Annual Report 1979

Finning Tractor & Equipment Company Limited

Finning Tractor & Equipment Company Limited

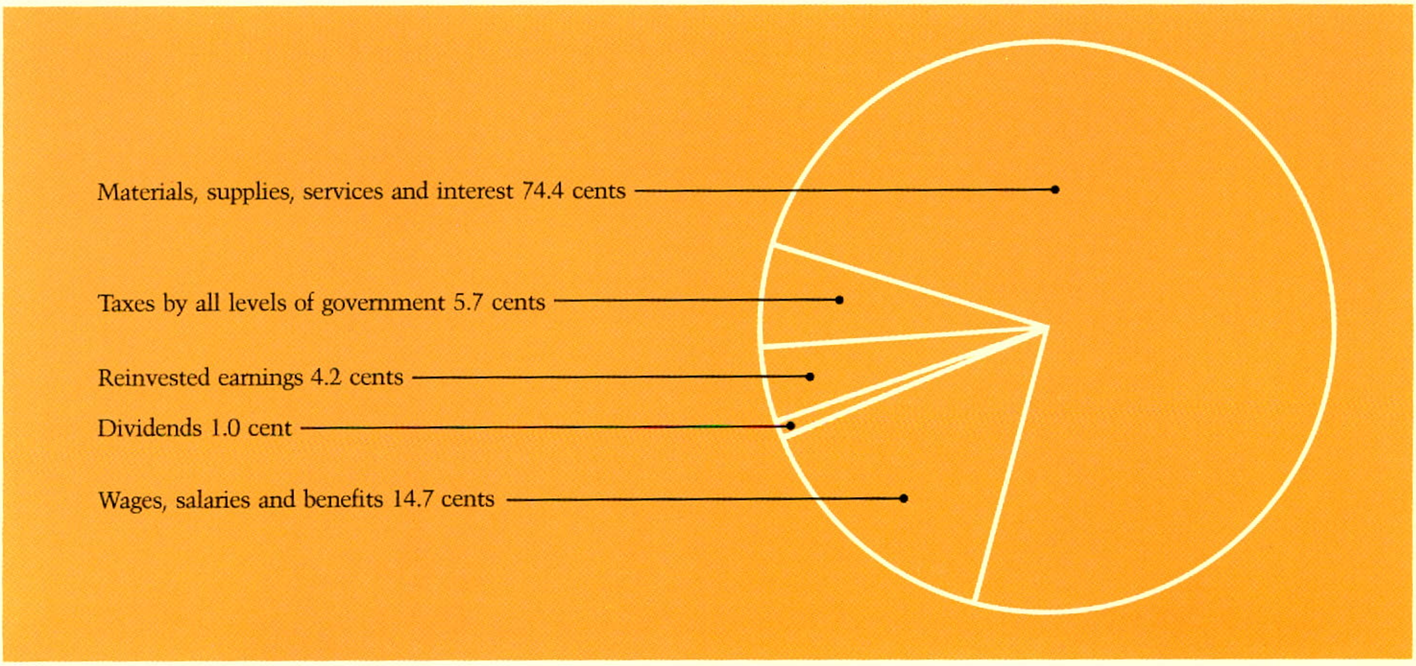
FRONT COVER
New SY235 Running Skyline Yarder enables loggers to meet latest ecological standards and harvest otherwise inaccessible timber.

High volume lumber shipments created strong sales for re-designed Caterpillar 16,000 to 30,000-pound lift trucks manufactured in Dallas, Oregon.

Results in Brief

(dollars in thousands)	**1979**	1978
Revenue	**$375,417**	$287,933
Income before income taxes	**28,322**	24,012
Net income	**19,459**	14,769
Capital expenditures	**15,182**	11,319
Net income per share	**$ 4.90**	$ 3.72
Income before income taxes as a percentage of revenue	**7.5%**	8.3%
Net income as a percentage of revenue	**5.2%**	5.1%
Number of employees at year end	**2,066**	1,791

Distribution of the Revenue Dollar



To the Shareholders

Revenue for the year 1979 was $375,417,004 compared with $287,933,418 in 1978, an increase of 30.4 per cent. Net income increased to $19,459,468 from $14,768,675, an increase of 31.8 per cent. This amounted to $4.90 per share as compared to $3.72 per share in 1978.

These results are good when we consider a number of factors which went against us; particularly, the highest level of interest rates on our borrowings we have ever experienced and a prolonged strike in the last quarter at Caterpillar's operations in the United States.

In anticipation of labor difficulties at Caterpillar, we built up extremely large inventories of parts and equipment late last summer. This was a very fortunate move in that we were able to weather most of the impact of the interrupted deliveries from Caterpillar. These inventories, although very expensive to carry, did have the effect through fall and early winter of maintaining good service to our customers.

Caterpillar reached an agreement with its Union in December. While the strike will have some impact on product deliveries, it will not be as serious as earlier anticipated.

You will note that income before income taxes declined from 8.3% in 1978 to 7.5%. This is a disturbing trend brought about by the record interest costs which are only partially offset by interest income arising from our customer financing activities. We are alert to the problem and, although no simple solutions are obvious, special effort is being made to better manage our receivables and inventories.

Our effective tax rate declined, due largely to a substantial amount of investment tax credit generated by the increase in our leases and rentals. The lease portfolio grew from $52 million in 1978 to $79 million in 1979.

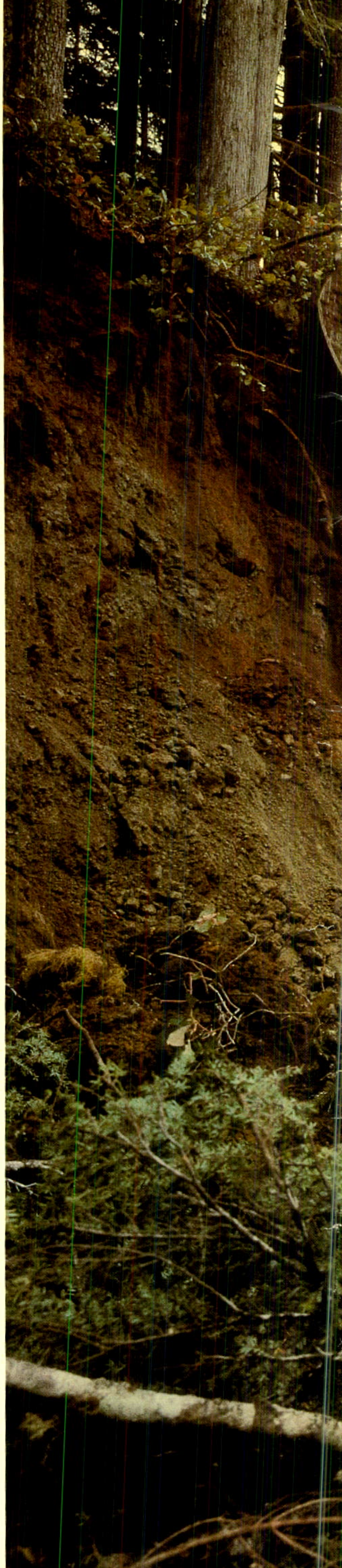
Capital expenditures continued at a very high rate, totalling $15.2 million for the year. Although there is still much to be done, we have reached the point where we can be more selective in timing our future outlays to better coordinate our building plans. We have a greater degree of flexibility in assessing our priorities.

With very few exceptions, facilities at our 34 locations are the very finest in quality and the most efficient premises we know how to build.

Our labor negotiations with the International Association of Machinists and Aerospace Workers were very lengthy. Our contract expired on October 14 and we did not reach an agreement until February 12. The two-year contract now in force should take us to the 30th anniversary of certification without a strike; an enviable record, particularly during these difficult times of high inflation and real personal concern for the future. Your management works hard to maintain harmonious relations with all employees and the effort is recognized and reciprocated.

Our principal suppliers, particularly Caterpillar, continue to improve the quality of their products. The growth within their product lines allows us to reach our growth objectives and adaptations of the basic machines give us the opportunity to expand into new markets. Examples of these adaptations are included in the text of this Report.

In May, Airpro expanded into the United States market by acquiring the operations of Philpott-Close in



New Series 81 Finning 235 Roadbuilder is latest model of machine which initiated new technique for building logging road in difficult terrain.

the State of Washington. The branches in both Seattle and Spokane are doing well, up to expectations. It is still too early to make a definitive statement on profitability, but we are very pleased with this acquisition and with the quality of the employees we have taken on staff.

Even with a slight decline in demand for our equipment in the Interior forestry industry, 1980 looks as though it will be a good year, with mining and heavy construction taking up any slack in the overall market. Any decrease in current interest rates would have a beneficial effect on our results. The strength and stability of the Canadian dollar to the United States dollar is no longer a major concern.

With year-end order backlogs at record levels and the expectations of relatively free supply from our manufacturers, we remain optimistic in our outlook for 1980.

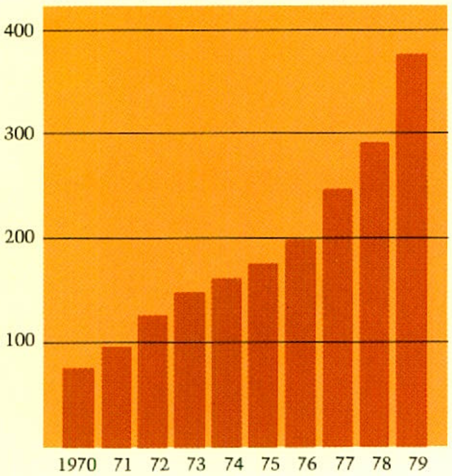
W. M. YOUNG
Chairman of the Board and
Chief Executive Officer

J. D. FRAZEE
President and
Chief Operating Officer

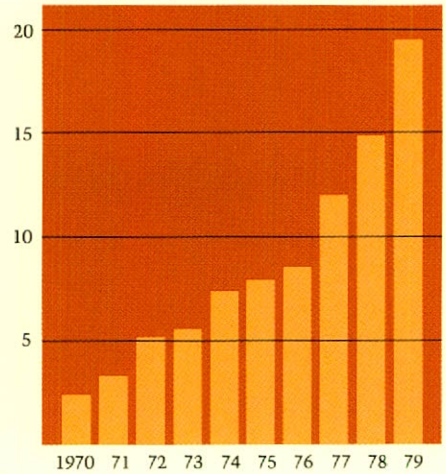
A big fleet of Caterpillar equipment, including a D10, largest track-type tractor made, continued work on B.C. Hydro's Revelstoke Dam project.

Highlights of Operations

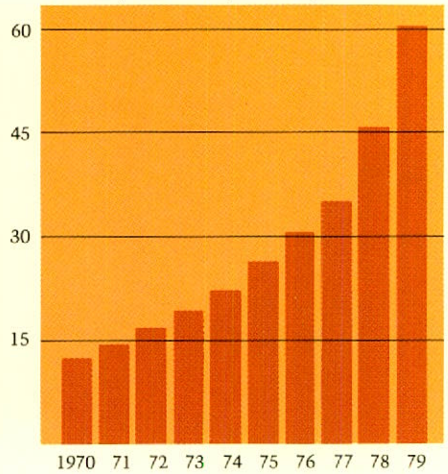
Revenue *(millions of dollars)*



Net Income *(millions of dollars)*



Investment in Fixed Assets — at cost *(millions of dollars)*



	Revenue	Income Before Income Taxes	Net Income	Capital Expenditures	Net Income Per Share	Income Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1970	$ 74,092,000	$ 4,867,000	$ 2,384,000	$ 1,630,000	$ .61	6.6%	3.2%	1,011
1971	91,707,000	6,422,000	3,286,000	1,786,000	.84	7.0%	3.6%	1,180
1972	126,622,000	9,732,000	5,084,000	2,552,000	1.31	7.7%	4.0%	1,373
1973	148,157,000	11,241,000	5,475,000	3,533,000	1.40	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1.85	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	2.00	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	2.17	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	3.02	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	3.72	8.3%	5.1%	1,791
1979	375,417,000	28,322,000	19,459,000	15,182,000	4.90	7.5%	5.2%	2,066

Financial Statements

M32 Tank Drill is one of more than 200 models, pneumatic and hydraulic, now in the field. Tank Drills are manufactured by the Air Products Division.

Consolidated Balance Sheets

as at December 31, 1979 and 1978

Assets

CURRENT ASSETS:	**1979**	1978
Accounts and notes receivable (Note 6) —		
Accounts receivable (Note 2)	**$ 55,584,343**	$ 42,616,803
Instalment notes, at principal balances, including $25,503,759 due after one year ($22,775,504 in 1978)	**54,089,792**	49,315,241
Inventories (Notes 3 and 6) —		
Equipment	**95,114,682**	69,075,396
Parts and supplies	**36,153,273**	33,655,018
Total current assets	**$240,942,090**	$194,662,458
EQUIPMENT LEASED TO CUSTOMERS (Notes 4 and 6)	**$ 78,887,287**	$ 51,827,491
FIXED ASSETS, at cost (Notes 5 and 8):		
Land	**$ 8,028,152**	$ 4,668,872
Buildings and equipment	**$ 52,107,688**	$ 40,894,616
Less accumulated depreciation	**19,681,990**	16,149,715
	$ 32,425,698	$ 24,744,901
Total fixed assets, net	**$ 40,453,850**	$ 29,413,773
	$360,283,227	$275,903,722

Approved by the Directors:

J.D. FRAZEE, *Director*

V.K. SOOD, *Director*

Liabilities

CURRENT LIABILITIES:	1979	1978
Bank indebtedness (Note 6)	**$179,458,055**	$108,166,431
Accounts payable and accruals (Note 7)	**30,391,020**	35,212,147
Income taxes payable (Note 9) —		
Current	**299,764**	1,440,982
Deferred	**12,113,882**	10,212,329
Total current liabilities	**$222,262,721**	$155,031,889
LONG-TERM DEBT (Note 8)	**$ 29,400,000**	$ 30,000,000
DEFERRED INCOME TAXES (Note 9)	**$ 17,357,545**	$ 15,494,080
SHAREHOLDERS' EQUITY (Note 10):		
Share capital (Notes 11 and 12)	**$ 9,096,562**	$ 9,096,562
Earnings retained for reinvestment in the business —		
Balance, beginning of year	**$ 66,281,191**	$ 53,498,216
Net income	**19,459,468**	14,768,675
Dividends paid	**(3,574,260)**	(1,985,700)
Balance, end of year	**$ 82,166,399**	$ 66,281,191
Total shareholders' equity	**$ 91,262,961**	$ 75,377,753
	$360,283,227	$275,903,722

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

Consolidated Statements of Income

for the years ended December 31, 1979 and 1978

	1979	1978
REVENUE	**$375,417,004**	$287,933,418
EXPENSES (Notes 13 and 14):		
Cost of sales and selling expenses	**$307,236,286**	$236,432,076
General and administrative	**18,519,632**	16,683,343
Interest — current	**18,450,984**	9,830,908
— long-term	**2,887,830**	975,000
	$347,094,732	$263,921,327
INCOME BEFORE INCOME TAXES	**$ 28,322,272**	$ 24,012,091
PROVISION FOR INCOME TAXES (Note 9)	**8,862,804**	9,243,416
NET INCOME	**$ 19,459,468**	$ 14,768,675
NET INCOME PER SHARE (Note 15)	**$ 4.90**	$ 3.72

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

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1979 and 1978

	1979	1978
WORKING CAPITAL PROVIDED BY:		
Operations —		
Net income	**$ 19,459,468**	$ 14,768,675
Add charges not requiring the outlay of working capital —		
Depreciation —		
Equipment leased to customers	**16,941,680**	10,227,584
Fixed assets	**3,860,043**	2,870,919
Deferred income taxes	**1,863,465**	3,659,157
Total working capital from operations	**$ 42,124,656**	$ 31,526,335
Sales of fixed assets	**282,099**	515,470
Long-term debt	**—**	30,000,000
	$ 42,406,755	$ 62,041,805
WORKING CAPITAL APPLIED TO:		
Additions —		
Equipment leased to customers, net of disposals	**$ 44,001,476**	$ 21,274,759
Fixed assets	**15,182,219**	11,318,534
Payment of long-term debt	**600,000**	153,094
Dividends paid	**3,574,260**	1,985,700
	$ 63,357,955	$ 34,732,087
Increase (decrease) in working capital	**$ (20,951,200)**	$ 27,309,718
WORKING CAPITAL, BEGINNING OF YEAR	**39,630,569**	12,320,851
WORKING CAPITAL, END OF YEAR	**$ 18,679,369**	$ 39,630,569

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

December 31, 1979

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of all subsidiary companies and of the partnership, Finning Tractor Co.

The subsidiary companies, which are wholly-owned, are:

Airpro Equipment, Inc.
Airpro Equipment Ltd., also operating as Finning Air Products Division
Finning Computer Services Ltd.
Finning Finance Limited
Finning Tractor (1959) Ltd.

The accounts of Airpro Equipment, Inc., which commenced operations on May 31, 1979, have been translated into Canadian dollars using the exchange rate prevailing at the balance sheet date.

Finning Tractor Co. is a partnership between Finning Tractor & Equipment Company Limited and Finning Tractor (1959) Ltd.

2. ACCOUNTS RECEIVABLE

The Company has invested $2,500,000 in a Dome Petroleum Limited off-shore drilling program in the Beaufort Sea. This is a "carried interest" arrangement whereby the Company does not have to provide further funds to bring about the completion of the drilling program, regardless of circumstances.

After application of federal income tax recoveries, this investment is recorded at a net cost of $460,000 and is included in accounts receivable.

3. INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

4. EQUIPMENT LEASED TO CUSTOMERS

	1979	1978
Cost	**$106,368,896**	$ 70,715,813
Less accumulated depreciation	**27,481,609**	18,888,322
	$ 78,887,287	$ 51,827,491

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

Under the terms of the lease agreements in effect at December 31, 1979, $13,438,077 of the above costs will be recovered in 1980 ($12,231,670 in 1979).

5. FIXED ASSETS

Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

6. BANK INDEBTEDNESS

	1979	1978
Demand bank notes	**$ 8,112,735**	$ 2,834,309
Bankers' acceptances payable at various dates within 22 days after December 31, 1979 (within 30 days after December 31, 1978)	**171,345,320**	105,332,122
	$179,458,055	$108,166,431

Demand bank notes and bankers' acceptances are secured by a general assignment of accounts and notes receivable, by an assignment of insurance on inventories and by a first floating charge on current assets and equipment leased to customers. The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 10.

7. CURRENCY TRANSLATION

The accounts payable and accruals include $2,933,692 ($6,556,836 in 1978) payable in U.S. funds which has been translated into Canadian dollars using the exchange rate prevailing at the balance sheet date.

8. LONG-TERM DEBT

The long-term debt consists of 9¾% Secured Debentures, 1978 Series, to mature September 1, 1985. They are secured by a Trust Deed which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other fixed assets. The Company is required to use reasonable efforts to purchase in the market at least $300,000 principal amount of Debentures in each six-month period ending the last day of February and August in the years 1979 to 1985 inclusive at prices not exceeding the principal amount and in accordance with the terms of the Trust Deed. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

9. INCOME TAXES

The provision for income taxes is calculated on the basis of current effective tax rates. The provision represents 31.3% (38.5% in 1978) of pre-tax income of $28,322,272 ($24,012,091 in 1978) and is net of the federal investment tax credit and the impact of the 3% federal inventory allowance.

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from the Company's accounting policies.

The deferred income taxes shown as a current liability relate to the following current assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum allowances are claimed.

(b) Instalment notes, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current deferred income taxes relate to equipment leased to customers on which depreciation for accounting purposes is recorded as explained in Note 4. For income tax purposes, maximum allowances are claimed.

10. RESTRICTIONS ON THE DISTRIBUTION OF SHAREHOLDERS' EQUITY

The Trust Deed securing the 9¾% Secured Debentures, 1978 Series, and an agreement with the Company's bank contain restrictions on the declaration and payment of dividends and the reduction of share capital. Under the most restrictive provision, the amount available for these purposes was $15,885,208 at December 31, 1979 ($12,782,975 at December 31, 1978).

11. SHARE CAPITAL

The Company is authorized to issue 10,000,000 Common Shares without par value, of which 3,971,400 were outstanding at December 31, 1979. There were no changes in the outstanding share capital during 1979 and 1978.

12. STOCK OPTIONS

Under an employee stock option plan established in 1969, 111,000 Common Shares remain reserved. Options on these shares may be granted at prices not less than 90% of the higher of the last reported sale prices of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

13. PENSION PLAN

The Company retains an independent consultant who prepares actuarial reports every two years, the most recent of which was prepared as at December 31, 1977. The consultant has estimated that the funds in the plan were more than adequate to meet the liabilities which existed at December 31, 1977.

Based on actuarial calculations which include a projection of future remuneration, the estimated unfunded past service cost was $1,056,000 at December 31, 1977. Commencing in 1978, this cost is being funded in equal annual instalments over a period of eight years and is being charged to expense in equal annual instalments according to their nature over periods of two and 14 years.

Pension expense, including contributions to statutory plans, was $1,416,913 in 1979 ($1,253,000 in 1978).

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was $1,000,983 in 1979 ($849,095 in 1978).

15. NET INCOME PER SHARE

Net income per share has been calculated on the 3,971,400 Common Shares outstanding during 1979 and 1978.

To the Shareholders, Finning Tractor & Equipment Company Limited

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1979 and 1978, and the related consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as of December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

February 8, 1980
Vancouver, Canada

Capital expenditures were at an all-time high of $15.2 million. In the last five years, $40.8 million has been spent on land, buildings and equipment.

QUESNEL

SASKATOON

SPOKANE

FORT ST. JOHN

MACKENZIE

Development of new mines and expansion of current producers led to large volume earthmoving operations.

Record Sales in Buoyant Markets

Continued high levels of activity in the forest industry and in oil and gas exploration, an upsurge in construction, and the return to good times for the mining industry resulted in record sales for the Company in 1979.

The year was not without its problems, such as aggressive competition, shortages of some popular machines and a three-months' strike at Caterpillar's U.S. manufacturing plants, but increased sales coverage, a strong merchandising effort and a build-up of inventories in anticipation of labor problems enabled the Company to exceed objectives.

The forest industry enjoyed its third year of record results. Lumber and plywood markets weakened in the last half, reflecting higher mortgage interest rates and a downturn in housing starts, but demand and prices for pulp and newsprint were excellent in both domestic and export sectors. Continuation of the favorable Canadian-United States dollar exchange rate was a significant factor as it was with other export-oriented industries.

CONSTRUCTION SALES CLIMB

The heavy construction market showed a strong increase over 1978, keyed by activity at B.C. Hydro's Revelstoke Dam and the associated highway relocation. Relatively few new grading contracts were called by the provincial highways department but work continued on projects awarded in the previous season — the Coquihalla Pass route, Vancouver Island Highway, the Alaska Highway and the Shakwak, which will link Haines Junction and Alaska through B.C. and the Yukon. Upgrading and double tracking of railway lines in the province were also carried on.

Sales to the mining industry were the best of the last four years. Machines were sold not only for replacement but also for increased production and new development as world prices and demand moved upward. Value of mineral production in B.C. rose 44% to $2.87 billion with copper the value leader. Coal shipments increased 37 per cent while all other metals and minerals, with the exception of zinc, recorded similar gains.

NEW MINES DEVELOPED

A number of mines prepared for production, including large copper, silver and molybdenum properties as well as several small gold producers.

Some new construction along with maintenance of existing lines resulted in an upturn of sales of pipeline equipment. The 20-mile loop through the Coquihalla Pass near Hope required a large number of machines due to extremely rough terrain and 19 river crossings. The start-up of 83 miles of Westcoast Transmission line from Fort Nelson late in the year as well as an increase in smaller lateral line construction throughout the province were other noteworthy activities. Equipment was needed to replace a section of the Pacific Northern Gas Line damaged during flooding of the Skeena River and to service the Grizzly Valley system in the Peace River country.

In individual operating areas, northernmost branches were particularly strong. Whitehorse showed a dramatic increase in volume. Placer mining operations, which today are on the scale of large earthmoving projects, expanded to take advantage of the skyrocketing price of gold. Established lead, zinc and tungsten producers also enjoyed higher metal prices and increased demand.

Dawson Creek and the newly-opened Fort St. John facility worked at capacity to satisfy demands of exploration and development in the "oil patch".

In the centre of the province, Prince George, largest operation outside of Vancouver, experienced a slow year as weather hampered woods operations in the Spring and a decline in U.S. housing starts affected lumber shipments later on.

EXPANSION INTO U.S.

On May 31, 1979, Philpott-Close operations in Washington State were acquired, with sales, parts and service centres in Spokane and Seattle. Late in the year, operations were extended to include Southeast Alaska. This subsidiary operates under the name of Airpro Equipment, Inc. and carries product lines similar to our other air equipment operations.

Two new products, both based on the highly successful Caterpillar hydraulic excavator, were developed and introduced by the Company.

One, marketed under the name of Motrex for "Mobile Track-Mounted Excavator", is a Caterpillar 225 excavator mounted on a rail car chassis. Self-propelled and capable of speeds up to 28 kilometres per hour, the Motrex is ideal for railroad right-of-way maintenance operating either from the rails or, easily dismounted, from anywhere alongside the track. The unique machine has attracted much attention from railroad companies in North America.

The other introduction is a Running Skyline Yarder, featured on the front cover of this Report. The Company and Caterpillar participated in the development of this machine with Lantec Industries Ltd., of Langley, B.C. It is designed for harvesting smaller Interior trees, Coastal second growth and commercial thinning. It differs from traditional yarders, being hydrostatically operated, with inherent advantages in production, performance and training of operators. It is available in two models and is timely in that it enables Interior loggers to meet new ecological standards set by the forest service.

A new JCB product, the 805B hydraulic excavator, was announced at year end and will be marketed in 1980. This machine is smaller than Caterpillar excavators and fills a need in installation of utility services and subdivision work.

Caterpillar continued to improve products throughout the year, notably the smallest tractor, wheel loader and track loader; several series of lift trucks; and a series of direct injection, turbocharged aftercooled diesel engines offering fuel savings.

RENTALS KEY GROWTH

Both domestic and international sales of used equipment remained at a high level. While unit volume increased only slightly over 1978, profits were maintained, even in the face of higher interest rates. Overall, revenues were up significantly with marked growth in rentals, reflecting growing customer acceptance of this type of used equipment financing.

Despite the prolonged strike at Caterpillar, the parts department maintained good customer service through higher than normal inventory levels. Parts sales were up substantially in real terms.

Service departments operated at capacity throughout the year, facing a shortage of trained mechanics at sev-

Caterpillar D4E tractor, with special inside-mounted bulldozer, is ideal size for steep slope logging in the Interior.

This mobile "training school" was outfitted to travel the province and provide specialized training on servicing of Caterpillar truck engines.

eral locations. Field service showed dramatic growth as customers working at full production called for more on-site repairs of equipment rather than in-shop work. An analysis of service operations to determine weak areas of productivity, coupled with a Caterpillar training program on re-use of components, resulted in greater efficiencies on the shop floor.

BEST YEAR EVER

In British Columbia, the Air Products Division had its best year ever. Tank Drill sales to the logging industry and sales and rentals of air compressors and drills to construction markets boomed. A turnaround in demand for Gardner-Denver Air Tracs and compressors, expected in 1978, did materialize in 1979. The Finning Tank Drill, in both pneumatic and hydraulic configurations, maintained its strong position. Tampo compaction equipment was introduced to the heavy construction market.

Airpro Alberta exceeded projected unit sales due largely to the growth of the petroleum-related industries. Sales were strong in Gardner-Denver compressors and JLG and Smith high reach equipment. Increased road construction in the southern part of the province helped sales of drills.

In the United States, Airpro operations in Spokane and Seattle served stable markets with Gardner-Denver, Tampo, and Manlift as primary product lines. Forestry, open pit mining, construction, and aircraft industries are the major markets.

New and improved products, increased sales coverage, and greater customer awareness combined to give the Light Industrial Division higher volume and revenues. Sales of the smaller Caterpillar machines climbed significantly.

The Lift Truck Division achieved satisfactory results in sales, parts and service although profit was not up to expectations. A reason for the lower profit was a major increase in the proportion of leases and rentals which has the effect of deferring revenue and profit.

The re-designed, large capacity V-series trucks, manufactured in Dallas, Oregon and introduced in mid-year, were well accepted by the lumber industry. Sales of electric lift trucks in the 3,000 to 5,000-pound range were excellent.

NEW CANADIAN LINE

The Division took on the new line of Canadian-made Sellick rough terrain lift trucks which will supplement the Caterpillar 900 heavy-duty series.

The Power Products Division finished the year with overall improvement in revenue and profitability. Marine sales were up, truck engines gained a greater market share but industrial engines and electric sets were down. Parts and service sales came in on forecast.

The Division introduced its truck engine training program when a full-time trainer and specially-equipped trailer provided instruction to over 180 mechanics, including Company, TEPS dealer and customer personnel, during its first swing through the province. Training is focused on mid-range and heavy-duty Cat diesel engines and is aimed at improving quality of service.

Sale of Perkins engines and electric sets doubled for the second consecutive year. Marine sales, both for auxiliary and propulsion, and industrial engines for retro-fitting lift trucks and similar equipment enjoyed strong markets. The Division was named Perkins dealer for Alberta in 1979. Electric sets were in demand in the oil and gas exploration industry and inroads were made in agricultural applications.

LEASES, RENTALS UP

The Company's lease portfolio grew by over 50 per cent. A number of specialized lease programs were developed for several major accounts. Customers recognized the value of our true operating leases with realistic residuals as a lower cost method of financing which frees their capital funds for other purposes. The same principle applied to the rental business which showed a large increase in the value of machines out on rent.

In an effort to meet an urgent need for an increased number of qualified service people, especially in the north, the training department piloted a six-month accelerated upgrading program for mechanics at Dawson Creek. A second session is planned there as well as initial programs in Prince George and Vancouver. Growth in service demand also resulted in expansion of field service training programs.

The B.C. parts apprenticeship program conducted by the Company expanded and enrolment will double under the new 1980-81 contract with the provincial government.

In November, under the provisions of the Combines Investigation Act, the Company was asked for financial records for previous years. These were provided as requested. Other information was supplied in March, 1977.

Capital expenditures for 1979 were at an all-time high. The Company spent $15.2 million in land, buildings and equipment, compared to the previous record high of $11.3 million in 1978. In the past five years, $40.8 million has been invested in property, construction of new facilities, expansion of existing buildings, and installation of tools and equipment.

NEW BRANCHES OPENED

Major facilities were opened in 1979 at Fort St. John and Quesnel while expansions and renovations were completed at Saskatoon, Seattle, Spokane, Mackenzie and Victoria. New sales, parts and service centres were started at Campbell River and Fort Nelson. The Company also purchased land at Port Mann and Chilliwack for future development.

At year-end, negotiations for a new collective agreement between the Company and the International Association of Machinists and Aerospace Workers were still in progress. Final settlement on a two-year contract was reached on February 12, 1980.

The number of employees on December 31 was 2,066, compared to 1,791 in 1978. Total wages, salaries and benefits paid to employees in 1979 was $55,064,814, as against $45,007,907 the previous year.

Sales of JCB backhoe loaders accelerated. Of British manufacture, this product has been well accepted by utility contractors and municipalities.

Corporate Information

Directors

WILLIAM T. BARKER
President and General Manager,
Consolidated Equipment &
Supply Co. Ltd.,
Vancouver

H. CLARK BENTALL
Chairman of the Board and
Chief Executive Officer, Dominion
Construction Company Limited,
Vancouver

ROBERT C. BISS*
Executive Vice President,
Finning Tractor & Equipment Company Limited,
Vancouver

JOHN D. FRAZEE*
President and Chief Operating Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

JOHN C. GILMER†
Company Director. Formerly President and
Chief Executive Officer, CP Air,
Vancouver

MICHAEL M. KOERNER
President,
Canada Overseas Investments Limited,
Toronto

THOMAS E. LADNER, Q.C.†
Partner, Ladner Downs,
Vancouver

RICHARD E. LANE†
Retired. Formerly President and
Chief Operating Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

VINOD K. SOOD*
Executive Vice President,
Finning Tractor & Equipment Company Limited,
Vancouver

W. MAURICE YOUNG*
Chairman of the Board and Chief
Executive Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

*Member, Executive Committee
†Member, Audit Committee

Officers

W. MAURICE YOUNG
Chairman of the Board and
Chief Executive Officer

JOHN D. FRAZEE
President and
Chief Operating Officer

ROBERT C. BISS
Executive Vice President

VINOD K. SOOD
Executive Vice President

W. F. (JERRY) HOLMES
Vice President Marketing

DONALD W. LORD
Vice President Branch Operations

RONALD W. PARK
Secretary

Head Office

555 Great Northern Way,
Vancouver, Canada
V5T 1E2

Auditors

Arthur Andersen & Co.,
Chartered Accountants,
Vancouver, Canada

Solicitors

Ladner Downs,
Barristers and Solicitors,
Vancouver, Canada

Registrar and Transfer Agent

Canada Permanent Trust Company,
Vancouver, Calgary, Winnipeg,
Toronto and Montreal, Canada

Stock Exchanges

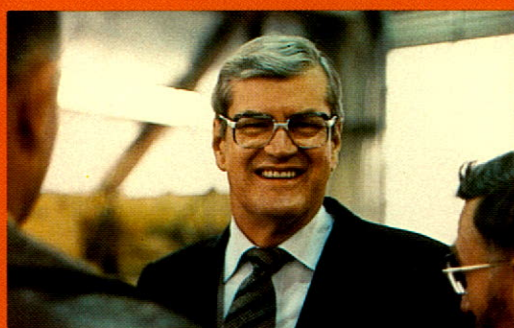
Vancouver Stock Exchange
The Toronto Stock Exchange

Operations, Division and Staff Managers

J. J. Blunt, Prince George Sales
J. A. Carthy, Power Products
C. A. Cederberg, Kamloops
D. L. Christie, Administration
R. W. Claridge, Lift Truck
P. Clarke, Pipeline Sales
G. M. Correale, Vernon
B. I. Davis, Vancouver Service
J. D. Desimone, Prince George
D. R. George, Branch Used Equipment
C. A. Harris, Data Processing
A. E. Holden, Light Industrial
E. G. Inglis, Training
G. E. Johnson, Dawson Creek
R. M. Kaye, Vancouver
G. F. Kiss, General Service
R. C. Ley, Advertising & Public Relations
C. C. Loyst, Personnel
H. H. Lunow, Purchasing
B. A. McDowell, Cranbrook
J. J. Malden, Terrace
W. F. Merrell, Accounting
B. M. Moore, General Parts
T. R. Motteler, Product Support Sales
J. J. Mulvaney, Used Equipment Administration
L. E. Norlander, Audit & Tax
J. A. Powell, Sparwood
R. J. Sangster, Financial Services
R. S. Scott, Finance
J. F. Shepard, Williams Lake
T. A. Shorter, Used Equipment
P. G. von der Porten, Vancouver Parts
R. G. Williamson, Air Products

Company Directors

The Board of Directors attended the opening of the new Fort St. John facility coincident with their quarterly meeting in October.



W. M. YOUNG

H. C. BENTALL

R. E. LANE J. D. FRAZEE

T. E. LADNER, Q.C.

J. C. GILMER

V. K. SOOD

R. C. BISS

M. M. KOERNER W. T. BARKER

FINNING

YOUR CATERPILLAR DEALER

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AGENCY PRESS LIMITED