



**Finning  
Tractor & Equipment  
Company Limited  
Annual Report 1983**



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## Finning Tractor & Equipment Company Limited

Finning sells, leases and services Caterpillar equipment and allied products throughout British Columbia, the Yukon Territory, the Mackenzie Valley and Arctic coast in the Northwest Territories.

Bowmaker (Plant) Limited and Caledonian Tractor & Equipment Company Limited sell, lease and service Caterpillar equipment in the United Kingdom. Bowmaker is the Caterpillar dealer for southwest England, the Industrial Midlands and Wales. Caledonian is the Caterpillar dealer for Scotland.

Canadian and U.S. subsidiaries — Airpro Equipment Ltd. in British Columbia, Alberta and Saskatchewan and Airpro Equipment, Inc. in Washington and Oregon — distribute and service Gardner-Denver air equipment and rock drills, Driltech rotary drills, Tampo compactors and JLG high reach equipment.

A division of Finning, Percival Machinery, sells, leases and services P&H cranes and related lines in Alberta.

Finning 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; Inuvik, Northwest Territories; Calgary, Edmonton and Hinton, Alberta; Saskatoon, Saskatchewan; Seattle and Spokane, Washington; Portland, Oregon. In addition, there are service depots in nine locations and resident service representatives in 19 others.

Bowmaker is headquartered in Cannock, near Birmingham, and has branches in Highbridge, Somerset; St. Austell, Cornwall; Winsford, Cheshire; Clay Cross, Derbyshire; and Cardiff, Wales. Caledonian's main offices are in Baillieston, near Glasgow, and are supported by branches at Aberdeen, Airdrie, Muir of Ord and Perth.



**Cover**  
Perched atop giant rock pile, Caterpillar D8L tractor quarries limestone to be used in construction of six artificial islands in the Mackenzie River at Norman Wells, N.W.T. Islands serve as drilling platforms for oil exploration.

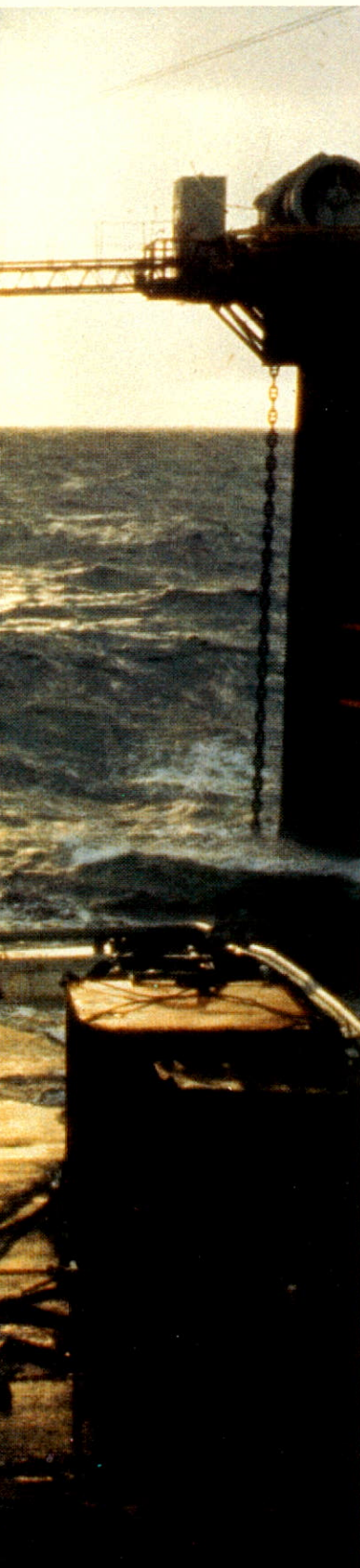
**Photo above**  
Caterpillar D9L tractor, equipped with ripper, builds drilling bench in North East Coal Development fields now producing coal for Japanese steel mills.

## Results in Brief

(dollars in thousands)	<b>*1983</b>	1982
Revenue	<b>\$372,652</b>	\$315,113
Income (loss) before income taxes	<b>9,457</b>	(4,621)
Net income	<b>8,504</b>	285
Capital expenditures	<b>2,602</b>	1,660
Net income per share	<b>\$ .52</b>	\$ .01
Income (loss) before income taxes as a percentage of revenue	<b>2.5%</b>	(1.5%)
Net income as a percentage of revenue	<b>2.3%</b>	.1%
Number of employees at year end	<b>2,243</b>	1,282

\*Figures reflect consolidated results including current year United Kingdom acquisitions.





## Report to the Shareholders

Revenue for the 12 months ended December 31, 1983, was \$372,652,000, compared to \$315,113,000 in 1982. Net income increased to \$8,504,000 from \$285,000. This amounts to 52 cents per share on the class A voting and class B non-voting shares compared to 1 cent per share in 1982.

The figures for the year are not readily comparable to last year because of the acquisition of the two United Kingdom Caterpillar dealerships. The reported results include revenue and net income from Bowmaker (Plant) Limited since July 1, 1983 and from Caledonian Tractor and Equipment Company Limited since October 1, 1983. Revenue from these two companies for these periods amounted to \$66,418,000, with income from operations of \$2,025,000.

The value of the net assets of the United Kingdom companies exceeded the purchase price by \$14,140,000. This difference, or purchase discount, is being credited to consolidated income over two years from the respective acquisition dates. Accordingly, \$3,025,000 has been included in net income as the proportionate amount for 1983.

We are very pleased with our operations in the United Kingdom. Due to the excellent co-operation from employees, the merger of the operations of the two companies has been completed smoothly and in a short period of time. These are good companies with a promising future. Their acquisition took a great deal of time but the time also provided the opportunity for us to do a thorough evaluation of their operations and of their markets, present and future. There have been no surprises.

One of the highlights of Bowmaker operations in 1983 was sale of 60 Caterpillar earthmoving machines to aid construction of a new airport in the Falkland Islands. Finishing touches are put to parts and service trailer for on-site backup while (left) Cat D9 tractor is hoisted aboard transport vessel. Engine markets are typified by English Channel fishing trawler powered by Cat 3412 diesels (top left) and marine installations and electric power generation by Caledonian in North Sea drill rigs.

Our North American operations are improving but profitability continues to be well below what we consider to be an acceptable level. Net income was \$3,454,000, which included \$942,000 income tax recovery.

Our short term borrowings were reduced from \$92,676,000 at the end of 1982 to \$50,271,000. Even when the \$40,455,000 of borrowings related to the U.K. acquisitions is included, our consolidated bank indebtedness and short-term debt of \$90,726,000 is still less than last year's total. Interest expenses amounted to \$16,897,000, compared with \$29,723,000 in the previous year.

Bad debt expenses, which plagued us severely over the past three years, finally declined from a level of \$7.9 million in 1982 to \$2.3 million.

Employment in North America increased to 1,333 at the end of 1983, compared with 1,282 at December 31, 1982. The total number of employees, including 910 for the U.K. operations, was 2,243.

A two-year collective agreement, including wages and benefits, was reached between the Company and the International Association of Machinists and Aerospace Workers. It is effective as of October 15, 1983.

A salary deferral program was implemented on September 1, 1982 and terminated on July 1, 1983. Deferred payments of \$1,982,000 were made to employees on October 21, 1983. The program was a success in protecting the equity of the Company. Employees developed a self-discipline in control of costs and displayed a positive attitude and support for the Company's objective.

At no time during this recession have we closed any of our facilities. We sincerely believe we have maintained the level of service to all of our customers even though in some areas it was uneconomical to do so.

The strike which shut U.S. manufacturing plants of the Caterpillar Tractor Co. for seven months from September 30, 1982 until April 25, 1983, did not have adverse consequences in terms of our ability to maintain customer services. However, we had to incur extra costs of approximately \$500,000 in procurement of parts.

Report to the Shareholders



W.M. Young (right), chairman of the board and chief executive officer, accepts commemorative plaque from R.E. Gilmore, president, Caterpillar Tractor Co., during 50th anniversary reception in Vancouver.

Economic recovery has been slow but North American operations did show improvement. While interior lumber exports were much better, the coastal forest industry was still affected by weak off-shore markets. Mining markets, with the exception of coal and placer gold, remained very depressed. Even in the southeast coal fields, machine utilization was below historic levels.

Major construction projects, such as the Revelstoke Dam and the B.C. Railway extension and infrastructure for the North East Coal Development, have been completed and there are no other projects imminent to replace this volume of work.

Despite the state of our markets, there is some comfort in the fact that our operating costs have been reduced and the Company is functioning more effectively.

It was just two years ago in the Annual Report that we showed a photograph of the new Caterpillar D10 tractor, the world's largest, in a radically new and exclusive under-carriage configuration called "high drive." This new technology is so effective that since then it has been introduced into the next largest models of crawler tractors, the D9 and D8. These machines are establishing new records for productivity, economy and serviceability.

We were most grateful for a visit from the president of the Caterpillar Tractor Co., Robert Gilmore, and executives of Caterpillar Americas Co. to commemorate the Company's 50th anniversary. It was also an occasion to reaffirm the mutual esteem between our two companies which has flourished for half a century in a world which has been so difficult for continuing institutions.

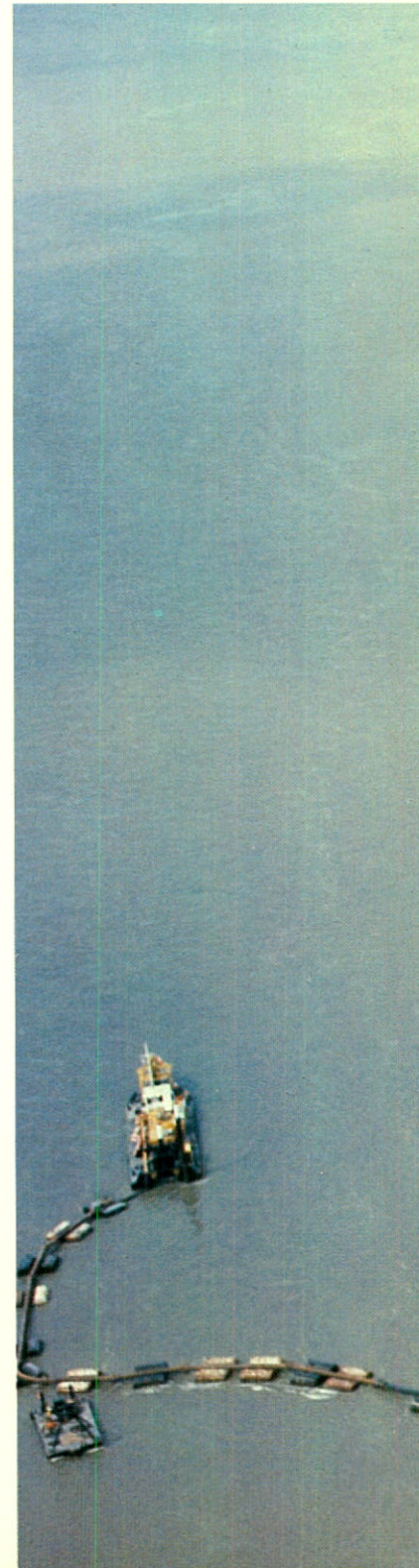
1983 also marked the retirement of our executive vice president, Robert Biss, after 42 years of distinguished and dedicated service to the Company. We are honoured that he will continue his association as a member of the Board of Directors.

In conclusion, we sincerely thank, and commend, all of our employees for their performance and dedication in what has been another difficult year.

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

V.K. SOOD  
President and  
Chief Operating Officer

Artificial drill sites begin to take shape in Mackenzie River as dredges, powered by Caterpillar D399 diesels, scoop sand and gravel from river bottom for island fill. Other Cat equipment includes (top left to right) twin 3208 engines powering crew boat; D7G tractor dozing dredged material, and barge-mounted 225 hydraulic excavator digging pipeline trench.









## Highlights of Operations

	Revenue	Income (Loss) Before Income Taxes	Net Income	Capital Expenditures	Dividends Paid	Net Income per Share	Income (Loss) Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
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
1982	315,113,000	(4,621,000)	285,000	1,660,000	1,371,000	.01	(1.5%)	.1%	1,282
*1983	372,652,000	9,457,000	8,504,000	2,602,000	975,000	.52	2.5%	2.3%	2,243

\*Figures reflect consolidated results including current year United Kingdom acquisitions.

One of eight Caterpillar heavy-duty lift trucks, this 930 wheel loader equipped with mast provides fast, year round lumber handling at Prince George sawmill.

### Average Number of Employees

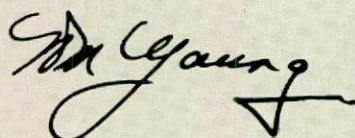


# Consolidated Balance Sheets

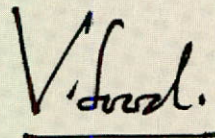
as at December 31

	1983	1982
<b>Assets</b>		
Accounts receivable . . . . .	<b>\$ 79,278,828</b>	\$ 43,077,530
Instalment notes receivable (Note 2) . . . . .	<b>43,874,517</b>	46,116,964
Inventories —		
Equipment (Note 3) . . . . .	<b>122,179,902</b>	115,155,181
Parts and supplies . . . . .	<b>49,544,757</b>	38,867,095
Equipment leased to customers (Note 4) . . . . .	<b>42,331,363</b>	60,013,763
Land, buildings and equipment (Note 5) . . . . .	<b><u>59,467,476</u></b>	<u>51,101,030</u>
	<b><u>\$396,676,843</u></b>	<u>\$354,331,563</u>

Approved by the Directors:

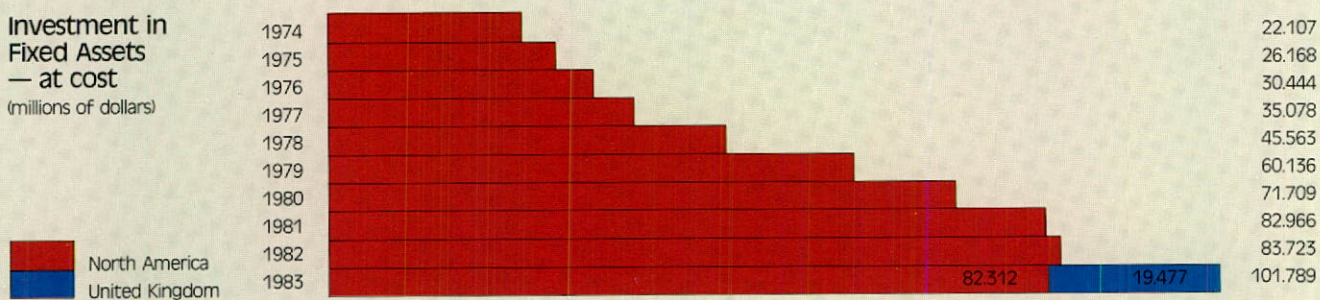


W.M. Young, Director



V.K. Sood, Director

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

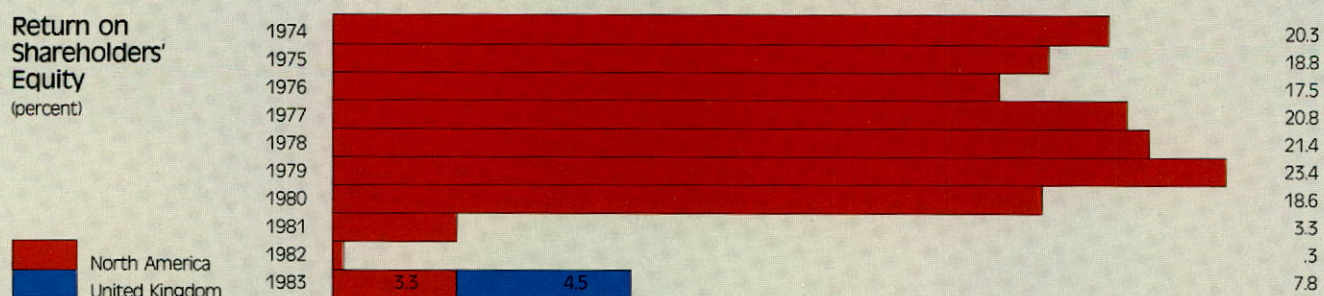


# Finning Tractor & Equipment Company Limited

	1983	1982
<b>Liabilities and Shareholders' Equity</b>		
Bank indebtedness (Note 6) . . . . .	<b>\$ 90,725,584</b>	\$ 92,675,847
Accounts payable and accruals . . . . .	<b>66,008,503</b>	32,217,433
Income taxes payable (Note 7) . . . . .	<b>8,081,635</b>	1,637,773
Secured debentures (Note 8) . . . . .	<b>26,682,000</b>	27,472,000
Convertible debentures (Note 9) . . . . .	<b>65,000,000</b>	65,000,000
Deferred income taxes (Note 7) . . . . .	<b>27,668,166</b>	30,151,835
Total liabilities . . . . .	<b><u>\$284,165,888</u></b>	<u>\$249,154,888</u>
Shareholders' equity (Note 8) —		
Share capital (Notes 9 and 10) . . . . .	<b>\$ 11,979,512</b>	\$ 12,132,912
Cumulative translation adjustments . . . . .	<b>(37,047)</b>	4,809
Retained earnings . . . . .	<b>100,568,490</b>	93,038,954
Total shareholders' equity . . . . .	<b><u>\$112,510,955</u></b>	<u>\$105,176,675</u>
	<b><u>\$396,676,843</u></b>	<u>\$354,331,563</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.



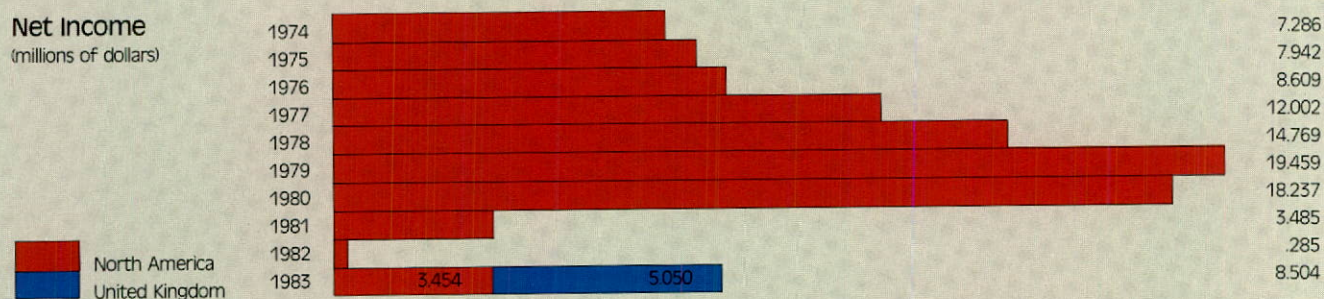
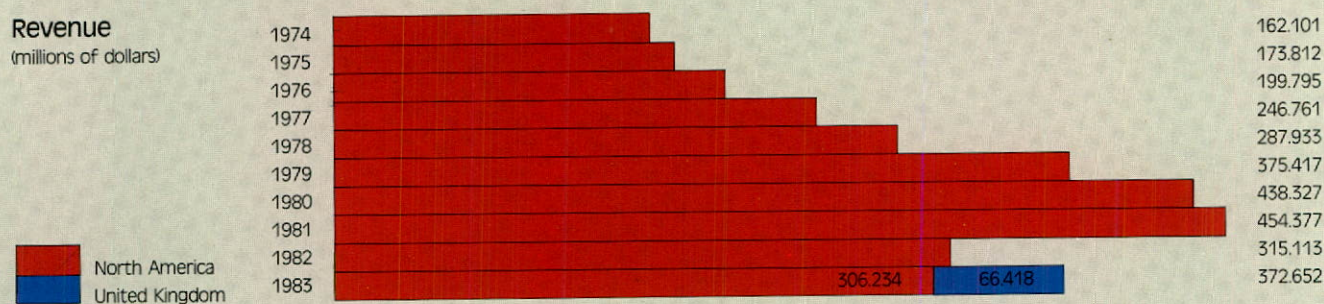
# Consolidated Statements of Income and Retained Earnings

for the years ended December 31

	1983	1982
Revenue .....	<b>\$372,652,126</b>	\$315,113,310
Expenses (Notes 12 and 13) —		
Cost of sales and selling .....	<b>\$316,130,923</b>	\$260,277,878
General and administrative .....	<b>29,028,303</b>	29,733,125
Interest .....	<b>18,036,328</b>	29,723,001
	<b>\$363,195,554</b>	\$319,734,004
Income (loss) before provision for (recovery of) income taxes . . .	<b>\$ 9,456,572</b>	\$ (4,620,694)
Provision for (recovery of) income taxes (Note 7) .....	<b>952,406</b>	(4,905,647)
Net income .....	<b>\$ 8,504,166</b>	\$ 284,953
Retained earnings, beginning of year .....	<b>93,038,954</b>	94,125,302
	<b>\$101,543,120</b>	\$ 94,410,255
Dividends paid .....	<b>974,630</b>	1,371,301
Retained earnings, end of year .....	<b>\$100,568,490</b>	\$ 93,038,954
Net income per share (Note 14) .....	<b>\$ .52</b>	\$ .01

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.



**Consolidated Statements  
of Changes  
in Financial Position**  
for the years ended December 31

	1983	1982
Cash generated by current operations:		
Net income . . . . .	\$ 8,504,166	\$ 284,953
Add (deduct) items not involving cash —		
Depreciation —		
Rental inventory . . . . .	12,012,975	13,681,559
Equipment leased to customers . . . . .	15,136,851	21,224,168
Buildings and equipment . . . . .	4,419,011	4,312,369
Gain on sale of land . . . . .	(551,939)	—
Deferred income taxes . . . . .	(2,483,669)	(5,358,038)
Amortization of purchase discount (Note 11) . . . . .	(3,025,085)	—
Total cash from current operations . . . . .	<u>\$ 34,012,310</u>	<u>\$ 34,145,011</u>
Cash (used in) generated from operating assets and liabilities:		
Accounts receivable . . . . .	\$ (11,289,192)	\$ 18,368,023
Instalment notes receivable . . . . .	2,242,447	17,244,128
Inventories —		
Equipment . . . . .	(2,031,889)	(17,883,375)
Parts and supplies . . . . .	(1,258,709)	3,078,903
Equipment leased to customers, net of disposals . . . . .	4,145,555	8,819,295
Accounts payable and accruals . . . . .	14,671,036	10,708,194
Income taxes . . . . .	2,849,955	393,074
	<u>\$ 9,329,203</u>	<u>\$ 40,728,242</u>
Net cash generated from operations . . . . .	<u>\$ 43,341,513</u>	<u>\$ 74,873,253</u>
Other uses (sources) of cash:		
Acquisition of operations in the United Kingdom (Note 11) . . . . .	\$ 26,553,624	\$ —
Add: bank indebtedness assumed . . . . .	13,844,688	—
	<u>\$ 40,398,312</u>	<u>\$ —</u>
Land, buildings and equipment —		
Additions . . . . .	2,602,425	1,660,383
Proceeds on disposal . . . . .	(3,194,861)	(344,246)
Purchase of secured debentures . . . . .	790,000	728,000
Redemption (issue) of preferred shares, net . . . . .	153,400	(780,950)
Cumulative translation adjustments . . . . .	(332,656)	(96,992)
Dividends paid . . . . .	974,630	1,371,301
	<u>\$ 41,391,250</u>	<u>\$ 2,537,496</u>
Net decrease in bank indebtedness . . . . .	<u>\$ 1,950,263</u>	<u>\$ 72,335,757</u>

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

# Notes to Consolidated Financial Statements

December 31, 1983 and 1982

## 1. Summary of Significant Accounting Policies

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Active subsidiaries include:

- Airpro Equipment, Inc.
- Airpro Equipment Ltd., also operating as Finning Air Products Division
- Bowmaker (Plant) Limited
- Caledonian Tractor and Equipment Company Limited

Acquisitions are accounted for by the purchase method and consolidated financial statements include the results of subsidiaries from the dates of acquisition.

### CURRENCY TRANSLATION

Accounts in foreign currencies are translated into Canadian dollars as follows: Assets and liabilities using the exchange rates in effect at the balance sheet dates; revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; all unrealized translation gains and losses are deferred and are shown as a separate component on the balance sheet.

### INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item, actual cost basis for both on hand and rental equipment. For parts and supplies, approximately 80% is recorded on a first-in, first-out basis and the remainder on a weighted average basis.

Rental equipment inventories are depreciated on the basis of rentals billed over the term of the rental after giving recognition to the estimated residual value of each unit at the end of each rental.

### 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%      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. Instalment Notes Receivable

Instalment notes receivable are recorded at principal balances and include \$16,458,798 due after one year (\$15,772,401 in 1982).

## 3. Equipment Inventories

Equipment inventories consist of the following:

	1983	1982
On hand equipment .....	\$ 65,879,809	\$ 54,002,353
Rental equipment .....	\$ 81,007,125	\$ 82,325,654
Less accumulated depreciation .....	24,707,032	21,172,826
	<b>\$ 56,300,093</b>	<b>\$ 61,152,828</b>
	<b>\$122,179,902</b>	<b>\$115,155,181</b>

## 4. Equipment Leased to Customers

	1983	1982
Cost .....	\$ 76,348,062	\$103,575,063
Less accumulated depreciation .....	34,016,699	43,561,300
	<b>\$ 42,331,363</b>	<b>\$ 60,013,763</b>

Under the terms of the lease agreements in effect at December 31, 1983, \$8,700,405 of the above costs will be recovered in 1984 (\$11,065,807 in 1983).

## 5. Land, Buildings and Equipment

Land, buildings and equipment consist of the following:

	1983	1982
Land .....	\$ 12,049,004	\$ 11,286,290
Buildings and equipment .....	\$ 89,739,511	\$ 72,436,815
Less accumulated depreciation .....	42,321,039	32,622,075
	<b>\$ 47,418,472</b>	<b>\$ 39,814,740</b>
	<b>\$ 59,467,476</b>	<b>\$ 51,101,030</b>

<b>6. Bank Indebtedness</b>	Bank indebtedness consists of the following:	<b>1983</b>	1982
	Demand bank notes . . . . .	\$ 43,958,614	\$ 2,933,302
	Bankers' acceptances payable at various dates within 23 days after December 31, 1983 (within 32 days after December 31, 1982) . . . .	46,766,970	89,742,545
		<u>\$ 90,725,584</u>	<u>\$ 92,675,847</u>

The loan agreement with the bank contains certain restrictions which, among other things, limit distribution to shareholders as explained in Note 8.

**7. Income Taxes** The provision for income taxes in 1983 (recovery of income taxes in 1982) gives recognition to the benefits of the investment tax credit and the tax inventory allowances. Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from the Company's accounting policies. The primary sources of these differences relate to the following assets:

- Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded as explained in Note 1 while for income tax purposes, maximum capital cost allowances are claimed.
- 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.
- 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.

**8. Secured Debentures** This debt consists of 9¾% 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 \$980,350 at December 31, 1983 (\$3,484,987 at December 31, 1982). In accordance with the terms of the Trust Indenture, 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 addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

**9. 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.

**10. Share Capital** In January, 1983, 2,600 (127,975 in 1982) Cumulative Redeemable Convertible Preferred Shares, Series B were issued for cash under terms of an employee share purchase plan.

Share capital consists of the following:			
AUTHORIZED —		<b>1983</b>	1982
5,000,000	Preferred shares without par value. 1,200,000 of these shares are designated as follows: 600,000 as Cumulative Redeemable Convertible Preferred Shares, Series A 600,000 as Cumulative Redeemable Convertible Preferred Shares, Series B		
40,000,000	Class A voting shares		
40,000,000	Class B non-voting shares		
ISSUED AND OUTSTANDING —			
157,720	Cumulative Redeemable Convertible Preferred Shares, Series A (175,660 — 1982) . . . . .	\$ 1,577,200	\$ 1,756,600
130,575	Cumulative Redeemable Convertible Preferred Shares, Series B (127,975 — 1982) . . . . .	1,305,750	1,279,750
7,919,451	Class A voting shares (7,928,553 — 1982) . . . . .	4,534,926	4,540,123
7,966,149	Class B non-voting shares (7,957,047 — 1982) . . . . .	4,561,636	4,556,439
		<u>\$ 11,979,512</u>	<u>\$ 12,132,912</u>

## Notes

### 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 being issued.

### SERIES A AND SERIES B PREFERRED SHARES

The cumulative preferential cash dividends on the series A and series B 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.

The 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 157,720 series A preferred shares presently outstanding are convertible at a price of \$18.40 per class A voting share.

The series B 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 B non-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 130,575 series B preferred shares presently outstanding are convertible after October 27, 1984 at a price of \$8.37 per class B non-voting share.

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

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, as such, 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, 9,102 class A voting shares were converted into class B non-voting shares.

## 11. Acquisitions

The Company acquired all of the outstanding shares of Bowmaker (Plant) Limited and Caledonian Tractor Holdings Limited effective July 1, 1983 and October 1, 1983 respectively. Both companies, which operate in the United Kingdom, distribute and service Caterpillar products.

The results of these operations have been included in the consolidated financial statements from the dates the acquisitions were made. The value of the net assets acquired exceeded the purchase price by \$14,139,918. This difference, or purchase discount, is being credited to consolidated income over two years from the respective acquisition dates.

Net assets acquired at assigned values include:	Bowmaker	Caledonian	Combined
Accounts receivable	\$ 17,015,509	\$ 7,896,597	\$ 24,912,106
Inventories —			
Equipment	9,892,051	5,319,484	15,211,535
Parts and supplies	5,959,108	2,249,812	8,208,920
Equipment leased to customers	—	1,655,659	1,655,659
Land, buildings and equipment	8,114,580	5,009,453	13,124,033
	<u>\$ 40,981,248</u>	<u>\$ 22,131,005</u>	<u>\$ 63,112,253</u>
Bank indebtedness	\$ 7,437,536	\$ 6,407,152	\$ 13,844,688
Accounts payable and accruals	11,223,117	7,896,917	19,120,034
Income taxes payable	3,222,971	370,936	3,593,907
	<u>\$ 21,883,624</u>	<u>\$ 14,675,005</u>	<u>\$ 36,558,629</u>
Cash consideration	\$ 19,097,624	\$ 7,456,000	\$ 26,553,624

## 12. Pension Plans

The Company and its subsidiaries offer pension plans to employees. Independent consultants prepare actuarial reports every two years for the Company's plans. On the basis of an actuarial evaluation made at December 31, 1981, the value of the plans' assets exceeded liabilities by \$254,300. This surplus was primarily due to improved investment performance totalling \$2,021,642 which has been credited to expense in equal annual amounts in 1983 and 1982. Past service costs of \$1,745,157 resulting from changes to the Company's plans to improve benefits payable are being charged to expense over varying periods up to 12 years.

Total pension expense, including contributions to statutory plans, was \$842,433 in 1983 (\$865,395 in 1982).

## 13. 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 \$1,055,780 in 1983 (\$973,295 in 1982). The increase in 1983 is due to payment of deferred salaries for the period September 1 to December 31, 1982.

## 14. Net Income per Share

Net income per class A voting and class B non-voting share has been calculated after reducing net income by \$180,350 in 1983 (\$179,881 in 1982) being the dividends on the series A and series B 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, series B preferred shares or the Convertible Debentures were converted.

## 15. Economic Relationships

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



**16. Comparative Figures**

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983.

**17. Segmented Information**

The Company and its subsidiaries have operated primarily in one industry during the year, that being the sale and servicing of heavy equipment and related products.

Operating branches are located in Western Canada, the Northwestern United States, England, Wales and Scotland. There have been no transfers between geographic segments.

The reportable geographic segments for 1983 are:

	Western Canada and the Northwestern United States	United Kingdom	Segment Eliminations	Consolidated
Revenue . . . . .	\$306,233,748	\$ 66,418,378		\$372,652,126
Income before amortization of purchase discount and provision for (recovery of) taxes . . . . .	\$ 2,511,974	\$ 3,919,513		\$ 6,431,487
Amortization of purchase discount . . . . .	—	3,025,085		3,025,085
Income before provision for (recovery of) income taxes . . . . .	\$ 2,511,974	\$ 6,944,598		\$ 9,456,572
Provision for (recovery of) income taxes . . . . .	(942,000)	1,894,406		952,406
Net income . . . . .	\$ 3,453,974	\$ 5,050,192		\$ 8,504,166
Operating assets . . . . .	\$278,816,378	\$ 60,567,381	\$ (2,174,392)	\$337,209,367
Other assets . . . . .	46,414,590	13,052,886		59,467,476
Total assets . . . . .	\$325,230,968	\$ 73,620,267	\$ (2,174,392)	\$396,676,843

## 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 of all information available up to February 3, 1984.

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 3, 1984

## 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, 1983 and 1982, 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.

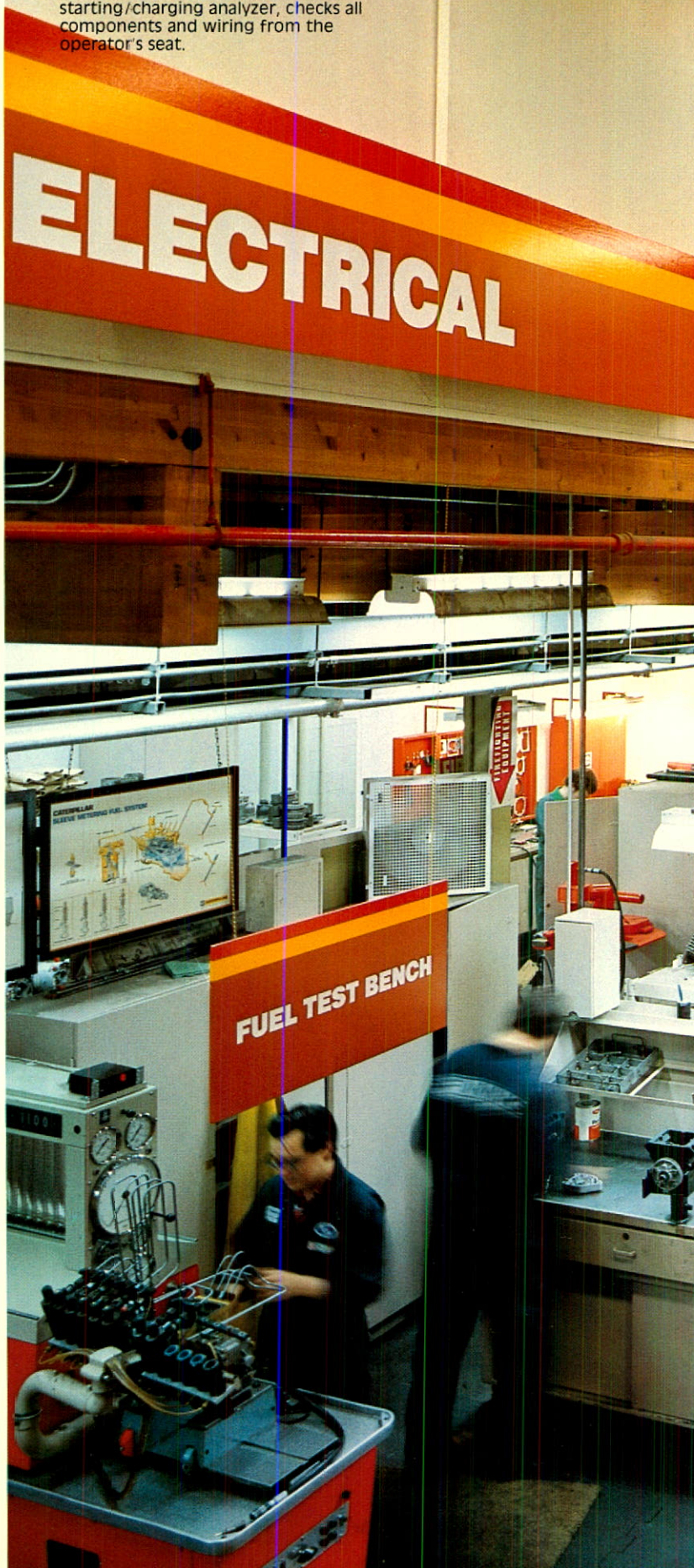
In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.  
Chartered Accountants

February 3, 1984  
Vancouver, Canada



New Remanufacturing Centre in Vancouver serves all company operations in remanufacturing of machine components. Some 35 specialists use latest test and repair equipment in 20,000 square foot facility. Other product support services include (from top) Finning Parts Express. Fleet provides daily service to mainland B.C. operations and thrice-weekly deliveries to Vancouver Island. Customers benefit from savings in Costwatcher program which uses remanufactured components and reuses parts. Ideal diagnostic tool, starting/charging analyzer, checks all components and wiring from the operator's seat.





COMPRESSORS

WATER PUMPS

HYDRAULIC

SURFACE GRINDER





## Review of Operations

Revenue from North American operations declined slightly in 1983 as the Company's markets remained depressed, except for the forest industry, the traditional leader of the British Columbia economy. It was mainly a year of stabilization with further efforts to reduce costs and consolidate inventories.

Industry sales of Caterpillar core-type products were up only marginally but through aggressive marketing against stiff competition, the Company's sales improved significantly. Indicative of the depressed state of markets is the fact that total machine volume was comparable to that recorded in the 1960s.

### FOREST PRODUCTS

The forest products industry emerged from its worst recession since the 1940s. A dramatic upturn in housing starts in the United States gave Interior Lumber producers an excellent year. Coastal lumber manufacturers continued to feel the effects of the slump in off-shore markets, notably Europe and Japan. Pulp and paper production improved in the latter part of 1983. Newsprint volume was up and pulp prices had firmed by year-end.

More than 60 percent of the Company's machine volume was in the forest products sector. Sales of hydraulic excavators for roadbuilding and of excavators adapted for tree harvesting climbed markedly. The first Caterpillar D8L tractors went into the woods to build roads and the same model set new production standards in chip dozing at pulp mills.

### MINING

With the exception of gold and coal operations, the mining industry continued to be faced with weak demand and prices. Of 32 mines in the province's mining association, only 21 were operating in 1983 and some of these were below peak capacity.

Copper, which until the recent growth in coal production, was the province's chief mineral in the mining economy, bore the brunt of the recession along with molybdenum.

Domed B.C. Place Stadium gives backdrop to Caterpillar 225 hydraulic excavator preparing site for light rapid transit station near Georgia Viaduct in Vancouver.

Zinc prices were better during the year making that the only industrial metal that did well in 1983.

Coal production and values were the bright spot in mining. The North East Coal Development project, with ancillary construction of railway lines, roads, the Tumbler Ridge townsite and Ridley Island terminal, was completed and the first coal was shipped on schedule in December. Two large mines in the long-established coal fields in the southeast corner of the province, which went into production in 1982, were officially opened.

The North East Coal Development and replacement of machines in other coal operations resulted in multiple-unit sales of the largest Caterpillar machines — D10 and D9L tractors, model 16 motor graders, 992 wheel loaders and similar earthmoving units.

Placer gold production in the Yukon showed a good increase in volume and values. Activity stabilized to more normal levels following the "gold rush fever" of 1980 and the downturns in succeeding years. Curtailed operations at the Territory's two large hardrock mines seriously affected recovery.

### HEAVY CONSTRUCTION

While 1983 saw completion of major earthmoving projects, such as North East Coal Development infrastructure and the Revelstoke Dam, contractors did benefit from increased expenditures by the provincial government highways department. However, excess capacity still exists in contractors' fleets.

The major work on the horizon involves construction of the Mount Macdonald Tunnel for CP Rail. This will twin the Connaught Tunnel in the Selkirk Mountains between British Columbia and Alberta. Supporting surface lines and a smaller tunnel are also to be built. The project, estimated at \$650 million, will commence in the spring. Other railway expansion includes further double tracking of both CP Rail and Canadian National Railways main lines.

### OIL AND GAS

Oil and natural gas companies did not have one of their better years. In British Columbia, there was no major



## Review of Operations

pipeline construction and exploration was very limited.

In the Mackenzie River Valley, drilling activity maintained favorable levels. The megaproject at Norman Wells by Esso Resources Canada Ltd., which produced an \$8 million equipment order in 1982, was 65 percent completed. This involves the construction of drilling islands in the Mackenzie River and an oil pipeline to be built in 1984, with production anticipated at 35,000 barrels a day.

### GUARANTEED AVAILABILITY

An innovative and key marketing tool in 1983 was provision of an exclusive three-way guarantee of machine availability to all purchasers of new Caterpillar equipment, excepting engines, pipelayers and lift trucks.

This no-charge program, called PLUS 3, gives the owner a three-year or 5,000-hour extended warranty on power train components; guaranteed 48-hour parts availability; and 48-hour machine repair turn-around time. PLUS 3 was well accepted by customers.

### USED EQUIPMENT

Further consolidation and improvement in the used equipment inventory was accomplished during 1983. International sales volume was the highest on record and included sizeable shipments to Australia, Algeria, Israel and other off-shore countries. Sales in the United States were strong.

There are still problems with excess inventory of a few models but in comparison with 1982, stocks are realistic and market opportunities are brighter. Acquisition of the dealerships in the United Kingdom will enhance our trading ability in used equipment.

### FINANCIAL SERVICES

The low level of machine sales was reflected in the Company's lease and

conditional sales contract portfolios. Total value of the portfolios was \$86.2 million compared to the previous year's approximately \$106 million. Various leasing options continue to be marketed for their advantage of attractive interest solutions for protecting cash flows, reducing owning and operating costs and conserving capital.

### PARTS AND SERVICE

Parts sales volume dropped marginally in 1983, primarily due to decreased activity in the mining sector. Costs of procurement and replenishment of inventories were higher. This was the effect of a seven-month strike at Caterpillar's factories in the United States which ended late in April. Service was maintained throughout the strike period, to the extent that many customers were not aware that a shutdown was in force. To avoid disruptions in service, some emergency orders were filled by Caterpillar plants in Europe and the parts flown to Vancouver.

Service revenue declined slightly. Every effort is being made, and with success, to lower costs for our customers. The latest and most sophisticated diagnostic tools and instruments have been purchased to minimize time spent in trouble shooting and problem analysis.

Special repair and overhaul programs, such as the "Costwatcher," give the customer faster turnaround times and lower costs plus written guarantees on prices, parts and workmanship.

The "Costwatcher" service uses remanufactured components and re-uses parts that meet Caterpillar's reusability guidelines. Any parts that are re-installed are covered by new parts warranty.

### REMANUFACTURING CENTRE

A centralized centre for the remanufacture of machine components became fully operational in July. The centre is located in a 20,000 square foot plant in the main Vancouver complex.

Components and assemblies are shipped in to Vancouver from all operations, remanufactured, and used in repairs or placed in Exchange

inventories. Centralization, through specialization and volume, provides efficiencies and economies which are passed on to the customer. Prices of Exchange components have been reduced substantially.

The range of components that are being remanufactured is steadily being expanded and now includes such large, intricate items as power shift transmissions. Since start-up, the workforce in the reman centre has almost doubled, from 26 to 51. All of the mechanics are specialists.

### DIVISIONAL OPERATIONS

The Air Products Division, which operates in British Columbia and the Yukon, and the Airpro operations in Alberta, Saskatchewan, Washington and Oregon, continued to feel the impact of interest costs on excessive inventories. Revenues and profits decreased in the face of depressed markets. Operations in the United States did benefit from economic recovery and reported a slight growth in sales and profitability.

Sales of new cranes in British Columbia and Alberta were minimal as the industry suffered from reduced demand, the lack of large projects and high inventories of used cranes. Merchandising programs concentrated on moving used units and by the end of the year, the inventory had been improved although problems remain with particular models.

### LIFT TRUCKS

Cost control measures and inventory reduction led to improved performance for the Lift Truck Division and a turnaround in profitability over 1982.

Sales to the Interior forest industry of the larger models of lift trucks and of small Caterpillar wheel loaders fitted with lift truck masts were excellent; in fact, one of the best years ever as mill owners replaced and renewed their lift truck fleets. Sales activity was stagnant in other areas and other markets.

Most of the new products introduced by Caterpillar in 1983 were lift trucks. They give users a broader range of models and options for most materials handling operations at highly competitive prices.

Finning "road gang" works in logging road construction on Vancouver Island as (top) Caterpillar 235 Roadbuilder equipped with Tramac hammer breaks rock; dozer-equipped DJB D25B articulated dump truck hauls and spreads ballast, and Tammo vibratory compactor packs base material.

## Review of Operations

The new "R series" of rough terrain trucks, with 4,000 to 8,000-pound capacities, features high ground clearance, high flotation tires and lift heights of up to 30 feet. Their main application is on building sites or in lumber yards.

A new class of electric pneumatic tire lift trucks, the "F series," has three-wheel versions in 2,500 to 3,500-pound capacities for warehousing applications where size and manoeuvrability are critical. Compact four-wheel models are available in 4,000 to 6,000-pound sizes.

Of particular importance and an entry into a sizeable market is the V925, a 75,000-pound capacity container handler, manufactured under contract in Norway. This truck, which performed extremely well in field tests, has high potential in stevedoring and also currently is undergoing adaptation as a log and lumber handler. One of the first four units to be produced has been placed with a firm in the Lower Mainland for container handling.

Caterpillar's lift truck subsidiary, Towmotor Corporation, has contracted with Daewoo Heavy Industries Ltd., of Korea, to manufacture pneumatic and solid tire lift trucks in the 4,000 to 6,000-pound range. Volume production is slated for mid-1984.

### LIGHT INDUSTRIAL

Industry sales of small machines declined further from the low levels of 1982. While industry volume was down, the Company's sales increased marginally. Late in the year, Caterpillar produced a new 75 horsepower tractor, which fits between the D3B and D4E. Demonstrations of this D3BHP were conducted in the Vancouver area, beginning in December, and were well received. Sales of JCB loader backhoes reflected the downturn in the small machine market.

### POWER PRODUCTS

A backlog of orders for Caterpillar engines and electric sets, principally for energy-related projects in the Beaufort Sea, kept the Power Products Division busy until mid-year. Generator set rentals maintained a moderate pace throughout the year

but were below previous levels because of the lack of capital intensive work programs.

The fishing industry continued to be plagued by problems of dwindling stocks, overcapacity and lower prices. This decline of a traditional and important market is a long-term as well as immediate concern.

The 3500 series of Caterpillar engines, rated from 600 to 1600 horsepower, was introduced in 1983. Several of these engines have already been installed in work boats. They also open up a sizeable opportunity in the repowering of off-highway trucks in mining operations.

On-highway truck engine sales were at an all-time low early in the year but recovery began with new truck sales in the third quarter. Caterpillar truck engine population continues to increase and to provide a broadening base for parts and repair service and repower installations. The Truck Depot in Burnaby ended the year on a strong note.

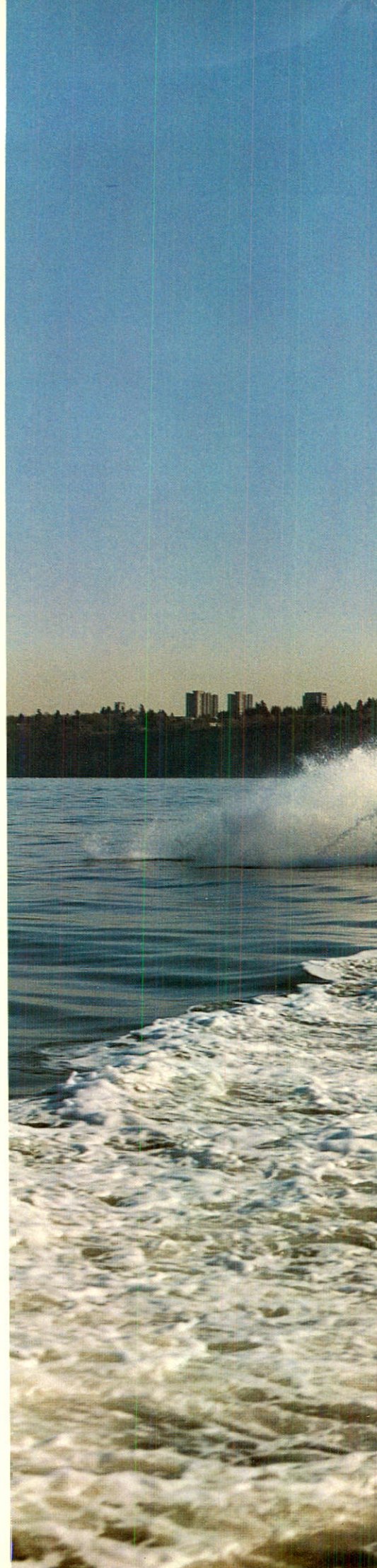
### CAPITAL EXPENDITURES

Capital expenditures for the year totalled \$2.6 million compared to \$1.7 million in 1982. The principal expenditures were for completion of the Remanufacturing Centre in Vancouver, expansion of facilities at Inuvik in the Northwest Territories and a new computer installation at Bowmaker to serve the United Kingdom operations.

### NUMBER OF EMPLOYEES

The number of employees in North American operations at December 31 was 1,333, compared to 1,282 in 1982. Total wages, salaries and benefits paid in 1983 was \$56,932,260 as against \$59,015,015 the previous year.

The number of employees in the United Kingdom at December 31 was 910. Total wages, salaries and benefits paid to Bowmaker employees since July 1, 1983 and to Caledonian employees since October 1, 1983 was \$8,293,281.





Latest marine engines, twin 355-hp Caterpillar 3208TA diesels, repowered this 35-foot pleasure craft. At right, a Cat 980C wheel loader unloads chip barge at Elk Falls; a 235 feller buncher, a hydraulic excavator equipped with head for falling and bunching trees, works near Prince George and Cat 992C wheel loader combines with 773B truck in quarry operations near Giscome.



# Corporate Information

## Directors

WILLIAM T. BARKER, President, Consolidated Equipment & Supply Co. Ltd., Vancouver  
† H. CLARK BENTALL, Chairman of the Board, the Bentall Group Ltd., Vancouver  
ROBERT C. BISS, Retired.  
(Formerly Executive Vice President, Finning Tractor & Equipment Company Limited, Vancouver)  
† ROLF B. HOUGEN, President, Hougen's Limited, Whitehorse, Yukon  
° MICHAEL M. KOERNER, President, Canada Overseas Investments Limited, Toronto  
† THOMAS E. LADNER, Q.C., Partner, Ladner Downs, Vancouver  
° J. FRANK LEACH, Vice Chairman of the Board, 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 ° Member, Compensation Committee

## Officers

W. MAURICE YOUNG, Chairman of the Board and Chief Executive Officer  
VINOD K. SOOD, President and Chief Operating Officer  
\* W.F. (JERRY) HOLMES, Vice President Marketing  
\* DONALD W. LORD, Vice President Operations  
LYLE E. NORLANDER, Secretary  
PETER G. VON DER PORTEN, Treasurer  
\* Member, Executive Committee

## Operations, Division and Staff Managers

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  
C.A. HARRIS, Data Processing  
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  
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

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, MONTREAL STOCK EXCHANGE

## United Kingdom Operations

BERTRAM MORTON, Managing Director  
DEREK LEEKS, Executive Director


Caterpillar 16G motor grader,  
one of six, helps maintain  
mountainous haul roads in  
northeastern British Columbia.  
The 250 horsepower graders are  
part of fleet of Cat support  
equipment working at Canada's  
largest coal mine.





**FINNING**

 **YOUR CATERPILLAR DEALER**

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555 Great Northern Way, Vancouver, B.C., Canada V5T 1E2