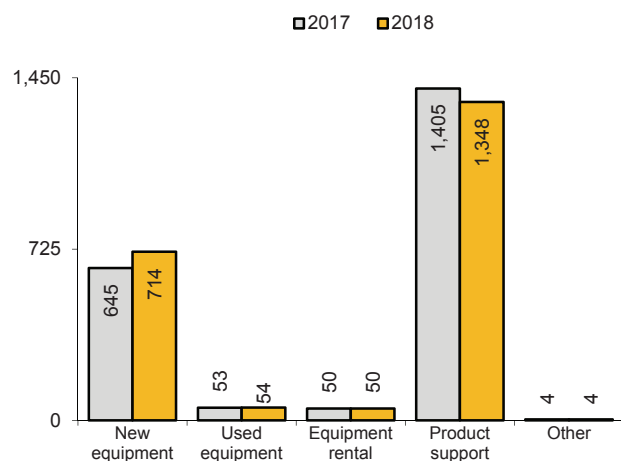
The table below provides details of the results from the South American Operations:

For years ended December 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue	\$ 2,170	\$ 2,157
Operating costs	(1,966)	(1,915)
EBITDA	\$ 204	\$ 242
Depreciation and amortization	(62)	(58)
EBIT	\$ 142	\$ 184
EBITDA margin	9.4%	11.2%
EBIT margin	6.6%	8.5%
Adjusted EBITDA	\$ 204	\$ 244
Adjusted EBITDA margin	9.4%	11.3%
Adjusted EBIT	\$ 142	\$ 186
Adjusted EBIT margin	6.6%	8.7%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

South America – Revenue by Line of Business

For years ended December 31
(\$ millions) (2017 Restated)



Revenue of \$2.2 billion for the year ended December 31, 2018 was relatively consistent with the prior year (also consistent in functional currency). Higher new equipment sales in Chile were offset by lower revenues in Argentina.

2018 new equipment revenue was 11% higher than 2017, primarily driven by the mining and power systems sectors in Chile, partially offset by lower activity in Argentina, particularly in the construction sector.

Equipment backlog was down from the prior year, reflecting strong deliveries in the current year outpacing order intake.

Product support revenue was down 4% compared to last year primarily due to lower revenue reported in Argentina and the impact of business process velocity issues on product support revenues in the mining sector in Chile related to the ERP implementation.

Gross profit and gross profit margin were lower than 2017, largely driven by a revenue mix shift to new equipment sales. New equipment revenue comprised 33% of total revenue in 2018 compared to 30% in 2017.

SG&A for 2018 was 6% higher compared to 2017. The increase in SG&A was due in large part to additional costs related to the ERP implementation this year and severance and restructuring costs in Argentina partially offset by the benefit of the significant devaluation of the ARS when translating local currency costs. These higher fixed costs resulted in SG&A relative to revenue increasing 110 basis points compared to the same period in 2017.

For 2018, the Company's South American operations contributed EBITDA of \$204 million and an EBITDA margin of 9.4% compared to \$242 million and 11.2% respectively in 2017. Excluding severance costs in the prior year, Adjusted EBITDA for 2018 was 17% lower than the same period in 2017. Lower EBITDA margin was largely due to the lower gross profit margin achieved in the current year from a higher mix of new equipment sales and higher percentage of SG&A relative to revenue.

UK & Ireland Operations

The Company's UK & Ireland operations sell, service, and rent mainly Caterpillar equipment and engines in England, Scotland, Wales, Northern Ireland, and the Republic of Ireland. The UK & Ireland operations' markets include quarrying, construction, power systems, and mining.

The table below provides details of the results from the UK & Ireland Operations:

For years ended December 31 (\$ millions)	2018	2017 (Restated) ⁽¹⁾
Revenue	\$ 1,152	\$ 1,027
Operating costs	(1,073)	(964)
EBITDA	\$ 79	\$ 63
Depreciation and amortization	(28)	(26)
EBIT	\$ 51	\$ 37
EBITDA margin	6.9%	6.1%
EBIT margin	4.4%	3.6%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Revenue in 2018 of \$1.2 billion was 12% higher than 2017 (up 9% in functional currency), driven primarily by higher new and used equipment and product support revenue, up in all industries, particularly in the power systems sector.

2018 new equipment revenue increased 12% (9% in functional currency) from 2017 in all sectors but primarily from higher power and energy systems sales. Power and energy systems revenue was driven primarily by continued strong activity in the electric power generation business, increased industrial power sales, partially offset by lower activity in the marine industry. Equipment backlog was strong at December 31, 2018, higher by 41% than the prior year period, reflecting strong order intake in all segments, particularly in the construction sector.

Product support revenue was 10% higher than last year (6% in functional currency), driven by higher parts sales in both the power systems and construction sectors.

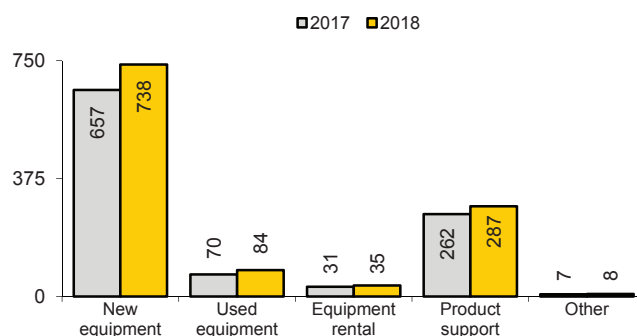
Used equipment revenue increased 20% compared to 2017 (17% in functional currency) reflecting the increased demand for used equipment in the current year.

The weaker CAD relative to the GBP on average in 2018 compared to last year when translating results to CAD had a positive foreign currency translation impact on revenue of approximately \$35 million and was not significant at the EBITDA level.

Higher gross profit in 2018 compared with 2017 was due to increased sales volumes, as well as better overall gross profit margin from most lines of business.

UK & Ireland – Revenue by Line of Business

For years ended December 31
(\$ millions) (2017 Restated)



SG&A for 2018 was up 8% in functional currency, primarily due to higher variable costs driven by increased sales volumes and a benefit recorded in 2017 due to actions taken to manage the Company's pension plan liabilities. In 2018, SG&A includes a one-time expense in Q4 2018 related to the Company's defined benefit plan, offset by a gain on the sale of a property.

The UK & Ireland operations contributed EBITDA of \$79 million, 25% higher than EBITDA of \$63 million in 2017. EBITDA margin was 6.9% compared to 6.1% in 2017 due to improved profitability.

Other Operations

The Other operations segment includes corporate operating costs, as well as equity earnings or losses from the Company's 28.8% investment in Energyst up to September 30, 2018. EBITDA of this segment was a loss of \$66 million in 2018 compared to \$54 million in 2017.

During 2018, the Company conducted a review of its investment in Energyst and determined that it was no longer a strategic fit. As a result, the Company decided that Energyst was held-for-sale at September 30, 2018 and recorded a write-down of its investment to its estimated fair value (\$nil). The Company recorded a \$30 million loss, comprising the investment write-off of \$19 million and a reclassification of cumulative foreign translation losses of \$11 million from accumulated other comprehensive income to the statement of income upon Energyst's sale of its wholly-owned subsidiary in Argentina.

Excluding the write-off and loss related to Energyst, EBITDA loss of \$36 million in 2018 was 30% lower than the prior year primarily due to lower long-term incentive plan costs resulting from a decrease in the Company's share price in 2018 compared with an increase in the prior year period.

2018 Fourth Quarter Highlights

- Free cash flow of \$418 million was higher than Q4 2017 free cash flow of \$350 million, reflecting strong cash generation from the Company's Canadian operations, largely due to improved invested capital turnover and positively impacted by higher volumes of new equipment sales. The Company's UK & Ireland operations also generated higher free cash flow compared with Q4 2017, while lower revenues drove lower cash generation in the Company's South American operations.
- Revenue of \$1.8 billion was up 6% from Q4 2017 reflecting a 24% increase in new equipment sales partially offset by a 7% decrease in product support revenue. The Company's Canadian operations accounted for much of the revenue growth, recording its highest total quarterly revenue of \$1 billion. The Company's UK & Ireland operations also reported higher revenue compared with the same prior year period. Higher revenues were partially offset by the Company's South American operations, where revenues were lower in Argentina due to weak economic conditions and lower in Chile due to the negative impact of the new ERP system launched in mid-November. Since go-live, the speed at which the Company has been processing and delivering parts and components to mining customers has been significantly reduced resulting in an estimated \$50 million shortfall in mining product support revenues in Q4 2018. The Company is actively working to resolve the velocity issues with the new ERP system and expects to return to normal parts revenue run rates in Q2 2019.
- EBIT of \$91 million and EBIT margin of 4.9% reported in Q4 2018 were lower than the \$109 million and 6.3% earned in Q4 2017, mainly due to lower gross profit margin from a revenue mix shift to new equipment revenue partially offset by lower SG&A relative to total revenue.
- EBITDA of \$140 million and EBITDA margin of 7.6% in Q4 2018 were lower than the \$154 million and 8.9% earned in Q4 2017 for the same reasons noted above.
- Basic EPS earned in the fourth quarter of 2018 was \$0.33, lower than Adjusted EPS of \$0.39 earned in the prior period (adjusting for the impact of the significant items described on page 21), primarily due to lower profitability in the Company's South American operations.

2018 Fourth Quarter Overview

(\$ millions, except per share amounts)	Q4 2018	Q4 2017 (Restated) ⁽¹⁾	% change fav (unfav)
Revenue	\$ 1,842	\$ 1,733	6%
Gross profit	413	434	(5)%
SG&A	(324)	(326)	1%
Equity earnings of joint ventures and associate	2	1	n/m
EBIT	\$ 91	\$ 109	(17)%
Net income	\$ 55	\$ 64	(13)%
EPS	\$ 0.33	\$ 0.38	(13)%
EBITDA	\$ 140	\$ 154	(9)%
Free cash flow	\$ 418	\$ 350	19%
Adjusted EBIT	\$ 91	\$ 110	(18)%
Adjusted net income	\$ 55	\$ 65	(14)%
Adjusted EPS	\$ 0.33	\$ 0.39	(14)%
Adjusted EBITDA	\$ 140	\$ 155	(10)%
Gross profit margin	22.4%	25.1%	
SG&A as a percentage of revenue	17.6%	18.8%	
EBIT margin	4.9%	6.3%	
EBITDA margin	7.6%	8.9%	
ROIC	12.8%	13.1%	
Adjusted EBIT margin	4.9%	6.4%	
Adjusted EBITDA margin	7.6%	9.0%	
Adjusted ROIC	13.5%	13.1%	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

There were no significant items identified by management that affected the results of the Company for the three months ended December 31, 2018.

Significant items that affected the results of the Company for the three months ended December 31, 2017, which were not considered by management to be indicative of operational and financial trends are detailed below.

Q4 2017 significant items

- Severance costs incurred in the Company's Canadian and South American operations related to facility and cost structure optimization.
- Insurance proceeds received related to the business interruption impact of the 2016 Alberta wildfires.

The magnitude of each of these items, and reconciliation of the non-GAAP financial measures to the closest equivalent GAAP metrics, is shown in the following table:

3 months ended December 31, 2017 (\$ millions except per share amounts)	EBIT				Net Income	EPS
	Canada	South America	UK & Ireland	Consol	Consol	Consol
EBIT, net income, and EPS (Restated) ⁽¹⁾	\$ 67	\$ 50	\$ 8	\$ 109	\$ 64	\$ 0.38
Significant items:						
Severance costs	3	2	—	5	4	0.03
Insurance proceeds from Alberta wildfires	(4)	—	—	(4)	(3)	(0.02)
Adjusted EBIT, Adjusted net income, and Adjusted EPS (Restated) ⁽¹⁾	\$ 66	\$ 52	\$ 8	\$ 110	\$ 65	\$ 0.39

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's Annual Financial Statements.

Quarterly Key Performance Measures

Reported KPIs

The Company utilizes the following KPIs to enable consistent measurement of performance across the organization.

	2018				2017 (Restated) ⁽¹⁾				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC									
Consolidated	12.8 %	13.7 %	14.3 %	13.7 %	13.1 %	10.1 %	9.3 %	7.1 %	5.6 %
Canada	16.6 %	16.4 %	15.5 %	14.5 %	13.3 %	9.2 %	8.1 %	6.6 %	5.3 %
South America	12.2 %	16.2 %	17.5 %	17.6 %	17.8 %	15.5 %	14.9 %	14.5 %	13.3 %
UK & Ireland	14.2 %	14.0 %	13.2 %	13.4 %	12.8 %	12.9 %	13.9 %	(0.5)%	(4.5)%
EBIT (\$ millions)									
Consolidated	91	93	126	113	109	100	97	86	18
Canada	71	78	77	71	67	57	55	46	(3)
South America	12	37	47	46	50	48	42	44	27
UK & Ireland	12	15	14	10	8	9	13	7	8
EBIT Margin									
Consolidated	4.9 %	5.3 %	7.3 %	6.8 %	6.3 %	6.5 %	6.1 %	6.1 %	1.3 %
Canada	7.1 %	8.6 %	8.5 %	8.4 %	7.8 %	7.7 %	7.0 %	6.7 %	(0.3)%
South America	2.5 %	6.7 %	8.5 %	8.4 %	8.6 %	8.6 %	8.1 %	8.8 %	5.0 %
UK & Ireland	3.7 %	5.1 %	5.3 %	3.7 %	3.0 %	3.5 %	4.6 %	3.3 %	3.3 %
Invested Capital (\$ millions)									
Consolidated	3,163	3,431	3,362	3,226	2,830	3,095	3,108	2,940	2,797
Canada	1,675	1,889	1,840	1,778	1,621	1,746	1,764	1,630	1,595
South America	1,190	1,173	1,172	1,140	983	1,069	1,047	1,029	996
UK & Ireland	336	404	372	322	250	311	307	286	216
Invested Capital Turnover									
Consolidated	2.12x	2.14x	2.13x	2.13x	2.09x	2.01x	1.97x	1.89x	1.90x
Canada	2.05x	1.98x	1.92x	1.87x	1.82x	1.74x	1.70x	1.62x	1.70x
South America	1.86x	2.01x	2.05x	2.08x	2.09x	2.03x	1.97x	1.87x	1.80x
UK & Ireland	3.22x	3.30x	3.44x	3.65x	3.56x	3.47x	3.66x	3.69x	3.54x
Inventory (\$ millions)	2,061	2,017	1,968	1,906	1,708	1,744	1,789	1,650	1,601
Inventory Turns (times)	2.68x	2.58x	2.57x	2.80x	2.82x	2.60x	2.52x	2.61x	2.49x
Working Capital to Sales Ratio	26.6 %	26.7 %	26.9 %	27.1 %	27.4 %	28.6 %	29.1 %	30.5 %	30.4 %
Free Cash Flow (\$ millions)	418	(49)	(28)	(263)	350	22	(131)	(76)	113
EBITDA (\$ millions)									
Consolidated	140	142	171	157	154	146	145	131	65
Canada	97	104	99	93	91	82	81	70	21
South America	29	52	62	61	65	61	57	59	43
UK & Ireland	18	23	21	17	14	16	20	13	15
EBITDA Margin									
Consolidated	7.6 %	8.1 %	9.9 %	9.4 %	8.9 %	9.5 %	9.1 %	9.3 %	4.3 %
Canada	9.7 %	11.4 %	11.0 %	10.9 %	10.6 %	11.2 %	10.3 %	10.1 %	3.0 %
South America	5.8 %	9.3 %	11.2 %	11.1 %	11.0 %	11.2 %	11.0 %	11.8 %	7.9 %
UK & Ireland	5.7 %	7.7 %	7.9 %	6.3 %	5.2 %	6.0 %	7.0 %	6.5 %	6.1 %
Net Debt to EBITDA Ratio	1.7	2.1	2.0	1.9	1.5	2.4	2.5	2.6	2.5

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Quarterly Adjusted KPIs

Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 42 to 45 of this MD&A and the financial metrics which have been adjusted to take these items into account are referred to as “Adjusted” metrics. The impact of these items on certain KPIs is shown below:

	2018				2017 (Restated) ⁽¹⁾				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted ROIC									
Consolidated	13.5 %	14.5 %	14.2 %	13.5 %	13.1 %	11.8 %	11.1 %	10.0 %	9.3 %
Canada	16.2 %	16.0 %	15.1 %	14.0 %	13.2 %	12.0 %	11.0 %	10.2 %	9.3 %
South America	12.2 %	16.4 %	17.7 %	17.8 %	18.1 %	16.5 %	16.0 %	15.6 %	15.0 %
UK & Ireland	14.2 %	14.0 %	13.2 %	13.4 %	12.8 %	12.9 %	13.9 %	7.7 %	5.9 %
Adjusted EBIT (\$ millions)									
Consolidated	91	123	126	106	110	100	97	86	70
Canada	71	78	77	64	66	57	55	46	44
South America	12	37	47	46	52	48	42	44	37
UK & Ireland	12	15	14	10	8	9	13	7	8
Adjusted EBIT Margin									
Consolidated	4.9 %	7.0 %	7.3 %	6.4 %	6.4 %	6.5 %	6.1 %	6.1 %	4.8 %
Canada	7.1 %	8.6 %	8.5 %	7.5 %	7.6 %	7.7 %	7.0 %	6.7 %	6.2 %
South America	2.5 %	6.7 %	8.5 %	8.4 %	9.1 %	8.6 %	8.1 %	8.8 %	7.0 %
UK & Ireland	3.7 %	5.1 %	5.3 %	3.7 %	3.0 %	3.5 %	4.6 %	3.3 %	3.3 %
Adjusted EBITDA (\$ millions)									
Consolidated	140	172	171	150	155	146	145	131	117
Canada	97	104	99	86	90	82	81	70	68
South America	29	52	62	61	67	61	57	59	53
UK & Ireland	18	23	21	17	14	16	20	13	15
Adjusted EBITDA Margin									
Consolidated	7.6 %	9.7 %	9.9 %	9.0 %	9.0 %	9.5 %	9.1 %	9.3 %	7.9 %
Canada	9.7 %	11.4 %	11.0 %	10.1 %	10.5 %	11.2 %	10.3 %	10.1 %	9.5 %
South America	5.8 %	9.3 %	11.2 %	11.1 %	11.4 %	11.2 %	11.0 %	11.8 %	9.9 %
UK & Ireland	5.7 %	7.7 %	7.9 %	6.3 %	5.2 %	6.0 %	7.0 %	6.5 %	6.1 %
Net Debt to Adjusted EBITDA Ratio	1.7	2.0	2.0	2.0	1.5	2.1	2.3	2.1	1.9

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

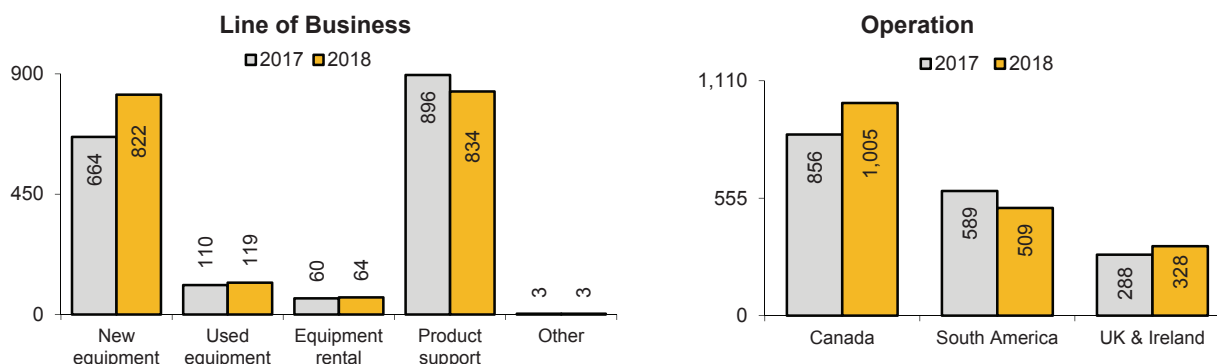
2018 Fourth Quarter Results

Revenue

Revenue by Line of Business and by Operation

3 months ended December 31

(\$ millions) (2017 Restated)



The Company generated revenue of over \$1.8 billion during the three months ended December 31, 2018, an increase of 6% over the same period last year. Revenue was up in the Company's Canadian and UK & Ireland operations, particularly in new equipment revenue, partially offset by lower product support revenue in the Company's South American operations.

New equipment sales increased 24% compared to the same period in 2017, largely driven by 44% growth year over year in the Company's Canadian operations. On a consolidated basis in the fourth quarter of 2018, new equipment revenue as a percentage of overall revenue was 45%, compared to 38% in the prior year period.

Product support revenue decreased by 7% as higher revenues in the Company's Canadian and UK & Ireland operations were offset by lower product support revenues in the Company's South American operations due to business process velocity issues with the new ERP system, which went live in Chile in mid-November 2018.

Foreign currency translation of the results of the Company's South American and UK & Ireland operations had a positive impact on revenue of approximately \$20 million, primarily due to the 4% weaker CAD relative to the USD in the fourth quarter of 2018, compared to last year and was not significant at the EBITDA level.

EBITDA and EBIT

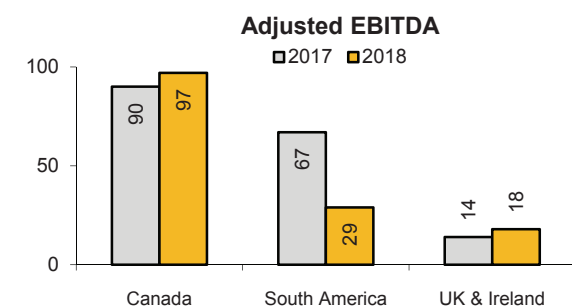
Gross profit in the last three months of 2018 of \$413 million was down 5% compared to the comparative prior year period largely due to a shift in the revenue mix to new equipment sales. Gross profit margin declined by 270 basis points from the fourth quarter of 2017. On a consolidated basis, new equipment revenue as a proportion of the overall sales mix was 45%, compared to 38% in the prior year period.

SG&A in the fourth quarter of 2018 was slightly lower than the prior year comparative period. Excluding insurance proceeds and severance costs in Q4 2017, Q4 2018 SG&A was consistent with the prior year period on higher revenues. As a percentage of revenue, SG&A was down by 120 basis points over the same period of the prior year. SG&A relative to revenue was down in the Company's Canadian and UK & Ireland operations reflecting the leverage of incremental revenues on fixed costs. This was partially offset by higher SG&A relative to revenue in the Company's South American operations due to lower mining product support revenues in Chile.

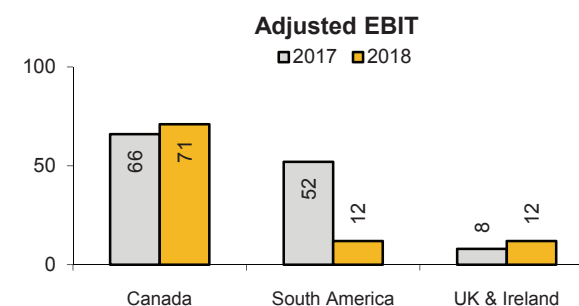
Adjusted EBITDA and EBIT by Operation ⁽¹⁾

3 months ended December 31

(\$ millions) (2017 Restated)



⁽¹⁾ Excluding Other Operations



⁽¹⁾ Excluding Other Operations

EBITDA for the fourth quarter of 2018 was \$140 million and EBITDA margin was 7.6%. Q4 2017 EBITDA was \$154 million and EBITDA margin was 8.9%. Excluding the significant items noted on page 21, Q4 2017 Adjusted EBITDA was \$155 million and Adjusted EBITDA margin was 9.0%. There were no significant items in Q4 2018. The decrease in Q4 2018 was mainly due to a shift in revenue mix to higher new equipment sales in the Company's Canadian and South American operations, partially offset by an improvement in SG&A relative to revenue in Q4 2018 from Q4 2017 in the Company's Canadian and UK & Ireland operations.

The Company reported EBIT of \$91 million in the fourth quarter of 2018 compared to the \$109 million in the fourth quarter of 2017. Excluding significant items detailed in the table on page 21, Q4 2017 Adjusted EBIT was \$110 million. Q4 2018 EBIT was lower than Adjusted EBIT in the same prior year period, primarily due to lower product support revenue and EBIT in the Company's South American operations. This was partially offset by higher EBIT. The Company's EBIT margin was 4.9% in the fourth quarter of 2018, compared to 6.3% in the same period of 2017.

Finance Costs

Finance costs in the three months ended December 31, 2018 were \$20 million and slightly below the \$22 million reported in the same period in 2017.

Provision for Income Taxes

Income tax expense for Q4 2018 totaled \$16 million (Q4 2017: \$23 million) and the effective income tax rate of 22.2% was lower than the 27.1% in the comparable period of 2017, primarily as a result of a higher proportion of earnings in lower tax jurisdictions.

Net Income

Net income was \$55 million and basic EPS was \$0.33 in the fourth quarter of 2018 compared to \$64 million net income and \$0.38 basic EPS earned in the same period last year. Excluding significant items noted on page 21, Adjusted EPS earned in the fourth quarter of 2017 was \$0.39. The decrease in basic EPS compared to Adjusted EPS in the prior year period was primarily due to lower gross profit, lower gross profit margins due to a higher mix of new equipment revenue, as well as challenges in the Company's South American operations noted above.

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

For 3 months ended December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Other	Consol	Revenue %
New equipment	\$ 390	\$ 218	\$ 214	\$ —	\$ 822	45%
Used equipment	73	11	35	—	119	7%
Equipment rental	45	11	8	—	64	3%
Product support	496	269	69	—	834	45%
Other	1	—	2	—	3	—
Total revenue	\$ 1,005	\$ 509	\$ 328	\$ —	\$ 1,842	100%
Operating costs	(910)	(480)	(310)	(4)	(1,704)	
Equity earnings	2	—	—	—	2	
EBITDA	\$ 97	\$ 29	\$ 18	\$ (4)	\$ 140	
Depreciation and amortization	(26)	(17)	(6)	—	(49)	
EBIT	\$ 71	\$ 12	\$ 12	\$ (4)	\$ 91	
Revenue percentage by Operation	54%	28%	18%	—	100%	
EBITDA margin	9.7%	5.8%	5.7%		7.6%	
EBIT margin	7.1%	2.5%	3.7%		4.9%	

For 3 months ended December 31, 2017 (\$ millions) (Restated) ⁽¹⁾	Canada	South America	UK & Ireland	Other	Consol	Revenue %
New equipment	\$ 271	\$ 194	\$ 199	\$ —	\$ 664	38%
Used equipment	77	13	20	—	110	6%
Equipment rental	40	12	8	—	60	4%
Product support	467	369	60	—	896	52%
Other	1	1	1	—	3	—
Total revenue	\$ 856	\$ 589	\$ 288	\$ —	\$ 1,733	100%
Operating costs	(767)	(524)	(274)	(15)	(1,580)	
Equity earnings (loss)	2	—	—	(1)	1	
EBITDA	\$ 91	\$ 65	\$ 14	\$ (16)	\$ 154	
Depreciation and amortization	(24)	(15)	(6)	—	(45)	
EBIT	\$ 67	\$ 50	\$ 8	\$ (16)	\$ 109	
Revenue percentage by Operation	49%	34%	17%	—	100%	
EBITDA margin	10.6%	11.0%	5.2%		8.9%	
EBIT margin	7.8%	8.6%	3.0%		6.3%	
Adjusted EBITDA	\$ 90	\$ 67	\$ 14	\$ (16)	\$ 155	
Adjusted EBITDA margin	10.5%	11.4%	5.2%		9.0%	
Adjusted EBIT	\$ 66	\$ 52	\$ 8	\$ (16)	\$ 110	
Adjusted EBIT margin	7.6%	9.1%	3.0%		6.4%	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Canada

Q4 2018 revenue of over \$1 billion was 17% higher than Q4 2017 and was the highest revenue recorded in a quarter, reflecting strong mining deliveries and higher market activity in the construction sector, particularly in British Columbia.

New equipment revenue was up 44% in Q4 2018 compared to the same period last year, driven by significant equipment deliveries in the quarter, particularly in the mining and construction sectors. Product support revenue was 6% higher than Q4 2017, with continued strong demand for equipment overhauls in the mining and construction industries. Rental revenues also increased by 11% over Q4 2017.

Gross profit in Q4 2018 was higher than the prior year, reflecting higher sales volumes. Gross profit margin decreased in Q4 2018 from the comparable period in 2017, primarily due to a revenue mix shift to a higher proportion of new equipment revenue. New equipment revenue comprised 39% of total revenue in Q4 2018, compared to 32% in Q4 2017.

SG&A was 5% higher in Q4 2018 compared to the same period in the prior year, due in large part to higher variable costs from increased sales volumes. SG&A relative to revenue was down 210 basis points in Q4 2018 compared to the prior year period, reflecting leverage of incremental revenues on fixed costs and disciplined spending.

Q4 2018 EBITDA was \$97 million, compared to \$91 million in Q4 2017. EBITDA margin was 9.7%, down from 10.6% earned in the same period in 2017. Excluding the significant items noted above and as summarized on page 21, Q4 2018 EBITDA margin of 9.7% was lower than the Adjusted EBITDA margin of 10.5% earned in Q4 2017, primarily due to a revenue mix shift to higher new equipment sales which typically generate lower margins, partially offset by lower SG&A.

South America

Q4 2018 revenue of \$509 million was 14% lower than Q4 2017 (down 17% in functional currency), reflecting lower revenues in Argentina and a shortfall in mining product support revenues in Chile due to business process velocity issues following the new ERP system launch in mid-November. New equipment sales in the Company's South American operations were up 12% (up 8% in functional currency), driven by higher new equipment revenue in all market segments in Chile, partially offset by lower sales in Argentina compared with the same prior year period.

The weaker Canadian dollar relative to the U.S. dollar on average in the quarter compared to Q4 2017 had a favourable foreign currency translation impact on revenue in Q4 2018 of approximately \$20 million and was not significant at the EBITDA level.

Gross profit decreased 25% (28% in functional currency) compared to Q4 2017, in large part due to lower volumes across most lines of business, particularly in product support. Gross profit margin also decreased in Q4 2018 compared to Q4 2017, reflecting a revenue mix shift to a higher proportion of new equipment. New equipment revenue comprised 43% of total revenue in Q4 2018, compared to 33% in Q4 2017.

SG&A (in functional currency) in Q4 2018 decreased by 5% compared to the same period in the prior year. Lower SG&A in Q4 2018 was primarily driven by the favourable impact of foreign exchange and lower people-related costs, partially offset by additional costs related to the ERP implementation. SG&A relative to revenue was higher than the prior year comparable period due to lower revenues on fixed costs.

Q4 2018 EBITDA was \$29 million, compared to \$65 million in Q4 2017. EBITDA margin was 5.8%, down from 11.0% earned in the same period of 2017 due to lower gross profit margins achieved in the current year combined with higher SG&A relative to revenue. Results from Argentina in Q4 2018 showed an improvement compared to Q3 2018. As a result of weak economic conditions, the Company right-sized its costs in Argentina to align with reduced activity levels.

UK & Ireland

Fourth quarter 2018 revenue of \$328 million was up 14% compared to the fourth quarter of 2017 (up 13% in functional currency), driven primarily by higher new and used equipment sales in the construction sector, as well as higher new equipment sales in the power systems sector.

Product support revenue was up 15% (14% in functional currency) compared to last year's fourth quarter, up in the construction and power systems sector.

Q4 2018 gross profit was higher than the prior year period, in line with higher sales volumes and gross profit margin was consistent with the same period in the prior year.

SG&A (in functional currency) in Q4 2018 increased by 6% compared to the same period in the prior year, on revenue growth of 13%, reflecting improved leverage on fixed SG&A. In addition, Q4 2017 included a benefit related to actions taken to manage the Company's pension plan liabilities.

Q4 2018 EBITDA was \$18 million and higher than EBITDA of \$14 million in Q4 2017. EBITDA margin was 5.7% in Q4 2018, up from the 5.2% earned in Q4 2017, primarily due to leverage of incremental revenue on fixed costs.

Outlook

Canadian Operations

In the oil sands, demand for equipment and product support, including component rebuilds, remains stable, despite a shortage of pipeline capacity and production restrictions implemented by the Alberta government in December 2018.

Demand for power systems products, parts and service has increased, mainly as a result of ongoing midstream infrastructure expansion and maintenance, particularly in the gas compression sector.

Construction activity is expected to remain steady, with large infrastructure projects, notably LNG Canada, creating incremental demand for construction and power systems equipment and product support in the future.

South American Operations

In the near term, international trade tensions continue to pose a risk to the price of copper. However, the Company remains constructive on the long-term outlook for this commodity and expects increased copper production to have a positive impact on demand for mining equipment and product support. The Chilean government is business-friendly and has announced public investment in infrastructure which is expected to benefit the construction sector and generate improved demand for construction equipment and product support in the medium term.

In Argentina, the economy appears to have stabilized but remains weak. The Argentine government has curtailed infrastructure spend, resulting in a significantly reduced demand for construction equipment. Despite the current economic downturn in Argentina, the Company expects oil and gas development at Vaca Muerta to proceed and provide meaningful upside potential for future equipment and product support demand.

UK & Ireland Operations

In the UK, uncertainty remains around the impact of a possible change in the trade relationship with the European Union (Brexit). The Company has worked with Caterpillar to develop a risk mitigation strategy to minimize the impact of any scenario that occurs, and continues to monitor all activities related to Brexit. The impact on customer confidence and future investment decisions continues to be mitigated by the UK government's investments in large-scale rail, power, road, and airport infrastructure projects.

In the UK & Ireland, order intake levels remain robust. The Company is capitalizing on strong demand for power systems products in the industrial and electric power sectors. Activity levels in the quarry, general construction, and plant hire sectors are expected to continue to generate solid demand for construction equipment and product support.

Improving ROIC

The Company continues to closely monitor global market conditions and inventory levels.

In 2019, the Company expects low revenue growth and improved ROIC performance in all regions.

Sustainable operating improvements and cost discipline are expected to generate earnings torque. Global supply chain initiatives are expected to continue to increase capital efficiencies and support positive annual free cash flow.

The Company's capital investments and resource allocation are directly linked to the Global Strategic Priorities described on pages 3 to 4, and are mostly success-based.

Foreign Exchange Exposure

The Company expects on-going volatility in foreign exchange markets to continue impacting its results. Any devaluation of the CAD increases earnings translated from the Company's foreign subsidiaries. The opposite is true for any appreciation of the CAD. Transactional gains or losses are dependent on the Company's hedging activities and general market conditions.

Liquidity and Capital Resources

Management assesses liquidity in terms of the Company's ability to generate sufficient cash flow, along with other sources of liquidity including cash and borrowings, to fund its operations and growth in operations. Liquidity is affected by the following items:

- operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment, and financing provided to customers;
- investing activities, including property, plant, and equipment and intangible asset expenditures, acquisitions of complementary businesses, and divestitures of non-core businesses; and
- financing activities, including bank credit facilities, long-term debt, and other capital market activities, providing both short-term and long-term financing.

The magnitude of each of these items is shown in the following table:

(\$ millions)	3 months ended December 31			Years ended December 31		
	2018	2017	Increase (Decrease)	2018	2017	(Decrease) Increase
			in cash			in cash
Cash provided by operating activities	\$ 490	\$ 398	\$ 92	\$ 260	\$ 283	\$ (23)
Cash used in investing activities	\$ (73)	\$ (48)	\$ (25)	\$ (184)	\$ (116)	\$ (68)
Cash used in financing activities	\$ (199)	\$ (407)	\$ 208	\$ (107)	\$ (276)	\$ 169
Free Cash Flow	\$ 418	\$ 350	\$ 68	\$ 78	\$ 165	\$ (87)

The most significant contributors to the changes in cash flows for 2018 over 2017 were as follows:

Quarter over Quarter		Year over Year
Cash provided by operating activities	• higher customer deposits received for future deliveries of new equipment, primarily in the Company's Canadian operations	• higher supplier payments in the Company's South American and Canadian operations, reflecting higher inventory purchases supporting increased demand • partially offset by higher cash collections on receivable balances from the Company's South American and Canadian operations and higher customer deposits received for future deliveries of new equipment, primarily in the Company's Canadian operations
Cash used in investing activities	• higher capital expenditures in Q4 2018 resulting from investments in a new ERP system and large mining vehicles in the Company's South American operations	• higher capital expenditures in 2018 resulting from investments in a new ERP system and large mining vehicles in the Company's South American operations
Cash used in financing activities	• \$350 million repayment of long-term debt in Q4 2017 • partially offset by the repurchase of \$94 million of common shares in Q4 2018 (Q4 2017: \$nil); and, • \$69 million repayment of short-term debt in Q4 2018 (\$14 million repaid in the comparable prior year period).	• \$150 million net repayment of long-term debt in the prior year period • \$136 million of cash provided by short-term debt in 2018, higher than the \$17 million provided in 2017 • partially offset by a higher use of cash in 2018 to repurchase common shares
Free cash flow generation	• higher cash generation primarily from higher customer deposits received in Q4 2018 partially offset by higher capital expenditures.	• lower cash provided by operating activities for the reasons outlined above • higher capital expenditures

Capital resources and management

The Company's cash and cash equivalents balance at December 31, 2018 was \$454 million (December 31, 2017: \$458 million). To complement the internally generated funds from operating and investing activities, the Company has \$2.2 billion in unsecured credit facilities. Included in this amount is a syndicated committed credit facility totaling \$1.3 billion with various Canadian and other global financial institutions, of which \$1.2 billion was available at December 31, 2018.

In December 2018, the Company amended its previous \$1 billion credit facility which was set to fully mature in October 2022 by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

Based on the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs and planned growth and development.

The Company is subject to certain covenants within its syndicated committed credit facility. As at December 31, 2018 and 2017, the Company was in compliance with these covenants.

In September 2017, the Company issued \$200 million of 2.84% senior unsecured notes due September 29, 2021. On October 16, 2017, proceeds from the issuance of the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million 6.02% MTN, due June 1, 2018. The total redemption price included an early redemption premium of approximately \$9 million, which was recorded in finance costs in the year ended December 31, 2017.

The Company is rated ⁽¹⁾ by both **DBRS** and **S&P**:

December 31	Long-term debt		Short-term debt	
	2018	2017	2018	2017
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	n/a	n/a

In September 2018, DBRS reconfirmed the Company's BBB (high) long-term rating as well as its commercial paper rating at R-2 (high), reflecting the Company's improved performance, supported by strong market fundamentals and diversified operations.

In November 2018, S&P reconfirmed the Company's BBB+ rating, noting the Company's strong market position as the largest Caterpillar equipment dealer, its diversification by geography and its earnings stability driven by the after-sales parts and services business.

In May 2018, the Company renewed its **NCIB** ⁽²⁾ which enables the Company to purchase its common shares for cancellation. In November 2018, the Company amended the NCIB to increase the number of shares available for purchase for cancellation from 3 million to 5.3 million. In December 2018, the Company further amended the NCIB to put in place an automatic share repurchase plan with a designated broker, to enable continued share purchases for cancellation during the Company's regular blackout period. In February 2019, the Company further amended the NCIB to increase the number of shares available for purchase for cancellation from 5.3 million to 7.6 million. During 2018, the Company repurchased 4,128,053 common shares for cancellation at an average cost of \$26.41 per share (totalling \$109 million). During 2017, the Company repurchased 89,900 common shares for cancellation at an average cost of \$25.45 per share.

The NCIB is in place to take advantage of Finning's strong balance sheet and cash balances in periods of broader market volatility and the resulting negative impact on the Company's share price. Execution of the NCIB is governed by rules established by the Toronto Stock Exchange.

⁽¹⁾ A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

⁽²⁾ A copy of the NCIB notice is available on request from the Company. Direct your request to the Corporate Secretary, 300 – 565 Great Northern Way, Vancouver, BC V5T 0H8.

Net Debt to EBITDA

The Company monitors net debt to EBITDA to assess operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA held constant. Previously, the Company managed its capital structure by monitoring net debt to invested capital, but in line with management's focus on EBITDA as a key financial measure, management believes reporting net debt to EBITDA provides a better measurement of the Company's management of capital resources.

December 31	Company long-term target	2018	2017 (Restated) ⁽¹⁾
Net debt to EBITDA Ratio	< 3.0	1.7	1.5

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Contractual Obligations

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

(\$ millions)	2019	2020	2021	2022	2023	Thereafter	Total
Short-term debt							
- principal repayment	\$ 154	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 154
Long-term debt							
- principal repayment	—	200	201	205	123	628	1,357
- interest	54	53	47	37	30	188	409
Operating leases ⁽¹⁾	74	65	58	41	20	34	292
Finance leases	7	8	7	6	3	10	41
Total contractual obligations	\$ 289	\$ 326	\$ 313	\$ 289	\$ 176	\$ 860	\$ 2,253

⁽¹⁾ Included in accrued liabilities is \$2 million and in non-current other liabilities is \$8 million related to facility closure costs and future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2018 (2017: \$17 million).

The above table does not include obligations to fund pension benefits. The Company is making regular contributions to its registered defined benefit pension plans in Canada and the UK in order to fund the pension plans as required. Funding levels are monitored regularly and reset with new actuarial funding valuations performed by the Company's (or plan Trustees') actuaries that occur at least every three years. In 2018, approximately \$25 million was contributed by the Company towards the defined benefit pension plans. Based on the most recent valuations completed, the Company expects to contribute approximately \$20 million to the defined benefit pension plans during the year ended December 31, 2019.

Capital and Rental Expenditures

The Company's net spend on capital expenditures and rental fleet additions during the year ended December 31, 2019 is expected to be in the range of \$250 million to \$300 million depending on strength of market conditions. These are planned, but not legally committed, expenditures and include investments in a long-term network strategy, branch improvement initiatives, Digital initiatives, and electric drive mining vehicles.

Employee Share Purchase Plans

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2018, approximately 71%, 74% and 3% of eligible employees in the Company's Corporate, Canadian and South American operations, respectively, were contributing to these plans.

The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning UK & Ireland. Under the terms of this plan, the Company will provide one common share, purchased in the open market, for every three shares purchased by Finning (UK) employees and for every one share purchased by Finning (Ireland) employees. Finning (UK) employees may contribute from £10 to £150 of their salary per month. At December 31, 2018, approximately 31% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 to €70 of their salary per month. At December 31, 2018, approximately 24% of eligible employees in Finning (Ireland) were contributing to this plan.

These plans may be cancelled by the Company at any time.

Subsequent event

On February 1, 2019, the Company completed the acquisition, announced in December 2018, of **4Refuel**, through the acquisition of all of the outstanding shares of 4Refuel's ultimate parent, Owl Holdco RF Limited. 4Refuel is a mobile on-site refueling service provider with operations in most of the provinces in Canada and in Texas. This acquisition is a complementary bolt-on acquisition that provides the Company with the opportunity to sell equipment, product support, rental and more value-added services to a customer base not currently taking advantage of Finning's full suite of services. Furthermore, 4Refuel will have the opportunity to sell more fuel services to the Company's customers and improve customer service. The Company funded the transaction, valued at approximately \$260 million, with cash on hand and from existing credit facilities. 4Refuel is expected to generate approximately \$100 million net revenue and approximately \$30 million EBITDA in the year ended December 31, 2018. Net revenue, a non-GAAP financial measure, is defined as revenue attributed to service fees for the delivery of fuel and is calculated as total revenue charged to customers less the cost of fuel which is paid in full by the customer.

Accounting and Estimates

The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers report directly to the Company's **CFO**. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and **SVP**, Corporate Controller, as well as the audit committee of the Board of Directors (Audit Committee). Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

Management's discussion and analysis of the Company's financial condition and results of operations is based on the Company's Annual Financial Statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in the notes to the Annual Financial Statements for the year ended December 31, 2018. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

The more significant estimates and judgments include:

- recoverable values for goodwill and other indefinite-lived intangible assets;
- identifying the **CGU** to which assets should be allocated for impairment testing;
- allowance for doubtful accounts;
- provisions for standard warranty;
- provisions for income tax;
- the determination of post-employment benefits;
- provisions for slow-moving and obsolete inventory;
- the useful lives and residual values of property, plant, and equipment, rental equipment, and intangible assets;
- revenues and costs associated with long term contracts (primarily long-term product support contracts and power and energy systems);
- revenues and costs associated with the sale of assets with either repurchase commitments or rental purchase options;
- determination of the functional currency of each entity of the Company; and,
- inputs to the models to determine the fair value of certain share-based payments.

For additional information on the above judgments, estimates, and assumptions made, please refer to the Annual Financial Statements for the year ended December 31, 2018.

Goodwill and intangible assets with indefinite lives

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (CGU or group of CGUs) at least annually and when events or changes in circumstances indicate that their value may not be fully recoverable. Any potential goodwill or intangible asset impairment is identified by comparing the recoverable amount of the CGU to its carrying value. If the recoverable amount of the CGU exceeds its carrying value, goodwill and/or the intangible asset are considered not to be impaired. If the recoverable amount of the CGU is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment losses recognized for goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exists or may have decreased, management estimates the recoverable value of the CGU. Indicators of a recovery include sustainable improvement of the economic performance of the CGU and positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of impairment loss is recognized immediately in the consolidated statement of net income.

The Company determines the recoverable amount of a CGU using a discounted cash flow model. The process of determining these recoverable amounts requires management to make estimates and assumptions including, but not limited to, future cash flows, growth projections, associated economic risk assumptions and estimates of key operating metrics and drivers, and the weighted average cost of capital rates. Cash flow projections are based on financial budgets presented to the Company's Board of Directors. Projected cash flows are discounted using a weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The Company performed its assessment of goodwill and intangible assets with indefinite lives and determined that there was no impairment at December 31, 2018 and 2017. Also, the Company reviewed if there was any indication that the circumstances leading to the previously recognized impairment loss on its indefinite-lived intangible asset no longer existed or may have decreased. No reversal of impairment losses was considered appropriate at December 31, 2018 and 2017. Refer to note 20 in the Annual Financial Statements for further details.

Income tax asset or liability

Estimations of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities change from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes could have a material adverse effect on expected results.

Judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which the Company operates, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

Financial Instruments

Cash and cash equivalents, accounts receivable, unbilled work in progress, supplier claims receivable, and instalment and other notes receivable are classified and measured at amortized cost using the effective interest method.

Derivative financial instruments and short-term investments are classified and measured at fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative financial instruments which are effectively designated as hedging instruments, which are recognized in other comprehensive income.

Short-term and long-term debt and accounts payable are classified and measured at amortized cost using the effective interest method.

Related Party Transactions

Related party transactions and balances incurred in the normal course of business between the Company and its subsidiaries have been eliminated on consolidation and are not considered material for disclosure. Information on the Company's wholly owned subsidiaries and the main countries in which they operate is contained in note 2 of the annual consolidated financial statements. Compensation of key management personnel is disclosed in note 26 of the annual consolidated financial statements.

New Accounting Pronouncements

Changes in the rules or standards governing accounting can impact Finning's financial reporting. The impact of adopting new accounting standards is described in note 2 of the Company's Annual Financial Statements. The effect of future accounting pronouncements and effective dates are also discussed in note 2 of the Annual Financial Statements.

The Company has adopted the following new accounting standards and interpretation:

- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company applied this standard retrospectively. IFRS 15 supersedes existing standards and interpretations, including IAS 18, *Revenue* and IAS 11, *Construction Contracts*.
- IFRS 9, *Financial Instruments* (effective January 1, 2018) introduced new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. The Company applied this standard retrospectively. Under the new standard, management utilizes a provision matrix, permitted under the simplified approach, to estimate expected credit losses for trade and other receivables and unbilled work in progress. There is no adjustment on transition for this change in methodology from incurred credit losses under the previous standard IAS 39, *Financial Instruments: Recognition and Measurement*.
- **IFRIC 22, *Foreign Currency Transactions and Advance Consideration*** (effective January 1, 2018) clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. IFRIC 22 clarifies the exchange rate used to translate deposits made on inventory purchases or advances received for equipment sales denominated in a foreign currency. Management elected to apply this interpretation prospectively to all in-scope assets, expenses, and income recognized on or after January 1, 2018.

The Company has not applied the following new standard and interpretation that have been issued but are not yet effective:

- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard but expects IFRS 16 will result in higher non-current assets and current and non-current liabilities in the range of \$250 million to \$300 million in the consolidated statement of financial position across all reporting segments, primarily in the Canadian segment. The categories of assets expected to be most impacted are properties and vehicles. Also, management expects lower selling, general, and administrative expense and higher finance costs under this new standard due to lower operating lease expense partially offset by higher depreciation expense and higher interest expense. Although total cash movement will be unchanged, the presentation in the statement of cash flows will look different under the new standard. There will be an increase in cash flows provided by operating activities offset by an increase in cash flows used within financing activities, as the principal component of lease payments currently accounted for as an operating activity will be presented as a financing activity.

The Company will apply IFRS 16 retrospectively and recognize the cumulative effect of initial application on January 1, 2019, on the statement of financial position, subject to permitted and elected practical expedients. This method of application will not result in a restatement of amounts reported in periods prior to January 1, 2019. The Company will measure the right-of-use asset at an amount equal to the lease liability on January 1, 2019 and apply a single discount rate to leases with a similar remaining lease term for similar classes of underlying assets. The Company will not apply this standard to short-term leases and leases for which the underlying asset is of low value.

- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. Management has assessed the interpretation and expects there to be no impact.

Risk Factors and Management

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's **ERM** process is designed to ensure that such risks are identified, managed, and reported. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and Annual Financial Statements. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. For more information on the Company's financial instruments, including accounting policies, description of risks, and relevant risk sensitivities, please refer to note 8 of the Company's Annual Financial Statements.

Market Risk and Hedging

Market risk is the risk that changes in the market, such as foreign exchange rates, interest rates and commodity prices, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposures. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes. All such transactions are carried out within the guidelines set by the Company and approved by the Company's Audit Committee.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the CAD, USD, GBP, **CLP**, and ARS. The functional currency of the Company's South American operations is USD and of the Company's UK & Ireland operations is primarily GBP (Finning Ireland's functional currency is the Euro). As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into CAD, which is the Company's presentation currency. The Company's South American and UK & Ireland operations have functional currencies other than the CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments with foreign currency denominated loans. The currency translation gain of \$133 million recorded in 2018 resulted primarily from the 9% weaker CAD relative to the USD as well as the 3% weaker CAD relative to the GBP at December 31, 2018, compared to December 31, 2017. This was partially offset by \$58 million of unrealized foreign exchange loss on net investment hedges.

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. The Company applies hedge accounting to hedges of certain inventory purchases in its Canadian and UK operations.

The results of the Company's operations are impacted by the translation of its foreign-denominated transactions; the results of the Canadian operations are impacted by USD based revenue and costs and the results of the South American operations are impacted by CLP and ARS based revenues and costs.

The Company is also exposed to foreign currency risks related to the future cash flows on its foreign-denominated financial assets and financial liabilities and foreign-denominated net asset or net liability positions on its statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The CAD has historically been positively correlated to commodity prices. In a scenario of declining commodity prices, the Company's resource industry customers may curtail capital expenditures and decrease production which can result in reduced demand for equipment, parts, and services. At the same time, the weaker CAD to USD positively impacts the Company's financial results when USD based revenues and earnings are translated into CAD reported revenues and earnings, although lags may occur.

The results of the Company's South American operations are affected by changes in the USD/CLP and USD/ARS relationships. Historically, the CLP has been positively correlated to the price of copper. As the price of copper declines, the value of the CLP versus the USD declines as well. In such an environment, the Company's revenue may be impacted as mining customers curtail their equipment and product support spend. The Company's SG&A in South America, which is largely denominated in local currency, is reduced when translated into USD, partly offsetting the impact on revenue. The reverse holds in an environment where the copper price strengthens, although generally there is a lag between the increase in SG&A and the improvement in revenue.

The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

Key exchange rates that impacted the Company's results were as follows:

Exchange rate	December 31			3 months ended December 31 – average			12 months ended December 31 – average		
	2018	2017	Change	2018	2017	Change	2018	2017	Change
USD/CAD	1.3642	1.2545	(9)%	1.3204	1.2713	(4)%	1.2957	1.2986	0 %
GBP/CAD	1.7439	1.6961	(3)%	1.6989	1.6875	(1)%	1.7299	1.6721	(3)%
USD/CLP	695.69	615.22	(13)%	679.28	633.80	(7)%	639.90	649.31	1 %
USD/ARS	37.70	18.65	(102)%	37.07	17.53	(111)%	26.23	16.47	(59)%

The impact of foreign exchange due to fluctuation in the value of CAD relative to USD, GBP, CLP, and ARS is expected to continue to affect Finning's results.

Interest Rate Risk

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned can be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities, primarily from short-term and long-term debt. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. The Company's floating rate debt is short term in nature and as a result, the Company is exposed to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio.

Commodity Prices

The Company provides equipment and parts and service to customers in resource and construction industries. In the resource sector, fluctuations in commodity prices and changes in long-term outlook for commodities impact customer decisions regarding capital expenditures and production levels, which determine demand for equipment, parts and service. In the construction sector, publicly funded infrastructure spending is indirectly impacted by fluctuations in commodity prices, particularly in regions with resource-based economies (such as the prices of copper, gold, and other metals; thermal and metallurgical coal; natural gas, oil, and lumber). In Canada, the Company's customers are exposed to the price of oil, mostly in the oil sands in Northern Alberta. In South America, the Company's customers are primarily exposed to the price of copper and, to a much lesser extent, the prices of gold, other metals, and natural gas. In the UK & Ireland, the Company's resource sector customers operate in thermal coal and off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on the Company's financial results.

In periods of significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment. However, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for Finning's products and services could increase and apply pressure on the Company's ability to supply the products or skilled technicians on a timely and cost efficient basis. To assist in mitigating the impacts of fluctuations in demand for its products, Finning management works closely with Caterpillar to endeavor to achieve an adequate and timely supply of product or offers customers alternative solutions and has implemented human resources recruiting strategies to achieve adequate staffing levels.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, short-term investments, receivables from customers and suppliers, instalment and other notes receivable, and derivative assets.

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

The Company has credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from S&P and/or A2 by Moody's and/or A by Fitch.

The Company has a large diversified customer base and is not dependent on any single customer or group of customers. Credit risk associated with receivables from customers and suppliers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains uncommitted bilateral and committed syndicated bank credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Based on the availability of credit facilities, the Company's business operating plans, and the discretionary nature of some of its cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs.

Financing Arrangements

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

Share-Based Payment Risk

Share-based payment plans are an integral part of the Company's employee compensation program and can be in the form of the Company's common shares or cash payments that reflect the value of the shares and the extent the Company is able to achieve or exceed specified performance levels. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as the Company's share price, share price volatility, performance of the Company, and employee exercise behaviour change. For further details on the Company's share-based payment plans, please refer to note 11 of the Company's Annual Financial Statements.

Contingencies and Guarantees

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

Finning's South American operations began to export an agricultural animal feed product from Argentina in the third quarter of 2012 in response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency. These exports enabled Finning to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. Finning's South American operations have not exported agricultural animal feed product since the third quarter of 2013. The Company has received a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company is appealing these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and negatively impact the Company's financial position.

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2018, the total estimated value of these contracts outstanding is \$130 million (2017: \$119 million) coming due at periods ranging from 2019 to 2025. The Company's experience to date has been that the equipment fair value at the exercise date of the contract is generally worth more than the repurchase amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2018 and December 31, 2017 is \$1 million.

For further information on the Company's contingencies, commitments, guarantees, and indemnifications, refer to notes 28 and 29 of the notes to the Annual Financial Statements.

Outstanding Share Data

As at February 18, 2019

Common shares outstanding	164,038,067
Options outstanding	3,157,883

Controls and Procedures Certification

Disclosure Controls and Procedures

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

The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to them in a timely manner.

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

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2018, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. In the second half of 2018, management did employ additional procedures to ensure key financial internal controls remained in place during and after the conversion to a new ERP system in the Company's South American operations. Management also performed additional account reconciliations and other analytical and substantive procedures to mitigate any financial risks from the introduction of the new system.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance that the objectives of the control system are met, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting was conducted as of December 31, 2018, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, management used the criteria set forth by the **COSO** in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2018.

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

Management believes that providing certain non-GAAP financial measures provides users of the Company's MD&A and consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS financial measures, where available, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS financial measures alone.

The non-GAAP financial measures used by management do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for GAAP measures as determined in accordance with IFRS.

Set out below is a description of the non-GAAP financial measures used by the Company in this MD&A and a quantitative reconciliation from each non-GAAP financial measure to the most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's consolidated financial statements (GAAP measures).

KPIs

Management uses KPIs to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include, among others, ROIC, inventory turns, invested capital turnover, working capital to sales ratio, equipment backlog, and net debt to EBITDA ratio. These KPIs, including those that are expressed as ratios, are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

Adjusted net income and Adjusted EPS

Adjusted net income excludes from net income (as disclosed in the Company's consolidated statement of income) the after-tax amounts of significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred.

Adjusted EPS is calculated by dividing Adjusted net income by the weighted average number of common shares outstanding during the period.

A reconciliation between net income and EPS (the most directly comparable GAAP measures) and Adjusted net income and Adjusted EPS can be found on pages 8 and 21 of this MD&A.

EBITDA, Adjusted EBITDA, and Adjusted EBIT

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization and is utilized by management to assess and evaluate the financial performance of its operating segments. Management believes that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

Management may also calculate an Adjusted EBIT and Adjusted EBITDA to exclude items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

EBITDA is calculated by adding depreciation and amortization to EBIT. Adjusted EBITDA is calculated by adding depreciation and amortization to Adjusted EBIT.

The most comparable GAAP financial measure to EBITDA is EBIT.

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for the consolidated operations for the last nine quarters and years ended December 31, 2016, 2015, and 2014 is as follows:

3 months ended (\$ millions)	2018						2017 (Restated) ⁽¹⁾						2016			Years ended Dec 31		
	Dec 31	Sep 30	Jun 30	Jun 30	Mar 31	Mar 31	Dec 31	Sep 30	Jun 30	Jun 30	Mar 31	Mar 31	Dec 31	Dec 31	Dec 31	2016	2015	2014
EBIT	\$ 91	\$ 93	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 165	\$ (105)	\$ 504	\$ 49	\$ 45	\$ 47	\$ 192	\$ 231	\$ 216
Depreciation and amortization	\$ 140	\$ 142	\$ 171	\$ 157	\$ 154	\$ 146	\$ 145	\$ 131	\$ 65	\$ 357	\$ 126	\$ 720	\$ 610	\$ 602	\$ 357	\$ 357	\$ 126	\$ 720
EBITDA	\$ 91	\$ 93	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 165	\$ (105)	\$ 504	\$ 49	\$ 45	\$ 47	\$ 192	\$ 231	\$ 216
EBITDA – last 12 months	\$ 91	\$ 93	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 165	\$ (105)	\$ 504	\$ 49	\$ 45	\$ 47	\$ 192	\$ 231	\$ 216
EBIT	\$ 91	\$ 93	\$ 126	\$ 113	\$ 109	\$ 100	\$ 97	\$ 86	\$ 18	\$ 165	\$ (105)	\$ 504	\$ 49	\$ 45	\$ 47	\$ 192	\$ 231	\$ 216
Significant items:																		
Write-off and loss related to Energyst	—	30	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Impact from Alberta wildfires	—	—	—	(7)	(4)	—	—	—	—	—	—	—	—	—	—	—	—	—
– insurance proceeds	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– unavoidable costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Severance costs and labour disruption costs ⁽²⁾	—	—	—	—	5	—	—	—	—	—	—	—	—	—	—	—	—	—
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Power systems project provisions, estimated	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
loss on disputes and alleged fraudulent	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
activity by a customer	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Gain on investment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Loss on sale of non-core business	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Impairment loss on distribution network	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
and goodwill	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition and disposal of business, net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
ERP costs derecognized ⁽³⁾	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign exchange impact on ARS devaluation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjusted EBIT	\$ 91	\$ 123	\$ 126	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 273	\$ 383	\$ 533	\$ 49	\$ 45	\$ 47	\$ 192	\$ 221	\$ 216
Depreciation and amortization ⁽⁴⁾	\$ 140	\$ 172	\$ 171	\$ 150	\$ 155	\$ 146	\$ 145	\$ 131	\$ 117	\$ 465	\$ 604	\$ 749	\$ 446	\$ 442	\$ 292	\$ 273	\$ 383	\$ 533
Adjusted EBITDA	\$ 91	\$ 123	\$ 126	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 273	\$ 383	\$ 533	\$ 49	\$ 45	\$ 47	\$ 192	\$ 221	\$ 216
Adjusted EBIT – last 12 months	\$ 91	\$ 123	\$ 126	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 273	\$ 383	\$ 533	\$ 49	\$ 45	\$ 47	\$ 192	\$ 221	\$ 216
Adjusted EBITDA – last 12 months	\$ 91	\$ 123	\$ 126	\$ 106	\$ 110	\$ 100	\$ 97	\$ 86	\$ 70	\$ 273	\$ 383	\$ 533	\$ 49	\$ 45	\$ 47	\$ 192	\$ 221	\$ 216

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

⁽²⁾ Labour disruption costs of \$2 million incurred in the Company's South American operations in Q3 2014.

⁽³⁾ Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full ERP system in its South American operations would not occur in the near future, leading to an accounting review and a decision to derecognize the previously capitalized costs of \$12 million in 2014.

⁽⁴⁾ Of the significant items described above, \$10 million was recorded in depreciation and amortization expense in Q4 2015.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the Canadian operations for the last nine quarters and years ended December 31, 2016, 2015, and 2014 is as follows:

3 months ended (\$ millions)	2018						2017 (Restated) ⁽¹⁾						2016		Years ended Dec 31			
	Dec 31	Sep 30	Jun 30	Jun 30	Mar 31	Mar 31	Dec 31	Sep 30	Sep 30	Jun 30	Jun 30	Mar 31	Dec 31	Dec 31	2016	2015	2014	
EBIT	\$ 71	\$ 78	\$ 77	\$ 77	\$ 71	\$ 71	\$ 67	\$ 57	\$ 57	\$ 55	\$ 46	\$ 46	\$ (3)	\$ (3)	\$ 87	\$ 98	\$ 284	
Significant items:																		
Impact from Alberta wildfires																		
– insurance proceeds	—	—	—	—	(7)	(7)	(4)	—	—	—	—	—	—	—	—	—	—	
– unavoidable costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	11	—	—	
Severance costs	—	—	—	—	—	—	3	—	—	—	—	—	15	24	27	6	6	
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	—	—	—	—	32	32	48	—	—	
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	16	—	
Adjusted EBIT	\$ 71	\$ 78	\$ 77	\$ 77	\$ 64	\$ 64	\$ 66	\$ 57	\$ 57	\$ 55	\$ 46	\$ 46	\$ 44	\$ 44	\$ 154	\$ 189	\$ 290	
Depreciation and amortization ⁽²⁾	26	26	22	22	22	22	24	25	26	26	24	24	24	24	100	116	112	
Adjusted EBITDA	\$ 97	\$ 104	\$ 99	\$ 99	\$ 86	\$ 86	\$ 90	\$ 82	\$ 81	\$ 81	\$ 70	\$ 70	\$ 68	\$ 68	\$ 254	\$ 305	\$ 402	
Adjusted EBIT – last 12 months	\$ 290	\$ 285	\$ 264	\$ 264	\$ 242	\$ 242	\$ 224	\$ 202	\$ 182	\$ 182	\$ 167	\$ 167	\$ 154	\$ 154	\$ 154	\$ 189	\$ 290	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

⁽²⁾ Of the significant items described above, \$5 million was recorded in depreciation and amortization expense in Q4 2015.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the South American operations for the last nine quarters and years ended December 31, 2016, 2015, and 2014 is as follows:

3 months ended (\$ millions)	2018					2017 (Restated) ⁽¹⁾					Years ended Dec 31			
	Dec 31	Sep 30	Jun 30	Mar 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2016	2016	2015	2014
EBIT	\$ 12	\$ 37	\$ 47	\$ 46	\$ 44	\$ 50	\$ 48	\$ 42	\$ 44	\$ 27	\$ 137	\$ (174)	\$ 196	
Significant items:														
Severance costs and labour disruption costs ⁽²⁾	—	—	—	—	—	2	—	—	—	—	8	15	10	
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	—	—	—	3	—	
Impairment loss on distribution network and goodwill	—	—	—	—	—	—	—	—	—	—	—	324	—	
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	10	—	
Estimated loss on alleged fraudulent activity by a customer	—	—	—	—	—	—	—	—	—	10	10	—	—	
ERP write-off ⁽³⁾	—	—	—	—	—	—	—	—	—	—	—	—	12	
Foreign exchange impact on ARS devaluation	—	—	—	—	—	—	—	—	—	—	—	12	—	
Adjusted EBIT	\$ 12	\$ 37	\$ 47	\$ 46	\$ 44	\$ 52	\$ 48	\$ 42	\$ 44	\$ 37	\$ 155	\$ 190	\$ 218	
Depreciation and amortization ⁽⁴⁾	17	15	15	15	15	15	13	15	15	16	62	77	72	
Adjusted EBITDA	\$ 29	\$ 52	\$ 62	\$ 61	\$ 59	\$ 67	\$ 61	\$ 57	\$ 59	\$ 53	\$ 217	\$ 267	\$ 290	
Adjusted EBIT – last 12 months	\$ 142	\$ 182	\$ 193	\$ 188	\$ 160	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$ 155	\$ 190	\$ 218	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

⁽²⁾ Labour disruption costs of \$2 million incurred in the Company's South American operations in Q3 2014.

⁽³⁾ Following an evaluation of the business needs of the Company's South American operations and a capability analysis, management determined that the implementation of a full ERP system in its South American operations would not occur in the near future, leading to an accounting review and a decision to derecognize the previously capitalized costs of \$12 million in 2014.

⁽⁴⁾ Of the significant items described above, \$5 million was recorded in depreciation and amortization expense in Q4 2015.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the UK & Ireland operations for the last nine quarters and years ended December 31, 2016, 2015, and 2014 is as follows:

3 months ended (\$ millions)	2018						2017 (Restated) ⁽¹⁾						2016			Year ended Dec 31		
	Dec 31	Sep 30	Jun 30	Jun 30	Mar 31	Dec 31	Dec 31	Sep 30	Sep 30	Jun 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	2016	2015	2014
EBIT	\$ 12	\$ 15	\$ 14	\$ 14	\$ 10	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 7	\$ 8	\$ 8	\$ (12)	\$ (5)	\$ 50		
Significant items:																		
Severance costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9	6	1	
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4	2	—	
Impairment loss on distribution network and goodwill	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14	—	
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	16	—	
Power systems project provisions and estimated loss on disputes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Disposal of business	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10	—	—	
Adjusted EBIT	\$ 12	\$ 15	\$ 14	\$ 14	\$ 10	\$ 10	\$ 8	\$ 9	\$ 13	\$ 7	\$ 7	\$ 8	\$ 8	\$ 16	\$ 33	\$ 51		
Depreciation and amortization	6	8	7	7	7	6	6	7	7	6	6	7	7	30	28	32		
Adjusted EBITDA	\$ 18	\$ 23	\$ 21	\$ 21	\$ 17	\$ 14	\$ 14	\$ 16	\$ 20	\$ 13	\$ 13	\$ 15	\$ 15	\$ 46	\$ 61	\$ 83		
Adjusted EBIT – last 12 months	\$ 51	\$ 47	\$ 41	\$ 40	\$ 40	\$ 37	\$ 37	\$ 37	\$ 38	\$ 20	\$ 20	\$ 16	\$ 16	\$ 16	\$ 33	\$ 51		

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Adjusted EBIT Margin, EBITDA Margin, and Adjusted EBITDA Margin

These measures are defined, respectively, as Adjusted EBIT divided by total revenue, EBITDA divided by total revenue, and Adjusted EBITDA divided by total revenue, using total revenue as disclosed in the Company's consolidated statement of income. These measures are utilized by management to assess and evaluate the financial performance or profitability of its operating segments.

Free Cash Flow

Free cash flow is defined as cash flow provided by (used in) operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in the Company's consolidated statement of cash flow. Free cash flow is a measure used by the Company to assess cash operating performance and the ability to raise and service debt. A reconciliation of free cash flow is as follows:

3 months ended (\$ millions)	2018			2017			2016		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Cash flow provided by (used in) operating activities	\$ 490	\$ (6)	\$ 18	\$ (242)	\$ 398	\$ 55	\$ (112)	\$ (58)	\$ 131
Additions to property, plant, and equipment and intangible assets	(77)	(46)	(46)	(32)	(49)	(33)	(20)	(19)	(20)
Proceeds on disposal of property, plant, and equipment	5	3	—	11	1	—	1	1	2
Free cash flow	\$ 418	\$ (49)	\$ (28)	\$ (263)	\$ 350	\$ 22	\$ (131)	\$ (76)	\$ 113
Free cash flow – last 12 months	\$ 78				\$ 165				\$ 370

Inventory Turns

Inventory turns is the number of times the Company's inventory is sold and replaced over a period and is used by management as a measure of asset utilization. Inventory turns is calculated as annualized cost of sales for the last six months divided by average inventory, based on an average of the last two quarters, as follows:

(\$ millions, except as noted)	2018			2017 (Restated) ⁽¹⁾						2016		2015		2014	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Cost of sales – annualized	\$ 5,470	\$ 5,139	\$ 4,987	\$ 5,056	\$ 4,862	\$ 4,590	\$ 4,342	\$ 4,240	\$ 4,150	\$ 4,150	\$ 4,150	\$ 4,524	\$ 4,524	\$ 4,868	\$ 4,868
Inventory – 2 quarter average	\$ 2,039	\$ 1,992	\$ 1,937	\$ 1,807	\$ 1,726	\$ 1,767	\$ 1,720	\$ 1,624	\$ 1,663	\$ 1,663	\$ 1,663	\$ 1,897	\$ 1,897	\$ 1,734	\$ 1,734
Inventory turns (number of times)	2.68	2.58	2.57	2.80	2.82	2.60	2.52	2.61	2.49	2.49	2.49	2.38	2.38	2.81	2.81

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Invested Capital

Invested capital is calculated as net debt plus shareholders' equity. Invested capital is also calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term and long-term debt, net of cash. Invested capital is used by management as a measure of the total cash investment made in the Company and each operating segment. Management uses invested capital in a number of different measurements in assessing financial performance against other companies and between reportable segments. The calculation of invested capital is as follows:

(\$ millions, except as noted)	2018			2017 (Restated) ⁽¹⁾			2016			2015			2014		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Cash and cash equivalents	\$ (454)	\$ (221)	\$ (300)	\$ (325)	\$ (458)	\$ (516)	\$ (411)	\$ (489)	\$ (593)	\$ (475)	\$ (475)	\$ (450)	\$ (450)	\$ (450)	\$ (450)
Short-term debt	154	223	213	169	18	32	102	16	2	117	117	7	7	7	7
Current portion of long-term debt	—	—	—	—	—	350	350	—	—	—	—	—	—	—	—
Long-term debt	1,354	1,315	1,330	1,322	1,296	1,291	1,116	1,481	1,487	1,548	1,548	1,418	1,418	1,418	1,418
Net debt	\$ 1,054	\$ 1,317	\$ 1,243	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 1,190	\$ 1,190	\$ 975	\$ 975	\$ 975	\$ 975
Shareholders' equity	2,109	2,114	2,119	2,060	1,974	1,938	1,951	1,932	1,901	2,050	2,050	2,131	2,131	2,131	2,131
Invested capital	\$ 3,163	\$ 3,431	\$ 3,362	\$ 3,226	\$ 2,830	\$ 3,095	\$ 3,108	\$ 2,940	\$ 2,797	\$ 3,240	\$ 3,240	\$ 3,106	\$ 3,106	\$ 3,106	\$ 3,106

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital, defined on page 47 and is calculated as total revenue for the last twelve months divided by invested capital based on an average of the last four quarters. The calculation of invested capital turnover is as follows:

(\$ millions, except as noted)	2018				2017 (Restated) ⁽¹⁾				2016		2015		2014	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Consol														
Revenue – last 12 months	\$ 6,996	\$ 6,887	\$ 6,670	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 6,275	\$ 6,275	\$ 6,275	\$ 6,918	
Invested capital – 4 quarter average	\$ 3,295	\$ 3,212	\$ 3,128	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$ 3,530	\$ 3,530	\$ 3,530	\$ 3,298	
Invested capital turnover (number of times)	2.12	2.14	2.13	2.13	2.09	2.01	1.97	1.89	1.90	1.78	1.78	1.78	2.10	
Canada														
Revenue – last 12 months	\$ 3,674	\$ 3,525	\$ 3,351	\$ 3,234	\$ 3,072	\$ 2,932	\$ 2,815	\$ 2,659	\$ 2,821	\$ 3,126	\$ 3,126	\$ 3,126	\$ 3,634	
Invested capital – 4 quarter average	\$ 1,795	\$ 1,782	\$ 1,746	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$ 1,792	\$ 1,792	\$ 1,792	\$ 1,657	
Invested capital turnover (number of times)	2.05	1.98	1.92	1.87	1.82	1.74	1.70	1.62	1.70	1.74	1.74	1.74	2.19	
South America														
Revenue – last 12 months	\$ 2,170	\$ 2,250	\$ 2,241	\$ 2,206	\$ 2,157	\$ 2,103	\$ 2,015	\$ 1,930	\$ 1,857	\$ 2,067	\$ 2,067	\$ 2,067	\$ 2,227	
Invested capital – 4 quarter average	\$ 1,169	\$ 1,117	\$ 1,091	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$ 1,357	\$ 1,357	\$ 1,357	\$ 1,341	
Invested capital turnover (number of times)	1.86	2.01	2.05	2.08	2.09	2.03	1.97	1.87	1.80	1.52	1.52	1.52	1.66	
UK & Ireland														
Revenue – last 12 months	\$ 1,152	\$ 1,112	\$ 1,078	\$ 1,085	\$ 1,027	\$ 979	\$ 979	\$ 946	\$ 950	\$ 1,082	\$ 1,082	\$ 1,082	\$ 1,057	
Invested capital – 4 quarter average	\$ 358	\$ 337	\$ 314	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$ 369	\$ 369	\$ 369	\$ 308	
Invested capital turnover (number of times)	3.22	3.30	3.44	3.65	3.56	3.47	3.66	3.69	3.54	2.93	2.93	2.93	3.43	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Net Debt to EBITDA Ratio and Net Debt to Adjusted EBITDA Ratio

These ratios are calculated, respectively, as net debt, defined and calculated above, divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. These ratios are used by management in assessing the Company's operating leverage and ability to repay its debt. These ratios approximate the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

December 31 (\$ millions, except as noted)	2018				2017 (Restated) ⁽¹⁾				2016		2015		2014	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Net debt	\$ 1,054	\$ 1,317	\$ 1,243	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 896	\$ 1,190	\$ 1,190	\$ 975	\$ 975
EBITDA – last 12 months	\$ 610	\$ 624	\$ 628	\$ 602	\$ 576	\$ 487	\$ 460	\$ 392	\$ 357	\$ 357	\$ 126	\$ 126	\$ 720	\$ 720
Net Debt to EBITDA Ratio	1.7	2.1	2.0	1.9	1.5	2.4	2.5	2.6	2.5	2.5	9.5	9.5	1.4	1.4
Net debt	\$ 1,054	\$ 1,317	\$ 1,243	\$ 1,166	\$ 856	\$ 1,157	\$ 1,157	\$ 1,008	\$ 896	\$ 896	\$ 1,190	\$ 1,190	\$ 975	\$ 975
Adjusted EBITDA – last 12 months	\$ 633	\$ 648	\$ 622	\$ 596	\$ 577	\$ 539	\$ 512	\$ 478	\$ 465	\$ 465	\$ 604	\$ 604	\$ 749	\$ 749
Net Debt to Adjusted EBITDA Ratio	1.7	2.0	2.0	2.0	1.5	2.1	2.3	2.1	1.9	1.9	2.0	2.0	1.3	1.3

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

ROIC and Adjusted ROIC

Return on Invested Capital, or ROIC, is defined as EBIT for the last twelve months divided by invested capital (defined above), based on an average of the last four quarters, expressed as a percentage.

Management views ROIC (at a consolidated and reportable segment level), as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments. Management may also calculate an Adjusted ROIC using Adjusted EBIT to exclude significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

ROIC and Adjusted ROIC is calculated as follows:

(\$ millions, except as noted)	2018				2017 (Restated) ⁽¹⁾				2016		2015		2014	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
Consol														
EBIT – last 12 months	\$ 423	\$ 441	\$ 448	\$ 419	\$ 392	\$ 301	\$ 274	\$ 206	\$ 165	\$	\$ (105)	\$	\$ 504	
Adjusted EBIT – last 12 months	\$ 446	\$ 465	\$ 442	\$ 413	\$ 393	\$ 353	\$ 326	\$ 292	\$ 273	\$	\$ 383	\$	\$ 533	
Invested capital – 4 quarter average	\$ 3,295	\$ 3,212	\$ 3,128	\$ 3,065	\$ 2,993	\$ 2,989	\$ 2,944	\$ 2,927	\$ 2,960	\$	\$ 3,530	\$	\$ 3,298	
ROIC	12.8%	13.7%	14.3%	13.7%	13.1%	10.1%	9.3%	7.1%	5.6%		(3.0)%		15.3%	
Adjusted ROIC	13.5%	14.5%	14.2%	13.5%	13.1%	11.8%	11.1%	10.0%	9.3%		10.9%		16.2%	
Canada														
EBIT – last 12 months	\$ 297	\$ 293	\$ 272	\$ 250	\$ 225	\$ 155	\$ 135	\$ 108	\$ 87	\$	\$ 98	\$	\$ 284	
Adjusted EBIT – last 12 months	\$ 290	\$ 285	\$ 264	\$ 242	\$ 224	\$ 202	\$ 182	\$ 167	\$ 154	\$	\$ 189	\$	\$ 290	
Invested capital – 4 quarter average	\$ 1,795	\$ 1,782	\$ 1,746	\$ 1,727	\$ 1,690	\$ 1,684	\$ 1,660	\$ 1,643	\$ 1,656	\$	\$ 1,792	\$	\$ 1,657	
ROIC	16.6%	16.4%	15.5%	14.5%	13.3%	9.2%	8.1%	6.6%	5.3%		5.5%		17.1%	
Adjusted ROIC	16.2%	16.0%	15.1%	14.0%	13.2%	12.0%	11.0%	10.2%	9.3%		10.6%		17.5%	
South America														
EBIT – last 12 months	\$ 142	\$ 180	\$ 191	\$ 186	\$ 184	\$ 161	\$ 153	\$ 149	\$ 137	\$	\$ (174)	\$	\$ 196	
Adjusted EBIT – last 12 months	\$ 142	\$ 182	\$ 193	\$ 188	\$ 186	\$ 171	\$ 163	\$ 160	\$ 155	\$	\$ 190	\$	\$ 218	
Invested capital – 4 quarter average	\$ 1,169	\$ 1,117	\$ 1,091	\$ 1,060	\$ 1,032	\$ 1,036	\$ 1,024	\$ 1,031	\$ 1,030	\$	\$ 1,357	\$	\$ 1,341	
ROIC	12.2%	16.2%	17.5%	17.6%	17.8%	15.5%	14.9%	14.5%	13.3%		(12.8)%		14.6%	
Adjusted ROIC	12.2%	16.4%	17.7%	17.8%	18.1%	16.5%	16.0%	15.6%	15.0%		14.0%		16.2%	
UK & Ireland														
EBIT – last 12 months	\$ 51	\$ 47	\$ 41	\$ 40	\$ 37	\$ 37	\$ 38	\$ (1)	\$ (12)	\$	\$ (5)	\$	\$ 50	
Adjusted EBIT – last 12 months	\$ 51	\$ 47	\$ 41	\$ 40	\$ 37	\$ 37	\$ 38	\$ 20	\$ 16	\$	\$ 33	\$	\$ 51	
Invested capital – 4 quarter average	\$ 358	\$ 337	\$ 314	\$ 298	\$ 288	\$ 282	\$ 267	\$ 256	\$ 268	\$	\$ 369	\$	\$ 308	
ROIC	14.2%	14.0%	13.2%	13.4%	12.8%	12.9%	13.9%	(0.5)%	(4.5)%		(1.4)%		16.3%	
Adjusted ROIC	14.2%	14.0%	13.2%	13.4%	12.8%	12.9%	13.9%	7.7%	5.9%		9.0%		16.7%	

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

Working Capital & Working Capital to Sales Ratio

Working capital is defined as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding short-term debt and current portion of long-term debt). Management views working capital as a measure for assessing overall liquidity.

The working capital to sales ratio is calculated as working capital, based on an average of the last four quarters, divided by total revenue for the last twelve months. This is a useful KPI for management in assessing the Company's efficiency in its use of working capital to generate sales.

The working capital to sales ratio is calculated as follows:

(\$ millions, except as noted)	2018				2017 (Restated) ⁽¹⁾				2016		2015		2014	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31
Total current assets	\$ 3,924	\$ 3,696	\$ 3,763	\$ 3,687	\$ 3,531	\$ 3,566	\$ 3,493	\$ 3,389	\$ 3,378	\$ 3,389	\$ 3,460	\$ 3,460	\$ 3,477	\$ 3,477
Cash and cash equivalents	(454)	(221)	(300)	(325)	(458)	(516)	(411)	(489)	(593)	(489)	(475)	(475)	(450)	(450)
Total current assets ⁽²⁾	\$ 3,470	\$ 3,475	\$ 3,463	\$ 3,362	\$ 3,073	\$ 3,050	\$ 3,082	\$ 2,900	\$ 2,785	\$ 2,900	\$ 2,985	\$ 2,985	\$ 3,027	\$ 3,027
Total current liabilities	\$ 1,992	\$ 1,734	\$ 1,742	\$ 1,626	\$ 1,545	\$ 1,648	\$ 1,703	\$ 1,232	\$ 1,233	\$ 1,232	\$ 1,243	\$ 1,243	\$ 1,372	\$ 1,372
Short-term debt	(154)	(223)	(213)	(169)	(18)	(32)	(102)	(16)	(2)	(16)	(2)	(117)	(7)	(7)
Current portion of long-term debt	—	—	—	—	—	(350)	(350)	—	—	—	—	—	—	—
Total current liabilities ⁽³⁾	\$ 1,838	\$ 1,511	\$ 1,529	\$ 1,457	\$ 1,527	\$ 1,266	\$ 1,251	\$ 1,216	\$ 1,231	\$ 1,216	\$ 1,231	\$ 1,126	\$ 1,365	\$ 1,365
Working capital	\$ 1,632	\$ 1,964	\$ 1,934	\$ 1,905	\$ 1,546	\$ 1,784	\$ 1,831	\$ 1,684	\$ 1,554	\$ 1,684	\$ 1,859	\$ 1,859	\$ 1,662	\$ 1,662
Working capital – 4 quarter average	\$ 1,859	\$ 1,837	\$ 1,793	\$ 1,767	\$ 1,712	\$ 1,717	\$ 1,690	\$ 1,687	\$ 1,709	\$ 1,687	\$ 2,023	\$ 2,023	\$ 1,807	\$ 1,807
Revenue – last 12 months	\$ 6,996	\$ 6,887	\$ 6,670	\$ 6,525	\$ 6,256	\$ 6,014	\$ 5,809	\$ 5,535	\$ 5,628	\$ 5,535	\$ 6,275	\$ 6,275	\$ 6,918	\$ 6,918
Working capital to sales	26.6%	26.7%	26.9%	27.1%	27.4%	28.6%	29.1%	30.5%	30.4%	30.5%	32.2%	32.2%	26.1%	26.1%

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

⁽²⁾ Excluding cash and cash equivalents.

⁽³⁾ Excluding short-term debt and current portion of long-term debt.

Equipment Backlog and Order Intake

The Company's global equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. Order intake represents committed new equipment orders. Management uses equipment backlog and order intake as measures of projecting future new equipment deliveries. There are no directly comparable IFRS measures for equipment backlog and order intake.

Selected Annual Information

	2018	2017	2016
(\$ millions, except for share and option data)		(Restated) ⁽¹⁾	
Total revenue from external sources	\$ 6,996	\$ 6,256	\$ 5,628
Net income ⁽²⁾	\$ 232	\$ 216	\$ 65
Earnings Per Share ⁽²⁾			
Basic EPS	\$ 1.38	\$ 1.28	\$ 0.38
Diluted EPS	\$ 1.38	\$ 1.28	\$ 0.38
Total assets	\$ 5,696	\$ 5,069	\$ 4,910
Long-term debt			
Non-current	1,354	1,296	1,487
Total long-term debt ⁽³⁾	\$ 1,354	\$ 1,296	\$ 1,487
Cash dividends declared per common share	\$ 0.79	\$ 0.745	\$ 0.73

⁽¹⁾ The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

⁽²⁾ Results in 2018, 2017, and 2016 were impacted by the following items:

(\$ millions except per share amounts)	2018	2017	2016
Write-off and loss related to Energyst	\$ 30	\$ —	\$ —
Impact from Alberta wildfires			
- insurance proceeds	(7)	(4)	—
- unavoidable costs	—	—	11
Severance costs	—	5	41
Facility closures and restructuring costs	—	—	36
Power system project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	20
Gain on investment	—	—	(5)
Loss on disposal of business	—	—	5
Impact of significant items on EBIT:	\$ 23	\$ 1	\$ 108
Impact of above significant items on EPS:	\$ 0.15	\$ 0.01	\$ 0.50
Items impacting net income only (below EBIT) - impact on EPS:			
Tax impact of devaluation of ARS (\$20 million)	\$ 0.12	\$ —	\$ —
Redemption costs on early repayment of long-term debt (\$7 million after tax) ⁽³⁾	—	0.04	—
Impact of significant items on EPS:	\$ 0.27	\$ 0.05	\$ 0.50

⁽³⁾ In 2017, the Company issued \$200 million of 2.84% senior unsecured Notes due September 29, 2021. Proceeds from the issuance of the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million, 6.02% MTNs due June 1, 2018.

In December 2018, the Company amended its previous \$1 billion credit facility which was set to fully mature in October 2022 by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion.

Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2018				2017 (Restated) ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from operations								
Canada	\$ 1,005	\$ 910	\$ 907	\$ 852	\$ 856	\$ 736	\$ 790	\$ 690
South America	509	558	551	552	589	549	516	503
UK & Ireland	328	287	271	266	288	253	278	208
Total revenue	\$ 1,842	\$ 1,755	\$ 1,729	\$ 1,670	\$ 1,733	\$ 1,538	\$ 1,584	\$ 1,401
Net income ⁽²⁾	\$ 55	\$ 25	\$ 81	\$ 71	\$ 64	\$ 50	\$ 55	\$ 47
Earnings Per Share ⁽²⁾								
Basic EPS	\$ 0.33	\$ 0.15	\$ 0.48	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28
Diluted EPS	\$ 0.33	\$ 0.15	\$ 0.48	\$ 0.42	\$ 0.38	\$ 0.29	\$ 0.33	\$ 0.28
Total assets	\$ 5,696	\$ 5,413	\$ 5,457	\$ 5,254	\$ 5,069	\$ 5,111	\$ 5,002	\$ 4,882
Long-term debt								
Current	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 350	\$ 350	\$ —
Non-current	1,354	1,315	1,330	1,322	1,296	1,291	1,116	1,481
Total long-term debt ⁽³⁾	\$ 1,354	\$ 1,315	\$ 1,330	\$ 1,322	\$ 1,296	\$ 1,641	\$ 1,466	\$ 1,481
Cash dividends paid per common share	20.00¢	20.00¢	20.00¢	19.00¢	19.00¢	19.00¢	18.25¢	18.25¢
Common shares outstanding (000's)	164,382	168,191	168,184	168,401	168,267	168,118	168,097	168,083
Options outstanding (000's)	3,164	3,226	3,241	3,301	3,864	4,574	4,755	4,501

(1) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(2) 2018 and 2017 quarterly results were impacted by the following significant items:

(\$ millions except per share amounts)	2018 ^(a)		2017 ^(a)	
	Q3	Q1	Q4	Q3
Write-off and loss related to Energyst	\$ 30	\$ —	\$ —	\$ —
Insurance proceeds from Alberta wildfires	—	(7)	(4)	—
Severance costs	—	—	5	—
Impact of significant items on EBIT:	\$ 30	\$ (7)	\$ 1	\$ —
Impact of above significant items on EPS:	\$ 0.18	\$ (0.03)	\$ 0.01	\$ —
Items impacting net income only (below EBIT) - impact on EPS:				
Tax impact of devaluation of ARS (\$20 million)	\$ 0.12	\$ —	\$ —	\$ —
Redemption costs on early repayment of long-term debt (\$7 million after tax)	\$ —	\$ —	\$ —	\$ 0.04
Impact of significant items on EPS:	\$ 0.30	\$ (0.03)	\$ 0.01	\$ 0.04

(a) There were no adjustments in Q2 2018, Q4 2018, Q1 2017, and Q2 2017.

(3) In September 2017, the Company issued \$200 million of 2.84% senior unsecured Notes, due September 29, 2021. Proceeds from the issuance of the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million, 6.02% MTNs due June 1, 2018.

In December 2018, the Company amended its previous \$1 billion credit facility which was set to fully mature in October 2022 by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion.

Forward-Looking Disclaimer

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company's financial results; in Canada, demand for equipment and product support, including component rebuilds, along with demand for power systems products, parts and service, anticipated construction activity, including large infrastructure projects such as LNG Canada; in South America, international trade tensions posing a risk to the price of copper, the Company's long-term outlook for the price of copper, demand for mining equipment and product support, public investment by the Chilean government and anticipated benefits to the construction sector and increased demand for construction equipment and product support in the medium term, reduction on infrastructure spending in Argentina and reduced demand for construction equipment, expected oil and gas development at Vaca Muerta and anticipated upside for future equipment and support demand in Argentina; in the UK & Ireland, uncertainty surrounding Brexit, the impact of Brexit on customer confidence and future investment decisions being mitigated by the UK government's investments in large-scale rail, power, road and airport infrastructure projects, demand for power systems products in the industrial and electric power sectors and the activity levels in the quarry, general construction and plant hire sectors generating solid demand for construction equipment and product support; expected impact of and volatility in foreign exchange markets; expected revenue and free cash flow; expected earnings torque from sustainable operating improvements and cost discipline, expected increased capital efficiencies and positive annual free cash flow from global supply chain initiatives; expected profitability levels; expected range of the Company's effective tax rate; expected results from cost reductions; sustainability improvements and the Company's commitment to grow ROIC; expectations regarding future liquidity needs; expected net rental additions; expected contributions to the defined benefit pension plan; expected results from execution of the Company's strategy; the Company's priorities; inventory turns; timing and delivery of innovative customer solutions; expected capital expenditures, including investments in a long-term network strategy, branch improvement initiatives, Digital initiatives, and electric mining vehicles; the Company's response to business process velocity challenges experienced in connection with the new ERP system in Chile and the expected return to normal parts revenue run rates in Q2 2019; expected sources of funding for the acquisition of 4Refuel; and the financial performance of its rental business. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at the date in this MD&A. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; activities of foreign governments; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability and availability of, and benefits from information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that Finning believed were reasonable on the day the Company made the forward-looking statements. Refer in particular to the Outlook section of this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Glossary of Defined Terms

4Refuel	4Refuel Canada and 4Refuel US
AIF	Annual Information Form
Annual Financial Statements	Audited annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
Board	Board of Directors of Finning
CAD	Canadian dollar
Caterpillar	Caterpillar Inc.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CLP	Chilean Peso
Company	Finning International Inc.
Consol	Consolidated
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DBRS	Dominion Bond Rating Service
EBIT	Earnings (loss) before finance costs and income tax
EBITDA	Earnings (loss) before finance costs, income tax, depreciation, and amortization
Energyst	Energyst B.V.
EPS	Earnings per share
ERM	Enterprise risk management
ERP	Enterprise Resource Planning
fav	Favourable
Finning	Finning International Inc.
GAAP	Generally accepted accounting principles
GHG	Greenhouse gas
GBP	U.K. pound sterling
IFRIC	International financial reporting standards interpretations committee
IFRS	International Financial Reporting Standards
KPI	Key performance indicator
M&A	Mergers and acquisitions
MD&A	Management Discussion and Analysis
MTNs	Medium term notes
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
OEM	OEM Remanufacturing Company Inc.
PLM	PipeLine Machinery International
ROIC	Return on invested capital
RUN	Rental, used, and new equipment
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
STEM	Science, technology, engineering, and mathematics
SVP	Senior Vice President
TSX	Toronto Stock Exchange
unfav	Unfavourable
USD	U.S. dollar

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) are the responsibility of the management of Finning International Inc. (the Company). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards which recognize the necessity of relying on management's best estimates and informed judgments. The financial information presented in the Company's MD&A is consistent with that in the Consolidated Financial Statements. The Consolidated Financial Statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality.

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

The Company's independent auditors, Deloitte LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2018.

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

/s/ L. Scott Thomson

/s/ Steven M. Nielsen

L. Scott Thomson
President and Chief Executive Officer

Steven M. Nielsen
Executive Vice President and Chief Financial Officer

February 20, 2019
300-565 Great Northern Way, Vancouver, BC, V5T 0H8, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Finning International Inc.:

Opinion

We have audited the consolidated financial statements of Finning International Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and January 1, 2017, and the consolidated statements of net income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017 and January 1, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Financial Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Financial Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Raj S. Bhogal.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
February 20, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2018	December 31, 2017	January 1, 2017
(Canadian \$ millions)		(Restated - Note 2)	(Restated - Note 2)
ASSETS			
Current assets			
Cash and cash equivalents (Note 24)	\$ 454	\$ 458	\$ 593
Accounts receivable	969	934	814
Unbilled work in progress (Note 4)	152	162	177
Inventories (Note 12)	2,061	1,708	1,597
Other assets (Note 14)	288	269	214
Total current assets	3,924	3,531	3,395
Property, plant, and equipment (Note 16)	645	572	606
Rental equipment (Note 16)	441	385	363
Goodwill (Note 17)	120	119	118
Intangible assets (Note 19)	176	117	71
Distribution network (Note 18)	100	100	100
Investment in joint ventures and associate (Note 15)	87	92	88
Other assets (Note 14)	203	153	152
Total assets	\$ 5,696	\$ 5,069	\$ 4,893
LIABILITIES			
Current liabilities			
Short-term debt (Note 7)	\$ 154	\$ 18	\$ 2
Accounts payable and accruals	1,220	1,160	946
Deferred revenue (Note 4)	517	296	233
Provisions (Note 22)	46	35	47
Other liabilities (Note 21)	55	36	7
Total current liabilities	1,992	1,545	1,235
Long-term debt (Note 7)	1,354	1,296	1,487
Net post-employment obligation (Note 23)	72	78	84
Other liabilities (Note 21)	169	176	172
Total liabilities	3,587	3,095	2,978
Commitments and contingencies (Note 28)			
SHAREHOLDERS' EQUITY			
Share capital (Note 10)	573	580	573
Contributed surplus	—	—	2
Accumulated other comprehensive income	282	195	243
Retained earnings	1,254	1,199	1,097
Total shareholders' equity	2,109	1,974	1,915
Total liabilities and shareholders' equity	\$ 5,696	\$ 5,069	\$ 4,893

Approved by the Directors February 20, 2019

/s/ S. L. Levenick

S.L. Levenick, Director

/s/ H.N. Kvisle

H.N. Kvisle, Director

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

CONSOLIDATED STATEMENTS OF NET INCOME

	2018	2017 (Restated - Note 2)
For years ended December 31		
(Canadian \$ millions, except share and per share amounts)		
Revenue		
New equipment	\$ 2,740	\$ 2,175
Used equipment	371	359
Equipment rental	239	228
Product support	3,632	3,481
Other	14	13
Total revenue (Note 4)	6,996	6,256
Cost of sales	(5,228)	(4,602)
Gross profit	1,768	1,654
Selling, general, and administrative expenses	(1,327)	(1,271)
Equity earnings of joint ventures and associate (Note 15)	12	7
Other income (Note 6)	—	2
Other expenses (Note 6)	(30)	—
Earnings before finance costs and income taxes	423	392
Finance costs (Note 7)	(76)	(100)
Income before provision for income taxes	347	292
Provision for income taxes (Note 13)	(115)	(76)
Net income	\$ 232	\$ 216
 Earnings per share (Note 5)		
Basic	\$ 1.38	\$ 1.28
Diluted	\$ 1.38	\$ 1.28
 Weighted average number of shares outstanding (Note 5)		
Basic	167,997,608	168,131,542
Diluted	168,544,313	168,544,984

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2018	2017 (Restated - Note 2)
For years ended December 31 (Canadian \$ millions)		
Net income	\$ 232	\$ 216
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	133	(86)
Share of foreign currency translation adjustments of joint ventures and associate (Note 15)	(2)	(3)
Foreign currency translation losses reclassified to net income (Note 6b)	11	—
(Loss) gain on net investment hedges	(58)	41
Impact of foreign currency translation and net investment hedges, net of income tax	84	(48)
Gain (loss) on cash flow hedges	7	(4)
Loss on cash flow hedges, reclassified to statement of net income	—	1
Income tax expense on cash flow hedges	(4)	—
Impact of cash flow hedges, net of income tax	3	(3)
Items that will not be subsequently reclassified to net income:		
Actuarial gain (Note 23)	66	18
Income tax expense on actuarial gain	(11)	(3)
Actuarial gain, net of income tax	55	15
Total comprehensive income	\$ 374	\$ 180

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ millions, except number of shares)	Share Capital			Accumulated Other Comprehensive Income				Total Shareholders' Equity (Restated - Note 2)
	Number of Shares	Amount	Contributed Surplus	Impact of Foreign Currency Translation and Net Investment Hedges	Impact of Cash Flow Hedges (Restated - Note 2)	Retained Earnings (Restated - Note 2)		
Balance, January 1, 2017	168,167,202	\$ 573	\$ 2	\$ 243	\$ —	\$ 1,097	\$	1,915
Net income	—	—	—	—	—	216		216
Other comprehensive (loss) income	—	—	—	(48)	(3)	15		(36)
Total comprehensive (loss) income	—	—	—	(48)	(3)	231		180
Issued on exercise of share options	189,280	7	(3)	—	—	(4)		—
Share option expense	—	—	3	—	—	—		3
Hedging loss transferred to statement of financial position	—	—	—	—	3	—		3
Repurchase of common shares (Note 9)	(89,900)	—	(2)	—	—	—		(2)
Dividends on common shares	—	—	—	—	—	(125)		(125)
Balance, December 31, 2017	168,266,582	\$ 580	\$ —	\$ 195	\$ —	\$ 1,199	\$	1,974
Net income	—	—	—	—	—	232		232
Other comprehensive income	—	—	—	84	3	55		142
Total comprehensive income	—	—	—	84	3	287		374
Issued on exercise of share options	243,438	7	(3)	—	—	(4)		—
Share option expense	—	—	3	—	—	—		3
Repurchase of common shares (Note 9)	(4,128,053)	(14)	—	—	—	(95)		(109)
Dividends on common shares	—	—	—	—	—	(133)		(133)
Balance, December 31, 2018	164,381,967	\$ 573	\$ —	\$ 279	\$ 3	\$ 1,254	\$	2,109

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (Canadian \$ millions)	2018	2017 (Restated - Note 2)
OPERATING ACTIVITIES		
Net income	\$ 232	\$ 216
Adjusting for:		
Depreciation and amortization	187	184
Gain on sale of property, plant, and equipment	(6)	—
Write-off and loss related to investment (Note 6b)	30	—
Equity earnings of joint ventures and associate (Note 15)	(12)	(7)
Share-based payment expense (Note 11)	7	32
Provision for income taxes	115	76
Finance costs	76	100
Net benefit cost of post-employment benefit plans (Note 23)	19	10
Changes in operating assets and liabilities (Note 24)	(103)	(67)
Additions to rental equipment	(306)	(307)
Proceeds on disposal of rental equipment	162	183
Interest paid	(73)	(81)
Income tax paid	(68)	(56)
Cash flow provided by operating activities	260	283
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	(201)	(121)
Proceeds on disposal of property, plant, and equipment	19	3
Proceeds on disposal of investment (Note 6a)	—	7
Advances to and investment in joint ventures and associate (Note 15)	(2)	(5)
Cash flow used in investing activities	(184)	(116)
FINANCING ACTIVITIES		
Increase in short-term debt	136	17
Issuance of long-term debt (Note 7)	—	200
Repayment of long-term debt (Note 7)	—	(350)
Decrease in finance lease liabilities (Note 24)	(4)	(6)
Debt issuance and related costs	(1)	(1)
Early redemption premium (Note 7)	—	(9)
Repurchase of common shares	(105)	(2)
Dividends paid	(133)	(125)
Cash flow used in financing activities	(107)	(276)
Effect of currency translation on cash balances	27	(26)
Decrease in cash and cash equivalents	(4)	(135)
Cash and cash equivalents, beginning of year	458	593
Cash and cash equivalents, end of year (Note 24)	\$ 454	\$ 458

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

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1. GENERAL INFORMATION

Finning International Inc. (“Finning”) is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX: FTT). The registered and head office of the Company is located at Suite 300, 565 Great Northern Way, Vancouver, British Columbia, Canada. The Company’s principal business is the sale of heavy equipment and power and energy systems, rental of equipment, and providing product support including sales of parts and servicing of equipment.

2. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS

These consolidated financial statements of Finning and its subsidiaries (together, the “Company”) have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective as of February 20, 2019, the date these consolidated financial statements were authorized for issuance by the Company’s Board of Directors. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those judgments, estimates, and assumptions.

Certain of the Company’s accounting policies that relate to the financial statements as a whole, as well as estimates and judgments it has made and how they affect the amounts reported in the consolidated financial statements, are incorporated in this section. This note also describes new standards, amendments or interpretations that are effective and applied by the Company during 2018 or are not yet effective. Where an accounting policy, estimate, or judgment is applicable to a specific note to the accounts, it is described within that note.

These consolidated financial statements were prepared under the historical cost basis except for derivative financial instruments, certain assets held for sale, contingent consideration, and liabilities for share-based payment arrangements, which have been measured at fair value.

(a) Principles of Consolidation

Accounting Policy

The consolidated financial statements include the accounts of the Company, which includes the Finning (Canada) division and Finning’s wholly owned subsidiaries. Subsidiaries are those entities over which Finning has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns, generally accompanying a shareholding that confers more than half of the voting rights. The consolidated financial statements include the operating results of acquired or disposed subsidiaries from the date the Company obtains control or the date control is lost.

The Company’s principal wholly owned subsidiaries, and the main countries in which they operate, are as follows:

Name	Principal place of business	% ownership	Functional currency ⁽¹⁾
Finning (UK) Ltd	United Kingdom	100%	GBP
Finning Chile S.A.	Chile	100%	USD
Finning Argentina S.A.	Argentina	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	USD
Moncouver S.A.	Uruguay	100%	USD
Finning Bolivia S.A.	Bolivia	100%	USD
OEM Remanufacturing Company Inc.	Canada	100%	CAD
Finning (Ireland) Limited	Republic of Ireland	100%	EUR

⁽¹⁾ Canadian dollar (CAD), United States dollar (USD), U.K. pound sterling (GBP), Euro (EUR)

All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not considered material.

(b) Foreign Currency Translation

Accounting Policy

These consolidated financial statements are presented in CAD, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into the entity's functional currency at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into the entity's functional currency as follows:

- Monetary items are translated at exchange rates in effect at the statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as cash flow hedges. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income until it is reclassified to be included in the initial carrying cost of the hedged asset or hedged liability and recognized in earnings on the same basis as the hedged item.

Financial statements of foreign operations are translated from the functional currency of the foreign operation into CAD as follows:

- Assets and liabilities are translated using the exchange rates in effect at the statement of financial position dates;
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred; and
- Foreign currency translation adjustments and gains and losses on net investment hedges are reported within other comprehensive income. Cumulative foreign currency translation adjustments, net of gains and losses on net investment hedges, are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

The Company has hedged some of its investments in foreign subsidiaries using foreign currency denominated borrowings. Foreign exchange gains or losses arising from the translation of these hedging instruments are accounted for as items of other comprehensive income and presented on the consolidated statement of financial position. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 8 for further details on the Company's hedge accounting policy.

Areas of Significant Judgment

Management has made judgments with regard to the determination of the functional currency of each entity of the Company.

(c) New Accounting Standards, Interpretations, and Amendments to Standards

The Company has adopted the following new accounting standards and interpretation issued by the IFRS Interpretations Committee (IFRIC):

- IFRS 15, *Revenue from Contracts with Customers* (effective date January 1, 2018) requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 supersedes existing standards and interpretations, including IAS 18, *Revenue* and IAS 11, *Construction Contracts*. Additionally, IFRS 15 significantly increases disclosures related to revenue recognition.

Management evaluated the new standard, completed its assessment, and determined that the new standard has the following impact on the timing and pattern of revenue recognition:

- Revenue for sales of new equipment, used equipment, and parts remains unchanged.
- Revenue for complex power and energy systems projects and servicing of equipment is recognized over time in a pattern that reflects the measure of progress. While the total amount of revenue recognized under IFRS 15 does not change materially, the timing of revenue recognized can differ to reflect the measure of progress or allocation of the transaction price.
- Revenue for non-complex power and energy systems projects is recognized at points in time as the performance obligations are satisfied (upon delivery of the equipment to the customer or commissioning of the power system project).
- Revenue for rental equipment is excluded from the scope of the new revenue standard and therefore remains unchanged upon adoption of IFRS 15.

The Company applied some of the practical expedients available under IFRS 15 such as not restating financial statements for any contracts completed prior to January 1, 2017 and using the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. Also, modifications of contracts prior to January 1, 2017 were appropriately assessed and reflected in the identified performance obligations, estimated transaction price, and allocation of the transaction price to those performance obligations. Management applied the new standard retrospectively to each reporting period presented.

The impact of IFRS 15 on the comparative periods in the consolidated financial statements is shown in the tables on pages 12 – 13.

The Company's accounting policy for revenue is disclosed in Note 4.

- IFRS 9, *Financial Instruments* (IFRS 9) (effective January 1, 2018) introduced new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting. The Company applied this standard retrospectively. Under the new standard, management utilizes a provision matrix, permitted under the simplified approach, to estimate expected credit losses for trade and other receivables and unbilled work in progress. There is no adjustment on transition for this change in methodology from incurred credit losses under the previous standard IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39).

Management elected to apply the hedge accounting requirements of IFRS 9 to its existing hedging relationships. As a result, cash flow hedges of certain highly probable forecast transactions did not meet the requirements under IFRS 9, therefore any effective portion of such hedges previously recognized in other comprehensive income was restated to the consolidated statement of net income in the comparative period.

Under IAS 39, if a hedged forecast transaction subsequently resulted in the recognition of a non-financial asset or non-financial liability, the Company reclassified that amount and included it directly in the initial cost of the asset or the liability with an offsetting entry in other comprehensive income, referred to as a basis adjustment. Upon adoption of IFRS 9, the Company is required to remove the basis adjustment related to non-financial instruments directly from accumulated other comprehensive income as it is not considered a reclassification adjustment and therefore will no longer impact other comprehensive income.

The impact of IFRS 9 on the comparative periods in the consolidated financial statements is shown in the tables on pages 12 – 13.

The Company's accounting policy for Financial Instruments is disclosed in Note 8.

The impact of IFRS 15 on the statement of financial position for January 1, 2017 is presented below. IFRS 9 did not impact the statement of financial position for January 1, 2017.

January 1, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Accounts receivable	\$ 869	\$ (55)	\$ —	\$ 814
Unbilled work in progress	\$ 101	\$ 76	\$ —	\$ 177
Inventories	\$ 1,601	\$ (4)	\$ —	\$ 1,597
Other assets (non-current)	\$ 186	\$ (34)	\$ —	\$ 152
Total assets	\$ 4,910	\$ (17)	\$ —	\$ 4,893
Deferred revenue	\$ 231	\$ 2	\$ —	\$ 233
Other liabilities (non-current)	\$ 205	\$ (33)	\$ —	\$ 172
Total liabilities	\$ 3,009	\$ (31)	\$ —	\$ 2,978
Retained earnings	\$ 1,083	\$ 14	\$ —	\$ 1,097
Shareholders' equity	\$ 1,901	\$ 14	\$ —	\$ 1,915

The impact of IFRS 15 and IFRS 9 on the statement of financial position for December 31, 2017 is as follows:

December 31, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Accounts receivable	\$ 957	\$ (23)	\$ —	\$ 934
Unbilled work in progress	\$ 124	\$ 38	\$ —	\$ 162
Inventories	\$ 1,705	\$ 3	\$ —	\$ 1,708
Other assets (non-current)	\$ 194	\$ (41)	\$ —	\$ 153
Total assets	\$ 5,092	\$ (23)	\$ —	\$ 5,069
Deferred revenue	\$ 291	\$ 5	\$ —	\$ 296
Other liabilities (non-current)	\$ 215	\$ (39)	\$ —	\$ 176
Total liabilities	\$ 3,129	\$ (34)	\$ —	\$ 3,095
Accumulated other comprehensive income	\$ 193	\$ —	\$ 2	\$ 195
Retained earnings	\$ 1,190	\$ 11	\$ (2)	\$ 1,199
Shareholders' equity	\$ 1,963	\$ 11	\$ —	\$ 1,974

The impact of IFRS 15 and IFRS 9 on the statement of net income and comprehensive income for the year ended December 31, 2017 is as follows:

For year ended December 31, 2017 (\$ millions)	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
New equipment revenue	\$ 2,169	\$ 6	\$ —	\$ 2,175
Product support revenue	\$ 3,496	\$ (15)	\$ —	\$ 3,481
Total revenue	\$ 6,265	\$ (9)	\$ —	\$ 6,256
Cost of sales	\$ (4,608)	\$ 6	\$ —	\$ (4,602)
Gross profit	\$ 1,657	\$ (3)	\$ —	\$ 1,654
Selling, general, and administrative expenses	\$ (1,267)	\$ —	\$ (4)	\$ (1,271)
Earnings before finance costs and income taxes	\$ 399	\$ (3)	\$ (4)	\$ 392
Provision for income taxes	\$ (78)	\$ —	\$ 2	\$ (76)
Net income	\$ 221	\$ (3)	\$ (2)	\$ 216
Other comprehensive income	\$ (35)	\$ —	\$ (1)	\$ (36)
Comprehensive income	\$ 186	\$ (3)	\$ (3)	\$ 180

The impact on basic and diluted earnings per share (EPS) for the year ended December 31, 2017 is as follows:

For year ended December 31, 2017	Previously reported	Adjustments for IFRS 15	Adjustments for IFRS 9	Restated
Basic and Diluted EPS	\$ 1.31	\$ (0.01)	\$ (0.02)	\$ 1.28

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective January 1, 2018) clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency. This IFRIC clarifies the exchange rate used to translate deposits made on inventory purchases or advances received for equipment sales denominated in a foreign currency. Management elected to apply this interpretation prospectively to all in-scope assets, expenses, and income recognized on or after January 1, 2018.

(e) Future Accounting Pronouncements

The Company has not applied the following new standard and interpretation that have been issued but are not yet effective:

- IFRS 16, *Leases* (effective January 1, 2019) introduces new requirements for the classification and measurement of leases. Management is currently assessing the impact of the new standard but expects IFRS 16 will result in higher non-current assets and current and non-current liabilities in the consolidated statement of financial position in all reporting segments, primarily in the Canadian segment. The categories of assets expected to be most impacted are properties and vehicles. Also, management expects lower selling, general, and administrative expense and higher finance costs under this new standard due to lower operating lease expense partially offset by higher depreciation expense and higher interest expense. Although total cash movement will be unchanged, the presentation in the statement of cash flows will look different under the new standard. There will be an increase in cash flows provided by operating activities offset by an increase in cash flows used within financing activities, as the principal component of lease payments currently accounted for as an operating activity will be presented as a financing activity.

The Company will apply IFRS 16 retrospectively and recognize the cumulative effect of initial application on January 1, 2019, on the statement of financial position, subject to permitted and elected practical expedients. This method of application will not result in a restatement of amounts reported in periods prior to January 1, 2019. The Company will measure the right-of-use asset at an amount equal to the lease liability on January 1, 2019 and apply a single discount rate to leases with a similar remaining lease term for similar classes of underlying assets. The Company will not apply this standard to short-term leases and leases for which the underlying asset is of low value.

Management expects there will be a difference between operating lease commitments disclosed in Note 27 and lease liabilities included in the statement of financial position at January 1, 2019. The difference is primarily due to discounting gross lease commitments and changes in determining lease terms, including the impact of extension options reasonably expected to be exercised.

- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. Management has assessed the interpretation and expects there to be no impact.

3. SEGMENTED INFORMATION

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

Information reported to the chief operating decision maker (CODM) for the purposes of resource allocation and assessment of segment performance primarily focuses on the dealership territories in which the Company operates. The CODM considers earnings before finance costs, income taxes, depreciation and amortization (EBITDA) as the primary measure of segment profit and loss. In the prior year, earnings before finance costs and income taxes (EBIT) was considered the primary measure.

The reportable segments, which are the same as the Company's operating segments, are as follows:

- Canadian operations: British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, and Bolivia.
- UK & Ireland operations: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- Other: corporate head office.

Revenue, results, and other information by reportable segment

For year ended December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 1,288	\$ 714	\$ 738	\$ —	\$ 2,740
Used equipment	233	54	84	—	371
Equipment rental	154	50	35	—	239
Product support	1,997	1,348	287	—	3,632
Other	2	4	8	—	14
Total revenue	\$ 3,674	\$ 2,170	\$ 1,152	\$ —	\$ 6,996
Operating costs ⁽¹⁾	(3,297)	(1,966)	(1,073)	(32)	(6,368)
Equity earnings (loss) of joint ventures and associate	16	—	—	(4)	12
Other expenses (Note 6b)	—	—	—	(30)	(30)
EBITDA	\$ 393	\$ 204	\$ 79	\$ (66)	\$ 610
Depreciation and amortization	(96)	(62)	(28)	(1)	(187)
EBIT	\$ 297	\$ 142	\$ 51	\$ (67)	\$ 423
Finance costs					(76)
Provision for income taxes					(115)
Net income					\$ 232
Invested capital ⁽²⁾	\$ 1,675	\$ 1,190	\$ 336	\$ (38)	\$ 3,163
Capital and rental equipment ⁽³⁾	\$ 627	\$ 476	\$ 125	\$ 34	\$ 1,262
Gross capital expenditures ⁽⁴⁾	\$ 61	\$ 109	\$ 9	\$ 25	\$ 204
Gross rental asset expenditures ⁽⁴⁾	\$ 213	\$ 54	\$ 39	\$ —	\$ 306

(1) Operating costs are calculated as cost of sales and selling, general, and administration expenses less depreciation and amortization.

(2) Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.

(3) Capital includes property, plant and equipment, and intangible assets

(4) Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

For year ended December 31, 2017 (\$ millions) (Restated - Note 2)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue					
New equipment	\$ 873	\$ 645	\$ 657	\$ —	\$ 2,175
Used equipment	236	53	70	—	359
Equipment rental	147	50	31	—	228
Product support	1,814	1,405	262	—	3,481
Other	2	4	7	—	13
Total revenue	\$ 3,072	\$ 2,157	\$ 1,027	\$ —	\$ 6,256
Operating costs ⁽¹⁾	(2,760)	(1,915)	(964)	(50)	(5,689)
Equity earnings (loss) of joint venture and associate	12	—	—	(5)	7
Other income (Note 6a)	—	—	—	2	2
EBITDA	\$ 324	\$ 242	\$ 63	\$ (53)	\$ 576
Depreciation and amortization	(99)	(58)	(26)	(1)	(184)
EBIT	\$ 225	\$ 184	\$ 37	\$ (54)	\$ 392
Finance costs					(100)
Provision for income taxes					(76)
Net income					\$ 216
Invested capital ⁽²⁾	\$ 1,621	\$ 983	\$ 250	\$ (24)	\$ 2,830
Capital and rental equipment ⁽³⁾	\$ 557	\$ 370	\$ 137	\$ 10	\$ 1,074
Gross capital expenditures ⁽⁴⁾	\$ 32	\$ 77	\$ 6	\$ 7	\$ 122
Gross rental asset expenditures ⁽⁴⁾	\$ 228	\$ 45	\$ 34	\$ —	\$ 307

- (1) Operating costs are calculated as cost of sales and selling, general, and administration expenses less depreciation and amortization.
- (2) Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.
- (3) Capital includes property, plant and equipment, and intangible assets
- (4) Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions

Revenue and non-current assets ⁽¹⁾ by location of operations

(\$ millions)	Revenues		Non-current assets ⁽¹⁾	
	Year ended December 31		As at December 31	
	2018	2017 (Restated - Note 2)	2018	2017 (Restated - Note 2)
Canada	\$ 3,674	\$ 3,072	\$ 966	\$ 875
Chile	\$ 1,730	\$ 1,503	\$ 359	\$ 267
United Kingdom	\$ 1,015	\$ 919	\$ 255	\$ 202
Argentina	\$ 362	\$ 545	\$ 109	\$ 103
Other countries	\$ 215	\$ 217	\$ 24	\$ 22

- (1) Non-current assets exclude deferred tax assets

4. REVENUE

Revenue Recognition

Revenue is recognized when or as the Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled.

Revenue is recognized when control of the goods is transferred to the customer at a point-in-time for the following revenue streams:

- (2) Revenue from sales of new and used equipment (except for complex power and energy systems) is presented as new equipment revenue and used equipment revenue, respectively. Revenue is recognized when control passes to the customer, which is generally at the time of shipment of the equipment to the customer or when commissioning of equipment is complete. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled, including any non-cash consideration when used equipment is accepted for trade-in value.
- (3) Revenue from sales of parts inventory is presented as product support revenue and recognized when control of the part is transferred to the customer, which is generally upon shipment to the customer or when the customer collects their purchase from one of the Company's locations. Revenue from the sales of parts inventory is initially recorded at the estimated amount of consideration to which the Company expects to be entitled. If applicable, management recognizes an obligation for items such as refunds, incentives, and discounts with a corresponding reduction in product support revenue. The value of the obligation is estimated based on the terms of the contract, customary business practices, and historical experience.

Revenue is recognized in a manner that best reflects the Company's performance over-time for the following revenue streams:

- Revenue from sales of complex power and energy systems involving the design, installation, and assembly of power and energy systems is presented as new equipment revenue and estimated as the amount of consideration to which the Company expects to be entitled. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed and is based on associated costs incurred.
- Revenue from sales of parts and labour when servicing equipment both under and not under a long-term contract is presented as product support revenue. For sale of parts through servicing of equipment, revenue is recognized as the service work is performed based on parts list price and standard billing labour rates. Product support is also offered to customers in the form of long-term contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on associated costs incurred. For certain long-term product support contracts where flat-rate labour or a monthly subscription service is provided, the Company recognizes revenue for labour on a straight-line basis. Revenue from product support under long-term contracts is estimated based on the number and types of services expected to be performed using the pricing terms set out in the contract.
- Revenue from equipment rentals and operating leases is presented as equipment rental revenue and in accordance with the terms of the relevant agreement with the customer, either recognized evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

Periodically, revenue from customers under long-term contracts may be recognized in advance of billing the customer. To the extent the Company has a right to receive consideration for the good or service transferred to the customer, the Company recognizes a contract asset. Similarly, amounts may be received from customers under long-term contracts in advance of the work being performed and the Company recognizes a contract liability. These amounts are recorded on the consolidated statement of financial position as Unbilled Work in Progress and Deferred Revenue, respectively.

If it is expected that the unavoidable costs required to satisfy the remaining performance obligations of a revenue contract will exceed its expected economic benefits, the Company recognizes an onerous provision with a corresponding loss in the consolidated statement of net income.

Areas of Estimation Uncertainty

Long-Term Contracts

Where the outcome of performance obligations for long-term contracts (primarily sales of complex power and energy systems and sales of parts and labour when servicing equipment) can be estimated reliably, revenue is recognized. Revenue is measured primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of performance obligations for long-term contracts cannot be reliably measured, contract revenue is recognized in the current period to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant estimation assumptions are required to estimate total contract costs, which are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Areas of Significant Judgment

Repurchase Commitments

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. At the inception of the contract, the Company is required to make judgments as to whether the customer has a significant economic incentive to exercise its right of return. When no such incentive is expected, revenue is recognized upon the sale of equipment but when a significant incentive is expected, revenue is recognized over the term of the repurchase commitment. Significant assumptions are made in estimating residual values and are assessed based on past experience and taking into account expected future market conditions and projected disposal values.

Rental Purchase Options

Rental purchase options (RPOs) are rental agreements with customers which include an option to purchase the equipment at the end of the rental term. The Company periodically sells portfolios of RPOs to financial institutions, and is required to make judgments as to whether the control related to the underlying assets have been transferred in such circumstances. The level of residual value risk retained by the Company, the continuing managerial ability to direct the use of, and obtain substantially all of the remaining benefits from the assets are all considered when assessing whether control has been transferred to third parties and hence whether revenue should be recognized on the sale of the assets and associated rental contracts.

The Company derives revenue from the transfer of goods and services over time and at a point-in-time in the following lines of business:

For year ended December 31, 2018			
(\$ millions)	Point-in-time	Over-time	Total
New equipment revenue	\$ 2,459	\$ 281	\$ 2,740
Used equipment revenue	371	—	371
Rental revenue	—	239	239
Product support revenue	—	3,632	3,632
Other revenue	—	14	14
Total revenue	\$ 2,830	\$ 4,166	\$ 6,996

For year ended December 31, 2017			
(\$ millions) (Restated - Note 2)	Point-in-time	Over-time	Total
New equipment revenue	\$ 1,925	\$ 250	\$ 2,175
Used equipment revenue	359	—	359
Rental revenue	—	228	228
Product support revenue	—	3,481	3,481
Other revenue	—	13	13
Total revenue	\$ 2,284	\$ 3,972	\$ 6,256

The Company has recorded the following contract assets related to contracts with customers:

	2018	2017
For years ended December 31		(Restated
(\$ millions)		- Note 2)
Product support	\$ 129	\$ 129
Complex power and energy systems	23	33
Total unbilled work in progress	\$ 152	\$ 162

Invoices for sales of complex power and energy systems are issued in accordance with milestone payments agreed within each sales contract with the customer. Invoices for sales of parts and labour when servicing equipment under long-term contracts are issued in accordance with the billing arrangement over the contract term. Invoices for sales of parts and labour when servicing equipment not under long-term contracts are issued when the work is complete. The Company recognizes unbilled work in progress for sales of complex power and energy systems and sales of parts and labour when servicing equipment when revenue recognition criteria are met, and the Company has the right to receive amounts from customers but invoices have not yet been issued.

The Company has recorded the following contract liabilities related to contracts with customers:

December 31, 2018 (\$ millions)	Current	Non-current	Total
Product support	\$ 208	\$ 6	\$ 214
Deposits from customers for new equipment	233	—	233
Complex power and energy systems	46	—	46
Extended warranty	25	40	65
New equipment sales under repurchase commitments	3	3	6
Other	2	—	2
Total deferred revenue	\$ 517	\$ 49	\$ 566

December 31, 2017 (\$ millions) (Restated - Note 2)	Current	Non-current	Total
Product support	\$ 153	\$ —	\$ 153
Deposits from customers for new equipment	85	—	85
Complex power and energy systems	28	—	28
Extended warranty	21	33	54
New equipment sales under repurchase commitments	7	1	8
Other	2	—	2
Total deferred revenue	\$ 296	\$ 34	\$ 330

The Company recognizes deferred revenue when cash has been collected from the customer but control of the goods or services has not yet been transferred to the customer. Deferred revenue is recorded in respect of sales of parts and labour when servicing equipment, complex power and energy systems, and extended warranty. Deferred revenue is also recorded in respect of sales of new equipment where the Company has issued a repurchase guarantee and management has determined that it has not transferred control of the equipment, and deposits from customers for new equipment sales. Cash is typically collected up front for sales of new equipment under repurchase guarantees and extended warranty while revenue is deferred and recognized evenly over the term of the contract, which can extend beyond one year. The majority of revenue related to long-term product support contracts is recognized within one year of collecting cash from the customer. All other streams of revenue are recognized within one year of recording deferred revenue.

5. EARNINGS PER SHARE

Accounting Policy

Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees.

For year ended December 31, 2018 (\$ millions, except share and per share amounts)				
	Income	Shares	EPS	
Basic EPS:				
Net income, weighted average shares outstanding, EPS	\$ 232	167,997,608	\$	1.38
Effect of dilutive securities: share options	—	546,705		—
Diluted EPS:				
Net income and assumed conversions	\$ 232	168,544,313	\$	1.38
For year ended December 31, 2017 (Restated - Note 2)				
Basic EPS:				
Net income, weighted average shares outstanding, EPS	\$ 216	168,131,542	\$	1.28
Effect of dilutive securities: share options	—	413,442		—
Diluted EPS:				
Net income and assumed conversions	\$ 216	168,544,984	\$	1.28

At December 31, 2018, insignificant share options (2017: 1 million) were excluded from the diluted weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

6. OTHER INCOME AND OTHER EXPENSES

For years ended December 31 (\$ millions)			
	2018	2017	
Gain on investment (a)	\$ —	\$ 2	
Total other income	\$ —	\$ 2	

(a) In June 2017, the Company received proceeds of \$7 million and recognized a gain of \$2 million upon the disposal of its investment in IronPlanet Holdings, Inc.

For years ended December 31 (\$ millions)			
	2018	2017	
Write-off and loss related to investment (b)	\$ (30)	\$ —	
Total other expenses	\$ (30)	\$ —	

(b) The Company recorded a charge of \$30 million comprising the investment write-off of \$19 million and a reclassification of cumulative foreign translation losses of \$11 million from accumulated other comprehensive income to the statement of net income upon Energyst B.V.'s (Energyst's) sale of its wholly-owned subsidiary in Argentina (Note 15).

7. SHORT-TERM AND LONG-TERM DEBT AND FINANCE COSTS

December 31 (\$ millions)	2018	2017
Short-term debt	\$ 154	\$ 18
Long-term debt		
3.232%, \$200 million, due July 3, 2020	200	200
2.84%, \$200 million, due September 29, 2021	200	200
5.077% \$150 million, due June 13, 2042	149	149
3.98% U.S. \$100 million, due January 19, 2022, Series A	136	125
4.08% U.S. \$100 million, due January 19, 2024, Series B	136	125
4.18% U.S. \$50 million, due April 3, 2022, Series C	68	63
4.28% U.S. \$50 million, due April 3, 2024, Series D	68	63
4.53% U.S. \$200 million, due April 3, 2027, Series E	273	250
3.40% £70 million, due May 22, 2023, Series F	122	118
Other term loans	2	3
Total long-term debt	1,354	1,296
Non-current portion of long-term debt	\$ 1,354	\$ 1,296

The Company has an unsecured syndicated committed credit facility of \$1.3 billion. In December 2018, the Company amended its previous \$1 billion credit facility which was set to fully mature in October 2022 by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal wholly owned subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

Covenant

The Company is subject to certain covenants within its syndicated committed credit facility. As at December 31, 2018 and 2017, the Company was in compliance with these covenants.

Short-Term Debt

At December 31, 2018, short-term debt includes \$150 million drawn on the Company's syndicated committed credit facility and local bank borrowings in the Company's Argentina operations of \$4 million (2017: short-term debt is local bank borrowings in the Company's Argentina operations of \$18 million).

The Company's principal source of short-term funding is its access to the syndicated committed credit facility noted above. The Company also maintains a maximum authorized commercial paper program of \$600 million, backstopped by credit available under the \$1.3 billion syndicated committed credit facility. There was no commercial paper outstanding at December 31, 2018 or December 31, 2017. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2018 was 5.8% (2017: 6.4%).

Long-Term Debt

The Company's CAD denominated Medium Term Notes (MTN), USD denominated Senior Notes, and GBP denominated Senior Notes are unsecured, and interest is payable semi-annually with the principal due on maturity.

In September 2017, the Company issued \$200 million of 2.84% senior unsecured Notes due September 29, 2021. On October 16, 2017, proceeds from the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million, 6.02% MTNs due June 1, 2018. The total redemption price included an early redemption premium of approximately \$9 million which was recorded in other finance related expenses.

The average interest rate applicable to the consolidated long-term debt for 2018 was 3.9% (2017: 4.4%).

Long-Term Debt Repayments

Principal repayments of long-term debt (carrying amount) in each of the next five years and thereafter are as follows:

December 31	
(\$ millions)	
2019	\$ —
2020	200
2021	201
2022	205
2023	122
Thereafter	626
	\$ 1,354

Finance Costs

Finance costs as shown on the consolidated statements of net income comprise the following:

For years ended December 31		
(\$ millions)		
	2018	2017
Interest on short-term debt	\$ 15	\$ 9
Interest on long-term debt	52	64
Interest on debt securities	67	73
Net interest on pension and other post-employment benefit obligations (Note 23)	1	1
Other finance related expenses	8	26
Finance costs	\$ 76	\$ 100

8. FINANCIAL INSTRUMENTS

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's Enterprise Risk Management (ERM) process is designed to ensure that such risks are identified, managed, and reported. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives. The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are reviewed by the Audit Committee. The Audit Committee also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements.

This note presents information about the Company's exposure to credit, liquidity, and market risks and the Company's objectives, policies, and processes for managing these risks.

(a) Financial Assets and Credit Risk

Accounting Policy

Classification and measurement

Cash and cash equivalents, accounts receivable, unbilled work in progress, supplier claims receivable, instalment and other notes receivable, and Value Added Tax receivable are classified as amortized cost and measured using the effective interest method.

Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses. Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis. Estimates of expected credit losses take into account the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. The carrying amount of trade receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of net income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

Derivative assets are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative assets which are effectively designated as hedging instruments which are recognized in other comprehensive income.

Areas of Estimation Uncertainty

Allowance for Doubtful Accounts

The Company records allowance for doubtful accounts that represent management's best estimate of potential losses in respect of trade and other receivables and unbilled work in progress. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that are expected to occur. The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current and forecasts of future economic conditions.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, receivables from customers and suppliers, instalment and other notes receivable, and derivative assets.

Exposure to Credit Risk

The Company's exposure to credit risk at the reporting date was:

December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Cash and cash equivalents	\$ 454	\$ 458
Accounts receivable – trade	908	895
Accounts receivable – other	61	39
Unbilled work in progress	152	162
Supplier claims receivable	83	104
Instalment notes receivable	32	44
Derivative assets	7	1
Total exposure to credit risk	\$ 1,697	\$ 1,703

Cash and Cash Equivalents, and Derivative Assets

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

The Company has credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from Standard & Poor's and/or A2 by Moody's and/or A by Fitch.

Accounts Receivable, Unbilled Work in Progress, Supplier Claims Receivable, and Instalment Notes Receivable

Accounts receivable comprises trade accounts and non-trade accounts. Unbilled work in progress from external customers represents the costs incurred plus recognized profits, net of any recognized losses and progress billings.

The Company has a large, diversified customer base, and is not dependent on any single customer or group of customers. Credit risk associated with accounts receivables, unbilled work in progress, and instalment notes receivable from customers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion. The Company is exposed to risk on supplier claims receivable, primarily from Caterpillar Inc. (Caterpillar), with whom Finning has an ongoing relationship with since 1933.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic location of customer was:

December 31 (\$ millions)	2018	2017
Canada	\$ 409	\$ 415
Chile	259	266
U.K.	109	92
Argentina	75	82
Other	56	40
Total	\$ 908	\$ 895

Impairment Losses

The aging of trade receivables at the reporting date was:

December 31 (\$ millions)	2018		2017	
	Gross	Allowance	Gross	Allowance
Not past due	\$ 556	\$ —	\$ 699	\$ —
Past due 1 – 30 days	204	—	119	—
Past due 31 – 90 days	97	1	64	—
Past due 91 – 120 days	26	5	9	1
Past due greater than 120 days	67	36	39	34
Total	\$ 950	\$ 42	\$ 930	\$ 35

The movement in the allowance for doubtful accounts in respect of trade receivables during the year was as follows:

For years ended December 31 (\$ millions)	2018	2017
Balance, beginning of year	\$ 35	\$ 37
Additional allowance	16	19
Receivables written off	(13)	(20)
Foreign exchange rate changes	4	(1)
Balance, end of year	\$ 42	\$ 35

The carrying amount of unbilled work in progress, supplier claims receivable, and instalment notes receivable represents the Company's maximum exposure to credit risk for these balances.

(b) Financial Liabilities and Liquidity Risk

Accounting Policy

Classification and measurement

Accounts Payable and accruals and short-term and long-term debt are classified as amortized cost and are measured using the effective interest method.

Derivative liabilities are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative liabilities which are effectively designated as hedging instruments which are recognized in other comprehensive income.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and bank credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. At December 31, 2018, the Company had approximately \$2.2 billion (2017: \$1.7 billion) of unsecured credit facilities. Included in this amount is a syndicated committed credit facility totalling \$1.3 billion (2017: \$1.0 billion) with various Canadian and global financial institutions. At December 31, 2018, \$1.2 billion (2017: \$1.0 billion) was available under this syndicated committed credit facility. For more information on this \$1.3 billion credit facility, please see Note 7.

The following are the contractual maturities of non-derivative financial liabilities and derivative financial instruments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amount on the consolidated statement of financial position.

(\$ millions)	Carrying amount	Contractual cash flows			
	December 31, 2018	2019	2020-2021	2022-2023	Thereafter
Non-derivative financial liabilities					
Short-term debt	\$ (154)	\$ (154)	\$ —	\$ —	\$ —
Unsecured \$550 million MTN	(549)	(20)	(433)	(15)	(291)
U.S. \$500 million Notes	(681)	(29)	(59)	(251)	(525)
£70 million Notes	(122)	(4)	(8)	(128)	—
Other term loans	(2)	(1)	(1)	(1)	—
Finance lease obligations	(30)	(7)	(15)	(9)	(10)
Accounts payable and accruals (excluding current portion of finance lease obligations)	(1,215)	(1,215)	—	—	—
Total non-derivative financial liabilities	\$ (2,753)	\$ (1,430)	\$ (516)	\$ (404)	\$ (826)
Derivative financial (liabilities) assets					
Forward foreign currency contracts and swaps					
Sell CAD	\$ —	\$ (175)	\$ —	\$ —	\$ —
Buy USD	7	182	—	—	—
Sell CLP ⁽¹⁾	—	(7)	—	—	—
Buy USD	—	7	—	—	—
Buy USD	—	11	—	—	—
Sell CLP	—	(11)	—	—	—
Sell DKK ⁽¹⁾	—	(22)	—	—	—
Buy EUR	—	22	—	—	—
Total derivative assets	\$ 7	\$ 7	\$ —	\$ —	\$ —

⁽¹⁾ Chilean Peso (CLP), Danish Krone (DKK)

(c) Hedging and Market Risk

Accounting Policy

Hedges

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposures. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company determines whether or not to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the statement of financial position, specific firm commitments, or forecasted transactions. For hedges designated as such for accounting purposes, at inception, the Company documents the hedging relationship, its risk management objective and strategy for undertaking the hedge, and how the Company will assess whether the Company meets the hedge effectiveness requirements. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in the consolidated statement of net income.

Gains and losses relating to derivative financial instruments that are not designated as hedges for accounting purposes are recorded in the consolidated statement of income as selling, general, and administrative expenses or finance costs, as appropriate.

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, may use options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable. The Company may also use other derivative instruments such as swaps, rate locks, and options to hedge its interest rate exposure.

The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and recognized in earnings in the same period as the hedged item. For cash flow hedges of non-financial items, these gains and losses are included in the initial carrying cost of the hedged asset or hedged liability. The gain or loss relating to any ineffective portion is recognized immediately in the consolidated statement of net income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss recorded in other comprehensive income at that time remains in accumulated other comprehensive income until the originally hedged transaction affects net income. When a forecasted transaction is no longer expected to occur, the accumulated gain or loss that was reported in other comprehensive income is immediately recorded in the consolidated statement of net income.

Net Investment Hedges

The Company uses foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income. These gains or losses are recognized in the consolidated statement of net income upon the disposal of a foreign operation, a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation.

Areas of Estimation Uncertainty

Fair Value

The fair value of derivative financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a valuation method and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

Market risk is the risk that changes in the market, such as foreign exchange rates and interest rates, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the CAD, USD, GBP, CLP, and Argentine peso (ARS).

As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into CAD, which is the Company's presentation currency. The Company's South American and UK & Ireland operations have functional currencies other than the CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure. The Company has hedged a portion of its foreign investments with foreign currency denominated loans.

The fair value of the Company's long-term debt that is designated as net investment hedging instruments is \$842 million (2017: \$813 million).

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases and the ultimate sale to customers. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. The Company applies hedge accounting to hedges of certain inventory purchases in its Canadian and UK operations. For the year ended December 31, 2018 the Company entered into forward exchange contracts for inventory purchases of U.S. \$286 million (2017: \$319 million) of which approximately U.S. \$36 million (2017: \$19 million) related to forecast transactions that were no longer expected to occur. These hedges were discontinued and the ineffective portion of \$1 million (2017: \$(1) million) was recognized in the consolidated statement of net income immediately.

The results of the Company's operations are impacted by the translation of its foreign denominated transactions; the results of the Canadian operations are impacted by USD based revenue and costs and the results of the South American operations are impacted by CLP and ARS based revenues and costs.

The Company is also exposed to foreign currency risks related to the future cash flows on its foreign denominated financial assets and financial liabilities and foreign denominated net asset or net liability positions on its statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The fair value of derivative assets designated as cash flow hedging instruments is \$5 million (2017: \$2 million liability).

Exposure to Foreign Exchange Risk

The currencies of the Company's significant financial instruments were as follows:

December 31, 2018 (millions)	CAD	USD	GBP	CLP	ARS
Cash and cash equivalents	—	284	50	11,577	63
Accounts receivable – trade	322	219	67	142,603	—
Short-term and long-term debt	(699)	(499)	(71)	—	(353)
Accounts payable and accruals	(399)	(368)	(90)	(84,311)	(4,570)
Net statement of financial position exposure	(776)	(364)	(44)	69,869	(4,860)

December 31, 2017 (millions)	CAD	USD	GBP	CLP	ARS
Cash and cash equivalents	6	110	43	98,982	58
Accounts receivable – trade	335	173	58	115,252	—
Short-term and long-term debt	(549)	(499)	(71)	—	(266)
Accounts payable and accruals	(342)	(438)	(62)	(48,066)	(405)
Net statement of financial position exposure	(550)	(654)	(32)	166,168	(613)

Sensitivity Analysis to Foreign Exchange Risk

As a result of foreign exchange gains or losses on the translation of foreign currency denominated financial instruments, a weakening of the CAD against the following currencies would increase (decrease) pre-tax income and other comprehensive income by the amounts shown below. This analysis uses estimated forecast foreign exchange rates for the upcoming year and assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

December 31, 2018 (\$ millions)	Weakening of CAD	Pre-tax Income (Loss)	Other Comprehensive Loss
USD/CAD	10%	\$ 10	\$ (59)
GBP/CAD	20%	\$ 1	\$ (24)
CLP/CAD	10%	\$ 14	\$ —
ARS/CAD	30%	\$ (15)	\$ —

A strengthening of the CAD against the above currencies relative to the December 31, 2018 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

Interest Rate Risk

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

The Company is exposed to changes in interest rates on its interest bearing financial assets including cash and cash equivalents and instalment and other notes receivable. The short-term nature of investments included in cash and cash equivalents limits the impact to fluctuations in fair value, but interest income earned can be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest bearing financial liabilities, primarily from short-term and long-term debt. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to June 2042. The Company's floating rate debt is short-term in nature and as a result, the Company is exposed to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

The Company manages its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio.

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments were as follows:

December 31 (\$ millions)	2018	2017
Fixed rate instruments		
Financial assets	\$ 32	\$ 44
Financial liabilities	\$ (1,384)	\$ (1,330)
Variable rate instruments		
Financial assets	\$ 454	\$ 458
Financial liabilities	\$ (154)	\$ (18)

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Company does not account for any fixed rate financial assets or financial liabilities at fair value through the consolidated statement of net income, and the Company does not currently have any derivatives designated as hedging instruments under a fair value hedge accounting model, or any derivative interest rate instruments for which fair value changes are recognized in other comprehensive income. Therefore a change in interest rates at the reporting date would not affect net income or other comprehensive income.

Pre-tax Income Sensitivity Analysis for Variable Rate Instruments

The Company's variable rate instruments are in a net asset position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by approximately \$3 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

(d) Fair Values

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – significant observable inputs other than quoted prices included in Level 1
- Level 3 – significant unobservable inputs

The Company's only financial instruments measured at fair value are derivative instruments, and contingent consideration. All of the derivative instruments are measured at fair value using Level 2 inputs. Contingent consideration is measured at fair value using Level 3 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2018 and 2017.

Derivative Instruments (Level 2)

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from interest rate curves and observed forward prices for comparable assets and liabilities.

Where appropriate, fair values are adjusted for credit risk based on observed credit default spreads or market yield spreads for counterparties for financial assets and based on the Company's credit risk for financial liabilities. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Long-Term Debt (Level 2)

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

December 31 (\$ millions)	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 1,354	\$ 1,569	\$ 1,296	\$ 1,397

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the actual interest accrued to date. The present value of future cash flows is discounted using the yield to maturity rate as at the measurement date. This technique utilizes a combination of quoted prices and market observable inputs.

Assets Held-For-Sale and Contingent Consideration (Level 3)

The fair value of the Company's 28.8% investment in Energyst, which was considered held-for-sale at September 30, 2018, and remained held-for-sale at December 31, 2018, was estimated by applying a multiple of Energyst's book value (Enterprise Value to EBITDA ratio). The fair value is estimated to be trivial and therefore recorded at \$nil.

The fair value of the contingent consideration, related to the acquisition of SITECH in the Company's UK and Ireland operations in 2014, of \$2 million (£1 million) at December 31, 2017 was estimated by discounting cash flows based on the probability-adjusted profit in the acquired business. The Company settled this contingent consideration in February 2018.

Cash and Cash Equivalents, Accounts Receivable, Instalment Notes Receivables, Short-Term Debt, and Accounts Payable

The recorded values of cash and cash equivalents, accounts receivable, instalment notes receivable, short-term debt, and accounts payable approximate their fair values due to the short-term maturities of these instruments.

9. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company includes cash and cash equivalents, short-term debt and long-term debt, and shareholders' equity in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. In May 2018, the Company renewed its normal course issuer bid (NCIB) which enables the Company to purchase its common shares for cancellation. In November 2018, the Company amended the NCIB to increase the number of shares available for purchase for cancellation from 3 million to 5.3 million. In December 2018, the Company further amended the NCIB to put in place an automatic share purchase plan with a designated broker, to enable continued share purchases for cancellation during the Company's regular blackout period. During 2018, the Company repurchased 4,128,053 Finning common shares for cancellation at an average cost of \$26.41 per share (2017: 89,900 Finning common shares were repurchased for cancellation at an average cost of \$25.45 per share).

The Company monitors net debt to EBITDA to assess operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA held constant. Previously, the Company managed its capital structure by monitoring net debt to invested capital, but in line with management's focus on EBITDA as a key financial measure, management believes utilizing net debt to EBITDA as a metric provides a better measurement of the Company's management of capital.

December 31	Company long-term target	2018	2017 (Restated - Note 2)
Net debt to EBITDA Ratio	< 3.0	1.7	1.5

Net debt to EBITDA is calculated as net debt divided by EBITDA for the last twelve months. Net debt is calculated as short-term and long-term debt, net of cash. EBITDA is calculated by adding depreciation and amortization to earnings before finance costs and income taxes, as calculated in Note 3.

Net Debt is calculated as follows:

December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Cash and cash equivalents	\$ (454)	\$ (458)
Short-term debt	154	18
Long-term debt	1,354	1,296
Net debt	\$ 1,054	\$ 856

10. SHARE CAPITAL

Accounting Policy

Common shares repurchased by the Company are recognized as a reduction in share capital and contributed surplus (and retained earnings once contributed surplus is fully drawn down) on the date of repurchase. A liability is recognized for any committed repurchases but not yet settled at a reporting period end. The cash consideration paid to repurchase shares is presented as a financing activity in the statement of cash flows. Details of the transaction (number of shares repurchased and amount deducted from equity) are disclosed in the statement of shareholder's equity.

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable convertible preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2018 and 2017.

The Company is authorized to issue an unlimited number of common shares. All issued common shares have no par value and are fully paid.

The Company's dealership agreements with subsidiaries of Caterpillar are fundamental to its business and a change in control of Finning may result in Caterpillar exercising its right to terminate those dealership agreements.

In addition, a shareholder 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 if a third party attempts to acquire a significant interest in the Company. The rights plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the share purchase rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or similar transaction. In May 2017, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2020 unless further extended by the shareholders prior to that time. The rights plan was also amended to reflect recent amendments made to Canada's take-over bid regime.

The rights will not be triggered if a bid meets certain criteria (a permitted bid). 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 bid and not withdrawn (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid must expire not less than 105 days after the date of the bid circular, or such shorter period that a take-over bid (that is not exempt from the general take-over bid requirements under applicable securities law) must remain open for deposits of securities thereunder, in the applicable circumstances at such time.

11. SHARE-BASED PAYMENTS

Accounting Policy

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees.

Equity settled share-based payments are measured at fair value using the Black-Scholes option pricing model. The fair value is determined on the grant date of the share option and recorded over the vesting period in selling, general, and administrative expense, based on the Company's estimate of options that will vest, with a corresponding increase to contributed surplus. When share options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Total Shareholder Return Performance Share Units are measured at fair value using the Monte Carlo model and all other cash-settled share-based awards are measured at fair value using the period-end closing share price. Cash settled share-based compensation plans are recognized as a liability. Compensation expense which arises from vesting and fluctuations in the fair value of the Company's cash settled share-based compensation plans is recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated statement of financial position in long-term other liabilities.

Areas of Estimation Uncertainty

The Company uses the Black-Scholes option pricing model to determine the fair value of share options. Inputs to the model are subject to various estimates relating to volatility, interest rates, dividend yields and expected life of the units issued. Inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimates of inputs to the model at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments in estimating how many units will vest.

The Company also estimates the projected outcome of performance conditions for Performance Share Units (PSUs), including the relative ranking of the Company's total shareholder return compared with a specified peer group using a Monte Carlo simulation option-pricing model and forecasting the Company's return on invested capital.

In 2018 and 2017, long-term incentives for executives and senior management were a combination of share options, deferred share units, performance share units, and restricted share units.

Share Options

The Company has one share option plan (Stock Option Plan) for certain employees. Options granted under the Stock Option Plan vest over a three-year period and are exercisable over a seven-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2018 and 2017, approximately 2 million common shares remained eligible to be issued in connection with future grants.

In 2018, the Company granted 358,755 common share options to senior executives and management of the Company (2017: 440,238 common share options). The Company only grants and prices share options when all material information has been disclosed to the market.

Under the Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of shares issued is based on the premium between the fair value at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. Share options exercised in 2018 comprised both cash and cashless exercises. 1,032,718 options were exercised in 2018 resulting in 243,438 common shares being issued; 789,280 options were withheld and returned to the option pool for future issues/grants (2017: 1,007,594 options were exercised resulting in 189,280 common shares being issued; 818,314 options were withheld and returned to the option pool for future issues/grants).

Details of the share option plans are as follows:

For years ended December 31	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	3,864,338	\$ 25.45	4,563,871	\$ 25.20
Granted	358,755	\$ 33.62	440,238	\$ 26.84
Exercised	(1,032,718)	\$ 25.85	(1,007,594)	\$ 24.71
Forfeited	(23,673)	\$ 28.25	(132,177)	\$ 27.10
Expired	(2,350)	\$ 28.29	—	\$ —
Options outstanding, end of year	3,164,352	\$ 26.22	3,864,338	\$ 25.45
Exercisable, end of year	2,363,029	\$ 25.33	2,641,850	\$ 25.66

The fair value of the options granted has been estimated on the date of grant using the following weighted-average assumptions:

	2018 Grant	2017 Grant
Dividend yield	2.80%	2.72%
Expected volatility ⁽¹⁾	27.13%	29.32%
Risk-free interest rate	2.31%	1.10%
Expected life	5.38 years	5.55 years
Share price	\$ 33.62	\$ 26.84

⁽¹⁾ Expected volatility is based on historical share price volatility of Finning shares

The weighted average grant date fair value of options granted during the year was \$6.85 (2017: \$5.49).

The following table summarizes information about share options outstanding at December 31, 2018:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number outstanding	Weighted Average Exercise Price
\$19.53 - \$22.15	653,209	3.39 years	\$ 21.78	498,607	\$ 21.77
\$22.16 - \$24.97	192,357	1.37 years	\$ 22.30	192,357	\$ 22.30
\$24.98 - \$25.47	939,940	3.36 years	\$ 25.44	939,940	\$ 25.44
\$25.48 - \$27.98	492,603	4.72 years	\$ 26.59	200,644	\$ 26.33
\$27.99 - \$33.68	886,243	3.99 years	\$ 30.96	531,481	\$ 29.20
	3,164,352	3.63 years	\$ 26.22	2,363,029	\$ 25.33

The following table summarizes information about share options outstanding at December 31, 2017:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number outstanding	Weighted Average Exercise Price
\$19.53 - \$22.15	693,098	4.44 years	\$ 21.79	370,186	\$ 21.81
\$22.16 - \$24.97	375,194	2.33 years	\$ 22.40	375,194	\$ 22.40
\$24.98 - \$25.47	1,127,110	4.36 years	\$ 25.44	688,316	\$ 25.44
\$25.48 - \$27.46	861,474	4.32 years	\$ 26.27	406,124	\$ 25.72
\$27.47 - \$32.38	807,462	3.01 years	\$ 29.14	802,030	\$ 29.12
	3,864,338	3.89 years	\$ 25.45	2,641,850	\$ 25.66

Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units, performance share units, and restricted share units that use notional common share units.

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit (DDSU) Plan A

The Company offers a DDSU Plan A for non-employee members of the Board of Directors. Under the DDSU Plan A, Directors of the Company may also elect to allocate all or a portion of their annual compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Units are redeemable for cash or shares or a combination of cash and shares (as requested by the holder) only following cessation of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the cessation occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were granted a total of 49,265 share units in 2018 (2017: 55,698 share units), which were expensed over the calendar year as the units were issued. An additional 21,780 (2017: 22,410) DDSUs were issued in lieu of cash compensation payable for service as a Director. A further 10,494 (2017: 10,467) DDSUs were granted to Directors during 2018 as payment for notional dividends.

Executive

Executive Deferred Share Unit (Exec DSU) Plan

Under the Exec DSU Plan, executives of the Company may elect to have all or a portion of their annual bonus issued in the form of deferred share units. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance. Vested deferred share units are redeemable for cash before December 15th of the year following the year employment with the Company ceases. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares.

Executives were granted a total of 20,357 deferred share units in 2018 (2017: 9,589) in lieu of their annual bonus payment and 1,097 deferred share units (2017: 878 deferred share units) were issued as payment for notional dividends.

Deferred Share Unit (DSU-B) Plan B for Executives

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board of Directors. The DSU-B Plan utilizes notional units that become vested in accordance with terms set at the time of grant, or in certain years, the vesting schedule set out in the plan. Vested deferred share units are redeemable for cash or for common shares of the Company for a period of 30 days after cessation of employment with the Company, or before December 31st of the year following the year of retirement, death, or disability. Deferred share units that have not vested within five years from the date that they were granted will expire. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares.

During 2018, 3,229 (2017: 4,263) DSU-Bs were granted to executives as payment for notional dividends.

Performance Share Unit (PSU) Plan

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that vest upon achieving future specified performance levels. Vested units accumulate dividend equivalents in the form of additional performance share units based on the dividends paid on the Company's common shares. All PSUs granted in 2018 and 2017 were divided equally into two categories. Half of the awards are based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining half of the awards is based on the performance of the Company's total shareholder return over the three-year period relative to the performance of the total shareholder return of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs).

Vested performance share units are redeemable in cash based on the five-day volume-weighted average price of the common shares at the end of the performance period. Executives of the Company were granted a total of 375,332 performance share units in 2018, based on 100% vesting (2017: 448,782 performance share units) and 35,000 dividend equivalent units were recorded in relation to the 2016 grant as the expected payout (2017: 14,000 dividend equivalent units were recorded in relation to the 2015 grant as the expected payout).

Compensation expense for the PSU Plan is recorded over the three-year performance period. The amount of compensation expense is adjusted over the three-year performance period to reflect the fair value of the PSUs and the number of PSUs anticipated to vest.

The specified levels and respective vesting percentages for the 2018 and 2017 grants are as follows:

TSR PSUs

Percentile Rank	< 25 th Percentile	25 th Percentile	50 th Percentile	75 th Percentile	100 th Percentile
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

The specified levels and respective vesting percentages for the 2018 grants were as follows:

Performance Level	Average Return on Invested Capital (over three-year period)	Proportion of PSUs Vesting
Below Threshold	< 11.5%	Nil
Threshold	11.5%	50%
Target	15.5%	100%
Maximum	19.5% or more	200%

The specified levels and respective vesting percentages for the 2017 grant are as follows:

Performance Level	Average Return on Invested Capital (over three-year period)	Proportion of PSUs Vesting
Below Threshold	< 9.5%	Nil
Threshold	9.5%	50%
Target	12.5%	100%
Maximum	15.5% or more	200%

Restricted Share Unit (RSU) Plan

Under the RSU Plan, executives of the Company may be awarded restricted share units as approved by the Board of Directors. This plan utilizes notional units that may become vested in accordance with terms set at the time of grant. All units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Restricted share units that have vested are redeemable in cash based on the five-day volume-weighted average trading price of the Company's common shares at the end of the three-year period. During the year ended December 31, 2018, 167,052 units were granted to Executives (2017: 197,709 units) and 14,892 notional units (2017: 10,915 notional units) are issuable as payment for dividends upon vesting.

Details of the DSU, PSU, and RSU plans are as follows:

For year ended December 31, 2018	Exec					
Units	DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	35,356	122,543	418,284	1,304,458	448,080	2,328,721
Additions	21,454	3,229	81,539	257,551	181,944	545,717
Exercised	(6,646)	—	(80,058)	(182,629)	—	(269,333)
Forfeited	—	—	—	(40,166)	(24,670)	(64,836)
Outstanding, end of year	50,164	125,772	419,765	1,339,214	605,354	2,540,269
Vested, beginning of year	35,356	122,543	418,284	173,111	—	749,294
Vested	21,454	3,229	81,539	481,968	—	588,190
Exercised	(6,646)	—	(80,058)	(182,629)	—	(269,333)
Vested, end of year	50,164	125,772	419,765	472,450	—	1,068,151

Liability (\$ millions)						
Balance, beginning of year	\$ 1	\$ 4	\$ 13	\$ 25	\$ 7	\$ 50
(Recovery) expensed	—	(1)	(1)	5	3	6
Exercised	—	—	(2)	(6)	—	(8)
Forfeited	—	—	—	(1)	(1)	(2)
Balance, end of year	\$ 1	\$ 3	\$ 10	\$ 23	\$ 9	\$ 46

For year ended December 31, 2017	Exec					
Units	DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	24,889	191,467	368,366	824,962	262,196	1,671,880
Additions	10,467	4,263	88,575	613,858	208,624	925,787
Exercised	—	(73,187)	(38,657)	(82,759)	—	(194,603)
Forfeited	—	—	—	(51,603)	(22,740)	(74,343)
Outstanding, end of year	35,356	122,543	418,284	1,304,458	448,080	2,328,721
Vested, beginning of year	24,889	187,201	368,366	93,824	—	674,280
Vested	10,467	8,529	88,575	162,046	—	269,617
Exercised	—	(73,187)	(38,657)	(82,759)	—	(194,603)
Vested, end of year	35,356	122,543	418,284	173,111	—	749,294

Liability (\$ millions)						
Balance, beginning of year	\$ 1	\$ 4	\$ 8	\$ 12	\$ 2	\$ 27
Expensed	—	2	6	18	5	31
Exercised	—	(2)	(1)	(3)	—	(6)
Forfeited	—	—	—	(2)	—	(2)
Balance, end of year	\$ 1	\$ 4	\$ 13	\$ 25	\$ 7	\$ 50

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding as at December 31, 2018 has been estimated using the period-end closing share price of \$23.80 (December 31, 2017: \$31.72).

The impact of the share-based payment plans on the Company's financial statements was as follows:

For years ended December 31			
(\$ millions)		2018	2017
Consolidated Statements of Net Income			
Compensation expense arising from equity-settled share option incentive plan	\$	3	\$ 3
Compensation expense arising from cash-settled share based payments		4	29
	\$	7	\$ 32
Consolidated Statements of Financial Position			
Current liability for cash-settled share-based payments	\$	16	\$ 5
Non-current liability for cash-settled share-based payments (to be incurred between 1-5 years) (Note 21)	\$	30	\$ 45

The total intrinsic value of vested but not settled share-based payments was \$25 million (2017: \$24 million).

12. INVENTORIES

Accounting Policy

Inventories are assets held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment and internal service work in progress, and on a weighted average cost basis for parts and supplies. The cost of inventories includes all costs of purchase, conversion costs, other costs incurred in bringing inventories to their existing location and condition, and an appropriate share of overhead costs based on normal operating capacity.

Areas of Estimation Uncertainty

The Company makes estimates of the provision required to reflect slow-moving and obsolete inventory. These estimates are determined on the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis.

December 31		2018	2017
(\$ millions)			(Restated - Note 2)
On-hand equipment	\$	1,036	\$ 753
Parts and supplies		716	595
Internal service work in progress		309	360
Total inventory	\$	2,061	\$ 1,708

For the year ended December 31, 2018, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to \$4.8 billion (2017: \$4.2 billion). For the year ended December 31, 2018, the write-down of inventories to net realizable value, included in cost of sales, amounted to \$43 million (2017: \$50 million).

13. INCOME TAXES

Accounting Policy

The balance sheet liability method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the statement of financial position are used to calculate deferred tax assets or liabilities. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is expected to be realized or the liability is expected to be settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income and/or equity in the period that the change becomes enacted or substantively enacted.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. The Company records the deferred tax impact of foreign exchange gains or losses arising on the translation of foreign denominated non-monetary assets and non-monetary liabilities in provision for income tax in the consolidated statement of net income.

Areas of Estimation Uncertainty

Estimations of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities change from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes could have a material adverse effect on expected results.

Areas of Significant Judgment

Judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which the Company operates, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

For year ended December 31, 2018				
(\$ millions)	Canada	International	Total	
Current	\$ 47	\$ 74	\$	121
Adjustment for prior periods recognized in the current year	(3)	(17)		(20)
Total current tax expense	44	57		101
Deferred				
Origination and reversal of timing differences	5	(13)		(8)
Decrease due to tax rate changes	—	1		1
Adjustment for prior periods recognized in the current year	4	17		21
Total deferred tax expense	9	5		14
Provision for income taxes	\$ 53	\$ 62	\$	115

For year ended December 31, 2017				
(\$ millions) (Restated - Note 2)	Canada	International	Total	
Current	\$ 18	\$ 59	\$	77
Adjustment for prior periods recognized in the current year	—	(2)		(2)
Total current tax expense	18	57		75
Deferred				
Origination and reversal of timing differences	6	(6)		—
Decrease due to tax rate changes	—	(4)		(4)
Adjustment for prior periods recognized in the current year	1	4		5
Total deferred tax expense (recovery)	7	(6)		1
Provision for income taxes	\$ 25	\$ 51	\$	76

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

For years ended December 31		2018		2017	
(\$ millions)				(Restated - Note 2)	
Combined Canadian federal and provincial income taxes at the statutory tax rate	\$	94	27.0 %	\$	78 26.8 %
Increase (decrease) resulting from:					
Lower statutory rates on the earnings of foreign subsidiaries	(11)	(3.2)%		(7)	(2.3)%
Income not subject to tax	(6)	(1.7)%		(4)	(1.3)%
Changes in statutory tax rates	2	0.6 %		(4)	(1.3)%
Non-deductible share-based payment expense	1	0.3 %		1	0.3 %
Non-taxable/non-deductible foreign exchange in Argentina	31	8.9 %		12	3.9 %
Inflationary adjustment	(8)	(2.3)%		(8)	(2.5)%
Non-deductible write-off and loss related to investment	9	2.6 %		—	—
Other	3	0.9 %		8	2.5 %
Provision for income taxes	\$	115	33.1 %	\$	76 26.1 %

The Company recognized the impact of the following enacted corporate income tax rate changes:

- The U.S. Government announced the reduction of the corporate tax rate from 35% to 21% effective January 1, 2018. These tax rate changes were substantively enacted in 2017 and relate to the Company's investment in PipeLine Machinery International (PLM).
- The Argentinean government announced the reduction of the corporate tax rate from 35% to 30% effective January 1, 2018 and a further reduction to 25% effective January 1, 2020. These tax rate changes were substantively enacted in 2017.

Deferred Tax Asset and Liability

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

December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Accounting provisions not currently deductible for tax purposes	\$ 82	\$ 59
Employee benefits	1	12
Share-based payments	9	11
Loss carry-forwards	3	3
Deferred tax assets	95	85
Property, plant and equipment, rental, leased, and other intangible assets	(62)	(31)
Distribution network	(12)	(11)
Other	(3)	(5)
Deferred tax liabilities	(77)	(47)
Net deferred tax asset	\$ 18	\$ 38

Deferred taxes are not recognized on retained profits of approximately \$1.8 billion (2017: \$1.6 billion) of foreign subsidiaries, as it is the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income, which do not expire.

December 31 (\$ millions)	2018	2017
International	\$ 12	\$ 14

As at December 31, 2018, the Company has unrecognized capital and non-capital loss carry-forwards of \$79 million to reduce future taxable income. These amounts do not expire.

The tax expense relating to components of other comprehensive income is as follows:

For years ended December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Current tax	\$ 1	\$ —
Deferred tax expense	14	3
Provision for income taxes recognized in other comprehensive income	\$ 15	\$ 3

14. OTHER ASSETS

December 31 (\$ millions)	2018	2017
Supplier claims receivable	\$ 83	\$ 104
Equipment deposits	78	23
Prepaid expenses	70	52
Finance assets (a)	29	40
Value Added Tax receivable	6	14
Income tax recoverable	7	18
Derivative assets	7	1
Indemnification asset (b)	4	6
Asset held for sale	—	10
Other	4	1
Total other assets – current	\$ 288	\$ 269

December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Deferred tax assets (Note 13)	\$ 59	\$ 69
Indemnification asset (b)	14	21
Prepaid expenses	28	23
Net post-employment assets (Note 23)	87	21
Finance assets (a)	8	11
Other	7	8
Total other assets – non-current	\$ 203	\$ 153

- (a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of \$7 million was recorded in 2018 (2017: \$7 million). Depreciation expense is recognized in equal monthly amounts over the terms of the individual leases.
- (b) In 2012, the Company acquired from Caterpillar the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in the Company's dealership territories in South America, Canada and the U.K. As part of the acquisition, the Company assumed non-financial liabilities which were not previously recognized by Bucyrus relating to long-term contracts, commitments related to prime product sales, and employee related liabilities. Caterpillar agreed to indemnify the Company for any below market returns on certain long term contracts (covering various periods up to 2023), to an amount equal to the liabilities assumed. The liabilities were measured at fair value by using management's best estimate, at the acquisition date, of the difference between market-rate returns and the contracted returns expected under the long-term contracts. The related indemnification asset was measured on the same basis as the liability up to an amount collectible from Caterpillar. In 2018, the Company's South American operations received final payment of \$15 million (U.S. \$11 million) in settlement of Caterpillar's indemnification on these long-term contracts and will be released from deferred revenue to net income over the remaining term of these long-term contracts. The indemnification asset and related liability for the South American long-term contracts of \$3 million (U.S \$2 million) were derecognized in 2018 accordingly.

15. JOINT VENTURES AND ASSOCIATE

Accounting Policy

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company accounts for its joint ventures and associate in which the Company has an interest using the equity method. The joint ventures and associate follow accounting policies that are materially consistent with the Company's accounting policies. Where the Company transacts with its joint ventures or associate, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

Nature of Relationships

PLM is a strategic partnership that sells and rents both purpose-built pipeline and traditional Caterpillar products to mainline pipeline construction customers worldwide.

In January 2017, the Company acquired a 20% interest in Agriterra for \$3 million. Agriterra, an Alberta based company, is a consolidation of equipment dealers providing customers with agriculture and consumer products.

Energyst is a pan-European company formed by Caterpillar and ten of its dealers to be the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. Energyst provides coverage worldwide by collaborating with local Caterpillar dealers. During 2018, the Company conducted a review of its 28.8% investment in Energyst and determined that Energyst was no longer a strategic fit. The Company decided that Energyst was held-for-sale resulting in a write-down of its investment to its estimated fair value (\$nil).

The Company's proportion of ownership interest in its joint ventures and associate is as follows:

December 31 Name of Venture	Type of Venture	Principal place of business/country of incorporation	Proportion of Ownership Interest Held	
			2018	2017
PLM	Joint Venture	United States	25.0%	25.0%
Agriterra	Joint Venture	Canada	20.0%	20.0%
Energyst	Associate	Netherlands	28.8%	28.8%

Information about the Company's joint ventures and associate that are not considered individually material to the Company:

For year ended December 31, 2018					
(\$ millions)	PLM	Agriterra	Energyst ⁽¹⁾	Total	
Company's share of income (loss)	\$ 16	\$ —	\$ (4)	\$ 12	
Company's share of other comprehensive loss	—	—	(2)	(2)	
Carrying amount of the Company's interests in joint ventures and associate ⁽²⁾	\$ 82	\$ 5	\$ —	\$ 87	
For year ended December 31, 2017					
(\$ millions)	PLM	Agriterra	Energyst	Total	
Company's share of income (loss)	\$ 12	\$ —	\$ (5)	\$ 7	
Company's share of other comprehensive loss	(2)	—	(1)	(3)	
Carrying amount of the Company's interests in joint ventures and associate ⁽²⁾	\$ 65	\$ 3	\$ 24	\$ 92	

⁽¹⁾ Effective September 30, 2018, Energyst was classified as held-for-sale and the Company did not record any further equity earnings or losses from Energyst since that date.

⁽²⁾ Included in the investment in joint venture in 2018 was an advance of \$2 million to Agriterra, bearing interest at prime rate + 2%, due in 2019.

Included in the investment in associate in 2017 was an advance of \$2 million to Energyst, bearing interest at 6.5% + 3 month Eurobor, due in 2020.

16. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT

Accounting Policy

Property, plant, and equipment and rental equipment are recorded at cost, net of accumulated depreciation and any impairment losses. Depreciation of property, plant and equipment is recorded in selling, general, and administrative expenses for all assets except standby equipment, which is recorded in cost of sales, in the consolidated statement of net income. Depreciation of rental equipment is recorded in cost of sales in the consolidated statement of net income.

Depreciation commences when the asset becomes available for use, and ceases when the asset is derecognized or classified as held for sale. Where significant components of an asset have different useful lives, depreciation is calculated on each separate component.

Rental equipment includes units transferred from inventory and excludes units transferred to inventory when the rental equipment becomes available for sale.

All classes of property, plant, and equipment and rental equipment are depreciated over their estimated useful lives to their estimated residual value on a straight-line basis using the following:

Buildings	10 - 50 years
Equipment and vehicles	3 - 10 years
Rental equipment	2 - 5 years

Property, plant, and equipment and rental equipment held under finance leases are depreciated over the lesser of their useful life or the term of the relevant lease.

Property, plant, and equipment and rental equipment are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an item of property, plant, and equipment and rental equipment, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

Areas of Estimation Uncertainty

Depreciation expense is sensitive to the estimated useful life determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	\$ 75	\$ 715	\$ 347	\$ 1,137	\$ 589
Additions	—	47	73	120	281
Transfers from inventory	—	—	4	4	25
Disposals	(1)	(21)	(36)	(58)	(261)
Foreign exchange rate changes	4	21	16	41	14
Balance, end of year	\$ 78	\$ 762	\$ 404	\$ 1,244	\$ 648

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	\$ (10)	\$ (283)	\$ (272)	\$ (565)	\$ (204)
Depreciation for the year	—	(28)	(25)	(53)	(97)
Disposals	—	15	24	39	99
Foreign exchange rate changes	—	(9)	(11)	(20)	(5)
Balance, end of year	\$ (10)	\$ (305)	\$ (284)	\$ (599)	\$ (207)

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	\$ 65	\$ 432	\$ 75	\$ 572	\$ 385
Balance, end of year	\$ 68	\$ 457	\$ 120	\$ 645	\$ 441

December 31, 2017 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	\$ 80	\$ 722	\$ 340	\$ 1,142	\$ 611
Additions	1	31	26	58	175
Additions through business Transfers from inventory	—	—	—	—	132
Reclassification to asset held for sale	(3)	(8)	—	(11)	—
Disposals	—	(17)	(10)	(27)	(322)
Foreign exchange rate changes	(3)	(13)	(9)	(25)	(7)
Balance, end of year	\$ 75	\$ 715	\$ 347	\$ 1,137	\$ 589

December 31, 2017 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	\$ (10)	\$ (265)	\$ (261)	\$ (536)	\$ (248)
Depreciation for the year	—	(28)	(26)	(54)	(98)
Reclassification to asset held for sale	—	1	—	1	—
Disposals	—	4	8	12	139
Foreign exchange rate changes	—	5	7	12	3
Balance, end of year	\$ (10)	\$ (283)	\$ (272)	\$ (565)	\$ (204)

December 31, 2017 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	\$ 70	\$ 457	\$ 79	\$ 606	\$ 363
Balance, end of year	\$ 65	\$ 432	\$ 75	\$ 572	\$ 385

Assets held under finance leases

Land, buildings, and equipment under finance leases of \$3 million (2017: \$4 million), which are net of accumulated depreciation and impairment losses of \$11 million (2017: \$11 million), are included above. There were no finance leases related to land, buildings, or equipment acquired during 2018 and 2017.

Rental equipment under finance leases of \$23 million (2017: \$27 million), which are net of accumulated depreciation of \$13 million (2017: \$11 million), are included above. There were no finance leases related to rental equipment acquired during 2018 and 2017.

17. GOODWILL

Accounting Policy

Goodwill represents the excess of the acquisition-date fair value of consideration transferred over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized. Refer to Note 20 for the Company's policy on impairment reviews.

December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Total
Balance, beginning of year	\$ 81	\$ 5	\$ 33	\$ 119
Foreign exchange rate changes	—	—	1	1
Balance, end of year	\$ 81	\$ 5	\$ 34	\$ 120

December 31, 2017 (\$ millions)	Canada	South America	UK & Ireland	Total
Balance, beginning of year	\$ 81	\$ 5	\$ 32	\$ 118
Foreign exchange rate changes	—	—	1	1
Balance, end of year	\$ 81	\$ 5	\$ 33	\$ 119

18. DISTRIBUTION NETWORK

Accounting Policy

The distribution network is recorded at the acquisition date fair value, net of any impairment losses. The distribution network is an intangible asset with an indefinite life and therefore not amortized. The distribution network is estimated to have an indefinite life because it is expected to generate cash flows indefinitely. Refer to Note 20 for the Company's policy on impairment reviews.

December 31, 2018 (\$ millions)	Canada	UK & Ireland	Total
Balance, beginning of year	\$ 98	\$ 2	\$ 100
Balance, end of year	\$ 98	\$ 2	\$ 100

December 31, 2017 (\$ millions)	Canada	UK & Ireland	Total
Balance, beginning of year	\$ 98	\$ 2	\$ 100
Balance, end of year	\$ 98	\$ 2	\$ 100

19. INTANGIBLE ASSETS

Accounting Policy

Intangible assets are recorded at cost, net of any accumulated amortization and any impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the periods during which they are expected to generate benefits. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of net income using the following estimated useful lives:

Contracts and Customer relationships	2 – 10 years
Software and Technology	2 – 7 years

Borrowing costs are capitalized during the development of qualifying intangible assets. As the Company manages the financing of all operations centrally, the development of qualifying assets is financed through general borrowings and therefore, a weighted average borrowing rate is used in calculating interest to be capitalized.

Intangible assets are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an intangible asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Cost			
Balance, beginning of year	\$ 155	\$ 166	\$ 321
Additions	6	75	81
Disposals	—	(4)	(4)
Foreign exchange rate changes	11	7	18
Balance, end of year	\$ 172	\$ 244	\$ 416

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Accumulated depreciation			
Balance, beginning of year	\$ (118)	\$ (86)	\$ (204)
Amortization for the year	(13)	(17)	(30)
Disposals	—	4	4
Foreign exchange rate changes	(9)	(1)	(10)
Balance, end of year	\$ (140)	\$ (100)	\$ (240)

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Net book value			
Balance, beginning of year	\$ 37	\$ 80	\$ 117
Balance, end of year	\$ 32	\$ 144	\$ 176

December 31, 2017 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Cost			
Balance, beginning of year	\$ 148	\$ 109	\$ 257
Additions	15	61	76
Disposals	—	(1)	(1)
Foreign exchange rate changes	(8)	(3)	(11)
Balance, end of year	\$ 155	\$ 166	\$ 321

December 31, 2017 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Accumulated depreciation			
Balance, beginning of year	\$ (110)	\$ (76)	\$ (186)
Amortization for the year	(14)	(11)	(25)
Foreign exchange rate changes	6	1	7
Balance, end of year	\$ (118)	\$ (86)	\$ (204)

December 31, 2017 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Net book value			
Balance, beginning of year	\$ 38	\$ 33	\$ 71
Balance, end of year	\$ 37	\$ 80	\$ 117

Borrowing costs capitalized to intangible assets for the year ended December 31, 2018 were \$1 million (2017: \$1 million). The average rate used for capitalization of borrowing costs was 3.7% (2017: 4.6%).

20. ASSET IMPAIRMENT

Accounting Policy

Goodwill and intangible assets with indefinite lives are subject to an assessment for impairment at least annually and when events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Assets which do not have separate identifiable cash inflows are allocated to cash generating units (CGUs). CGUs are subject to impairment reviews whenever there is an indication they may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the CGU is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit, unless the impairment loss would reduce the carrying amount of an individual asset below the highest of its fair value less costs of disposal; its value-in-use; or, zero. Any impairment is recognized immediately in the consolidated statement of net income.

Impairment losses on goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If there is any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exist or may have decreased, management estimates the recoverable value of the CGU. Indicators of a recovery include sustainable improvement of the economic performance of the CGU and a positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of impairment loss is recognized immediately in the consolidated statement of net income.

Areas of Significant Judgment

Judgment is used in identifying an appropriate discount rate and growth rate for these calculations, identifying the CGUs to which the intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes.

Areas of Estimation Uncertainty

The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets.

Recoverable value

The recoverable amount of all CGUs and groups of CGUs are determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets which employ the following key assumptions: future cash flows and growth projections, associated economic risk assumptions, and estimates of achieving key operating metrics and drivers.

The cash flow projection key assumptions are based upon the Company's financial budgets, covering a three-year period which is discounted using post-tax weighted average cost of capital (WACC) rates. For the annual impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated using growth rates based on estimated long-term real gross domestic product and inflation (where appropriate) in the markets in which the Company operates.

Key assumptions

The significant assumptions used in the Company's value-in-use calculations for each CGU or group of CGUs are as follows:

For years ended December 31	2018		2017	
	Post-tax WACC rate	Growth rate	Post-tax WACC rate	Growth rate
Canada	8%	2%	9%	2%
Canada Mining	9%	1%	9%	1%
Chile	8%	3%	9%	3%
UK & Ireland	9%	2%	9%	2%

Sensitivities to key assumptions

Sensitivity testing is conducted as part of the annual impairment tests, including stress testing the WACC rate with all other assumptions being held constant. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any cash generating unit or group of cash generating units to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangible assets with indefinite lives and goodwill.

Overview of annual impairment tests

There were no impairment losses recognized in 2018 or 2017 related to CGUs, goodwill, or distribution networks. There were no impairment reversals in 2018 or 2017 related to the distribution network in the Company's South American operations.

21. OTHER LIABILITIES

December 31 (\$ millions)	2018	2017
Income tax payable	\$ 55	\$ 28
Derivative liabilities	—	8
Total other liabilities – current	\$ 55	\$ 36

December 31 (\$ millions)	2018	2017 (Restated - Note 2)
Deferred revenue (Note 4)	\$ 49	\$ 34
Deferred tax liabilities (Note 13)	41	31
Liability for long-term contracts (Note 14b)	14	21
Finance lease liabilities (a) (Note 27)	25	29
Onerous contracts	8	10
Share-based payments (Note 11)	30	45
Provisions (Note 22)	2	4
Other	—	2
Total other liabilities – non-current	\$ 169	\$ 176

(a) Finance leases were issued at varying rates of interest from 2% – 10% and mature on various dates up to 2078.

22. PROVISIONS

Accounting Policy

Warranty claims

Provisions are made for estimated warranty claims in respect of certain equipment, spare parts, and service supplied to customers which are still under standard warranty at the end of the reporting period. These claims are expected to be settled in the next financial year.

Other provisions

Provisions are recognized if it is expected that a long-term service or power and energy systems contract will incur a loss. The expected loss is recognized as a provision with a corresponding expense in the statement of net income.

Areas of Estimation Uncertainty

Management estimates the warranty provision based on claims notified and past experience. Factors that could impact the estimated claim include the quality of the equipment, spare parts, and labour costs.

For year ended December 31, 2018 (\$ millions)	Warranty Claims	Other	Total
Balance, beginning of year	\$ 28	\$ 11	\$ 39
New provisions	50	45	95
Charges against provisions	(42)	(46)	(88)
Foreign exchange rate changes	2	—	2
Balance, end of year	\$ 38	\$ 10	\$ 48
Current portion	\$ 38	\$ 8	\$ 46
Non-current portion	\$ —	\$ 2	\$ 2

For year ended December 31, 2017 (\$ millions) (Restated - Note 2)	Warranty Claims	Other	Total
Balance, beginning of year	\$ 31	\$ 19	\$ 50
New provisions	30	24	54
Charges against provisions	(32)	(32)	(64)
Foreign exchange rate changes	(1)	—	(1)
Balance, end of year	\$ 28	\$ 11	\$ 39
Current portion	\$ 28	\$ 7	\$ 35
Non-current portion	\$ —	\$ 4	\$ 4

23. POST-EMPLOYMENT BENEFITS

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in Canada, the U.K., the Republic of Ireland, and South America. These plans include defined benefit and defined contribution pension plans in Canada, UK and Ireland, and include other post-employment benefits in South America.

Pension Plans

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

- In the Company's Canadian operations, defined benefit pension plans exist for eligible employees but are closed to new members. Final average earnings are based on the highest 3 or 5 year average salary depending on employment category and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit pension plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit pension plan was subsequently closed to all new non-executive employees, who became eligible to enter one of the Company's defined contribution pension plans. Effective January 1, 2010, the defined benefit pension plan was closed to new executive employees as well, who became eligible to join a defined contribution pension plan. Pension benefits under the registered defined benefit pension plan's formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- The Company's UK operations provided a defined benefit pension plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who became eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012 at which time affected members began accruing benefits under a defined contribution pension plan.

The defined contribution pension plans are pension plans under which the Company pays fixed contributions, as a percentage of earnings, into the plans, where an account exists for each plan member.

- In the Company's Canadian operations, the defined contribution pension plans are registered pension plans that offer a base Company contribution rate for all members. The Company will also partially match non-executive employee contributions to a maximum additional Company contribution of 1% of employee earnings. The registered defined contribution pension plan for executive employees is supplemented by an unfunded supplementary accumulation plan. Where contributions under the registered plan would otherwise exceed the maximum taxation limit, the excess contributions are provided through this supplemental plan.
- In the Company's UK operations, the defined contribution pension plans offer a match of employee contributions, within a required range, plus 1%. The Company's Irish subsidiary has a defined contribution pension plan, which offers a match of employee contributions at a level set by the Company.

Other Post-Employment Benefits

The Company's South American employees do not participate in employer pension plans but are covered by country specific government pension arrangements.

Employment terms at some of the Company's South American operations provide for a payment when an employment contract comes to an end under certain conditions, which can be considered a post-employment benefit. The benefit is typically at the rate of one month of final salary for each year of service (subject in most cases to a cap as to the number of qualifying years of service and a cap on the salary rate). The Company's South American post-employment benefits are not funded.

Accounting Policy

Pension Plans

Defined Benefit Plans:

The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method.

Current service costs, past service costs, and administration costs (net of employee contributions) are recognized in selling, general, and administrative expenses and net interest costs are recognized in finance costs in the consolidated statement of net income. Net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and contributions to and benefit payments from the plan during the year.

Actuarial gains and losses arising from experience and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using high-quality corporate bond yields, denominated in the same currency of the benefits to be paid, that approximate the timing of the related pension obligation.

Defined Contribution Plans:

The cost of pension benefits includes the current service cost, which comprise the actual contributions made and accrued by the Company during the year. These contributions are based on a fixed percentage of member earnings for the year and are charged to the consolidated statement of net income as they become due.

Other Post-Employment Benefits

The Company's post-employment benefits in South America are accounted for as an unfunded defined benefit pension plan. Current service costs are recognized in selling, general, and administrative expenses and interest costs are recognized in finance costs in the consolidated statement of net income. Interest costs are calculated by applying the discount rate at the beginning of the period to the post-employment benefit liability and contributions to and benefit payments from the plan during the year.

Actuarial gains and losses arising from experience and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the post-employment benefit obligation. The obligation recognized is based on valuations performed and regularly updated through independent actuarial calculations by using the projected unit credit method.

Areas of Significant Judgment

Actuarial valuations of the Company's defined benefit plans and other post-employment benefits are based on assumptions requiring significant judgment, such as mortality rates, inflation (which is particularly relevant in the UK), estimates of future salary increases, and employee turnover. Judgment is exercised in setting these assumptions. These assumptions combined with the high quality corporate bond yield, used to discount the estimated future cash flows, impact the measurement of the net defined benefit obligation, the net benefit cost, the actuarial gains and losses recognized in other comprehensive income, and funding levels in Canada and the UK.

The net benefit cost (recovery) and actuarial loss (gain) for the Company's post-employment benefit plans are as follows:

For years ended December 31 (\$ millions)	2018				2017			
	Canada	UK & Ireland	South America	Total	Canada	UK & Ireland	South America	Total
Defined contribution pension plans								
Net benefit cost	\$ 35	\$ 9	\$ —	\$ 44	\$ 32	\$ 9	\$ —	\$ 41
Defined benefit and other post-employment benefit plans								
Current service cost, net of employee contributions	6	—	8	14	6	—	11	17
Past service cost ⁽¹⁾	—	3	—	3	—	(10)	—	(10)
Administration costs	1	1	—	2	1	2	—	3
Net interest cost	—	—	1	1	—	—	1	1
Net benefit cost (recovery)	7	4	9	20	7	(8)	12	11
Total benefit cost recognized in net income	\$ 42	\$ 13	\$ 9	\$ 64	\$ 39	\$ 1	\$ 12	\$ 52
Actuarial loss (gain) on plan assets ⁽²⁾	\$ 19	\$ 23	\$ —	\$ 42	\$ (16)	\$ (38)	\$ —	\$ (54)
Actuarial (gain) loss on plan liabilities	(14)	(86)	(8)	(108)	21	17	(2)	36
Total actuarial loss (gain) recognized in other comprehensive income	\$ 5	\$ (63)	\$ (8)	\$ (66)	\$ 5	\$ (21)	\$ (2)	\$ (18)

- ⁽¹⁾ In October 2018, the High Court in the U.K. rendered a decision requiring equalization between males and females of Guaranteed Minimum Pension (GMP) benefits earned between 1990 and 1997. A one-time expense of \$3 million (£2 million) was recorded to reflect the current estimate of additional costs that will be associated with GMP equalization for the Finning UK defined benefit pension plan.

In July 2017, management commenced two pension plan option exercises in relation to the defined benefit plan in the Company's UK operations. These exercises provide members with additional flexibility than was previously available, and also assist the Company in managing the plan liabilities and the associated risks (for example, inflation risk). The impact of these exercises is a decrease in the accrued benefit obligation of approximately \$12 million of which approximately \$10 million and \$2 million are recognized in the statements of net income and other comprehensive income, respectively.

- ⁽²⁾ In 2017, the Company invested a portion of its Canadian defined benefit plan assets in annuity contracts (totaling \$192 million) in order to partly mitigate the Company's exposure to investment and longevity risk. This change in investments resulted in an actuarial loss on plan assets of approximately \$8 million that was recognized in the statement of other comprehensive income.

Other financial information about the Company's defined benefit pension plans in Canada and UK and other post-employment benefit plans in South America is as follows:

For years ended December 31 (\$ millions)	2018				2017			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Accrued benefit obligation								
Balance, beginning of year	\$ 531	\$ 701	\$ 57	\$ 1,289	\$ 514	\$ 700	\$ 50	\$ 1,264
Current service cost	7	—	8	15	7	—	11	18
Past service cost	—	3	—	3	—	(10)	—	(10)
Interest cost	18	18	1	37	18	18	1	37
Benefits paid	(26)	(46)	(9)	(81)	(29)	(41)	(4)	(74)
Remeasurements:								
- Actuarial (gain) loss from change in demographic assumptions	—	(29)	(9)	(38)	3	—	2	5
- Actuarial (gain) loss from change in financial assumptions	(19)	(50)	1	(68)	20	14	(2)	32
Experience loss (gain)	5	(7)	—	(2)	(2)	3	(2)	(1)
Foreign exchange rate changes	—	18	(1)	17	—	17	1	18
Balance, end of year	\$ 516	\$ 608	\$ 48	\$ 1,172	\$ 531	\$ 701	\$ 57	\$ 1,289
Plan assets								
Balance, beginning of year	\$ 510	\$ 722	\$ —	\$ 1,232	\$ 494	\$ 686	\$ —	\$ 1,180
Return on plan assets:								
- Return on plan assets included in net interest cost	18	18	—	36	18	18	—	36
- Actuarial (loss) gain on plan assets	(19)	(23)	—	(42)	16	38	—	54
Employer contributions	9	6	9	24	11	5	4	20
Employee contributions	1	—	—	1	1	—	—	1
Benefits paid	(26)	(46)	(9)	(81)	(29)	(41)	(4)	(74)
Administration costs	(1)	(1)	—	(2)	(1)	(2)	—	(3)
Foreign exchange rate changes	—	19	—	19	—	18	—	18
Balance, end of year	\$ 492	\$ 695	\$ —	\$ 1,187	\$ 510	\$ 722	\$ —	\$ 1,232
Net post-employment obligation (asset)	\$ 24	\$ (87)	\$ 48	\$ (15)	\$ 21	\$ (21)	\$ 57	\$ 57

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

For years ended December 31 (\$ millions)	2018				2017			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Accrued benefit obligation	\$ 512	\$ —	\$ 48	\$ 560	\$ 62	\$ —	\$ 57	\$ 119
Fair value of plan assets	485	—	—	485	37	—	—	37
Funded status - plan deficit	\$ 27	\$ —	\$ 48	\$ 75	\$ 25	\$ —	\$ 57	\$ 82

Key Assumptions and Related Sensitivities

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans in Canada and UK and other post-employment benefit plans in South America include:

For years ended December 31	2018			2017		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	3.7%	2.9%	1.5%	3.4%	2.5%	1.8%
Discount rate – expense ⁽¹⁾	3.4%	2.5%	1.8%	3.7%	2.7%	1.3%
Retail price inflation – obligation	n/m ⁽²⁾	3.3%	n/a ⁽²⁾	n/m ⁽²⁾	3.3%	n/a ⁽²⁾
Retail price inflation – expense ⁽¹⁾	n/m ⁽²⁾	3.3%	n/a ⁽²⁾	n/m ⁽²⁾	3.4%	n/a ⁽²⁾
Average staff turnover – obligation	n/m ⁽²⁾	n/m ⁽²⁾	13.6%	n/m ⁽²⁾	n/m ⁽²⁾	10.4%
Rate of compensation increase – obligation	n/m ⁽²⁾	n/a ⁽²⁾	3.0%	n/m ⁽²⁾	n/a ⁽²⁾	3.0%

⁽¹⁾ Used to determine the net interest cost and expense for the years ended December 31, 2018 and December 31, 2017.

⁽²⁾ n/m – not a material assumption used in the valuation.

n/a – not applicable.

Assumptions regarding future mortality are required for the defined benefit pension plans, and are set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions translate into an average life expectancy (in years) as follows:

	Canada	UK	South America
Life expectancy for male currently aged 65	22	22	n/a ⁽¹⁾
Life expectancy for female currently aged 65	24	24	n/a ⁽¹⁾
Life expectancy at 65 for male currently aged 45	23	23	n/a ⁽¹⁾
Life expectancy at 65 for female currently aged 45	25	25	n/a ⁽¹⁾

⁽¹⁾ n/a – not applicable.

The post-employment benefit obligations and expense are sensitive to changes in the significant actuarial assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 13 years, the U.K. is 20 years, and South America is 4 years. A 0.25% increase in the significant actuarial assumptions would impact the accrued benefit obligations by the amounts shown below.

(\$ millions)	Change in assumption	Increase (decrease) in accrued benefit obligation		
		Canada	UK	South America
Discount rate	+0.25%	\$ (17)	\$ (28)	\$ (1)
Retail price inflation	+0.25%	n/m ⁽¹⁾	\$ 20	\$ n/a ⁽¹⁾
Average staff turnover	+0.25%	n/m ⁽¹⁾	n/m ⁽¹⁾	\$ (1)
Rate of compensation increase	+0.25%	n/m ⁽¹⁾	n/a ⁽¹⁾	\$ 1

⁽¹⁾ n/m – not a material assumption used in the valuation.

n/a – not applicable.

A 0.25% decrease in the discount rate, retail price inflation, rate of compensation increase, and average staff turnover would have an approximately equivalent but opposite effect on the above accounts in the amounts shown.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. When calculating the sensitivity of the accrued benefit obligation to significant actuarial assumptions, the same method (i.e. present value of the accrued benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the accrued benefit obligation recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Funding and Valuations of Defined Benefit Plans

In Canada, the Company is funding its obligations in accordance with pension legislation. In the U.K., at the last formal valuation, a schedule was set out for contributions to be made until mid-2021. Based on the most recent formal valuations completed, the Company expects to contribute approximately \$20 million to the defined benefit pension plans during the year ended December 31, 2019. Funding levels are monitored regularly and reset with new valuations that occur at least every three years. Defined benefit pension plans are country and entity specific. The valuation dates of the Company's material post-employment benefit plans are as follows:

Post-Employment Benefit Obligations	Last Actuarial Valuation Date	Next Required Actuarial Valuation Date
Canada – Regular & Executive DB Plan	December 31, 2017	December 31, 2020
Canada – Executive Supplemental Income Plan	December 31, 2017	December 31, 2020
Finning UK Defined Benefit Scheme	December 31, 2017 ⁽¹⁾	December 31, 2020
Finning South America Pension Arrangements	December 31, 2018	December 31, 2021

⁽¹⁾ The December 31, 2017 actuarial valuation is in progress as at February 20, 2019.

Plan Assets

The fair values of plan assets are determined using a combination of quoted prices and market observable inputs except for investments in real estate and annuity contracts. The fair values of real estate investment funds is based on the net asset value reported by the funds in their audited financial statements and are determined using inputs that are not based on observable market data (unobservable inputs). Investments in annuity contracts by the plan will have cashflows that exactly match the amount and timing of certain benefits payable under the plans. The value of these contracts is deemed to be the present value of the related obligations. Plan assets are principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global ⁽¹⁾	UK	Global ⁽¹⁾
Fixed-income ⁽²⁾	81%	—	56%	9%
Equity ⁽³⁾	5%	10%	1%	17%
Real estate investment funds	—	—	5%	—
Cash and cash equivalents	4%	—	12%	—

⁽¹⁾ Global investments exclude investments in Canadian and UK securities in Canada and UK, respectively.

⁽²⁾ Fixed-income includes investments in annuity contracts in Canada.

⁽³⁾ Half of the UK scheme's equity investments are hedged to the GBP to manage foreign currency risk.

Plan assets do not include any direct investment in common shares of the Company at December 31, 2018 and 2017.

Effective January 1, 2019, the Company will convert the buy-in annuity investments to buy-out annuities. This conversion will settle a portion of the Company's liability and reduce both the plan assets and the accrued benefit obligation in the Canadian registered defined benefit plan by approximately \$280 million.

Key Risks

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

Investment Risk (i.e. asset volatility)

The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and U.K. plans invest in various asset categories including primarily equities, fixed income, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the shorter-term.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and U.K. defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Recent progress included investments in annuity contracts in Canada and liability matching funds in the U.K.

Equity investments still remain in the plans, as the Company believes that equities offer higher returns over the long term with an acceptable level of risk considering the proportion of assets held in this category and the long-term nature of the liabilities. Investments remain well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Discount Rate Risk (i.e. changes in bond yields)

A decrease in corporate bond yields will increase the value placed on the plan liabilities. This risk is managed by selecting certain investments that aim to better match assets and liabilities. For example, a liability increase that results from a decrease in corporate bond yields will be partially offset by an increase in the value of the plans' bond holdings.

Inflation Risk

The majority of the pension obligations in the U.K. are linked to inflation. Higher inflation will lead to higher liabilities although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation. While some of the plan's assets are either unaffected by (i.e. fixed interest bonds) or loosely correlated with (i.e. equities) inflation, in recent years, the plan has increased its investments in assets that have a direct correlation with inflation (e.g. index-linked gilts and liability matching funds) in order to manage this risk. To further manage the risk, during 2017, the Company offered pensioners a voluntary 'Pension Increase Exchange' whereby pensioners had a choice to trade certain automatic future inflationary adjustments for a higher immediate pension that will not increase with inflation, or will but to a lesser degree in some cases. This option provided members with additional flexibility in how they receive their pension, and also lowered the Company's exposure to inflation risk.

In the Canadian plans, the pension payments are not linked to inflation, so this is not a direct risk. However, to the extent that future benefits are based on final average earnings and salaries are generally linked to inflation to some degree, an increase in inflation beyond expectations will result in higher liabilities. With a relatively small number of employees still earning benefits in a defined benefit plan, this risk is limited.

Longevity Risk (i.e. increasing life expectancy)

The plans provide benefits for the life of the member after retirement, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the U.K. plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Company has mitigated much of this risk in the Canadian registered pension plan with the purchase of annuity contracts which provide cashflows that exactly match the amount and timing of the majority of the retiree benefit payments currently under the plans.

Maturity Analysis

Expected maturity analysis of undiscounted pension and other post-employment benefit obligations of the Company's operations in Canada, U.K. and Ireland, and South America are as follows:

December 31, 2018 (\$ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Defined benefit pension plans	\$ 26	\$ 29	\$ 96	\$ 1,485	\$ 1,636
Other post-employment benefits	6	4	12	54	76
Total	\$ 32	\$ 33	\$ 108	\$ 1,539	\$ 1,712

Accumulated Remeasurement Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, U.K. and Ireland, and South America recognized in retained earnings is \$158 million as at December 31, 2018 (December 31, 2017: \$213 million).

24. SUPPLEMENTAL CASH FLOW INFORMATION

Accounting Policy

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are classified and measured as amortized cost.

The components of cash and cash equivalents are as follows:

December 31 (\$ millions)	2018	2017
Cash	\$ 274	\$ 279
Cash equivalents	180	179
Cash and cash equivalents	\$ 454	\$ 458

The changes in operating assets and liabilities are as follows:

For years ended December 31 (\$ millions)	2018	2017 (Restated Note 2)
Accounts receivable	\$ (39)	\$ (144)
Unbilled work in progress	14	14
Inventories	(291)	(154)
Other assets	3	(43)
Accounts payable and accruals	46	234
Other liabilities	164	26
Changes in operating assets and liabilities	\$ (103)	\$ (67)

The changes in liabilities arising from financing and operating activities are as follows:

(\$ millions)	Short-term debt	Long-term debt	Finance lease liability	Total
Balance, January 1, 2018	\$ 18	\$ 1,296	\$ 34	\$ 1,348
Cash flows provided by (used in)				
Financing activities	136	—	(4)	132
Operating activities	—	—	(2)	(2)
Total cash movements	\$ 136	\$ —	\$ (6)	\$ 130
Non-cash changes				
Interest expense	—	—	2	2
Disposals	—	—	(1)	(1)
Foreign exchange rate changes	—	58	1	59
Total non-cash movements	\$ —	\$ 58	\$ 2	\$ 60
Balance, December 31, 2018	\$ 154	\$ 1,354	\$ 30	\$ 1,538

(\$ millions)	Short-term debt	Long-term debt	Finance lease liability	Total
Balance, January 1, 2017	\$ 2	\$ 1,487	\$ 39	\$ 1,528
Cash flows provided by (used in)				
Financing activities	17	(150)	(6)	(139)
Operating activities	—	—	(2)	(2)
Total cash movements	\$ 17	\$ (150)	\$ (8)	\$ (141)
Non-cash changes				
Interest expense	—	—	2	2
Foreign exchange rate changes	(1)	(41)	1	(41)
Total non-cash movements	\$ (1)	\$ (41)	\$ 3	\$ (39)
Balance, December 31, 2017	\$ 18	\$ 1,296	\$ 34	\$ 1,348

Dividends of \$0.79 (2017: \$0.745) per share were paid during the year. In February 2019, the Board of Directors approved a quarterly dividend of \$0.20 per share payable on March 22, 2019 to shareholders of record on March 8, 2019. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2018, the Company has not recognized a liability for this dividend.

25. ECONOMIC RELATIONSHIPS

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

26. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors during the year was as follows:

For years ended December 31			
(\$ millions)	2018		2017
Short-term benefits	\$	1	\$ 1
Share-based payments		(1)	6
Total	\$	—	\$ 7

The remuneration of key management personnel excluding the Board of Directors (defined as officers of the Company and country presidents) during the year was as follows:

For years ended December 31			
(\$ millions)	2018		2017
Salaries and benefits	\$	10	\$ 9
Post-employment benefits		1	1
Share-based payments		2	9
Total	\$	13	\$ 19

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are \$1.1 billion (2017: \$1.2 billion). This amount includes staff costs associated with key management personnel noted above.

27. LEASES

Accounting Policy

Leases are classified as either finance or operating leases. Leases where substantially all of the benefits and risks of ownership of property rest with the lessee are accounted for as finance leases; all other leases are classified as operating leases.

The Company as Lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Contingent rental payments are recognized as expenses in the periods in which they are triggered.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

For years ended December 31 (\$ millions)	Finance Leases	Operating Leases ⁽¹⁾
2019	\$ 7	\$ 74
2020	8	65
2021	7	58
2022	6	41
2023	3	20
Thereafter	10	34
	\$ 41	\$ 292
Less imputed interest	(11)	
Total finance lease obligation	30	
Less current portion of finance lease obligation	(5)	
Non-current portion of finance lease obligation	\$ 25	

⁽¹⁾ Included in accrued liabilities is \$2 million and \$8 million in non-current other liabilities related to facility closure costs and future minimum lease payments due under certain operating leases that were considered to be onerous at December 31, 2018 (2017: \$17 million).

Minimum lease payments recognized as lease expense for the year ended December 31, 2018 is \$83 million (2017: \$73 million).

28. COMMITMENTS AND CONTINGENCIES

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

The Company has received a number of claims from the Argentina Customs Authority associated with export of agricultural product. The Company is appealing these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and negatively impact the Company's financial position.

29. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2018, the total estimated value of these contracts outstanding is \$130 million (2017: \$119 million) coming due at periods ranging from 2019 to 2025. The Company's experience to date has been that the equipment fair value at the exercise date of the contract is generally worth more than the repurchase amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2018 and 2017 is \$1 million.

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2018, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is \$9 million, covering various periods up to 2022. As at December 31, 2018 and 2017, the Company has not recognized a liability for these guarantees.

The Company has also issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. As at December 31, 2018, the maximum potential amount of future payments that the Company could be required to make under the guarantees is \$17 million, covering various periods up to 2024. As at December 31, 2018, the Company has recognized a liability of \$4 million for these guarantees (2017: \$6 million).

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately \$1 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2018 or 2017.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2018 was \$291 million (2017: \$191 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.

30. SUBSEQUENT EVENT

On February 1, 2019, the Company completed the acquisition of 4Refuel Canada and 4Refuel US (4Refuel), through the acquisition of all of the outstanding shares of their ultimate parent, Owl Holdco RF Limited. 4Refuel is a mobile on-site refueling company in Canada and in Texas. Acquiring 4Refuel provides opportunities for the Company to sell equipment, product support, and rent to a potentially new customer base. Furthermore, 4Refuel will have the opportunity to sell more fuel services to the Company's customers and improve customer service. The Company funded the transaction, valued at approximately \$260 million, with cash on hand and from existing credit facilities.



FINNING®

Finning International Inc.
Suite 300 – 565 Great Northern Way
Vancouver, British Columbia V5T 0H8

finning.com