



**FINNING**  
**Annual Report 1981**



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# Finning Tractor & Equipment Company Limited

Finning sells, leases and services Caterpillar equipment and related products throughout British Columbia, the Yukon and the Mackenzie Valley in the Northwest Territories. Wholly-owned subsidiaries — Airpro Equipment Ltd. in British Columbia, Alberta and Saskatchewan and Airpro Equipment, Inc. in Washington and Oregon —

distribute and service air equipment, rotary drills, compactors and high reach equipment.

A division of Finning, Percival Machinery, sells, leases and services cranes and associated products in Alberta. The Company has full sales, parts and service facilities in Campbell River, Chilliwack, Cranbrook, Dawson Creek, Fort St. John, Houston, Kamloops, Langley, Mackenzie, Nanaimo, Nelson, Port Hardy, Prince George, Quesnel, Revelstoke, Sparwood, Terrace, Vancouver, Vernon, Victoria and Williams Lake in British Columbia; Whitehorse, Yukon Territory; Calgary, Edmonton and Hinton, Alberta; Saskatoon, Saskatchewan; Seattle and Spokane, Washington; and Portland, Oregon.

In addition, the Company has service depots in nine locations and resident service representatives in 24 others.

## Results in Brief

(dollars in thousands)	1981	1980
Revenue . . . . .	\$454,377	\$438,327
Income before income taxes . . . . .	1,092	28,180
Net income . . . . .	3,485	18,237
Capital expenditures . . . . .	11,889	12,018

*Net income per share . . . . .	\$ .20	\$ 1.15
Income before income taxes as a percentage of revenue . . . . .	.2%	6.4%
Net income as a percentage of revenue . . . . .	.8%	4.2%
Number of employees at year end . . . . .	1,805	2,316

\*Based on the number of class A voting and class B non-voting shares outstanding at December 31, 1981 after giving retroactive effect to the subdivision of common shares in 1981 and the change of common shares into class A voting and class B non-voting shares.

## Cover Picture



West End skyline provides scenic backdrop for Caterpillar D8K track-type tractor preparing site for the expansion of Maritime Museum in Vancouver. Machine moved some 11,469 cubic metres (15,000 cubic yards) of gravel fill and 6,117 cubic metres (8,000 cubic yards) of quarry material in landfill project.



Finning-modified Caterpillar 225 excavator mounted on barge doubled production in unique, round-the-clock peat harvesting operation in Delta.





## To the Shareholders

Revenue for the year 1981 was \$454,377,000 compared with \$438,327,000 for 1980, an increase of 3.7 per cent. Net income decreased to \$3,485,000 from \$18,237,000 down 80.9 per cent.

Revenue for the first six months of 1981 showed good gains over the same period in the previous year but thereafter declined sharply. The greatest impact was from the depressed demand in the forest industry. As record high interest rates caused housing starts in the United States and Canada to deteriorate, forest companies in British Columbia were forced to reduce logging operations and close some mills. Deliveries of our products and services to the mining and construction industries were also significantly lower compared to 1980. The severity of the reduced revenues and their impact on profits were unexpected and substantially below forecast.

Interest expense for the year was \$50 million compared to \$31 million in 1980, an increase of 61.3 per cent. Interest expense as a percentage of revenue in 1981 was 11 per cent compared to 7.1 per cent in 1980.

Total bad debt expenses, including an increase in reserves, cost the company \$6.6 million for the year, compared with \$2 million in 1980. The majority of bad debts, which became apparent in the second half, were in the Prince George, Dawson Creek and Whitehorse areas, as these branches are primarily dependent on the forest industry, oil and gas exploration, and placer

gold mining, respectively.

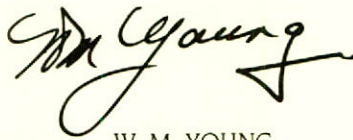
We have substantially lowered our inventories of new and used equipment and parts, and further reductions are continuing. These improvements, coupled with the issue of convertible debentures in the amount of \$65 million, resulted in a decline in our short term borrowings of \$81.5 million, compared to an increase in short term borrowings of \$67.1 million during the previous year.

The number of employees at year end was 1,805, compared to our peak employment of 2,409 in early March.

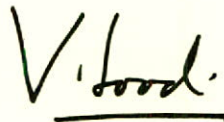
Our employees have done a good job in attempting to improve our operations and reduce costs under the most trying conditions. We are grateful to them.

At the risk of being regarded as eternal optimists, we believe that 1982 could turn out to be significantly better than 1981. This expectation of improvement is contingent on an upturn in the forest industry.

The development of coal fields and related heavy construction activity in northeast British Columbia, combined with the expansion of coal mines in the southeast, is expected to increase our revenue from the mining industry. We expect a slow start on the year but feel that we now have the ability to operate profitably at reduced revenue. The second half of the year could show some marked improvement.



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



V. K. SOOD,  
President and Chief Operating Officer

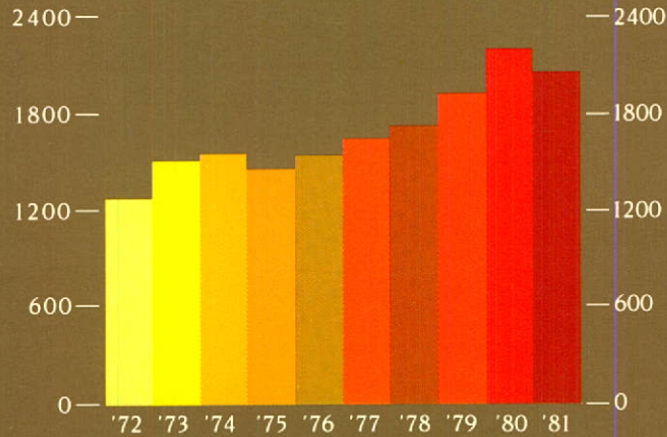


Spires of historic Holy Rosary Cathedral  
look down on Caterpillar 235 and 245 hydraulic excavators digging foundations  
for underground electrical substation in Vancouver's commercial core.





## Average Number of Employees



## Highlights of Operations

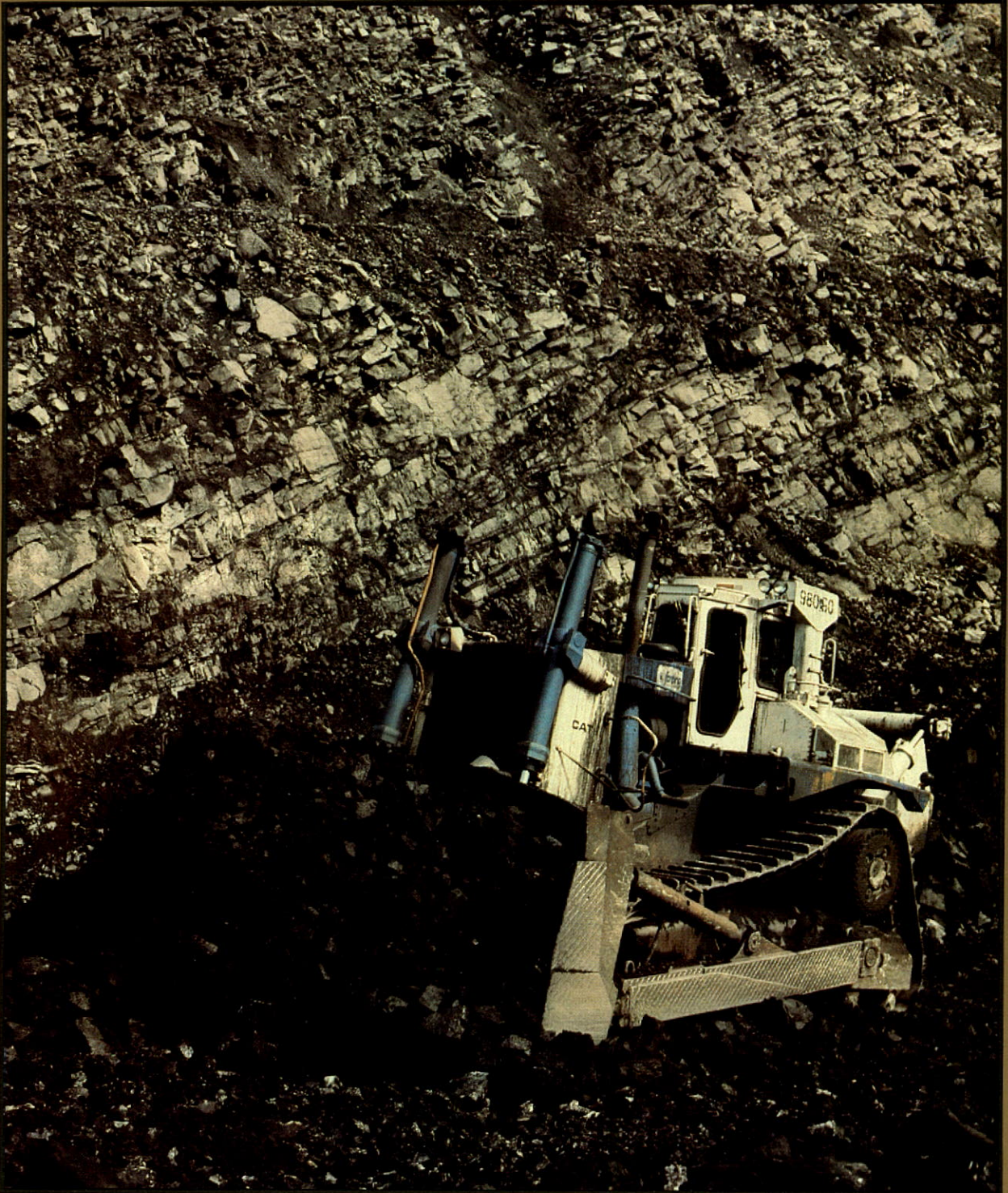
	Revenue	Income Before Income Taxes	Net Income	Capital Expenditures	Dividends Paid	Net Income Per Share*	Income Before Income Taxes as a Percent- age of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1972	\$126,622,000	\$ 9,732,000	\$ 5,084,000	\$ 2,552,000	\$ 583,000	\$.32	7.7%	4.0%	1,373
1973	148,157,000	11,241,000	5,475,000	3,533,000	939,000	.34	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1,103,000	.46	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	1,586,000	.50	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	1,589,000	.54	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	1,986,000	.76	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	1,986,000	.93	8.3%	5.1%	1,791
1979	375,417,000	28,322,000	19,459,000	15,182,000	3,574,000	1.23	7.5%	5.2%	2,066
1980	438,327,000	28,180,000	18,237,000	12,018,000	4,766,000	1.15	6.4%	4.2%	2,316
1981	454,377,000	1,092,000	3,485,000	11,889,000	4,997,000	.20	.2%	.8%	1,805

\*Based on the number of class A voting and class B non-voting shares outstanding at December 31, 1981 after giving retroactive effect to the subdivisions of common shares in 1980 and 1981 and the change of common shares into class A voting and class B non-voting shares.



## Financial Statements

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World's largest tractor, Caterpillar 522kW (700 horsepower), 81.6 tonne (90-ton) D10, introduced in 1979, bulldozes huge volumes of coal at major mining operation in southeast part of province.



## Consolidated Balance Sheets

as at December 31



### Assets

	1981	1980
Accounts receivable (Note 2) . . . . .	\$ 61,537,736	\$ 72,752,461
Instalment notes receivable (Note 2) . . . . .	63,361,092	61,968,696
Income taxes refundable (Note 8) . . . . .	—	591,259
Inventories (Note 5) —		
Equipment . . . . .	110,953,365	133,598,453
Parts and supplies . . . . .	41,945,998	49,641,113
Equipment leased to customers (Note 3) . . . . .	90,057,226	97,737,107
Land, buildings and equipment (Note 4) . . . . .	<u>54,097,262</u>	<u>47,617,776</u>
	<u>\$421,952,679</u>	<u>\$463,906,865</u>

Approved by the Directors:

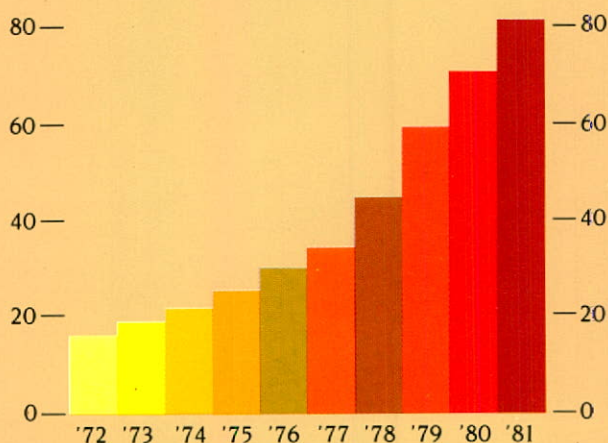
V. K. Sood, Director

R. C. Biss, Director

*The following graph is not a part of the audited consolidated financial statements.*

### Investment in Fixed Assets — at Cost

(millions of dollars)





# Finning Tractor & Equipment Company Limited

## Liabilities

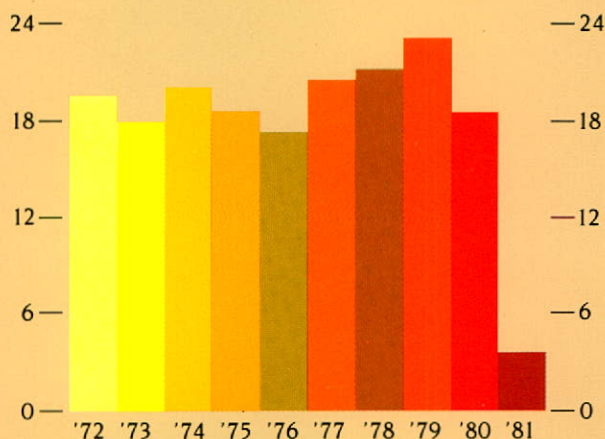
	1981	1980
Bank indebtedness (Note 5) .....	\$165,011,604	\$246,525,775
Accounts payable and accruals .....	21,509,239	46,023,641
Income taxes payable (Note 8) .....	1,244,699	—
Secured debentures (Note 6) .....	28,200,000	28,800,000
Convertible debentures (Note 7) .....	65,000,000	—
Deferred income taxes (Note 8) .....	<u>35,509,873</u>	<u>37,823,500</u>
Total liabilities .....	<u>\$316,475,415</u>	<u>\$359,172,916</u>
Shareholders' equity (Note 6) —		
Share capital (Notes 7 and 9) .....	\$ 11,351,962	\$ 9,096,562
Retained earnings .....	<u>94,125,302</u>	<u>95,637,387</u>
Total shareholders' equity .....	<u>\$105,477,264</u>	<u>\$104,733,949</u>
	<u>\$421,952,679</u>	<u>\$463,906,865</u>

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

*The following graph is not a part of the audited consolidated financial statements.*

### Return on Shareholders' Equity

(per cent)





# Consolidated Statements of Income and Retained Earnings

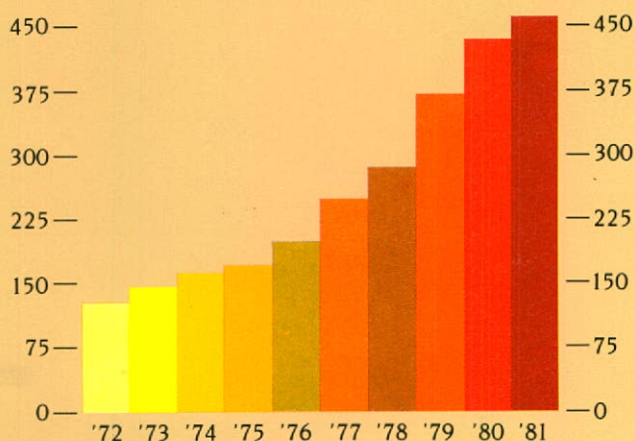
for the years ended December 31

	1981	1980
Revenue .....	<u>\$454,377,077</u>	<u>\$438,327,098</u>
Expenses (Notes 10 and 11) —		
Cost of sales and selling .....	\$370,706,718	\$356,496,469
General and administrative .....	32,381,898	22,544,168
Interest .....	<u>50,196,061</u>	<u>31,106,229</u>
	<u>\$453,284,677</u>	<u>\$410,146,866</u>
Income before provision for (recovery of) income taxes .....	\$ 1,092,400	\$ 28,180,232
Provision for (recovery of) income taxes (Note 8) .....	<u>(2,392,587)</u>	<u>9,943,564</u>
Net income .....	\$ 3,484,987	\$ 18,236,668
Retained earnings, beginning of year .....	<u>95,637,387</u>	<u>82,166,399</u>
	\$ 99,122,374	\$100,403,067
Dividends paid .....	<u>4,997,072</u>	<u>4,765,680</u>
Retained earnings, end of year .....	<u>\$ 94,125,302</u>	<u>\$ 95,637,387</u>
Net income per share (Note 12) .....	\$ .20	\$ 1.15

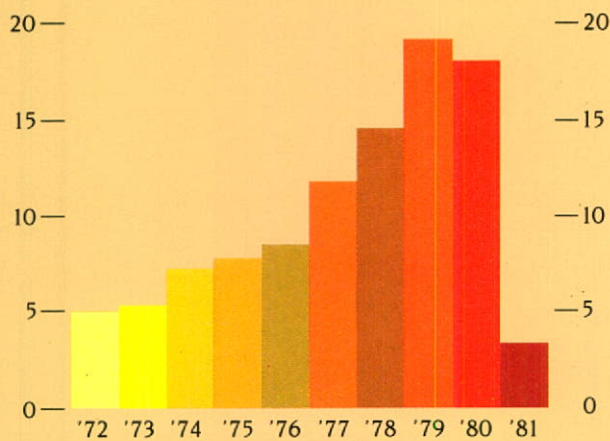
The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

*The following graphs are not a part of the audited consolidated financial statements.*

**Revenue**  
(millions of dollars)



**Net Income**  
(millions of dollars)





# Consolidated Statements of Changes in Financial Position

for the years ended December 31

	1981	1980
Cash generated by current operations:		
Net income .....	\$ 3,484,987	\$ 18,236,668
Add (deduct) items not involving cash —		
Depreciation —		
Equipment leased to customers .....	24,951,742	21,234,381
Buildings and equipment .....	5,222,418	4,657,043
Deferred income taxes .....	<u>(2,313,627)</u>	<u>8,352,073</u>
Total cash from current operations .....	<u>\$ 31,345,520</u>	<u>\$ 52,480,165</u>
Cash (generated from) used in operating assets and liabilities:		
Accounts receivable .....	\$ (11,214,725)	\$ 17,168,118
Instalment notes receivable .....	1,392,396	7,878,904
Inventories —		
Equipment .....	(22,645,088)	38,483,771
Parts and supplies .....	(7,695,115)	13,487,840
Equipment leased to customers, net of disposals .....	17,271,861	40,084,201
Accounts payable and accruals .....	24,514,402	(15,632,621)
Income taxes .....	<u>(1,835,958)</u>	<u>891,023</u>
	<u>\$ (212,227)</u>	<u>\$102,361,236</u>
Net cash (generated from) used in operations .....	<u>\$ (31,557,747)</u>	<u>\$ 49,881,071</u>
Other uses (sources) of cash:		
Additions to land, buildings and equipment, net of disposals .....	\$ 11,701,904	\$ 11,820,969
Purchase of secured debentures .....	600,000	600,000
Proceeds on issue of convertible debentures .....	(65,000,000)	—
Issue of preferred shares, net of redemptions .....	(2,255,400)	—
Dividends paid .....	<u>4,997,072</u>	<u>4,765,680</u>
	<u>\$ (49,956,424)</u>	<u>\$ 17,186,649</u>
Net (decrease) increase in bank indebtedness .....	<u>\$ (81,514,171)</u>	<u>\$ 67,067,720</u>

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



# Notes to Consolidated Financial Statements

December 31, 1981 and 1980

## 1. Summary of Significant Accounting Policies

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the partnership Finning Tractor Co. and of all subsidiary companies.

The subsidiary companies, all of 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.  
Finning Transportation Services Ltd.

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

### CURRENCY TRANSLATION

All amounts in foreign currencies, including the accounts of Airpro Equipment, Inc., which carries on business in the United States, are translated into Canadian dollars using the exchange rate prevailing at the balance sheet dates.

### INVENTORIES

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

### EQUIPMENT LEASED TO CUSTOMERS

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

### BUILDINGS AND EQUIPMENT

Buildings and equipment are depreciated using the following annual rates on a declining balance basis:

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

### REVENUE RECOGNITION

For accounting purposes, revenue from sales of products and services is recognized at the time of shipment of products to, and completion of services for, customers. Equipment rental revenue is recognized as rentals are billed to customers and finance income is recognized as earned using the sum of the digits method.

## 2. Accounts and Instalment Notes 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 income tax recoveries, this investment is recorded at a net cost of \$460,000 and is included in accounts receivable.

Instalment notes receivable are recorded at principal balances and include \$25,816,526 due after one year (\$29,099,627 in 1980).

## 3. Equipment Leased to Customers

	1981	1980
Cost . . . . .	\$ 135,361,516	\$ 134,890,627
Less accumulated depreciation . . .	<u>45,304,290</u>	<u>37,153,520</u>
	<u>\$ 90,057,226</u>	<u>\$ 97,737,107</u>

Under the terms of the lease agreements in effect at December 31, 1981, \$21,888,605 of the above costs will be recovered in 1982 (\$18,411,342 in 1981).

## 4. Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost and consist of the following:

	1981	1980
Land . . . . .	\$ 11,271,914	\$ 9,455,444
Buildings and equipment . . .	\$ 71,694,044	\$ 62,253,155
Less accumulated depreciation . . .	<u>28,868,696</u>	<u>24,090,823</u>
	<u>\$ 42,825,348</u>	<u>\$ 38,162,332</u>
	<u>\$ 54,097,262</u>	<u>\$ 47,617,776</u>

## 5. Bank Indebtedness

	1981	1980
Demand bank notes .	\$ 19,191,709	\$ 31,070,551
Bankers' acceptances payable at various dates within 34 days after December 31, 1981 and 1980 . . .	<u>145,819,895</u>	<u>215,455,224</u>
	<u>\$ 165,011,604</u>	<u>\$ 246,525,775</u>

Demand bank notes and bankers' acceptances are secured by an assignment of insurance on inventories. The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 6.

## 6. Secured Debentures

This debt consists of 9% Secured Debentures, 1978 Series, to mature September 1, 1985. They are secured by a Trust Indenture which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other property and assets (except accounts and instalment notes receivable, inventories and equipment leased to customers). In addition, the Trust Indenture 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 \$12,976,296 at December 31, 1981 (\$14,693,788 at December 31, 1980). The Company is required to use reasonable efforts to purchase in the market at least \$300,000 principal amount of these Debentures in each six-month period ending the last day of February and August in the years to 1985 at prices not exceeding the principal amount in accordance with the terms of the Trust Indenture. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

### 7. Convertible Debentures

This debt consists of 11½% Convertible Subordinated Debentures, to mature June 24, 2001. They are direct unsecured obligations of the Company and are subordinate to all senior indebtedness. On or prior to June 24, 1986, these Debentures are convertible into class B non-voting shares at a price of \$18.00 per share and thereafter and on or prior to June 24, 1991, at a price of \$18.75 per share. In addition, the Company may, at its option, redeem these Debentures after June 24, 1983 and thereafter on or before June 24, 1986, only if the weighted average price at which the class B non-voting shares traded in a specified period was not less than 125% of the conversion price applicable at that time. After June 24, 1986, they are redeemable at any time. Redemption prices decline from 110.22% in 1984 to par in 2000. The Trust Indenture requires sinking fund payments in each of the years 1992 to 2000 inclusive, of 5%, and at the Company's option, up to a maximum of 10% of the aggregate principal amount of these Debentures outstanding on June 25, 1991.

### 8. Income Taxes

The recovery of income taxes in 1981 was primarily due to recording the benefits of the investment tax credit and the 3% 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 sources of these differences relate to the following 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 capital cost 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.
- c) Equipment leased to customers. For accounting purposes, depreciation is recorded as explained in Note 1 while for income tax purposes, maximum capital cost allowances are claimed.

### 9. Share Capital

In January, 1981, 600,000 of the preferred shares were designated as Cumulative Redeemable Convertible Preferred Shares, Series A and 251,870 were issued under terms of an employee share purchase plan. Of these shares, 26,330 were redeemed during the year.

In March, 1981, the authorized and outstanding common shares were subdivided on a two for one basis.

In May, 1981, the share capital was altered by changing one-half of the issued and unissued common shares to class A voting shares; by changing the balance of common shares to class B non-voting shares; and by increasing the number of authorized class A voting and class B non-voting shares to 40,000,000 each.

	1981	1980
<b>AUTHORIZED —</b>		
5,000,000 Preferred shares without par value. Of these shares, 600,000 are designated as Cumulative Redeemable Convertible Preferred Shares, Series A.		
40,000,000 Class A voting shares		
40,000,000 Class B non-voting shares		
<b>ISSUED AND OUTSTANDING —</b>		
225,540 Cumulative Redeemable Convertible Preferred Shares, Series A	\$ 2,255,400	\$ —
7,936,007 Class A voting shares	4,544,392	—
7,949,593 Class B non-voting shares	4,552,170	—
— Common shares	—	9,096,562
	<u>\$11,351,962</u>	<u>\$9,096,562</u>

### PREFERRED SHARES

The preferred shares are issuable in series and will have such additional rights and restrictions as will be determined by the Board of Directors prior to their issue.

#### SERIES A PREFERRED SHARES

The cumulative preferential cash dividends on the series A preferred shares are payable quarterly at a rate equal to 50% of the prime interest rate of a specified Canadian chartered bank plus ½% per annum.

These shares are redeemable by the Company at its option or retractable at the option of the holder at the issue price.

The series A preferred shares may be converted at the option of the holder two years after date of issue and up to ten years following the date of issue into class A voting shares at a conversion price equal to 115% of the current market price (as defined in the rights and restrictions attached thereto) on the date of issue. The 225,540 series A preferred shares presently outstanding are convertible after January 27, 1983 and prior to January 28, 1991, at a price of \$18.40 per class A voting share.

#### CLASS A VOTING AND CLASS B NON-VOTING

The holders of class A voting shares are entitled to receive notice of, attend and vote at all general meetings of the Company whereas the holders of class B non-voting shares are not entitled to receive notice of, attend and vote at general meetings of the Company. The class A voting and class B non-voting shares have substantially the same rights in all other aspects. Each class A voting share is convertible at the holder's option into one class B non-voting share.

During the year, 6,801 class A voting shares were converted into class B non-voting shares.



## 10. 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, 1979. The consultant has estimated that the assets in the plan were more than adequate to meet the liabilities which existed at that date.

Based on actuarial calculations which include a projection of future remuneration, the estimated unfunded past service cost was \$2,124,900 at December 31, 1979. Commencing in 1980, this cost is being funded in equal annual instalments over a period of 20 years. Unfunded past service costs resulting from improved benefits payable by the plan are being charged to expense in equal annual amounts over 12 years. The actuarial revaluation made December 31, 1979 resulted in cost reductions totalling \$1,800,000 which have been credited to expense in equal annual amounts in 1981 and 1980.

Pension expense, including contributions to statutory plans, was \$1,361,530 in 1981 (\$1,120,426 in 1980).

## 11. 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 \$1,041,231 in 1981 (\$942,640 in 1980).

## 12. Net Income Per Share

Net income per class A voting and class B non-voting share has been determined after giving retroactive effect to the subdivision and alteration of the Company's common shares as explained in Note 9 and after reducing net income by \$231,392 in 1981 being the dividends on the series A preferred shares.

There would be no dilution of net income per class A voting and class B non-voting share if the series A preferred shares or the Convertible Debentures were converted.

## 13. Economic Relationships

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with several equipment manufacturers, the most significant of which is the Caterpillar Tractor Co. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations.

# Management's Report to the Shareholders

The consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments and all information available up to February 4, 1982.

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

The Company's independent auditors, appointed by the shareholders, express an opinion as to whether these management financial statements present fairly

the Company's financial position, operating results and changes in financial position in accordance with generally accepted accounting principles consistently applied.

An audit committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, audit results and accounting principles and practices.

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

V. K. SOOD,

President and Chief Operating Officer

February 4, 1982

## Auditors' Report

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 at December 31, 1981 and 1980, and the related consolidated statements of income and retained earnings 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 at December 31, 1981 and 1980, 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 4, 1982, Vancouver, Canada



## Review of Operations



Initial development of northeast coal project makes work for Caterpillar 621B scraper building access road to new town of Tumbler Ridge.



## Review of Operations

### FORESTRY

Forestry has long been the Company's major market, historically accounting for as much as 50 per cent or more of machine sales, but in 1981 its contribution to overall revenue fell more markedly than that of heavy construction and mining markets.

Logging and sawmilling sectors of the industry were chiefly affected by the adverse economic factors. Most of our machine sales were for the harvesting and handling of pulpwood as pulp and paper manufacturing led the industry for the second straight year.

### MINING

The mining industry started 1981 full of bright promise but the picture dulled after mid-year because of falling world metals prices. Machine deliveries to mining also declined over the previous 12 months.

In the Yukon, the price of gold fell from a high of \$700 US in the short summer work season of the previous year to \$450 US during the same months of 1981. Revenue at our Whitehorse branch and Dawson City depot decreased significantly.

Coal maintained its strong pace and production increased 15 per cent. Major operations in the south-east corner of the province started expansion programs while others in the area moved from exploration into development.

This expansion and new development created a busy year for our large sales, parts and service centre at Sparwood which employs 85 people. Fleet sales of equipment included the largest models of Caterpillar track-type tractors, wheel loaders, graders, wheel dozers and hydraulic excavators.

In the much publicized northeast coal fields, actual mining operations will not start until later in 1982. However, preliminary work on the infrastructure for the huge development was a welcome boost for earthmoving contractors.

Contracts were awarded for the construction of access roads, for site development of work camps, land clearing for power transmission line rights-of-way, site preparation and installation of underground services for the new town of Tumbler Ridge.

More than 200 Caterpillar machines were at work in the area, serviced by our nearby major branch operations at Dawson Creek and Fort St. John plus resident servicemen and two on-site trailers with inventories of Caterpillar parts.

### HEAVY CONSTRUCTION

Other sectors of the heavy construction industry were fairly active; work continuing on several major highway projects, railway upgrading and double tracking, hydroelectric dam construction and exploratory drilling, but overall sales to the industry were lower.

The Company continued its aggressive merchandising of compact Caterpillar wheel loaders, track loaders, tractors, excavators and JCB backhoe loaders and hydraulic excavators to the utility and residential construction markets.

Three new completely-redesigned JCB backhoe loaders — the 1400, 1500 and 1700 series models featuring greater digging power, better visibility and improved production — were introduced during the year with considerable success.

The Finning Motrex, a railway right-of-way maintenance machine, which is basically a Caterpillar hydraulic excavator mounted on a rail car chassis, continues to make further inroads into Canadian and United States railroad markets. The Company has designed and field tested a second unit for this market; the Trakhoe 1550, designed around a JCB backhoe loader equipped with retractable railway wheels. The Trakhoe facilitates replacement of aging or damaged railway ties and assists in utility work.

### OIL AND GAS

It was not a banner year for the oil and natural gas industry. Oil and gas exploration in the province dropped by more than 40 per cent from the previous year. The National Energy Program and oil pricing agreements were blamed for the mass exodus of drill rigs to the United States. As a consequence, parts and repair service revenues, as well as machine sales, were affected at Fort Nelson, Fort St. John and, to a lesser degree, Dawson Creek.

### USED EQUIPMENT

Used equipment sales went against the trend of new machines. Used equipment revenues continued to be slightly above forecast; international sales volume showed a modest increase over the previous year.

These results in used equipment are attributed to special promotional sales and to deferral of new purchases by some customers in favour of lower-priced, good quality used machines. The Company took a deliberate move in the latter part of the year to reduce inventory at the sacrifice of some profit through discounted prices and special financing below prime rates.



Twin Caterpillar 3208T diesel engines power sleek 38-foot sports fishing vessel.  
The 224-kW (300 horsepower) rating makes these engines popular with pleasure craft owners.





West Vancouver transit line increased fuel efficiency  
by over eight per cent using CV100 combustion catalyst in its 32-unit fleet.





## Review of Operations

### FINANCIAL SERVICES

The Company's overall lease and conditional sales contract portfolios were almost identical in dollar figures with the previous year, just under \$155 million. There was an overall decrease in financing activity as to the number of new leases and conditional sales contracts, consistent with reduced machine sales. The Company's financing capability continues to be an important marketing tool.

### PARTS AND SERVICE

Total service revenue hours declined by 16 per cent while field repair revenue hours dropped by seven per cent over the previous year. Customers, especially those in the forest industry, sought emergency and temporary repairs to equipment rather than major overhaul and rebuilds. The Company has had to absorb large wage increases which were reflected in higher chargeout rates. Some of the drop in service revenue was customer reaction to higher repair costs.

The service department continued productivity improvement programs to reduce man hours spent on component repairs and thus reduce costs to equipment owners. Capital costs of tools, equipment and vehicles were trimmed. Special service programs, such as Scheduled Oil Sampling and Preventive Maintenance, held at satisfactory levels.

Parts sales were flat and slightly below forecast. Operating profit was down due to interest and overhead costs. Corrective measures, still underway, had reduced both inventories and personnel at year end.

Finning Transportation Services, which began parts deliveries between all Company locations south of Prince George and from the large Caterpillar parts depot in Spokane, Washington in 1980, expanded its routings during the year to include our four Vancouver Island operations. Six tractor trailers provide daily delivery of parts and attachments on the mainland and thrice-weekly shipments to the Island. This is one of the most significant changes we have made in recent years to improve parts service and reduce customer costs.

### DIVISIONAL REVIEW

Results for the Company's four Divisions were mixed. Power Products had an excellent year but Airpro, Crane and Lift Truck all followed the general downturn.

### POWER PRODUCTS

Power Products finished well ahead of 1980 results and above 1981 forecast in both volume and profits.

The marine engine sector, showing marked recovery over stagnant 1980 markets, featured installa-

tions in vessels involved in Arctic oil and gas exploration. Sales of electric sets and pump units to mining customers in the Yukon maintained good pace.

Truck engine repowering and service grew as Caterpillar continued to improve its products and introduce innovative models to the industry. The upgraded 3400 series made further inroads in both on and off-highway applications. Introduction of the 3500 series diesels extends the range of the Caterpillar engine line to 1193kW (1600 horsepower) and provides an entry into the off-highway mining truck repower market.

Declining sales of industrial power units, which faced stiff competition, were the only negative aspect in an otherwise bright year.

### AIR PRODUCTS

Interest costs on rental equipment resulted in decreased profits for the Air Products Division in British Columbia and for Airpro Equipment Ltd. in Alberta and Saskatchewan. Profits declined by about 20 per cent over the previous year despite revenue increases of a similar figure.

Airpro Equipment, Inc., operating in Washington and Oregon, reported a loss. An increase in revenue was not matched by an improvement in profitability. High interest rates and the economic recession in the northwest continued to have an adverse effect.

### LIFT TRUCKS

The Lift Truck Division showed a slight overall loss as both revenues and profits dropped as a result of deteriorating markets. Province-wide, sales missed 1981 forecasts by some 30 per cent but in the Lower Mainland, volume surpassed the year's target.

Used sales held reasonably strong while the rental fleet usage and profitability showed significant gains. Service volume and profits were up over the previous year but parts sales, hit by the forestry downturn, were lower by about 10 per cent.

### CRANES

On March 2, 1981, the Company purchased the assets of Percival Machinery & Supply Ltd., a long-established industrial firm in Alberta. A new division was formed to serve the mining and construction markets from established centres in Edmonton, Calgary and Hinton. Primary product lines are P & H cranes, hydraulic and lattice booms and associated equipment.

The Percival acquisition brought a significant increase in sales volume to the Company's Crane Division operations. This was mainly due to sales and service of the larger P & H units.



## Review of Operations

In British Columbia, sales of Grove cranes, both truck-mounted and rough terrain models, compared to 1980 volumes while rentals increased slightly.

### NEW FACILITIES COMPLETED

Capital expenditures for 1981 were comparable to the previous year — \$11.9 million against \$12 million — as the Company continued to expand its land holdings and to improve its buildings and equipment.

The largest project completed during the year was a new \$3.6 million sales, parts and service centre at Port Hardy. The 1950 square metre (21,000 square foot) building located on more than nine acres serves the major logging and mining operations on northern Vancouver Island.

Other major items were a \$1.2 million expansion to the Kamloops parts warehouse, tripling floor space to over 1393 square metres (15,000 square feet); a \$400,000 addition to the Fort St. John warehouse, and a \$750,000 expenditure at Whitehorse for a paint and steam cleaning facility and general renovations.

### UNION CONTRACT SIGNED

A two-year collective agreement, allowing for wage renegotiation only, after the first year, was reached between the Company and the International Association of Machinists and Aerospace Workers. The wage contract will be reopened October 15, 1982, while the agreement covering benefits, working conditions and allowances is effective to October 14, 1983.

The number of employees on December 31 was 1,805, compared to 2,316 in 1980. Total wages, salaries and benefits paid to employees in 1981 was \$74,164,109, against \$68,547,955 the previous year.



Power analysis tool diagnoses truck engine performance.



Finning Transportation Services trailer takes on parts shipment.



Sophisticated test unit measures balance of rebuilt turbocharger.



Typical of field repair jobs handled throughout Company, serviceman from Nelson checks out Cat machine at mountain logging show near Salmo.





Tough team, two Caterpillar D9L tractors, helps build road between plant and mine site in new southeast coal development.





## New Products

Caterpillar introduced a number of new products that were well accepted by customers. These new machines also place the Company in excellent position to take advantage of recovery in major markets.

Two models of wheel loaders, the 966D and 950B, followed Caterpillar's redesign of its wheel loader line from the largest model down. These "new generation" machines have increased power, improved loader geometry, more operator comfort and better serviceability. Mid-sized, they fit a very wide range of logging, construction, sand and gravel, and other materials handling applications.

Caterpillar's newest tractor, the second largest, the D9L found immediate use in coal and copper mining operations. The 343 kilowatt (460 horsepower) machine has the same features of the technologically-advanced D10 introduced in 1979. These include an elevated sprocket drive and resilient-mounted suspension undercarriage system, modular design of all major components, easier servicing and simplified maintenance. The D9L is conservatively estimated to produce 20 to 30 per cent more than its predecessor.

### TREE HARVESTER

The 227 Logger is designed to fell and bunch small trees, up to 500 mm (20 inches) in diameter, particularly pulpwood. The basic machine is a Caterpillar hydraulic excavator with a saw or scissor-type felling head replacing the excavator's standard bucket. Other design innovations and modifications have been made to meet the machine's requirements for harvesting as opposed to its traditional use as a trenching machine. The 227 complements Finning-designed Tree Harvesters and gives the Company a harvester to match varying demands of this sector of the forest industry.

Another new machine is particularly suited to interior woods operations. The Caterpillar 518 Grapple Skidder provides greater capacity and improved stability for hauling heavier loads over uneven terrain. Like the other new and improved machines introduced during the year, the 518 is more fuel efficient, doing more work per litre of diesel fuel consumed.

### NEW TRACK LOADER LINE

In 1980, Caterpillar unveiled a totally redesigned track loader, the 943. A 1.15 cubic metre (1½ cubic yard capacity) unit, the 943 is visibly different from conventional track loaders. A rear-mounted engine acts as a working counterweight, improves visibility for operators and permits simplified, more efficient loader linkage. Another innovation, hydrostatic drive, automatically adjusts to the machine's varying speed and power needs.

In 1981, the 943 was followed by two larger models, the 1.5 cubic metre (2 cubic yard) 953 and the 1.97 cubic metre (2½ cubic yard) 963. All three track loaders are used in utility loading and excavating jobs.

Other machines that made their debut in 1981 have more limited application. These include the 824C, a wheel tractor that is popular as a clean-up dozer in open pit mines, and the 815B, a self-propelled tamping foot compactor that is heavier, more powerful and more productive than the former model.



Latest Cat wheel loader, 950B, on demonstration.



Warehouse duties suit Cat M50B electric lift truck.



New Cat 966D wheel loader handles logs in sort yard operation.





New Caterpillar 518 grapple skidder at Williams Lake logging show.



Trakhoe developed from JCB 1550 backhoe replaces worn rail ties.



Finning-adapted 225 tree harvester fells timber near Prince George.



Extended reach on "High Lift" version of largest Cat loader, the 992, allows loading of 110 tonne (120-ton) trucks in open pit mining.



Driltech D80K rotary drill works benches in coal mine.



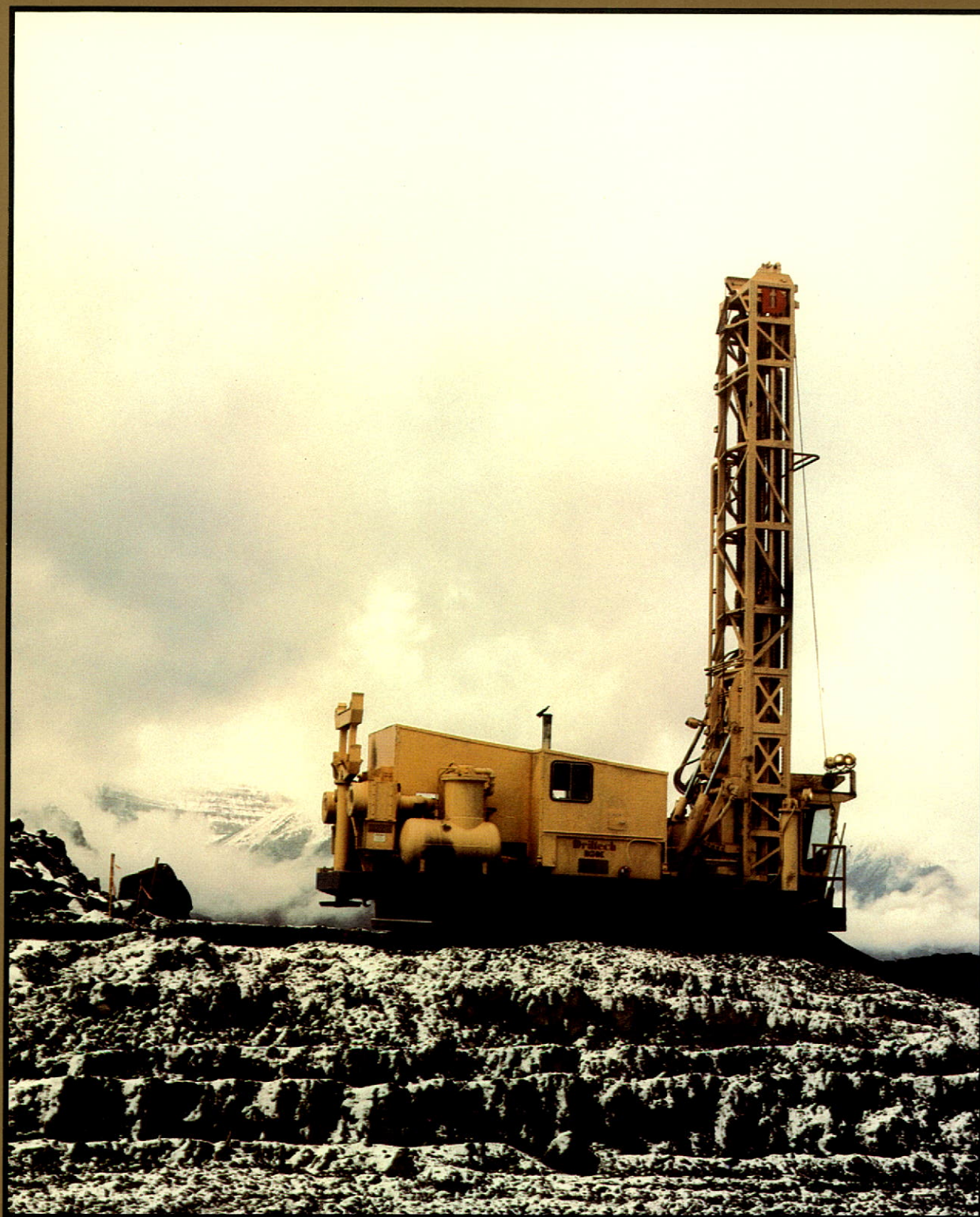
New JCB 1400 backhoe loader excavates basement in Victoria.



Cat 824C on road maintenance job at copper mine near Houston.



One of first in Canada, Driltech D50K rotary drill helps remove overburden at new surface coal mine being developed in southeastern British Columbia.





# Corporate Information

## Directors

WILLIAM T. BARKER  
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Consolidated Equipment  
& Supply Co. Ltd.,  
Vancouver

+H. CLARK BENTALL  
Chairman of the Board,  
The Bentall Group Ltd.,  
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\*ROBERT C. BISS  
Executive Vice President,  
Finning Tractor & Equipment  
Company Limited,  
Vancouver

+ROLF B. HOUGEN  
Chairman and C.E.O.,  
Canadian  
Satellite Communications Inc.,  
Whitehorse, Yukon

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

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

J. FRANK LEACH  
President and Chief Executive Officer,  
Arcata Corporation,  
Menlo Park, California

\*VINOD K. SOOD  
President and Chief Operating Officer,  
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

VINOD K. SOOD  
President and  
Chief Operating Officer

ROBERT C. BISS  
Executive Vice President

W. F. (JERRY) HOLMES  
Vice President Marketing

DONALD W. LORD  
Vice President Branch Operations

LYLE E. NORLANDER  
Secretary

PETER G. von der PORTEN  
Treasurer

## Operations, Division and Staff Managers

J. A. Carthy, Power Products

C. A. Cederberg, Kamloops

D. L. Christie, Administration

R. W. Claridge, Lift Trucks

P. Clarke, Pipeline Sales

G. M. Correale, Vernon

B. I. Davis, Vancouver Service

J. D. Desimone, Prince George

C. D. DeVisser, Mining Sales

C. A. Harris, Data Processing

A. E. Holden, Light Industrial

D. G. Horner, Whitehorse

E. G. Inglis, Training

R. M. Kaye, Vancouver

G. F. Kiss, General Service

R. C. Ley, Advertising & Public Relations

C. C. Loyst, Personnel

H. H. Lunow, Purchasing

D. H. Mackay, Dawson Creek

B. A. McDowell, Cranbrook

J. J. Malden, Terrace

W. F. Merrell, Controller

B. M. Moore, General Parts

J. J. Mulvaney, Used Equipment  
Administration

R. S. Scott, Finance

J. F. Shepard, Product Support Sales

T. A. Shorter, Used Equipment

F. W. Sylvester, Cranes

R. G. Williamson, Air Products

B. Wright, Construction Sales

## Head Office

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## 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

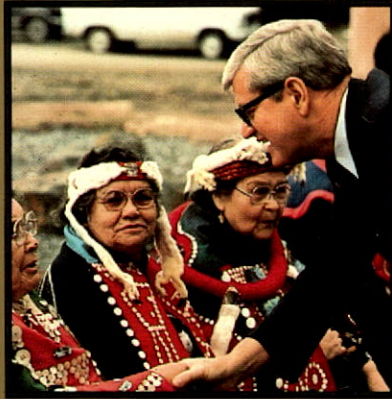
## Stock Exchanges

Vancouver Stock Exchange  
The Toronto Stock Exchange  
Montreal Stock Exchange





Indian tribes of Northern Vancouver Island gather for building opening.



W. M. Young, board chairman, presents gifts to native people.



Traditional dances are performed before carved structure.



Official opening of new \$3.6 million Port Hardy facility in October, was highlighted by colorful Indian potlach which included dances and salmon barbecue.



Bill Cranmer, elected chief, and brother Doug, (right) hereditary chief and carver.



Sisiutl, double-headed sea serpent sits atop two fluted columns.



James King, elder of Nimpkish Band, narrates story of the potlach.



**FINNING**

**YOUR CATERPILLAR DEALER**

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555 Great Northern Way, Vancouver, B.C., Canada

