STANDOUT PERFORMANCE

75 YEARS
1933-2008

FINNING INTERNATIONAL INC.
2007 ANNUAL REPORT

STANDOUT RESULTS

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MONETARY AMOUNTS IN THIS ANNUAL REPORT ARE IN CANADIAN DOLLARS UNLESS OTHERWISE NOTED

2007 was another year of record financial results and excellent growth in operations. Revenues grew 17% to $5.7 billion and diluted earnings per share rose 23% to $1.55[(1)]. We advanced strategic initiatives, added to our labour force and expanded our service capabilities. Strong new equipment sales continued to build the Caterpillar fleets in our territories, growing the base for future parts and service revenues. All of which outlines a future where Finning stands stronger than ever.

Finning West Edmonton Branch, Alberta

(1) Diluted EPS from continuing operations and before non-operating items

FINNING AT A GLANCE

Finning International Inc. is the world's largest Caterpillar equipment dealer. Finning sells, rents and provides customer support services for Caterpillar equipment and engines in Western Canada, the United Kingdom and parts of South America. Headquartered in Vancouver, British Columbia, Canada, Finning is a widely-held, publicly-traded corporation, listed on the Toronto Stock Exchange (symbol FTT).

	TERRITORY	EMPLOYEES	LOCATIONS	INDUSTRIES SERVED
CANADA				
Finning (Canada) OEM	British Columbia, Alberta, Yukon, the Northwest Territories, a portion of Nunavut	4,618	55 branches, 34 Cat Rental Stores and 40 resident locations	Mining (including oil sands), construction, pipelines, oil & gas, forestry
SOUTH AMERICA				
Finning South America	Chile, Argentina, Bolivia, Uruguay	4,638	73 locations	Mining, construction, oil & gas, forestry
UNITED KINGDOM				
Finning UK Group	England, Scotland, Wales	3,543	22 dealership branches 102 rental depots	Construction, mining, quarrying, waste management, engineering, petrochemicals, manufacturing, telecommunications, utilities, plant hire
POWER SYSTEMS				
Caterpillar and associated brands engine sales and service	All Finning territories	Employees and locations are recorded within other Finning divisions		Electric power, industrial, marine, construction, oil & gas, on-highway trucks

2007 SCORECARD & 2008 OBJECTIVES

From Continuing Operations	2007 TARGETS	2007 RESULTS	**2008 TARGETS**
Revenue growth	8% - 10%	16.7%	7% - 9%
Diluted EPS (long-term goal)	13.5% - 15%	18.3%	13.5% - 15%
EPS guidance range[(1)]	$1.48 - $1.60	$1.57 basic $1.55 diluted	$1.70 - $1.80
Dividend payout ratio	20% - 25%	23%	25% - 30%
Return on Equity (ROE)	15% - 20%	16.8%	15% - 20%
Free cash flow (before dividends)	$80 - $100 million	($110.7 million)	$100 - $120 million
Customer support services business growth (2005 to 2010)	15% CAGR[(2)]	7.4%	15% CAGR
UK divestitures (2006/2007)	$500 million	$480 million[(3)]	-
Debt to total capital ratio	40% - 50%	42.1%	40% - 50%
Safety (lost time injuries per 200,000 work hours)	0.80	0.52	0.60

2007 ACHIEVEMENTS

- Record revenues - $5.7 billion, up 17% from 2006
- Record diluted earnings per share (EPS) from continuing operations - $1.55 up 23% from 2006[(4)]
- Overall profitability (EBIT margin) improved to 8.0% from 7.3% in 2006 after adjusting for non-operating items
- Continued attractive return on equity = 16.8%
- Improved performance in the U.K. following execution of strategic initiatives
  - Divested the Tools Hire Division
  - Implemented IT system at Hewden
- Increased quarterly dividend twice to $0.40 annual indicated dividend
- Hired over 1,300[(5)] new employees (net), primarily in Canada and South America
- Initiated share buy back (repurchased 3.7 million shares in 2007)
- Achieved excellent safety performance

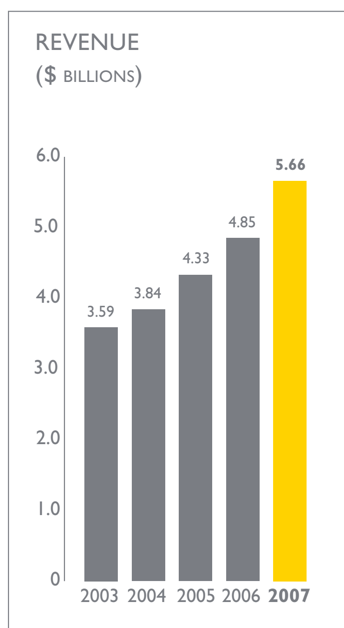
OPPORTUNITIES

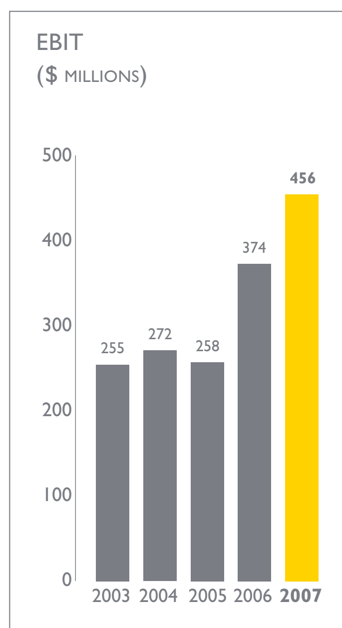
- Strong order backlog of $1.7 billion as at December 31, 2007
- Attractive growth in higher margin parts and service business
- Excellent mining fleet expansion (including oil sands)
- Strong general construction markets in all territories
- Growing demand for electric power generation, particularly in South America and the U.K.
- Continued performance improvement from the UK operations
- Focus on profitability, return on capital and long-term growth

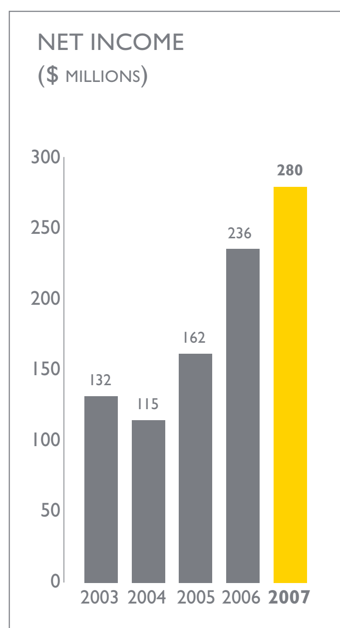
(1) Basic EPS from continuing operations (original 2007 guidance range $1.40 - $1.48)
(2) Compound Annual Growth Rate
(3) Gross proceeds (assumes real estate sales for approximately $60 million)
(4) After adjusting for non-operating items
(5) Excludes Hewden employees

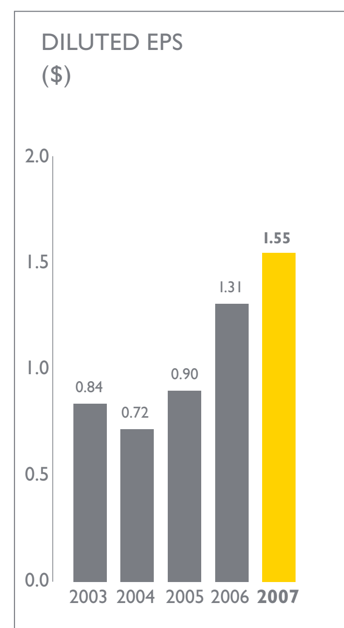
FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31 ($MILLIONS, EXCEPT PER SHARE AMOUNTS)	**2007**	2006	2005
OPERATING DATA (from continuing operations)			
Revenue	5,662.2	4,853.2	4,328.3
Earnings Before Interest & Income Taxes (EBIT)	455.8	373.7	258.0
Net Income	280.1	236.2	161.7
Diluted Earnings Per Share (EPS)	1.55	1.31	0.90
Return on Equity (%)	16.8%	15.8%	11.8%
Cash Flow from Operations After Working Capital Items	404.4	460.2	478.8
BALANCE SHEET DATA			
Total Assets	4,134.2	4,200.8	3,736.4
Invested Capital	2,794.8	2,787.9	2,644.7
Total Shareholders' Equity	1,617.8	1,624.4	1,413.0
Debt to Total Capital	42%	42%	47%









Finning West Edmonton Branch, Alberta

Hartlepool, U.K.

The results of operations of the Materials Handling Division have been reclassified as discontinued operations for 2006, 2005 and 2004.
The results of operations of the Tools Hire Division have been reclassified as discontinued operations for 2007, 2006 and 2005.

FINANCIAL PERFORMANCE BY CONTINUING OPERATIONS ($ MILLIONS)

	REVENUE		EBIT	
	2007	2006	**2007**	2006
Canada	2,936.2	2,612.6	286.3	233.3
South America	1,325.6	1,009.9	127.4	108.9
UK	1,400.4	1,230.7	73.0	65.0
Power Systems	821.3	694.1		

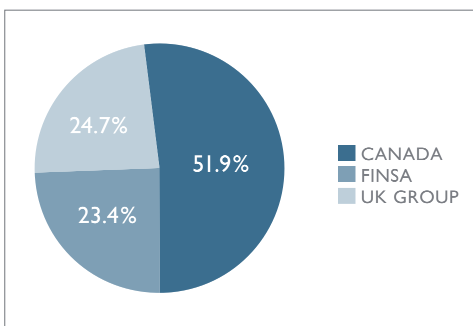
Power Systems revenues are reported within other Finning divisions

REVENUE BY LINES OF BUSINESS - CONTINUING OPERATIONS[(1)] ($ MILLIONS)

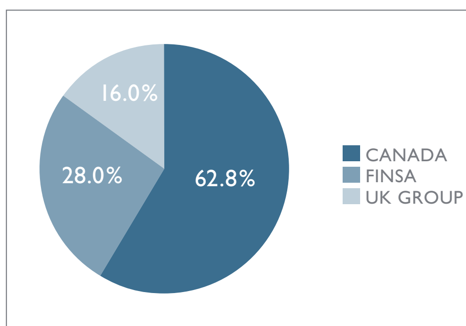
	2007		**2006**	
New Mobile Equipment	2,233.5	39.4%	1,732.8	35.7%
New Power & Energy Systems	503.0	8.9%	419.9	8.7%
Customer Support Services	1,701.2	30.0%	1,583.5	32.6%
Equipment Rental	781.2	13.8%	693.2	14.3%
Used Equipment	417.6	7.4%	401.1	8.2%

(1) Excludes other revenue

REVENUE BY OPERATIONS



EBIT BY OPERATIONS[(2)]



(2) Excludes other corporate items

Finning Branch, Coquimbo, Chile

Finning West Edmonton Branch, Alberta

LONG-STANDING SUCCESS

Conrad Pinette, Chairman of the Board

Doug Whitehead, President & Chief Executive Officer

As this is my last letter to shareholders as Chief Executive Officer of Finning, it is a special pleasure to report that 2007 was another very successful year. We posted excellent operating and financial results, and we made significant advances in our strategic and people initiatives. As well, we provided shareholders with a total return of 21% including two dividend increases in the year – a very strong performance considering the downturn in world stock markets late in 2007.

Our business continued to prosper in 2007 and our financial results once again reached record levels, with revenues rising 17%, and diluted earnings per share from continuing operations up 23% after adjusting for non-operating items. These results are particularly gratifying in light of a much stronger Canadian dollar in 2007 compared to 2006. I am also very pleased to report that our return on equity increased to 16.8% in 2007 from 15.8% in the previous year.

75 YEARS OF CUSTOMER SERVICE

In January 2008, Finning celebrated its 75th anniversary. Back in 1933, Earl B. Finning incorporated Finning Tractor & Equipment Co. Ltd. in British Columbia with six employees and the philosophy "we service what we sell". Today, Finning International is the world's largest Caterpillar dealer with $5.7 billion in revenue and 13,000 employees in six countries, on three continents.

Our 75th anniversary is a proud occasion and an important milestone for Finning, marking our long track record of success founded on the hard work and unrivalled customer service provided by thousands of Finning employees over the decades. We are proud of our achievements and the long-standing relationship we have built with our customers. This commitment to customer service differentiates Finning from the others and positions us as a leader in our industry.

The same dedication to service excellence will also drive our success for the next 75 years. Our multi-year strategic initiative to accelerate the growth in parts and service revenue and earnings continues to gather momentum as each of our operations expands resources to support this line of business. We are on target to meet our goal of doubling our customer support services business from 2005 levels by the end of 2010. We have excellent market share in providing parts and service on large mining equipment, and now, a stronger focus on parts and service to customers operating medium-sized equipment lines is beginning to pay off.

STRONG OPERATING PERFORMANCE

Our Canadian operations had an exceptional year in 2007. Overall economic conditions in Western Canada were good, and the mining, oil sands and construction markets were extremely strong. However, our customers in the forestry and conventional oil and gas markets were challenged. Notwithstanding the weakness in these market segments, Finning (Canada) delivered record results in 2007. The outlook for 2008 continues to be solid, and our oil sands operations are expecting their busiest year ever as they prepare and deliver a huge amount of new large mining equipment to our oil sands customers.

The South American operations also had a very successful year in 2007 and experienced record results. All market segments were strong and revenues from this region rose almost 40% in local currency. Finning South America (FINSA) also experienced good growth in parts and service revenues driven by a considerable increase in the Caterpillar mining fleet.

Labour cost inflation is relatively high in this region, especially in Argentina. As a result, FINSA's EBIT margins were lower in 2007. We are actively managing these cost pressures by reducing overhead costs and increasing service pricing to appropriate levels. While this market looks solid for 2008, we must remain vigilant to ensure costs are managed effectively.

The UK dealership made excellent progress in 2007. Our heavy construction equipment and power systems divisions had a strong year in new equipment sales. The outlook for 2008 remains positive with construction activity levels projected to be similar to 2007, and with good prospects for power systems as well.

We completed the disposition of Hewden's Tools Hire Division after determining that this business did not fit our core objectives in the UK market. We now have a smaller Hewden operation that focuses primarily on construction equipment rental. With better management information from Hewden's new information technology system, which we implemented in 2007, we expect better asset utilization and improved results in 2008.

Overall results from our Power Systems business were also very good. We had very strong performances in the United Kingdom and South America that more than offset the impact of a slow natural gas market in Western Canada. We continue to strive to meet our goal of $1 billion revenue from Power Systems by the end of 2008. However, given the strengthening Canadian dollar we'll likely need another year to achieve this goal.

Finning continues to be a leader in safety and our safety statistics in 2007 are again at excellent levels with lost time incidents at record lows. We have one of the best safety records in our industry and we strive to do better every year. Unfortunately,

LETTER TO SHAREHOLDERS continued

SENIOR EXECUTIVE TEAM

Andy Bone
PRESIDENT
FINNING POWER SYSTEMS

Dave Primrose
SENIOR VICE PRESIDENT
CORPORATE HUMAN RESOURCES

Juan Carlos Villegas
PRESIDENT
FINNING SOUTH AMERICA

Mike Waites
EXECUTIVE VICE PRESIDENT
& CHIEF FINANCIAL OFFICER

Ian Reid
PRESIDENT
FINNING (CANADA)

Andy Fraser
MANAGING DIRECTOR
FINNING GROUP, UK

despite our best efforts, a tragedy did occur in February of 2008. Juan Alvarez lost his life as a result of injuries that he received while at work in Santiago, Chile. A long-term employee of Finning, Juan Alvarez will be missed by his family, friends and co-workers. His death is an important reminder to us all that safety can never be taken for granted and must be our primary consideration every day.

ATTRACTIVE SHAREHOLDER RETURNS

Finning remains focused on creating value for shareholders. In addition to generating attractive returns from operations, we raised our dividend twice in 2007, and we are moving towards a higher dividend payout ratio range, from 20-25% to 25-30% of net income.

We also initiated a share repurchase program in the third quarter of 2007 and continued to buy stock into the first quarter of 2008. In total, we have repurchased approximately 7.3 million common shares at an average price of $27.52 since we believe this is a conservative valuation for Finning shares.

Our balance sheet remains strong with debt to total capital remaining at about 42% at December 31, 2007, comparable to 2006 levels.

POSITIVE OUTLOOK

Our new equipment order backlog at December 31, 2007 was approximately $1.7 billion, a very high level that provides us with good revenue visibility into 2008 and early 2009. In Western Canada some sectors are going through slower times, and in South America we have to manage our pricing and costs closely, but overall, we remain optimistic that 2008 will again produce good results.

As I prepare to leave my role of President and CEO I would like to thank many people for their support over the years. At the top of this list are Finning employees - a highly motivated and customer focused team - thank you for your dedication and hard work. Job demands and the pace of change have been considerable across our operations, yet Finning employees repeatedly rise to the challenge and succeed in exceeding our goals.

I'd like to thank our customers as well - without them there would be no Finning. Many have been loyal Finning/Caterpillar customers for a long time, through good times and bad. I appreciate the confidence you have shown in us and I thank you for your business.

I would also like to thank Caterpillar, our strategic partner, for their continued support. As I've said many times, the combination of Caterpillar equipment and Finning service is the winning combination at the heart of our success.

As well my appreciation goes to the Board of Directors. Three members of our Board, Jim Dinning, Tim Howden and Jeff Mooney retired in 2007. Their contributions are greatly valued. In 2007, we welcomed Jim Carter and Kathleen O'Neill to our Board of Directors.

2007 RETURN TO SHAREHOLDERS
In 2007, Finning's common shares provided shareholders with a capital gain of approximately 20% and dividends totaling $0.36 per share.

Total return to shareholders was over 21%.

Share value (excluding dividend) has grown at an annual compound growth rate as follows:

5 YEARS	10 YEARS	20 YEARS
17%	12%	13%

RELATIVE PRICE PERFORMANCE
FINNING INTERNATIONAL INC. VS. S&P/TSX COMPOSITE INDEX
Dec. 31, 2002 to Dec. 31, 2007

In 2008, Conrad Pinette will step down as Chairman of the Finning Board. He has been a member of our Board since 1992 and Chairman since 2000. Over the years Conrad has been a driving force behind the scenes and has provided tremendous support in my time as CEO. Fortunately, Conrad will remain on the Board and we will continue to have the benefit of his counsel.

In March 2008, the Finning Board of Directors appointed Mike Waites as the new CEO of Finning, effective at the Annual General Meeting. Mike has proven to be an exceptional leader at Finning and will draw from his extensive senior executive experience in other industries. He is a well-rounded senior executive with a strong financial capability and extensive experience in providing senior leadership and strategic execution. I'm confident he'll do a great job for all our stakeholders and I wish Mike all the best in his new position.

Once again, the future looks very bright for Finning. We have a proud tradition of great people providing customers with great solutions and achieving great results. I am confident that Finning will continue to deliver standout performance.

Sincerely,
FINNING INTERNATIONAL INC.

Douglas W.G. Whitehead
President & Chief Executive Officer

Conrad A. Pinette
CHAIRMAN OF THE BOARD

Douglas W.G. Whitehead
PRESIDENT & CEO

James E.C. Carter

Kathleen M. O'Neill

John M. Willson

"2007 was another outstanding year for Finning and our shareholders. On behalf of the Board of Directors, I wish to thank all Finning employees around the globe for their commitment and contribution to our long-standing success as we celebrate 75 years of delivering the best equipment and service to our customers."

CHAIRMAN'S LETTER

Andrew H. Simon Bruce L. Turner John M. Reid Donald S. O'Sullivan Ricardo Bacarreza

The Finning Board of Directors believes that good corporate governance is fundamental to creating value for our shareholders. We make every effort to implement and maintain the best governance practices to support the Board in delivering effective performance on behalf of Finning shareholders.

The Board continuously evaluates and improves governance processes to ensure they drive appropriate conduct and reflect a corporate culture of integrity and respect for all stakeholders.

To that end, we published a revised Code of Conduct in 2007 outlining in detail the Finning values that guide our employees and Board members around the world in upholding high standards of ethical conduct in every aspect of day to day business.

The Finning Board of Directors is an experienced and balanced team of corporate leaders with diverse international backgrounds. Since our 2006 annual report was published, the composition of the Finning Board underwent further changes. Jim Dinning, Tim Howden and Jeff Mooney retired at the Annual General Meeting in May 2007 and Jim Carter was appointed to the Board in October 2007.

On behalf of the Board of Directors, I would like to thank Mr. Dinning, Mr. Howden and Mr. Mooney for their valuable contributions and I welcome Mr. Carter, who brings extensive senior executive experience and an in-depth knowledge of the energy business to the Finning Board. Previously, Mr. Carter played a prominent role in the growth of Syncrude, as well as the overall development of Alberta's oil sands and the community of Fort McMurray. Also in 2007, as I mentioned in last year's letter to shareholders, Kathleen O'Neill joined the Board of Directors.

In February 2008, we announced that I will be stepping down as Chairman of the Board and Doug Whitehead will be taking over that role. It has been a pleasure serving as Chairman of the Finning Board, and I'd like to thank my fellow Board members and the Finning executive team for the support they've provided me over the years. I look forward to my continued association with Finning.

Finning has a strong, committed and progressive Board, and we look forward to serving the Company to achieve continued success.

For a more detailed discussion of our corporate governance policies and practices, I encourage you to review the Finning management proxy circular and visit the corporate governance section of our website at www.finning.com.

On behalf of your Board of Directors,

Conrad A. Pinette
Chairman of the Board

SERVING CUSTOMERS FOR 75 YEARS

In 2008 Finning celebrates 75 years of success as a Caterpillar dealer.

In January 1933, Earl B. Finning incorporated Finning Tractor & Equipment Co. Ltd. in Vancouver with six employees, a $50,000 bank loan and a philosophy that stated: "We service what we sell". In those days, our founder, Earl Finning, traveled around British Columbia introducing people to the idea of using Caterpillar heavy equipment when many still preferred horses. As business slowly developed, he opened Finning's own parts and repair department to provide timely service and make parts readily available to customers. Four years later, in response to growing demand for equipment, parts and service, Finning opened its first branch in Nelson, B.C., the beginning of what would become an extensive service infrastructure throughout Western Canada, the United Kingdom and South America.
Finning's original vision, to meet and exceed customer service requirements, has delivered great results. Our long track record of success is founded on the hard work and outstanding customer service provided by thousands of employees who have worked for Finning over seven decades. Today, Finning International Inc. is the world's largest Caterpillar equipment dealer, a publicly traded corporation generating $5.7 billion in revenue and employing 13,000 people in six countries on three continents.

For 75 years Finning has provided great service solutions to customers in many industries such as mining, construction, forestry, oil & gas and pipelines. Our people deliver product support that lowers the cost of owning and operating Caterpillar equipment making our customers' business more efficient and successful. Key to our achievements is the long-standing relationship we have built with our customers over the years. It is our dedication to service excellence that differentiates Finning from others and positions us as an industry leader. The quality of our people and our commitment to always go the extra mile for our customers will drive our success for the next 75 years.

The original operating philosophy "We service what we sell" continues to be the foundation of our success today. Customer support remains at the heart of our strategy as we strive to develop "Great People" to deliver "Great Solutions" to our customers and achieve "Great Results" for our shareholders.

SIGNIFICANT MILESTONES IN FINNING'S HISTORY

1933 Finning Tractor & Equipment Co. Ltd. incorporated on January 4 in Vancouver, British Columbia, Canada

1969 Becomes a publicly traded company, common shares trade on the Vancouver and Toronto Stock Exchanges

1977 Becomes the Caterpillar dealer for the Yukon

1983 Acquires Bowmaker and Caledonian, the two Caterpillar dealerships in the U.K.

1989 Acquires R. Angus, the Caterpillar dealership in Alberta and the Northwest Territories

1993 Acquires Gildemeister, the Caterpillar dealership in Chile

1996 Acquires Leverton, the remaining Caterpillar dealer in the U.K.

2001 Acquires Hewden, the equipment rental business in the U.K.

2003 Acquires the Caterpillar dealerships in Argentina, Bolivia and Uruguay

2003 Invests in Energyst, a Pan-European power rental company jointly owned by Caterpillar, Finning and 10 European Cat dealers. Finning is currently the largest shareholder with a 24.85% interest.

2004 Invests in OEM Remanufacturing, a world class component rebuild facility in Edmonton, Alberta

2005 Awarded a 25% interest in a new global Caterpillar dealership for pipeline equipment, PipeLine Machinery International

2007 Secures distribution rights for new territories for MaK engines in North & South America

2008 Expands service capacity in Alberta by acquiring Collicutt Energy Services

CORPORATE EXECUTIVE TEAM

Tom Merinsky
VICE PRESIDENT
INVESTOR RELATIONS

Anna Marks
SENIOR VICE PRESIDENT
CORPORATE CONTROLLER

Jeff Leigh
VICE PRESIDENT
BUSINESS PROCESSES AND SYSTEMS

Andre Beaulieu
GENERAL COUNSEL
AND CORPORATE SECRETARY

Sandeep Kalra
VICE PRESIDENT
CORPORATE TREASURER

1. ANOTHER YEAR OF RECORD FINANCIAL RESULTS

Revenue grew by almost 17% to $5.66 billion. Earnings before interest and taxes (EBIT) improved by 22% to $456 million. After adjusting 2006 results for non-operating items, 2007 EBIT was up 28%. Diluted earnings per share from continuing operations, before non-operating items was $1.55 compared to $1.26 in 2006, an increase of 23%.

Non-operating items in 2006 included proceeds from the sale of real estate, a gain on the disposition of a non-core business line and costs related to the early redemption of a financing. There were no significant non-operating items in 2007.

2. CONTINUED STRONG EBIT GROWTH

Earnings before interest and taxes (EBIT) and EBIT margin are Finning's primary internal earnings performance measures for each operation. Consolidated EBIT continued to grow at an impressive pace in 2007 increasing by 22% to $456 million. Since 2005, consolidated EBIT has grown by almost 33% on average. This growth has occurred despite a stronger Canadian dollar compared to 2006 which has impacted profit levels. On a consolidated basis, the impact of a 5.2% stronger Canadian dollar relative to the U.S. dollar was partially offset by a 2.9% weaker Canadian dollar compared to the UK pound sterling. In 2007, total revenue was reduced by approximately $100 million as a result of translating foreign currency amounts into Canadian dollars on consolidation.

In Canada, EBIT increased by 23% and EBIT margin improved primarily as a result of achieving better pricing in a very strong market, despite the stronger Canadian dollar. In South America, EBIT contribution increased by almost 17% however, EBIT margins declined modestly from 2006 levels due to a fairly significant shift in revenue mix from higher margin parts and service to lower margin new equipment sales, compounded by inflationary cost pressures. FINSA's 2007 profitability level was comparable to 2005 and 2004. In the UK, EBIT contribution increased by over 12%. EBIT margins in the U.K. were comparable to 2006 levels and reflected improved profitability at the dealership, offset by lower profitability at Hewden.

3. FOCUS ON IMPROVING FREE CASH FLOW

In 2007, Finning generated $623 million cash from operations compared to $599 million in 2006, reflecting continued strong growth in operations and improved profitability. Higher business volumes in 2007 increased working capital requirements primarily in the form of inventory and receivables, reducing cash generation to $404 million compared to $460 million in 2006. Our continued focus on working capital management and shorter supply lead times from Caterpillar on some models, resulted in improved free cash flow in the second half of 2007, which is expected to continue in 2008.

Capital expenditures totaled $74 million in 2007 compared to $76 million in 2006, relatively modest in both years. The largest use of cash was net rental additions, which totaled $475 million in 2007 compared to $344 million in 2006. Both years represented high levels of expenditures on rental assets in Canada to renew our heavy equipment rental fleet to meet increased customer demand and to fund growing 'rental purchase options' (RPOs) which are term rental agreements with customers that include an option to purchase the equipment. In addition, Hewden received deferred delivery of rental assets in 2007 from the prior year. For 2008, net capital expenditures are projected to total $110 - $120 million and net rental additions are expected to be in the $300 - $320 million range.

2007 was another year of record financial results. Overall profitability improved again, despite a significantly stronger Canadian dollar and a shift in revenue mix to a greater proportion of lower margin, new equipment sales compared to higher margin parts and service. Reflecting higher profitability, return on equity improved to 16.8% in 2007 compared to 15.8% in 2006.

4. DIVIDEND GROWTH

Finning provided shareholders with an annual dividend of $0.36 per share including two dividend increases in 2007. Dividends were increased seven times over the last five years and the current annual indicated dividend is $0.40 per share.

Going forward, Finning intends to gradually increase the dividend payout ratio to 25-30% from 20-25% of net income. Regular increases in dividends and the transition to a higher dividend payout ratio is consistent with the management and Board's positive outlook on Finning's financial strength and growth opportunities.

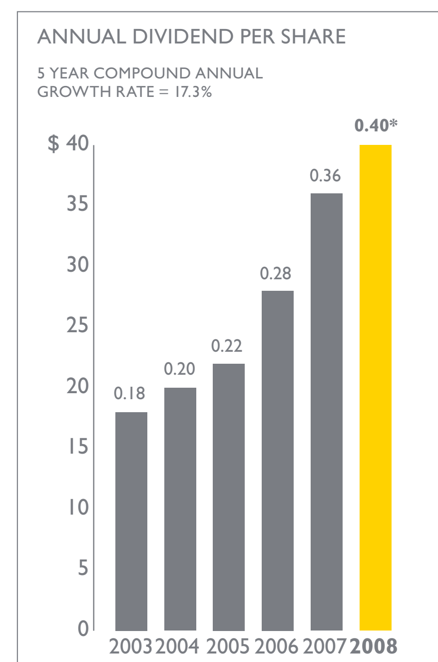
5. ACTIVE SHARE REPURCHASE PROGRAM

Finning began purchasing shares under its normal course issuer bid in the third quarter of 2007 and continued into the first quarter of 2008. A total of 7.3 million common shares were purchased at an average cost of $27.52 for a total cost of about $200 million.

At these prices we believe Finning shares are undervalued, and purchasing shares is immediately beneficial to shareholders. The purchase was funded by cash from operations and bank lines and has not compromised our financial flexibility as our balance sheet remains strong with sufficient borrowing capacity.

6. RE-DEPLOYMENT OF CAPITAL TO HIGHER RETURN MARKETS

During 2007 we completed the second major divestiture of a portion of our UK business and sold the Hewden Tools Division for $245 million. In 2006 we sold our UK Materials Handling business for $175 million. Together with some associated real estate divestitures totaling about $60 million over the next two years, we will have generated proceeds of almost $500 million. These proceeds have been re-deployed, mainly to our Canadian and South American operations, where we believe this capital will earn a higher return.



* Indicated Dividend

SETTING STANDARDS HIGH

988H Loader, Finning West Edmonton Branch, Alberta

canada

2007: ANOTHER RECORD YEAR

Our Canadian operations once again posted outstanding performance in 2007 surpassing all previous revenues and earnings despite a 5.2% stronger Canadian dollar. Revenues climbed 12% to $2.9 billion. EBIT reached $286 million, a 33% increase over 2006[1], reflecting excellent market conditions and improved profitability as EBIT margins rose to 9.8% compared to 8.2% in 2006[1].

Strong economic conditions in Western Canada supported rising demand from our mining and construction customers, driving new equipment sales up 18% to $1.4 billion in 2007. The growing population of Caterpillar equipment, now standing at over 40,000 machines in this territory, is expected to generate increasing demand for parts, service and rebuilds for the next several years.

ADDING CAPACITY

In the past few years, our business in Western Canada experienced unprecedented growth with strong demand for service from customers across all industries. Finning's extensive service infrastructure and the technical expertise of our employees remains a key competitive advantage in meeting sophisticated customer needs in some of the most challenging operating conditions.

In 2007, Finning (Canada) announced a significant expansion to its service capabilities in Alberta through the acquisition of Collicutt Energy Services Ltd., complete with extensive additional facility space and a highly skilled and experienced workforce. With this acquisition completed in January 2008, Finning obtained a total of 315,000 square feet of operational capacity, of which over 200,000 square feet is in modern, near-purpose built facilities in Red Deer, Alberta.

This expansion is consistent with our strategic goal of rapidly growing parts and service revenue as Finning opens a new "Centre of Excellence" in Red Deer. The Red Deer operations will allow us to centralize our new equipment preparation work and grow our mining and heavy equipment overhaul business. Importantly, this expansion will also free up capacity in the existing Finning branches to complete service work for local customers.

The Canadian operations, including OEM, continued to recruit and train skilled people adding more than 500 employees to our workforce on a net basis, a 12% increase over 2006. In addition to extensive recruiting, aggressive retention strategies and learning and development programs were introduced to maximize employee engagement levels throughout the organization.

RAMPING UP SERVICE

A key part of the Finning/Caterpillar customer value equation is extended equipment life through rebuild of individual components or complete machine overhauls. With successive rebuilds, Caterpillar equipment can be durable enough to have several lives. Caterpillar Certified Rebuild programs provide meaningful savings over the purchase of a new machine, which significantly lowers the customer's overall cost of owning and operating the equipment. Rebuilding equipment to like-new standards presents Finning with large growth opportunities, especially in the mining and heavy construction sectors. With the newly added capacity in Red Deer, Finning will now be taking full advantage of this opportunity.

Customer support services revenue grew 4% to $906 million in 2007. Finning (Canada)'s termination of an alliance agreement with Shell Canada, combined with the strong Canadian dollar, resulted in a slower growth rate in parts and service business in 2007. Notwithstanding modest growth in 2007, Finning (Canada) expects to meet its 2010 customer support services business targets.

EXCELLENT OUTLOOK

The new equipment order backlog in our Canadian operations reached record levels again in 2007 reflecting robust economic activity in Western Canada's resource-based industries. More than half of the total machines currently in the backlog represent mining and heavy construction equipment that have a high consumption rate for parts and service. 2008 will be a record year for new equipment deliveries to the oil sands. It took over seven years to deliver the first 100 797s to this region. In 2008 alone, we plan to deliver over 65 new 797s, dramatically increasing the fleet and the associated consumption of parts and service.

Strong demand for new mining and heavy construction equipment is expected to continue into 2008 along with a growing need for parts, service and rebuild on the large number of machines sold over the past few years. The steady and growing equipment population provides Finning with attractive customer support opportunities. Our continued investment in people and facilities enables us to keep delivering the outstanding service our customers expect from Finning. Our Canadian operations are planning for a strong 2008 and will continue contributing outstanding results to Finning International's performance.

MINING

The mining industry in Western Canada experienced exceptional growth over the last several years, and 2007 continued this trend as global demand for oil and metals remained strong. The Caterpillar mining fleets in our Canadian operations grew by 13% to over 1,600 units in 2007. This population of heavy equipment consists primarily of large haul trucks, wheel loaders, tractors and graders that often operate around the clock in some of the most rugged climate and ground conditions. Consequently, these units have the highest consumption rates of parts and service. Maximizing customer uptime by providing comprehensive service programs in challenging equipment applications is what Finning does best. Our extensive customer support network including remanufacturing and rebuild capabilities enables us to meet the growing demand from mining customers looking to maintain and expand their equipment fleets.

Finning has always been successful in capitalizing on the tremendous growth in mining equipment demand - 28% of new equipment deliveries in 2007 were to mining customers, and our market share in large mining equipment in Western Canada stands at over 70%. We continue to invest

[1] excluding 2006 gains on sale of assets

canada continued

Gordon Finlay
VICE PRESIDENT, OPERATIONS, MINING

Dave Parker
SENIOR VICE PRESIDENT

Miles Hunt
VICE PRESIDENT, HUMAN RESOURCES

Stan Prince
VICE PRESIDENT, OPERATIONS, FORESTRY

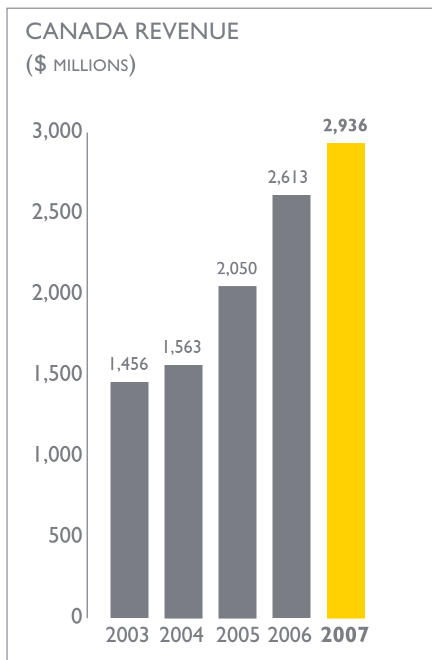
Joel Harrod
VICE PRESIDENT, FINANCE

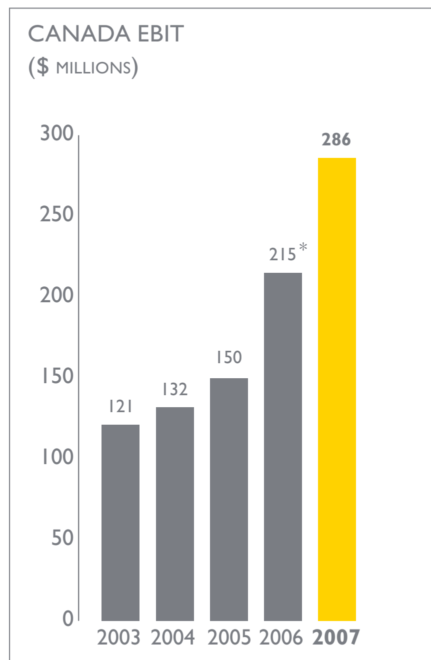
ABSENT FROM PHOTOGRAPH:

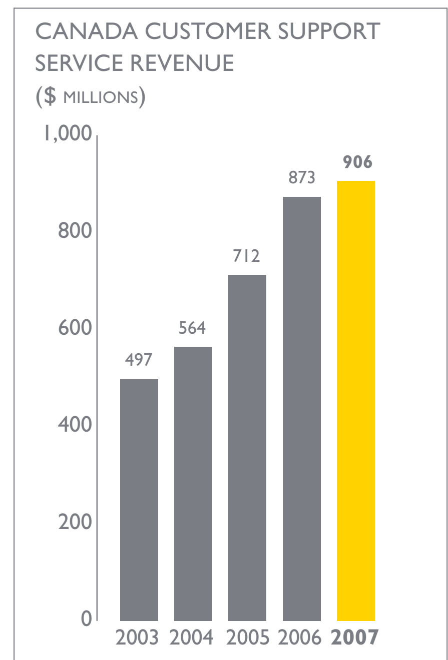
Mike Penn
VICE PRESIDENT, OPERATIONS, CONSTRUCTION AND PETROLEUM

Jason Randhawa
VICE PRESIDENT, MARKETING AND SALES

Tim O'Brien
VICE PRESIDENT, POWER SYSTEMS







*2006 EBIT excludes gains on sale of assets

in product support capabilities in this region, including shop facilities, field service trucks, skilled technicians and training programs.

The outlook for the mining industry remains very strong, reflected by our record order backlog. Capital expenditures for all oil sands projects from 2006 until 2015 are now estimated around $100 billion [1]. The fleet of large machines here is expected to double by 2013 to almost 1,800 units. All 127 797 trucks currently operated by our oil sands customers are covered by Finning parts and service packages.

In addition to the largest haul trucks that are delivered to the oil sands producers, there is also very strong demand for support equipment such as large graders and tractors from a growing number of oil sands contractors. These customers rely heavily on our service infrastructure and expertise in the region, presenting additional opportunities for growing our customer support services business.

Robust growth in the mining sector also drives increased volumes at the OEM Remanufacturing facility which provides "like new" components supported by full warranty to our oil sands and other mining customers. OEM's volumes climbed in 2007 supported by rising demand for component remanufacturing. The increasing fleets of the largest machines such as 797 trucks will continue to drive engine and power train component remanufacturing at OEM.

The B.C. mining industry also continues to benefit from sustained demand for minerals and favourable public policy supporting mine expansions, increased exploration and new project development. 2007 mineral exploration expenditures rose 57% over last year to a record high of nearly $416 million [2]. There are currently 10 coal, 11 metal and 36 major industrial mineral quarries and mines operating in British Columbia[2]. With 23 new mine development proposals and 472 exploration projects [2], the resurgence of the mining industry in B.C. represents a significant equipment sale and product support opportunity for Finning. The introduction of five field test Caterpillar electric-drive trucks to the coal mining operations in southeastern B.C. in 2008 will pave the way for Finning to grow market share in this active mining region.

CONSTRUCTION

Infrastructure spending and non-residential construction are key drivers of construction growth in Western Canada. The value of all major construction projects, including proposed developments is estimated at approximately $100 billion[3] in B.C. and $65 billion[3] in Alberta. Most of these projects are expansions and upgrades of transportation networks, ports and airports as well as construction of 2010 Olympic venues. Finning responded well to the rising demand for large construction equipment and associated parts and services. New construction equipment sales grew by over 50% in 2007, and our construction customers now account for one third of all new equipment deliveries in Canada.

Non-residential construction markets are expected to remain very active driven by healthy economic growth in both provinces. The growing Caterpillar fleets of heavy and core construction equipment such as scrapers, excavators, tractors and compactors continue to generate further parts and service opportunities for Finning.

PIPELINES

Finning is a 25% partner in PipeLine Machinery International, Caterpillar's global pipeline equipment dealer. The global demand for pipeline capacity continues to grow, doubling PLM's 2007 revenues from 2006 levels. PLM was also named the exclusive supplier for the China Petroleum Pipeline Bureau, with the first 75 new pipe-layers delivered in 2007. The oil pipeline system in Western Canada is running near capacity due to the rise in oil sands production; and a number of large pipeline projects in Alberta are under construction or scheduled to start in the next few years. In addition to our share in the global pipeline equipment sales, Finning will capture all of the parts and service business generated by the growing fleet of Caterpillar pipelayers in Western Canada.

CONVENTIONAL OIL AND GAS

Lower natural gas prices, the stronger Canadian dollar and high local contractor costs challenged our customers in the conventional oil & gas industry in Western Canada. Exploration activity slowed in 2007, and although the number of well completions dropped 13% from last year to just over 19,000[4], it still remains at comparatively attractive levels. The decreased activity in the petroleum industry is expected to continue into 2008. Modest demand for mobile equipment in the natural gas exploration and development sector is partly offset by the continued strong demand for engines from the gas compression packaging industry for export sales. Conventional oil exploration and production in Western Canada is also expected to be modestly weaker in 2008.

FORESTRY

2007 was a very challenging year for the softwood lumber industry in B.C. and Alberta as lumber prices declined primarily due to the slowdown in the U.S. residential construction market, compounded by the strong Canadian dollar. Historically, forestry has been an important market for Finning. Today forestry accounts for approximately 6% of new equipment deliveries in Canada as the mining and construction sectors have grown.

Finning remains committed to the forestry sector in partnership with Caterpillar, which continues to expand the forestry product line. This industry is expected to continue to be challenged in 2008, and Finning (Canada) will work closely with our forestry customers to provide support where possible. Finning's ability to continue to provide reliable parts and service will position the Company to deliver new equipment when this market recovers.

THE CAT RENTAL STORE

Finning (Canada) added five locations to The Cat Rental Store (TCRS) chain in 2007 for a total of 34 branches. General rental markets in B.C. and Alberta are expected to remain very active in 2008.

[1] Alberta Energy and Utilities Board. [2] B.C. Ministry of Energy, Mines and Petroleum Resources.
[3] B.C. and Alberta Governments, Major Projects Inventory. [4] The Canadian Association of Oilwell Drilling Contractors

DELIVERING RESULTS

Finning Service Depot, Coquimbo, Chile

south america

VERY STRONG PERFORMANCE

Finning South America (FINSA) achieved excellent results in 2007 with very strong revenue growth of 31% to a record $1.3 billion and an increase in EBIT of 17% to $127 million. In local currency (USD), revenues were up 39% while EBIT grew by 23% over 2006.

New equipment sales rose 49% from 2006, overshadowing a strong 17% growth in customer support services revenue. The significant rise in new equipment deliveries reflected very strong demand from our mining, construction and forestry customers, and was partly due to 2006 being a light year in comparison for new mining equipment sales.

The healthy growth in customer support services revenue, which was up 24% in local currency, is a result of the growing Caterpillar fleet in this territory, particularly large mining equipment with significant parts and service requirements.

Power systems revenue climbed substantially driven by growing demand for energy, particularly in Argentina.

The revenue mix shift towards new equipment and engine sales in combination with inflation driven labour cost increases reduced FINSA's EBIT margin to 9.6% in 2007 compared to 10.8% in 2006. The revenue mix in 2008 is expected to shift back somewhat to customer support services as new equipment deliveries to our mining customers are projected to be lower. Along with cost savings initiatives and a focus on better productivity, this is expected to improve profitability as measured by EBIT margin in 2008.

In 2007, our South American operations faced inflationary pressure on labour costs in both Chile and Argentina where labour costs rose approximately 8% and 20% respectively. Our large customers in the region are also operating in the same rapid growth, high inflation environment, and most have accepted some form of service labour price adjustments to reflect the increased costs.

2007 was also a peak year for investments in recruitment and training of skilled technicians to support future demand for service. Of the net 770 new employees who joined FINSA's team in 2007, nearly 60% were mechanics. In 2007 FINSA's employees attended on average six days of training to improve their technical skills and increase certification levels. FINSA also implemented differential service pricing in some areas to reflect higher skill levels required for certain jobs.

Along with developing great people and building an excellent safety record, Finning South America continues to invest in service infrastructure. Eight new branches opened in the region in 2007 to meet growing demand for equipment, parts and service from our general machinery and power systems customers, and six more are expected to open in 2008 to achieve better territorial coverage and increase service capacity.

FOCUS ON CUSTOMER SUPPORT

Over the last five years our South American operations achieved 14% average annual growth in parts and service revenues. Our reputation for delivering the best service solutions to the mining industry relies on the outstanding technical expertise of our mechanics, and a well developed service infrastructure that includes rebuild capabilities for large equipment. Our goal is to maintain our very good market share of heavy equipment parts and service in the mining sector.

Given the rapid growth of the non-mining business in South America such as construction, forestry and power systems, our focus is on capturing parts and service opportunities from the expanding population of Caterpillar equipment and building our market share in these non-mining sectors. Improved service coverage, particularly in Argentina, and a wider range of technical competencies acquired by our service teams are key to delivering customized equipment solutions to our general machinery customers.

STRONG GROWTH TO CONTINUE

Attractive metal prices are expected to continue to support growth in the mining business in South America. Chile is the world's largest and lowest-cost copper producing region with many long-life mines in operation. Argentina's mining industry is fairly young with only four major mines in operation but with considerable potential for future mine development.

Demand from our customers in non-mining sectors, such as general construction, electric power generation and forestry is also expected to remain very strong driven by solid economic growth in both Chile and Argentina. The buoyant activity in the region has been accompanied by inflationary pressure which Finning is addressing via cost management and price realization strategies.

FINSA's customer support revenue is projected to continue to grow at attractive rates in 2008. An overall revenue mix shift to higher margin parts and service, combined with operating efficiencies implemented throughout the organization, is expected to improve EBIT margin performance in 2008. FINSA's main initiative for 2008 is to continue to

The growing mining and construction equipment fleets provide a solid base for our expanding customer support business in South America. Our well-developed service infrastructure positions Finning as a leader in delivering service solutions to heavy equipment customers.

Parts Distribution Centre, Santiago, Chile

south america continued

Daniel Hernandez
VICE PRESIDENT,
CONSTRUCTION AND
FORESTRY, ARGENTINA
AND URUGUAY

Juan Antonio Winter
VICE PRESIDENT,
MINING

Sebastian Guirdi
VICE PRESIDENT,
HUMAN RESOURCES
AND CORPORATE STRATEGY

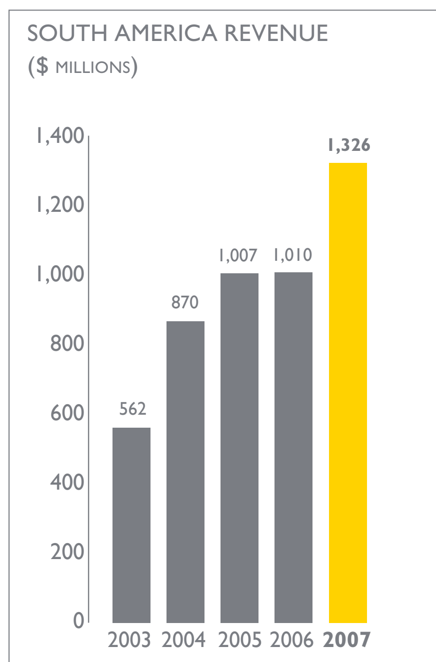
Sergio Saavedra
VICE PRESIDENT,
POWER SYSTEMS

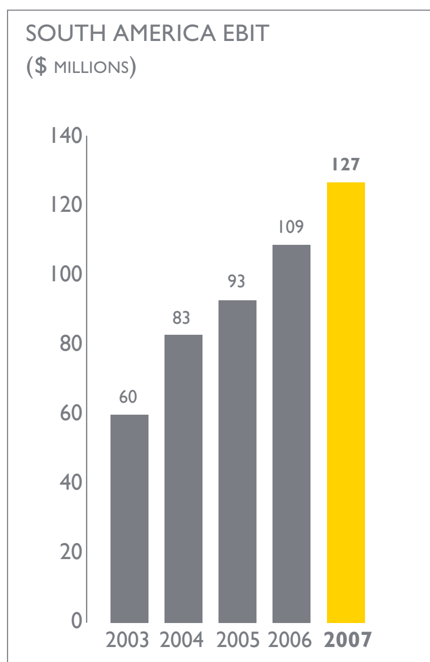
Kevin Wenger
VICE PRESIDENT,
PRODUCT SUPPORT

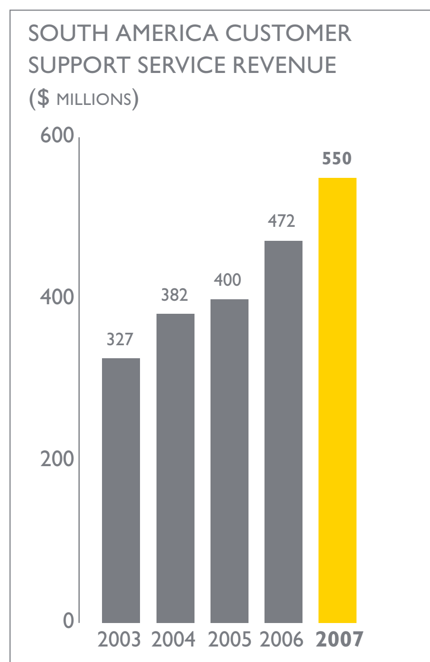
ABSENT FROM PHOTOGRAPH:

Chris Thomas
VICE PRESIDENT, FINANCE

Marcello Marchese
VICE PRESIDENT, PRODUCT SUPPORT AND OPERATIONS







capitalize on the market opportunities for growth, expand leadership capabilities across the entire organization and focus on cost management and business efficiency for improved productivity.

MINING

Approximately 54% of FINSA's 2007 revenues came from mining customers. Tremendous growth in this well-established industry in Chile and emerging mining in Argentina over the past years have supported Finning's continued success as an equipment and service provider.

Our mining related revenues have grown an average of 17% annually over the last three years. In 2007, mining product support revenues continued to constitute a higher proportion of the total revenue compared to new equipment sales, a trend that is expected to continue in 2008. The mining equipment population in our South American territory is currently estimated at over 1,500 units. About 35% of this fleet is covered by a Finning service contract, including six full Maintenance and Repair Contracts (MARCs) and nine Labour Plus Parts Contracts (LPPs).

The heavy mining equipment, such as off-highway trucks and track-type tractors, have high consumption rates for parts and service and require comprehensive maintenance programs to keep them running 24/7 in rough ground conditions and often high altitudes. Many global mining companies operating in this region rely heavily on Caterpillar equipment and Finning's service and rebuild capabilities, and almost all our mining customers have a product support contract with Finning.

The outlook for the mining industry in South America remains very favourable driven by sustained global demand for metals, primarily copper and gold, and comparatively low operating costs. A large number of mining companies in our territory have expansion plans for the next two to five years, and there are many greenfield projects with significant potential, particularly in Argentina. Our main focus remains on capturing the profitable stream of product support revenues from expanding equipment fleets in Chilean and Argentinean mines. Our South American operations continue to invest in training people and expanding service capacity. Customer support revenues from the mining industry grew by 20% in 2007 and strong growth is expected in 2008.

CONSTRUCTION AND FORESTRY

The general machinery business in South America was exceptionally strong in 2007, posting record revenue growth of 51% over 2006 and accounting for 33% of FINSA's total revenue. Remarkably in 2007, our new equipment sales to the construction and forestry sectors outpaced those to the mining industry. Finning's market share in these sectors increased and is expected to gain more ground in 2008. Demand from the construction industry in the region is projected to remain very robust driven by continued investments in infrastructure and general construction.

Forestry revenues climbed 31% over 2006 driven by the growing forestry sectors in Argentina and Uruguay. The forestry business in South America is expected to stay strong into 2008.

With expanded territorial coverage, additional facilities and trained people, Finning has improved its position to capitalize on the growth in the general machinery sector in South America. Our focus is on capturing opportunities in customer support services on the growing fleets of construction and forestry equipment, particularly in Argentina.

Las Rejas Service Centre, Santiago, Chile

Articulated Trucks, La Negra, Chile

Service Technician, Las Rejas, Santiago Chile

789 Haul Truck, Andacollo Copper Mine, Chile

STANDING ON SOLID GROUND

Finning Service Depot, Desford, UK

united kingdom

RESULTS IMPROVE, STRATEGY ADVANCES

Operating and financial results from the Finning UK Group improved again in 2007 driven by good performance at the dealership from strong sales of large and core equipment and by a very successful year at the power systems division. Revenue increased 14% to $1.4 billion and EBIT improved by over 12% to $73 million as business conditions in the U.K. remained healthy. In local currency, revenues were up by over 11% and EBIT by almost 10% reflecting a 2.9% weaker Canadian dollar relative to the pound sterling in 2007 versus 2006. 2007 revenues were more heavily weighted to new equipment sales compared to 2006, decreasing EBIT margins slightly to 5.2% from 5.3% last year.

Hewden's results were weaker in 2007 as highly competitive market conditions persisted and a significant amount of management's attention was temporarily focused away from operations on the divesture of the Hewden Tools Hire Division and also on the implementation of a new IT system. With these major initiatives completed, improved results are expected in 2008 as management focuses on realizing the benefits of the new IT solution in a mainly Caterpillar equipment rental business.

SALE OF HEWDEN TOOLS - UK STRATEGIC REPOSITIONING

After an extensive strategic review, a decision was made to further reduce Finning's total investment in the U.K. and focus on the areas most closely associated with Finning's Caterpillar equipment related strengths.

In 2007, the divestiture of the Hewden Tools Rental Division was completed. The sale generated net proceeds of $243 million. In addition, Tools Hire depots with an approximate market value of $60 million will be sold over the next two years. Of this amount, about $28 million worth of real estate was sold in the first quarter of 2008. Hewden is now focused on construction equipment rentals and remains the largest supplier of rental construction equipment in the U.K. The extensive network of 102 locations places almost all UK customers within a one hour drive of any Hewden location. Products include back-hoe loaders, wheel loaders, excavators, tele-handlers, access platforms and cranes. Hewden provides primarily Caterpillar equipment plus complementary non-Caterpillar brands to support customer requirements.

With the completion of the divestitures of the Hewden Tools Division in 2007 and the Finning UK Materials Handling Division in 2006, Finning has reduced its UK assets to approximately one third of total assets from 45% in 2005.

NEW INFORMATION TECHNOLOGY SUPPORTS HEWDEN FLEET MANAGEMENT

During 2007, Hewden completed the implementation of its new information technology system that, among other features, is designed to provide management with comprehensive information about the utilization and pricing of the rental fleet. Improved fleet management is expected to lead to better financial results as equipment is moved to regions with higher demand and better pricing. In addition, the fleet size and composition will be able to be adjusted more effectively to reflect the most popular and profitable models.

GOOD DEALERSHIP PERFORMANCE

The UK equipment industry grew by 24% in unit sales to 37,500 machines in 2007 from 30,200 machines in 2006. "Large and Core" equipment experienced even stronger growth – up by about 40% to 5,718 units from 4,091 in the prior year.

Performance at the Finning (UK) dealership in 2007 was very good. New equipment sales rose by almost 31% in Canadian dollars and the backlog remains at healthy levels, providing good visibility into new equipment sales in 2008. This strong performance was driven mainly by large and core equipment and power systems sales. Demand from mining, quarrying and construction customers was strong in 2007.

In 2007 Finning completed the largest single site sole supplier contract to a coal mining customer for the Ffos-y-Fran coal mining and land reclamation project in South Wales. The project is expected to run for about 17 years. The contract included the sale of 46 Caterpillar machines to Miller Argent and a product support agreement for a total value of approximately £55 million. The capabilities of Caterpillar equipment combined with Finning's focus on product support play a key role in securing long-term projects like this.

During 2007, sales of smaller general construction equipment advanced as well, as our UK dealership was building up the sales channel infrastructure for this line of business. This included the construction of a new equipment preparation facility for smaller general construction equipment, immediately adjacent to the Caterpillar assembly plant at Desford in the U.K.

KEY FOCUS AREAS FOR 2008

Invest in people: In 2007 Finning (UK) continued to invest in its people through training and development with an emphasis on cultivating a performance driven culture with high employee engagement. Finning (UK) became the first Caterpillar dealer in Europe to employ Cat's Employee Opinion Survey to measure engagement levels.

A key objective is to build a top tier offering that positions Finning as number one in the U.K. for service. The Caterpillar "360 degree solutions" program will support the dealership in providing customers with full equipment solutions including product support.

Finning Branch, Cannock, UK

united kingdom continued

LEFT TO RIGHT

Neil Dickinson
DIRECTOR,
HEAVY CONSTRUCTION

Neal Walker
GENERAL MANAGER,
GENERAL CONSTRUCTION

David Oates
DIRECTOR POWER SYSTEMS

FRONT SITTING

Doug Sprout
FINANCE DIRECTOR,
FINNING GROUP, UK

Brian Sherlock
DIRECTOR,
HEWDEN

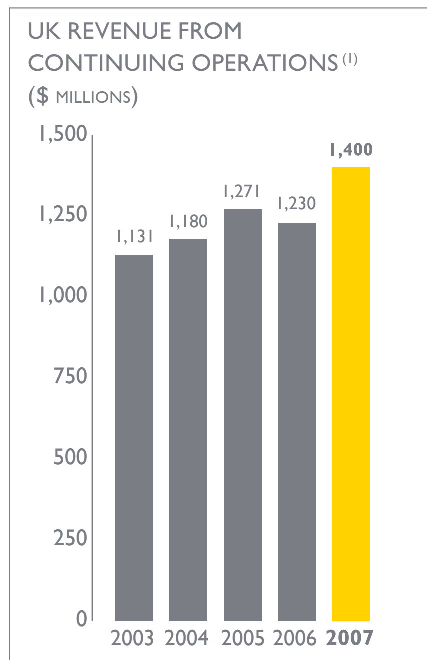
Jim Gray
HEAD OF SAFETY, HEALTH,
ENVIRONMENT & QUALITY
FINNING GROUP, UK

Mike Davies
HR DIRECTOR,
FINNING GROUP, UK

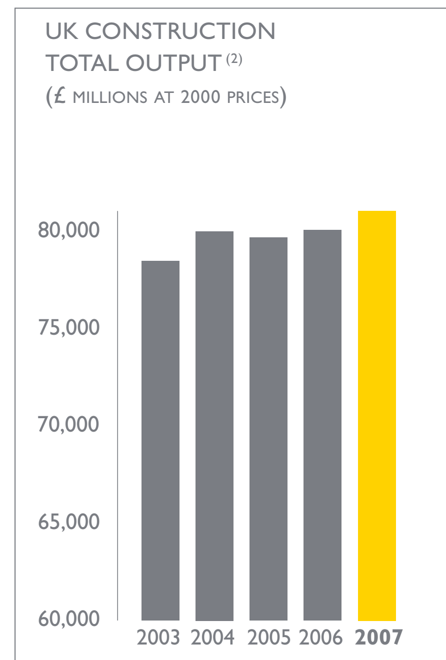
ABSENT FROM PHOTOGRAPH

Kevin Parkes
GROUP GENERAL MANAGER,
USED EQUIPMENT

Colin Hotchkiss
DIRECTOR,
PRODUCT SUPPORT, FINNING GROUP, UK



(1) Revenues exclude discontinued operations



(2) U.K. Department of Trade & Industry

In addition, training also focused on advancing technical capabilities. Finning (UK) was the first dealer in Europe to begin a joint mechanics training program with Caterpillar known as the 'ThinkBIG' program, which is based on similar programs employed by Finning in Canada and South America. 123 apprentices are currently enrolled in the UK's 'ThinkBIG' training.

Grow product support: A key objective is to continue to build a top tier offering that positions Finning as number one in the U.K. for service. Customer support revenues represented 18% of total UK revenues in 2007, and demand for Caterpillar parts was up 10% as a result of increased focus on growing the parts and service business.

The key revision to our customer service approach in the U.K. was a return to a regional service model which moved Finning's customer service representatives back into the field and closer to the customer. The Caterpillar "360 degree solutions" program introduced in the U.K. during 2007 is designed to support the dealership in providing customers with full equipment solutions including financing and product support agreements. In addition, workshop capacity was increased, with plans for further expansions underway, particularly in the southeast of England where a large proportion of the UK's infrastructure development is currently occurring.

Exploit successful Heavy Construction and Power Systems opportunities:
2007 results showed good performance from this sector and 2008 is expected to reflect additional growth. Coal mining is expected to remain busy. Also, further efforts will be directed to grow market share in the heavy construction sector, and growth opportunities are being targeted in the waste and recycling sector. The consolidation of quarrying customers also presents opportunities.

The power systems group had a very strong 2007 and another successful year is expected in 2008. Opportunities include marine and electric power generation markets as well as stand-by power installations where Finning provides comprehensive solutions including project management, engineering, design, build and installation, as well as multi-year support agreements that offer the customer a complete integrated solution.

Improve Hewden's performance:
With the completion of the Tools Hire Division divestiture and the new information technology implementation, management's focus at Hewden in 2008 will be on significant operational improvements. Hewden now has a clear "Plant Plus" focus on rental of small to medium sized construction equipment. The Caterpillar brand is core to the offering, and Hewden will be focused on utilization and yield, with an industry leading commitment to employee health and safety.

Continue to develop the General Construction sales channel: General Construction serves customers that require smaller Caterpillar equipment. In 2007, significant progress was made in establishing a separate lower cost distribution channel for this equipment. In 2008, the sales team will be expanded to full national coverage. The group will focus on volume sales – large unit deals, will pilot parts distribution strategies using co-locations with Hewden, and improve market offerings with multiple price points to increase the velocity of operations.

Manage costs and drive synergies:
Planning for consolidation of back office functions occurred in 2007 and implementation began in early 2008. The closing of the Tannochside offices near Glasgow is underway. This consolidation will deliver back office integration, promote efficiencies and reduce costs. Savings in excess of £1 million are expected in 2008 and further savings are expected in 2009 and beyond, once the back office is fully integrated.

OUTLOOK FOR 2008

The outlook for 2008 is positive as market conditions remain healthy in the U.K. While GDP growth is expected to slow from 2007 levels, infrastructure output is projected to grow following several years of modest decline. Spending on infrastructure and venues for the 2012 Olympics in London is beginning to emerge in 2008. The latest estimated costs for construction for the Olympics is £4.8 billion. Discussions are underway with all major Olympic contractors. Planning work has also begun on a major east to west London rail route known as the CrossRail project, the largest engineering project ever in London with a budget, including contingency, of approximately £16 billion. The project, when completed in 2017, will allow trains to travel at 60 mph across central London (21 km of the route will be underground). The project comprises track construction, 11 major station reconstructions, and significant upgrades to 17 other stations. The project will also include improved road infrastructure at key locations. Approvals are anticipated in 2008 with development to start in 2009 and construction to begin in 2010. Finning expects that these major projects will add significant demand for equipment supply, product support and rental opportunities.

Finning Service Depot, Cannock, UK

Finning Parts Warehouse, Cannock, UK

Finning Service Depot, Desford, UK

STRONG DEMAND

Finning Power Systems Branch, Edmonton, Alberta

power systems

"POWER" SOLUTIONS ACROSS FINNING TERRITORIES

Finning Power Systems supplies engines as well as parts and service to a diverse range of customers.

Power Systems delivered a very good performance in 2007. Revenues grew by 18% over 2006 driven mainly by strong markets in the United Kingdom and South America, and by increased demand for parts and service in all regions. EBIT rose by 31% from 2006 with higher-margin customer support revenues up 13% reflecting a company-wide strategic focus on capturing product support opportunities.

Market conditions for engine applications in the United Kingdom, Chile and Argentina remain very strong, particularly for electric power generation (EPG). In Western Canada, with softness in natural gas drilling, market conditions have been challenging.

CANADA

Western Canada provides a diverse range of growth opportunities for our power systems business from petroleum and electric power customers to marine applications. About 46% of our 2007 global power systems revenue was generated in Canada where we experienced only modest growth due to the slowdown in natural gas drilling activity. Continued weakness in the natural gas industry is expected in 2008.

In 2007, projects related to electric prime power generation in remote locations and power rental opportunities continued to provide growth for this business. Product support sales grew in all customer groups, with notable increases in parts and service volumes associated with the gas compression business notwithstanding the slowdown in gas drilling.

Equipment management contracts and product support continue to represent significant growth opportunities for Power Systems in Western Canada and Finning (Canada) continues to focus on providing customer support solutions to end-users including gas compression manufacturers, producers of electric power and the on-highway truck dealers.

Oil drilling activity in Alberta is expected to remain at good levels driven by continued high oil prices. Gas drilling in northeastern B.C. is also anticipated to remain active in 2008.

SOUTH AMERICA

2007 was a very successful year for our power systems division in South America. These operations contributed approximately 20% of the total power systems revenue. Finning has distribution rights for three product lines in this region: Caterpillar, Perkins and FG Wilson, and all are operating at record levels given strong demand for engines, parts and support services.

Demand for EPG equipment in Chile and Argentina remains strong from continued energy shortages caused by strong economic growth and limited base electricity supply. The significant electricity shortage is expected to continue through 2008 and beyond supporting very strong demand for diesel-fired EPG applications for stand-by power and peak-shaving during periods of high energy consumption.

During 2007 Finning supplied one customer in Chile with 60 FG Wilson generator units powered by Perkins engines. The generator packages were linked together, in one location, to construct a 96 mega-watt peak power generating facility south of Santiago. Finning supplied the engine and generator packages and provides maintenance under a customer service agreement. Other projects for peak power supply are under development in Chile and Argentina.

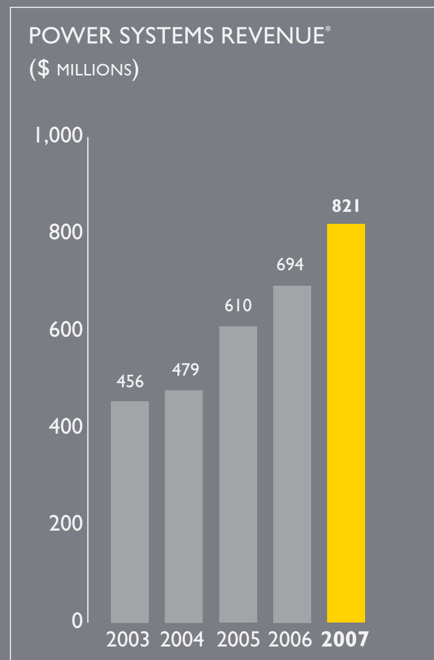
UNITED KINGDOM

Our Power Systems division in the U.K. continued to deliver very strong results in 2007, capturing market opportunities in EPG, industrial equipment, and off-shore oil & gas platform applications. 2007 was also a good year for supplying marine engines to the UK's pleasure and commercial craft manufacturers.

The UK power systems operations contributed approximately 34% of total power systems revenue in 2007. In the U.K., Finning's extensive electrical engineering expertise and technical capabilities allow us to deliver tailored customer solutions to large projects and to secure multi-year customer support agreements. Finning's services include design, procurement, installation and maintenance of stand-by power systems for sophisticated applications including data centres and hospitals. In addition, government policies in support of clean, renewable energy encourage development of additional alternative fuel EPG projects using methane gas from landfill sites or former coal mines.

STRONG OUTLOOK

The power systems new equipment backlog remains at a high level reflecting continued strong demand for engines for conventional EPG, natural gas compression, industrial and marine applications. The backlog supports an excellent outlook for our power systems business in all regions. We continue to focus on developing engineering capabilities and delivering innovative solutions that set Finning apart when it comes to designing, sourcing, installing and maintaining sophisticated power projects to demanding customer specifications.



* Power Systems results are reported within other Finning divisions

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This discussion and analysis of Finning International Inc. (Finning or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise stated.

RESULTS OF OPERATIONS

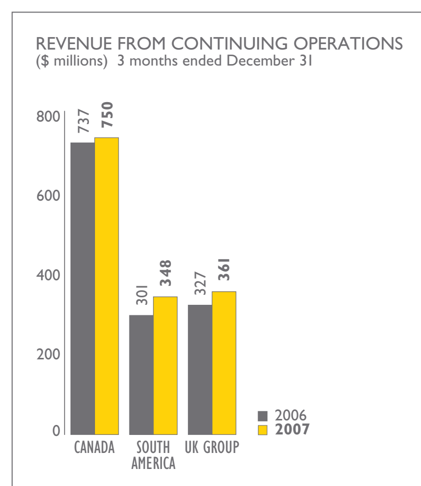
The results from continuing operations include the performance of acquired businesses from the date of their purchase and exclude results from operations that have been disposed or are classified as discontinued. Results from operations that qualify as discontinued operations have been reclassified to that category for all periods presented unless otherwise noted. Please see the section entitled "Discontinued Operations" for a discussion of these operations.

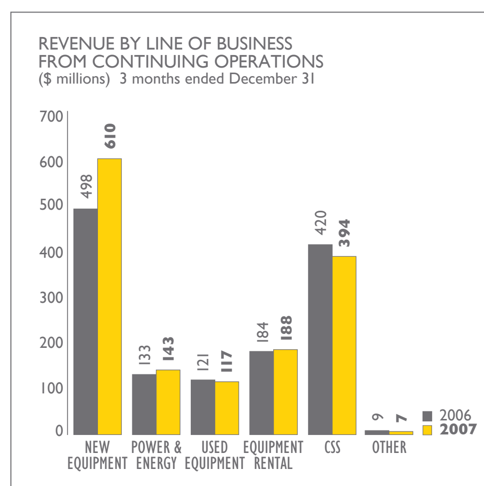
FOURTH QUARTER OVERVIEW

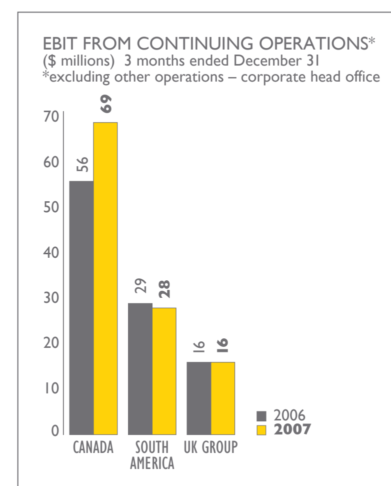
($ MILLIONS)	Q4 2007	Q4 2006	Q4 2007 (% OF REVENUE)	Q4 2006 (% OF REVENUE)
Revenue	$ 1,459.5	$ 1,365.1		
Gross profit	408.9	371.4	28.0%	27.2%
Selling, general & administrative expenses	(297.5)	(285.7)	(20.4)%	(20.9)%
Other income (expenses)	0.8	(1.8)	0.1%	(0.1)%
Earnings from continuing operations before interest and income taxes (EBIT)(1)	112.2	83.9	7.7%	6.2%
Finance costs	(18.9)	(16.4)	(1.3)%	(1.2)%
Provision for income taxes	(22.8)	(14.4)	(1.6)%	(1.1)%
Net income from continuing operations	70.5	53.1	4.8%	3.9%
Loss from discontinued operations, net of tax	–	(0.4)	–	–
Net income	$ 70.5	$ 52.7	4.8%	3.9%

(1) EBIT as defined above and referred to throughout this Management's Discussion and Analysis (MD&A) does not have a standardized meaning under generally accepted accounting principles. For a reconciliation of this amount to net income from continuing operations, see the heading "Description of Non-GAAP Measure" in this MD&A.

Fourth quarter consolidated revenues from continuing operations of $1.5 billion increased 6.9% from the fourth quarter of 2006. In spite of the continued downward pressure from the significant strength of the Canadian dollar relative to the U.S. dollar, Finning achieved record fourth quarter revenues driven primarily by strong equipment sales. Continued growth in resource-based industries and the construction sector led to sustained equipment demand in the dealership operations in Canada, South America, and the U.K.







MANAGEMENT'S DISCUSSION & ANALYSIS

Revenue was modestly higher in the fourth quarter of 2007 in the Company's Canadian operations, reflecting the continued activity driven by strong market demand and high prices in key commodities. This was partially offset by the impact of the strong Canadian dollar on revenues and approximately $25 million lower revenues from the distribution arrangement with Shell Canada Products as a result of the termination of this arrangement in the fourth quarter of 2007. Revenue from the Company's operations in South America increased 15.6% in Canadian dollars compared with the fourth quarter of 2006 with strong new equipment sales combined with an increase in customer support services. The Company's operations in the U.K. also experienced a 10.4% increase in revenue in Canadian dollars compared with the fourth quarter of 2006 primarily due to a 46.0% increase in new equipment and power system sales. This growth was tempered by lower revenues from the UK rental business (Hewden), where management's time continued to be diverted somewhat by the implementation of a new information technology system.

Finning's business is geographically diversified and the Company conducts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar, and the U.K. pound sterling. The most significant foreign exchange impact on the Company's revenues and net income is the translation of foreign currency based results into Canadian dollars. Compared to the prior year, foreign exchange had a negative impact on consolidated revenues in the fourth quarter of 2007 of approximately $110 million mainly due to a stronger Canadian dollar in the quarter relative to the U.S. dollar (13.8% stronger than 2006), and the U.K. pound sterling (8.1% stronger than 2006). At the net income level, the foreign exchange rate movement quarter over quarter had a negative impact of approximately $0.08 per share.

In addition to the above impact as a result of translating foreign currency based operating results, the Company experiences foreign currency translation gains or losses as a result of consolidating the financial statements of self-sustaining foreign operations. These unrealized foreign currency translation gains or losses are recorded in the Accumulated Other Comprehensive Income/Loss account on Finning's consolidated balance sheets. Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period end. The unrealized currency translation loss of $28.6 million recorded in the fourth quarter of 2007 mainly resulted from the 3.5% stronger spot Canadian dollar against the U.K. pound sterling, from September 30, 2007 to December 31, 2007. This was partially offset by $5.7 million of unrealized foreign exchange gains on net investment hedges.

Excluding the impact of foreign exchange when translating results, revenues for the fourth quarter of 2007 in local currency increased by 34.1% in the Company's South American operations and increased by 20.0% in the UK Group when compared to last year's fourth quarter.

From a line of business perspective, strong demand continued in the fourth quarter of 2007 for new equipment and power and energy systems. In the fourth quarter of 2007, the Company's Canadian operations completed the termination of its distribution arrangement with Shell Canada Products, resulting in approximately $25 million lower revenues from customer support services compared with the prior year's quarter. Used equipment revenues are slightly down and typically vary depending on product availability, customer buying preferences, and exchange rate considerations. In addition, with the stronger Canadian dollar, many customers in Canada are currently opting to buy new rather than used equipment.

Revenue mix continued to be more heavily weighted to new equipment sales as a result of extremely strong demand for equipment. New equipment revenues made up 41.8% of total revenues in the fourth quarter of 2007, up from 36.5% of total revenues in the same period last year. Revenues from the Canadian operations continue to grow, most notably in new equipment and equipment rental. The South American and UK operations recorded a significant increase in new equipment and power systems revenues as demand in the construction sectors continued to be strong.

Finning's global order book or backlog (the retail value of new equipment units ordered by customers for future deliveries) continues to be very strong at $1.7 billion at the end of the fourth quarter of 2007, and is up 10% from December 2006 levels, driven primarily by the strong Canadian mining market.

The Company is dependent on Caterpillar Inc. (Caterpillar) for the timely supply of parts and equipment to fulfill its deliveries and meet the requirements of the Company's service maintenance contracts. Selected models of large equipment, large engines, and some parts continue to be under managed distribution. Finning continues to work closely with Caterpillar and customers to ensure that demand for parts and equipment can be met.

Gross profit of $408.9 million in the fourth quarter increased 10.1% over the same period last year. Gross profit as a percentage of revenue for the quarter was 28.0%, compared with 27.2% for the fourth quarter in 2006. The Canadian operations earned a higher gross profit margin due to price realization from new equipment and customer support services. The gross profit margins for the South American operations and the UK Group were lower when compared to the prior year's quarter due to a higher proportion of revenues from new equipment sales, which typically have lower margins.

Earnings from continuing operations before interest and income taxes (EBIT) of $112.2 million in the fourth quarter of 2007 increased 33.7% year over year. EBIT in the fourth quarter of 2007 reflected the strong operating performance in Canada. The benefit of lower long-term incentive plan (LTIP) charges offset the negative impact of a stronger Canadian dollar in 2007 compared to 2006. The fourth quarter 2007 results also include higher variable operating costs to support the increased level of sales activity and higher employee related costs. Headcount at December 2007 increased by over 1,400 employees from the December 2006 level in the Company's Canadian and South American operations.

The LTIP charges in the fourth quarter of 2007 were lower by $25.9 million compared with the same period in 2006, primarily due to the lower mark-to-market impact on the valuation of certain stock-based compensation plans as a result of a decrease in the Company's share price in the fourth quarter of 2007 as opposed to an increase in 2006. The LTIP charges in the comparable quarter in 2006 were also higher as a result of the vesting of three tranches of deferred share units as a result of the increase in the Company's share price during the quarter and achievement of specified share price levels. At the net income level, the movement in LTIP charges quarter over quarter had a positive impact of approximately $0.10 per share.

The Company's EBIT margin (EBIT divided by revenues) was 7.7% in the fourth quarter of 2007, up from 6.2% earned in the fourth quarter of 2006. The higher EBIT margin in 2007 was due to the significant increased contribution from the Company's Canadian operations, partially offset by higher costs incurred to meet customer demand, cost pressures in South America, and lower returns from Hewden.

Consolidated net income from continuing operations of $70.5 million was 32.8% higher in the fourth quarter of 2007 compared to the same period in 2006, reflecting the solid fourth quarter activity noted above.

Basic Earnings Per Share (EPS) from continuing operations for the quarter was $0.40 compared with $0.30 in the same period last year, an increase of 33.3%.

Cash Flow

Cash flow after changes in working capital for the fourth quarter was $221.3 million, compared with cash flow of $79.0 million generated in the same period last year. Working capital demands have stabilized in the fourth quarter of 2007 and, combined with initiatives to improve cash cycle times, have resulted in a significantly improved cash flow from the third quarter 2007 levels. As disclosed in prior quarters, a significant improvement in cash flow was anticipated due to the scheduled delivery and sale of inventories in the second half of the year.

The Company's net investment in rental assets of $14.2 million in the fourth quarter of 2007, which was $50.0 million lower than the same period in 2006, was primarily as a result of a higher level of rental disposals.

As a result of these items, cash flow from operating activities was $207.3 million in the fourth quarter of 2007 compared to $11.7 million in the fourth quarter of 2006.

During the fourth quarter of 2007, under a share repurchase program, the Company repurchased 2,465,200 common shares at an average price of $27.31 for an aggregate amount of $67.3 million.

MANAGEMENT'S DISCUSSION & ANALYSIS

ANNUAL OVERVIEW

($ MILLIONS)	2007	2006	2007 (% OF REVENUE)	2006 (% OF REVENUE)
Revenue	$ 5,662.2	$ 4,853.2		
Gross profit	1,599.2	1,367.5	28.2%	28.2%
Selling, general & administrative expenses	(1,144.8)	(1,003.8)	(20.2)%	(20.7)%
Other income	1.4	10.0	–	0.2%
EBIT	455.8	373.7	8.0%	7.7%
Finance costs	(72.8)	(69.8)	(1.3)%	(1.4)%
Provision for income taxes	(102.9)	(67.7)	(1.8)%	(1.4)%
Net income from continuing operations	280.1	236.2	4.9%	4.9%
Loss from discontinued operations, net of tax	(2.0)	(32.1)	–	(0.7)%
Net income	$ 278.1	$ 204.1	4.9%	4.2%

For the fifth consecutive year, revenues reached record levels and were up in all of the Company's operations. Annual revenues from continuing operations of $5.7 billion increased 16.7%, year over year, as continued strong growth in resource-based industries and the construction sector continue to drive demand in Canada and South America. Revenue from the UK Group increased 13.8% over the prior year, reflecting improvement in most lines of business but primarily in new equipment sales.

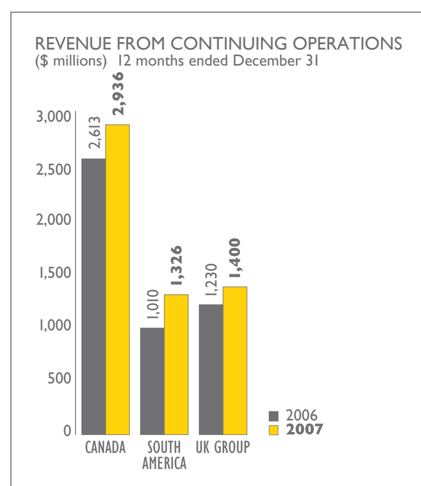
On a consolidated basis, all lines of business increased in 2007 over 2006. New equipment sales continued to dominate revenue growth as a result of extremely strong overall demand for equipment.

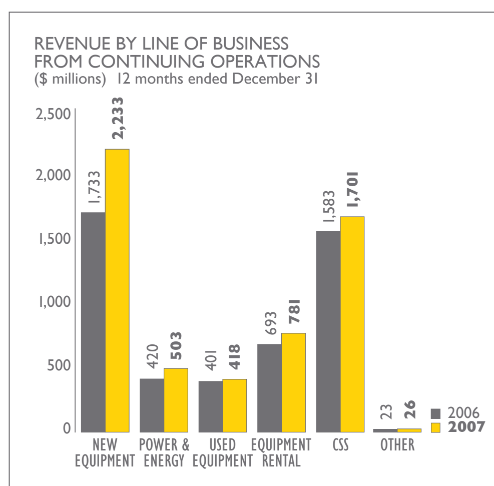
Foreign exchange translation had a negative impact of approximately $100 million on revenues due to the 5.2% stronger Canadian dollar in 2007 relative to the U.S. dollar, partially offset by a 2.9% weaker Canadian dollar relative to the U.K. pound sterling, year over year. In local currency, the Company's South American operations contributed revenues 39.3% higher than in 2006, while revenues generated by the UK Group operations were 11.2% above the 2006 level.

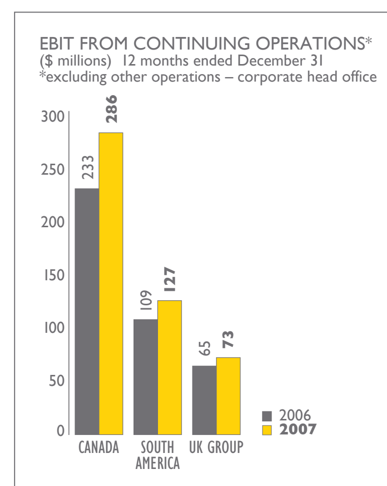
Gross profit of $1,599.2 million in 2007 increased 16.9% over last year and was comparable to the prior year as a percentage of revenue. The gross profit margin in the Canadian operations for 2007 was higher when compared to the prior year with a lower gross profit margin contributed by South American and UK operations, primarily due to a revenue mix shift from customer support services to lower margin new equipment sales.

EBIT of $455.8 million increased 22.0% year over year, primarily due to the strong performance of the Company's Canadian and South American operations and a continued improvement in the UK Group. EBIT for the year ended December 31, 2007 included higher variable operating costs to support the increased level of activity and higher employee costs related to the increased headcount and aggressive competition for a skilled workforce, as well as cost pressures in South America. Annual LTIP charges in 2007 were comparable with 2006.

The 2006 results included non-recurring pre-tax gains of $18.2 million from the disposal of surplus properties in Canada and the sale of OEM Remanufacturing's railroad and non-Caterpillar engine component remanufacturing business to Caterpillar. Excluding these pre-tax gains from 2006 results, the 2007 EBIT was 28.2% higher than last year and EBIT margin of 8.0% in 2007 was above the prior year of 7.3%.







Net income from continuing operations in 2007 increased by 18.6% to $280.1 million, reflecting the solid activity noted on the previous page.

Basic EPS from continuing operations for the year ended December 31, 2007 was $1.57 compared with $1.32 in the same period last year, up 18.9%. The 2006 results included $0.09 per share of non-recurring gains on the sale of surplus properties and a portion of the OEM remanufacturing business in Canada, partially offset by incremental finance costs of approximately $0.04 per share for the early repayment of Finning's previously issued Eurobond notes in the third quarter of 2006. Adjusting the prior year results for the gains on dispositions and the incremental finance costs noted above, basic EPS would have been $1.27 for the year ended December 31, 2006, compared to $1.57 in 2007, an improvement of 23.6%.

Discontinued Operations

On July 31, 2007, the Company sold its U.K. Tool Hire Division for cash proceeds of $242.9 million (approximately £112 million), net of costs. The gross sale price, net of taxes and transaction costs, was approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business, and resulted in an after-tax gain on disposal of $0.1 million.

Restructuring and other costs associated with the disposition of the Tool Hire Division of $2.0 million after tax were recorded in the second and third quarters of 2007.

On September 29, 2006, the U.K. Materials Handling Division was sold for cash proceeds of $170.6 million (£81.7 million), net of costs, which resulted in an after-tax loss on disposal of $32.7 million (approximately £15.5 million).

These divisions are classified as discontinued operations within the consolidated income statements for all periods presented prior to each disposition.

Net income after discontinued operations for the year ended December 31, 2007 was $278.1 million compared with $204.1 million in 2006. Basic EPS after discontinued operations was $1.56 in 2007 compared with $1.14 in 2006 ($1.09 after adjusting for non-recurring gains and incremental finance costs noted previously).

Cash Flow After Changes in Working Capital

Cash flow after changes in working capital for the year ended December 31, 2007 was $404.4 million, compared with cash flow of $460.2 million generated in 2006. The Company's operations experienced a significant increase in working capital, particularly in the first half of 2007, as a result of the timing of equipment and parts deliveries in relation to strong customer demand requirements in 2007. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies.

The Company made a net investment in rental assets of $474.6 million in 2007, which was $131.0 million higher than 2006, and up in all operations to support increased demand for all rental lines. Rental additions were also higher in the Finning UK Group due to the deferred delivery of rental assets at Hewden into 2007 from the prior year.

As a result of these items, cash flow used by operating activities was $56.7 million in 2007 compared to cash flow provided by operating activities of $97.2 million in 2006. Cash flow in 2007 reflects the growth in assets to meet customer demand.

For the year ended December 31, 2007, under a share repurchase program, the Company repurchased 3,691,400 common shares at an average price of $27.82 for an aggregate amount of $102.7 million.

Results by Business Segment

The Company and its subsidiaries operate primarily in one principal business, that being the selling, servicing, and renting of heavy equipment and related products in various markets worldwide as noted below.

Finning's operating units are as follows:

- *Canadian operations:* British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- *South American operations:* Chile, Argentina, Uruguay, and Bolivia.
- *UK Group operations:* England, Scotland, Wales, Falkland Islands, and the Channel Islands.
- *Other:* corporate head office.

The table below provides details of revenue by operations and lines of business for continuing operations. Comparative periods have been reclassified to conform to the 2007 presentation.

For year ended December 31, 2007 ($ MILLIONS)	Canada	South America	UK Group	Consolidated	Revenue percentage
New mobile equipment	**$ 1,253.2**	**$ 574.4**	**$ 405.9**	**$ 2,233.5**	**39.4%**
New power & energy systems	**194.9**	**108.7**	**199.4**	**503.0**	**8.9%**
Used equipment	**269.3**	**42.8**	**105.5**	**417.6**	**7.4%**
Equipment rental	**290.1**	**46.6**	**444.5**	**781.2**	**13.8%**
Customer support services	**905.8**	**550.3**	**245.1**	**1,701.2**	**30.0%**
Other	**22.9**	**2.8**	**–**	**25.7**	**0.5%**
Total	**$ 2,936.2**	**$ 1,325.6**	**$ 1,400.4**	**$ 5,662.2**	**100.0%**
Revenue percentage by operations	**51.9%**	**23.4%**	**24.7%**	**100.0%**	

For year ended December 31, 2006 ($ MILLIONS)	Canada	South America	UK Group	Consolidated	Revenue percentage
New mobile equipment	$ 1,033.1	$ 389.5	$ 310.2	$ 1,732.8	35.7%
New power & energy systems	196.8	69.8	153.3	419.9	8.7%
Used equipment	248.3	38.7	114.1	401.1	8.2%
Equipment rental	240.4	38.1	414.7	693.2	14.3%
Customer support services	873.4	471.7	238.4	1,583.5	32.6%
Other	20.6	2.1	–	22.7	0.5%
Total	$ 2,612.6	$ 1,009.9	$ 1,230.7	$ 4,853.2	100.0%
Revenue percentage by operations	53.8%	20.8%	25.4%	100.0%	

The table below provides selected income statement information by business segment for continuing operations:

For year ended December 31, 2007 ($ MILLIONS)	Canada	South America	UK Group	Other	Consolidated
Revenue from external sources	**$ 2,936.2**	**$ 1,325.6**	**$ 1,400.4**	**$ –**	**$ 5,662.2**
Operating costs	**(2,486.0)**	**(1,171.7)**	**(1,191.3)**	**(30.9)**	**(4,879.9)**
Depreciation and amortization	**(165.5)**	**(25.9)**	**(136.5)**	**–**	**(327.9)**
Other income (expenses)	**1.6**	**(0.6)**	**0.4**	**–**	**1.4**
Earnings before interest and taxes	**$ 286.3**	**$ 127.4**	**$ 73.0**	**$ (30.9)**	**$ 455.8**
Earnings before interest and taxes					
– percentage of revenue	**9.8%**	**9.6%**	**5.2%**	**–**	**8.0%**
– percentage by operations	**62.8%**	**28.0%**	**16.0%**	**(6.8)%**	**100%**

For year ended December 31, 2006 ($ MILLIONS)	Canada	South America	UK Group	Other	Consolidated
Revenue from external sources	$ 2,612.6	$ 1,009.9	$ 1,230.7	$ –	$ 4,853.2
Operating costs	(2,251.3)	(876.3)	(1,042.5)	(32.9)	(4,203.0)
Depreciation and amortization	(145.7)	(24.7)	(116.1)	–	(286.5)
Other income (expenses)	17.7	–	(7.1)	(0.6)	10.0
Earnings before interest and taxes	$ 233.3	$ 108.9	$ 65.0	$ (33.5)	$ 373.7
Earnings before interest and taxes					
– percentage of revenue	8.9%	10.8%	5.3%	–	7.7%
– percentage by operations	62.4%	29.1%	17.4%	(8.9)%	100%

CANADIAN OPERATIONS

The Canadian operating segment primarily reflects the results of the Company's operating division, Finning (Canada). This reporting segment also includes the Company's interest in OEM Remanufacturing Company Inc. (OEM), which is separately managed from Finning (Canada). OEM is a component rebuild facility based in Edmonton, Alberta.

The table below provides details of the results from the Canadian operating segment:

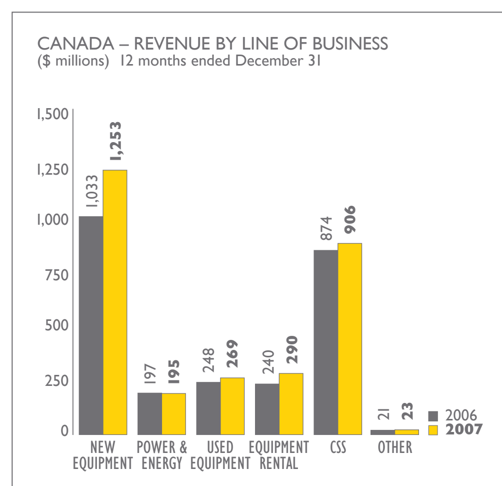
For years ended December 31 ($ MILLIONS)	2007	2006
Revenue from external sources	$ 2,936.2	$ 2,612.6
Operating costs	(2,486.0)	(2,251.3)
Depreciation and amortization	(165.5)	(145.7)
Other income	1.6	17.7
Earnings before interest and taxes	$ 286.3	$ 233.3
Earnings before interest and taxes		
– as a percentage of revenue	9.8%	8.9%
– as a percentage of consolidated earnings before interest and taxes	62.8%	62.4%

Record results were again achieved in the Company's Canadian operations in 2007. Revenues increased 12.4% over the 2006 levels to $2,936.2 million. Revenues from most lines of business in Canada increased over 2006 levels, most notably in new equipment sales. This occurred in spite of a 5.2% strengthening of the Canadian dollar relative to the U.S. dollar year over year.

The increase in new equipment revenues was attributable to strong market demand and continued growth in the mining, construction, and government sectors, driven by strong commodity and oil prices and infrastructure spending.

New equipment orders from customers continued to outpace prior year volumes and as a result, the backlog in Finning (Canada) reached new record levels at the end of 2007. Backlog reflects the strong activity in the mining, petroleum, and construction sectors, which are all key sectors for Finning's Canadian operations.

Higher revenues from customer support services were a result of servicing the steadily increasing population of Caterpillar units in the Company's Canadian dealership territory and the accompanying demand for Caterpillar parts. The strong customer support services revenue in 2007 was tempered by the termination of the distribution arrangement with Shell Canada Products in the fourth quarter of 2007. Rental revenues increased over 2006 as a result of strong customer demand in this sector and a corresponding increased investment in the rental fleet and in the Cat Rental Store operations. Finning (Canada) increased the number of the Company's Cat Rental Stores in operation in Western Canada to 34 at December 31, 2007, compared with 29 stores at December 31, 2006. All rental categories continue to generate strong returns.



The Company's 25% investment in PipeLine Machinery International (PLM) continues to do very well. PLM has almost doubled its revenue over the prior year. International activity for PLM has included significant penetration into the China market with over 75 new pipelayers sold over the past 15 months. PLM is also selling to pipeline customers constructing in Russia as well as ongoing focus on sales in South America, Europe, Africa, and India as well as Australia and Malaysia.

In Canada, higher gross profits were achieved in all lines of business. Gross profit as a percentage of revenue increased from 2006 primarily due to higher margins across most lines of business, reflecting good price realization in a robust market.

Selling, general, and administrative (SG&A) costs have increased in absolute dollars but have slightly decreased as a percentage of revenue in 2007 compared with 2006. The higher costs in 2007 support the strong revenue growth and customer demand. In order to support the strong demand in western Canada, headcount for Finning (Canada) increased by approximately 460 or 12% compared to December 2006. As a result, higher salaries, benefit, pension, training, and recruitment costs were incurred in 2007. In addition, standard variable selling costs such as warranty and freight have increased.

Strong revenues and good price realization due to robust market activity and demand translated into a significant contribution by the Company's Canadian operating segment in 2007. EBIT of $286.3 million in 2007 was 22.7% higher than the $233.3 million earned in 2006. Results from 2007 include a $2.4 million pre-tax gain on the termination of an alliance agreement between Finning (Canada) and Shell Canada relating to the distribution of Shell's lubricant and light oil products. The annual 2006 results included a $12.9 million pre-tax gain on the sale of surplus properties at Finning (Canada) and a $5.3 million pre-tax gain recorded on the sale of a portion of OEM's remanufacturing business. OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar.

Excluding the gains on the 2006 property sales and the OEM sale, the 2006 EBIT margin (EBIT divided by revenues) would have been 8.2% compared with 9.8% achieved in 2007.

OTHER DEVELOPMENTS

- Finning, Finning (Canada), and OEM have been involved in legal proceedings for the past three years with the Alberta division of the International Association of Machinists and Aerospace Workers – Local Lodge 99 (IAM) relating to Finning (Canada)'s outsourcing of component repair and rebuilding services to OEM in 2005. On October 17, 2007, the Alberta Court of Appeal overturned previous decisions in favour of Finning and OEM made by the Court of Queens Bench and by a Reconsideration Panel of the Alberta Labour Relations Board (ALRB), and reinstated a finding of the original ALRB panel. The original ALRB panel had found that OEM was a successor employer to Finning (Canada) in respect of the component repair and rebuilding activities being carried out by OEM as a service provider to Finning (Canada). The result of the Court of Appeal finding is that IAM may now have the right to assert that it is the authorized bargaining agent for some or all of the non-management employees of OEM. These OEM employees are currently represented by another union, the Christian Labour Association of Canada. The Court of Appeal did not overturn other aspects of the previous decisions in Finning's and OEM's favour and the full operational and legal implications of the Court's decision are still to be determined by the ALRB. At this time, Finning and OEM are confident that they can manage the operational impacts of this recent Court decision. Finning, Finning (Canada), and OEM filed for leave to appeal this decision to the Supreme Court of Canada. The timing of the appeal, if allowed, is not yet known.
- In a separate matter, in the second quarter of 2007, Finning (Canada) and the IAM, representing Finning (Canada) hourly employees in Alberta and the Northwest Territories, agreed to a two year extension of the existing collective agreement with an enhanced wage settlement. This extends the agreement to April 2010. All other terms and conditions of the existing collective agreement continue in effect.
- In January 2008, Finning (Canada) purchased Collicutt Energy Services Ltd., a leading Canadian oilfield service company. The total value of this transaction is approximately $145 million, comprising $96 million of cash, 14,365 Finning common shares (valued at $0.4 million) issued in connection with the acquisition, with the difference being the assumption of debt. The acquisition provides Finning (Canada) with the opportunity to expand its capacity of regional branches to enable them to undertake more customer service work, accelerate throughput of new equipment prepared for delivery to customers, and increase the ability to undertake machine overhaul and rebuild work. Finning (Canada) plans to relocate the Edmonton-based new equipment preparation and used parts work to Collicutt's facilities in Red Deer, Alberta. This heavy equipment centre of excellence will free up capacity and give the Company the opportunity to develop a mining/heavy equipment overhaul rebuild capability in Red Deer.

SOUTH AMERICA

The Company's South American operations include the results of its Caterpillar dealerships in Chile, Argentina, Uruguay, and Bolivia.

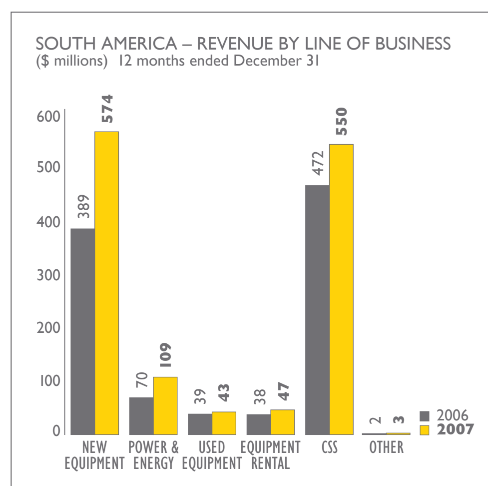
The table below provides details of the results from the South American operations:

For years ended December 31 ($ MILLIONS)	2007	2006
Revenue from external sources	$ 1,325.6	$ 1,009.9
Operating costs	(1,171.7)	(876.3)
Depreciation and amortization	(25.9)	(24.7)
Other expenses	(0.6)	–
Earnings before interest and taxes	$ 127.4	$ 108.9
Earnings before interest and taxes		
– as a percentage of revenue	9.6%	10.8%
– as a percentage of consolidated earnings before interest and taxes	28.0%	29.1%

Annual 2007 revenues of $1,325.6 million were at record levels for Finning's South American operations in both Canadian and local currency (the U.S. dollar), in spite of the negative impact of a 5.2% strengthening of the Canadian dollar relative to the U.S. dollar. In local currency, Finning South America revenues increased 39.3% reflecting higher revenues in all lines of business, most notably in new equipment sales, power and energy, and customer support services. Continued high prices for copper and gold drive good demand for equipment and support services in the countries in which Finning South America operates. New equipment order backlog in local currency remains strong and is comparable to the levels achieved at the end of 2006.

Although revenues for customer support services were higher in 2007, new equipment sales continued to dominate revenue growth, making up 43.3% of total revenues (38.6% in 2006). The significant growth in new equipment revenues was attributable to the strong demand in the mining, construction, and forestry sectors. Power and energy system revenues were also up compared with the prior year, primarily in Argentina with a high demand for energy. Revenue growth in customer support services, up 16.7%, was driven by the higher number of Caterpillar units operating in the field and reflects the increasing number of mining maintenance and repair contracts entered into over the past couple of years.

In both Canadian and local currency, gross profit increased in 2007 in absolute terms, but decreased as a percentage of revenue. This occurred partially due to the revenue mix shift toward new equipment sales which typically have lower margins, offset by stronger margins achieved in most lines of business, reflecting price realization in a robust market. Margins from customer support services remained relatively level compared with 2006, in spite of higher customer support costs. In order to meet strong customer service demand and the resultant higher number of service maintenance contracts, over 900 additional revenue-generating employees and support staff have been hired, representing a 20% increase over December 2006 levels.



MANAGEMENT'S DISCUSSION & ANALYSIS

As a result of an increased headcount for associated support staff, SG&A expenses included higher salaries and benefit costs in 2007 compared with 2006 together with higher recruitment and training costs. Parts availability constraints also increased parts delivery costs. Other operating costs reflect the upward pressure of inflationary increases, especially from Argentina which continues to have a comparatively high rate of inflation. Where possible, price increases have been implemented to offset rising costs. In spite of the increase in SG&A costs to manage growth in demand, SG&A as a percentage of revenue in 2007 remained comparable with 2006 as a result of numerous initiatives to manage costs.

EBIT of the Company's South American operations of $127.4 million for the year ended December 31, 2007, was 17.0% higher than 2006 and in local currency was 22.9% higher when compared to the prior year, reflecting the strong revenue growth. However, as a result of the sales mix being oriented to a higher proportion of equipment sales (which typically have a lower margin) and the higher costs to meet customer demand, EBIT as a percentage of revenue for Finning South America declined to 9.6%, down from 10.8% in 2006. Management continues to undertake cost saving initiatives to drive productivity efficiencies in work flow processes wherever possible but continues to be challenged by product availability constraints for certain large equipment types and the lack of supply of a skilled and experienced workforce to fulfill current demand levels.

UNITED KINGDOM ("UK") GROUP

During the fourth quarter of 2006, the UK Group was reorganized to combine the operations of Finning (UK) and Hewden into one organization creating four distinct market units to more effectively service customers, improve alignment with Caterpillar, and to generate operating efficiencies. At the same time a new management team was appointed. These four market units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies among the market units. As a result of this reorganization, the Finning UK Group is reported as one operating segment in 2007, with the four market units being: Heavy Construction, General Construction, Power Systems, and Rental (Hewden).

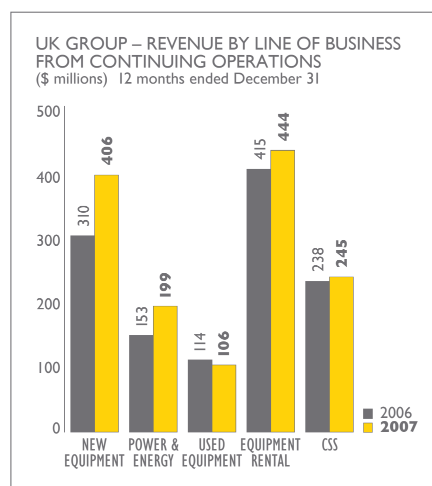
Prior to 2007, results from the UK Group were reported as two separate operating segments: Finning UK Operations, reflecting the results of Finning (UK), the UK Caterpillar dealership operation and Diperk UK, which distributes and services Perkins engines in the U.K.; and Hewden Operations, an equipment rental and associated services operation in the U.K.

On July 31, 2007, Hewden sold its Tool Hire Division and on September 29, 2006, Finning (UK) sold its Materials Handling Division. The results from the Tool Hire and Materials Handling divisions are recorded as discontinued operations with prior period results restated accordingly.

The table below provides details of the results of the continuing operations from the UK Group:

For years ended December 31

($ MILLIONS)	2007	2006
Revenue from external sources	$ 1,400.4	$ 1,230.7
Operating costs	(1,191.3)	(1,042.5)
Depreciation and amortization	(136.5)	(116.1)
Other income (expenses)	0.4	(7.1)
Earnings before interest and taxes	$ 73.0	$ 65.0
Earnings before interest and taxes		
– as a percentage of revenue	5.2%	5.3%
– as a percentage of consolidated earnings before interest and taxes	16.0%	17.4%



Annual 2007 revenues of $1,400.4 million were up 13.8% from the prior year primarily due to increases in new equipment revenue. Excluding the impact of foreign currency translation resulting from the 2.9% weakening of the Canadian dollar relative to the U.K. pound sterling, revenues in the UK Group increased by 11.2% in local currency compared to the prior year.

Revenues from most lines of business for the UK Group increased over 2006 levels, most notably in new equipment sales. As a result, the UK Group's revenue mix was more heavily weighted to new equipment sales in 2007 compared with 2006.

The UK Group was successful in delivering 19% more new units into the marketplace during the year compared to last year on a continuing basis, as it benefited from several large deals into the quarrying and mining sectors. Revenue from rental operations was 7.2% higher in 2007 compared with 2006, primarily due to a higher asset base while competitive conditions continue to challenge overall rental utilization levels and price realization. In addition, during 2007 management focused on the disposition of Hewden's Tool Hire Division and implementation of a new information technology system for Hewden's continuing operations, thereby reducing focus on market facing activities. As this new system improves processes, and Hewden's revised product line becomes fully embedded in rental operations, management believes that utilization, price realization, and operating results will improve.

New order backlog in local currency at December 2007 remained strong and was comparable to the levels achieved at December 2006.

Gross profit for the year ended December 31, 2007 was higher compared with the same period last year in absolute terms, but decreased as a percentage of revenue partially due to a revenue mix shift towards a higher proportion of new equipment sales which typically generate lower margins compared to customer support services. In addition, the rental business experienced lower margins in 2007 compared to the prior year for the reasons noted above.

SG&A costs were higher in 2007 compared with 2006 in absolute terms reflecting higher revenues and increased information technology costs, partially offset by lower pension costs. SG&A costs as a percentage of revenue were lower compared with 2006, mainly as a result of various initiatives and management's focus on realizing cost efficiencies.

In 2007, the UK Group contributed $73.0 million of EBIT, a 12.3% increase compared with that achieved in 2006. Other expenses incurred in 2006 were primarily project costs at Hewden and related to various initiatives to assess products, the distribution network, organizational structure, and process efficiency to meet customers' needs. Management continues to examine and assess the business model in the U.K. with Finning's goal of building market share, growing the customer service business, generating higher returns on invested capital, and improving financial results.

EBIT as a percentage of revenue for the UK Group of 5.2% in 2007 was slightly lower than 5.3% in 2006.

Subsequent to the end of 2007, in January and early February 2008, Hewden sold certain properties for cash proceeds of approximately $28 million, resulting in a pre-tax gain of approximately $14 million. Also in January 2008, Hewden sold its Hoists business. These sales are in line with Hewden's strategy of increasing focus on core business areas where it has already built, or intends to build, a market leadership position.

MANAGEMENT'S DISCUSSION & ANALYSIS

Discontinued Operations – Tool Hire and Materials Handling Divisions

On September 29, 2006, the Materials Handling Division was sold for cash proceeds of $170.6 million (£81.7 million), net of costs, which resulted in a one-time after-tax loss of $32.7 million (approximately £15.5 million).

On July 31, 2007, the Company sold its Tool Hire Division for cash proceeds of approximately $242.9 million (approximately £112 million), net of costs. The gross sale price, net of taxes and transaction costs, was approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business, and resulted in a one-time after-tax gain of $0.1 million. Restructuring and other costs associated with the disposition of this business of $2.0 million after tax were recorded in the second and third quarters of 2007.

These divisions are classified as discontinued operations within the consolidated income statements for all periods presented prior to the disposition. The table below provides details of the discontinued operations of the Tool Hire and Materials Handling divisions, excluding the gain and loss on sale, respectively:

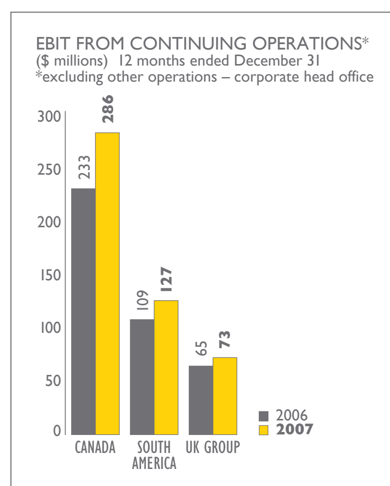
For years ended December 31	Tool Hire Division		Materials Handling Division	
($ THOUSANDS)	**2007**	2006	**2007**	2006
Revenue from external sources	**$ 113.3**	$ 194.1	**$ –**	$ 183.6
Operating costs	**(82.2)**	(138.6)	**–**	(147.7)
Depreciation and amortization	**(23.4)**	(37.8)	**–**	(31.1)
Other expenses	**(8.0)**	(3.6)	**–**	–
Earnings before interest and taxes	**$ (0.3)**	$ 14.1	**$ –**	$ 4.8

Approximately 1,200 and 1,000 employees were transferred with the sale of the Tool Hire and Materials Handling divisions, respectively.

CORPORATE AND OTHER OPERATIONS

For years ended December 31 ($ MILLIONS)	**2007**	2006
Operating costs	**$ (30.9)**	$ (32.9)
Other expenses	**–**	(0.6)
Earnings before interest and taxes	**$ (30.9)**	$ (33.5)

For the year ended December 31, 2007, operating costs of $30.9 million were lower than the $32.9 million in 2006. LTIP and pension costs incurred in 2007 were slightly lower than the costs recorded in 2006.



EARNINGS BEFORE INTEREST AND TAXES (EBIT)

On a consolidated basis, EBIT in 2007 increased by 22.0% over 2006 to $455.8 million. EBIT in the prior year included gains realized on the disposal of surplus properties in Canada and a portion of OEM's business. Adjusting prior year results for these gains, EBIT in 2007 was up 28.2%. Gross profit increased 16.9% to $1,599.2 million in 2007 compared with 2006, up in all business segments. The increase in gross profit was partially offset by an increase in SG&A costs. SG&A costs were higher in 2007 compared with 2006, reflecting higher costs incurred to meet customer demand and inflationary cost increases in South America. EBIT continued to be negatively impacted in 2007 due to the stronger Canadian dollar relative to the U.S. dollar. EBIT as a percentage of revenue increased from 7.7% in 2006 to 8.0% in 2007. Excluding the prior year gains on dispositions noted above, EBIT margin in 2006 would have been 7.3% compared with 8.0% in 2007.

Major components of the annual EBIT variance were:

($ MILLIONS)		
2006 EBIT	**$**	**373.7**
Net growth in operations		101.6
Gain on sale of OEM's railroad and non-Cat remanufacturing business in 2006		(5.3)
Gain on sale of properties in Canada in 2006		(12.9)
Lower pension expense		8.1
Foreign exchange impact		(19.0)
Other net expenses (see Note 2 to the Consolidated Financial Statements)		9.6
2007 EBIT	**$**	**455.8**

FINANCE COSTS

Finance costs for the year ended December 31, 2007 of $72.8 million were 4.3% higher than 2006. Finance costs in 2006 included a charge of approximately $8.9 million, reflecting costs associated with the recognition of deferred financing costs and related redemption costs. These costs arose following the sale of the Company's Materials Handling Division in the U.K., as the Company used a portion of the proceeds to redeem £75 million of its £200 million Eurobond notes. Adjusting for the costs associated with the redemption of the Eurobond notes in 2006, finance costs from continuing operations increased 19.5% in 2007 due to:

- Higher average debt levels at each of the Company's operations to support working capital requirements and investment in rental assets.
- Higher short-term interest rates.

PROVISION FOR INCOME TAXES

Finning's 2007 annual income tax expense was $102.9 million (26.9% effective tax rate) compared with $67.7 million (22.3% effective tax rate) for 2006. The higher effective tax rate in 2007 reflects a reduced benefit realized from tax planning strategies and a change in the Company's earnings mix with proportionately more income earned in the higher tax jurisdictions of Canada and the U.K. The income tax provision in 2006 was also lower due to a lower capital tax rate on gains on property sales in Canada.

Management anticipates that for 2008, the consolidated effective tax rate will approximate 25 - 30%.

NET INCOME

Finning's net income from continuing operations increased 18.6% to $280.1 million in 2007 compared with $236.2 million in 2006, reflecting the strength in the Company's Canadian and South American operations as well as improved results from the UK Group. Annual 2007 results were impacted by higher costs to meet customer demand, inflationary operating cost pressures in certain markets, and the unfavourable impact of foreign exchange translation. Finning's 2006 earnings included after-tax gains on the sale of certain properties in Canada and a portion of the OEM business, partially offset by incremental finance costs incurred on the early partial repayment of the Eurobond notes.

Basic EPS from continuing operations increased 18.9% to $1.57 in 2007 compared with $1.32 in 2006. Excluding the gains and incremental finance costs incurred in 2006 noted above, basic EPS would have been $1.27 in 2006, 23.6% lower than 2007.

LIQUIDITY AND CAPITAL RESOURCES

Management of the Company assesses liquidity in terms of Finning's ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

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

CASH FLOW FROM OPERATING ACTIVITIES

For the year ended December 31, 2007, cash flow after working capital changes was $404.4 million, a decrease from cash flow of $460.2 million generated last year. Cash flow before working capital changes from operations increased in 2007 compared to 2006. This was offset by a significant increase in working capital in the first half of 2007 as a result of the timing of equipment and parts deliveries in relation to strong customer demand requirements in 2007, and increased funding of pension plans. Throughout all operations, management continues to focus on improving cash cycle times and operating efficiencies, which was evident in the last half of 2007.

The Company made a net investment in rental assets of $474.6 million during 2007 compared to $343.6 million in 2006, above its annual target of $325 million to $375 million. Rental expenditures increased as the Company experienced higher demand for these assets in all rental lines of business. Rental assets continued to be replenished where they have been utilized to help meet customer demand and offset product availability issues. Rental additions were also higher in the Finning UK Group due to the deferred delivery of rental assets at Hewden into 2007 from the prior year.

Overall, cash flow used by operating activities was $56.7 million in 2007 compared to cash flow provided by operations of $97.2 million in 2006. Cash flow used by operating activities in 2007 was below the Company's target due to strong growth in the Company's business and customer demands required an increase in working capital and rental assets.

CASH USED FOR INVESTING ACTIVITIES

Net cash provided by investing activities in 2007 totalled $181.3 million compared with $107.8 million in 2006. The primary source of cash in 2007 was the net proceeds of $242.9 million received on the sale of the Tool Hire division, and in 2006 was the net proceeds of $170.6 million received on the sale of the Materials Handling Division.

Cash used for capital additions for the year ended December 31, 2007 was $74.2 million compared with $76.1 million for the year ended December 31, 2006. The capital additions in 2007 and 2006 reflect general capital spending to support operations and also included the capitalization of certain costs related to the development of Hewden's new information system.

In 2007, the Company's Canadian operations acquired a Cat Rental Store for $2.7 million and in the third quarter of 2006, the Company made a $10.3 million investment in a new Cat Rental Store.

Proceeds of approximately $4.1 million were paid in 2007 and $6.4 million were received in 2006 on the settlement of foreign currency forwards that hedged foreign subsidiary investments. In 2006, proceeds of $5.3 million were received on the divestiture of a portion of the OEM Remanufacturing business. Investing activities in 2006 also reflected the payment of a $22.4 million (U.S. $20 million) purchase price adjustment as a result of achieving performance criteria by the Argentina Caterpillar dealership acquired by Finning in 2003.

The Company's planned net capital expenditures for 2008 are projected to be in the range of $110 million to $120 million and will be funded through cash flows from operations. This excludes any capital acquired as a result of an acquisition. Net rental additions for 2008 are projected to be in the $300 million to $320 million range.

The Company believes that internally generated cash flow, supplemented by borrowing from existing financing sources, if necessary, will be sufficient to meet anticipated capital expenditures and other cash requirements in 2008. At this time, the Company does not reasonably expect any presently known trend or uncertainty to affect our ability to access our historical sources of cash.

FINANCING ACTIVITIES

To complement the internally generated funds from operating and investing activities, the Company has approximately $1,380 million in unsecured credit facilities. Included in this amount is a committed five-year global syndicated bank credit facility entered into in 2005 and maturing in 2011. At December 31, 2007, approximately $560 million was drawn on or backed by the Company's credit facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). In 2007, the Company's short-term and long-term debt ratings were both reconfirmed at R-1 (low) and BBB (high), respectively, by DBRS. In addition, the Company's long-term debt rating was reconfirmed at BBB+ by S&P. The Company continues to utilize the Canadian commercial paper market as its principal source of short-term funding in Canada. The Company's commercial paper program is backstopped by the global syndicated credit facility. In February 2008, the maximum authorized limit of the Company's commercial paper program was increased from $500 million to $600 million.

As at December 31, 2007, the Company's short and long-term borrowings totalled $1,177.0 million, an increase of $13.4 million or 1.2% since December 31, 2006.

In 2006, following the sale of the Company's Materials Handling Division in the U.K., the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the original £200 million Eurobond. In addition, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

In 2007, an additional pension payment of $17.1 million was made to fund the UK pension plans as agreed at the time of the sale of the Materials Handling Division. In addition, the Company repurchased previously securitized receivables for cash of $45 million.

On May 9, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All stock-based compensation plans, share, and per-share data have been adjusted to reflect the stock split.

As a result of the Board's confidence in the future earnings for the Company and its ongoing commitment to the return of value to its shareholders, the Company increased its quarterly dividend in May 2007 by one cent to nine cents per common share, and in November 2007 by a further one cent to ten cents per common share. As a result, dividends paid to shareholders increased in 2007 by $15.3 million to $64.5 million.

The Company has an active share repurchase program in effect until March 29, 2008. During 2007, the Company repurchased 3,691,400 common shares at an average price of $27.82 for an aggregate amount of $102.7 million.

The Company's overall debt to total capital ratio was 42% at the end of 2007 and 2006. The total debt to capital ratio is comparable, year over year, with overall debt levels remaining fairly constant.

CONTRACTUAL OBLIGATIONS

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

($ MILLIONS)	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt							
– principal repayment	$ 215.7	$ 4.0	$ 4.0	$ 339.5	$ –	$ 242.9	$ 806.1
– interest	37.6	29.9	29.6	28.9	13.8	5.6	145.4
Operating leases	70.5	59.8	52.0	38.9	28.1	164.1	413.4
Capital leases	2.3	1.8	1.4	1.2	1.0	15.8	23.5
Total contractual obligations	$ 326.1	$ 95.5	$ 87.0	$ 408.5	$ 42.9	$ 428.4	$ 1,388.4

OFF-BALANCE SHEET ARRANGEMENT

In 2002, the Company entered into an arrangement and sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the "Trust"), net of overcollateralization. Under the terms of the agreement, which expired on November 29, 2007, the Company could sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retained a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust's co-ownership interest. The Trust and its investors did not have recourse to the Company's other assets in the event that obligors failed to pay the underlying receivables when due. Pursuant to the agreement, the Company serviced the pool of underlying receivables.

On the expiry date, the Company terminated the co-ownership interests, ceased all securitization of its accounts receivable, and repurchased previously securitized receivables for cash of $45.0 million. At December 31, 2006, the Company carried a retained interest in the transferred receivables in the amount of $9.5 million, which equalled the amount of overcollateralization in the receivables it sold, which was reported on the consolidated balance sheets in other current assets.

For the 2007 period up to the repurchase of the receivables held by the Trust, the Company recognized a pre-tax loss of $1.8 million (2006: $2.0 million) relating to these transfers.

Proceeds from revolving reinvestment of collections were $451.9 million in 2007 (2006: $520.6 million).

EMPLOYEE SHARE PURCHASE PLAN

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2007, 72% of Canadian employees were contributing to this plan. The Company has an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three shares the employee purchases. At December 31, 2007, 26% and 14% of eligible employees in Finning (UK) and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

ACCOUNTING ESTIMATES AND CONTINGENCIES

ACCOUNTING, VALUATION AND REPORTING

Changes in the rules or standards governing accounting can impact our financial reporting. The Company employs professionally qualified accountants throughout its finance group and all of the operating unit financial officers have a reporting relationship to the Chief Financial Officer (CFO). Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting systems. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement, and there is restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and / or valuations, are reviewed quarterly by the CFO and the Audit Committee of the Board of Directors. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and since this Canadian convergence initiative is very much in its infancy as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company. The Company seeks to have a global plan in place for 2008, and believes it has the adequate human and financial resources and project oversight in order to be able to meet the implementation timelines currently contemplated by the regulators.

Management's discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The Company's significant accounting policies are contained in Note 1 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee. The more significant estimates include: fair values for goodwill impairment tests, allowance for doubtful accounts, reserves for warranty, provisions for income tax, employee future benefits, and costs associated with maintenance and repair contracts.

A significant portion of goodwill recorded on the consolidated balance sheets relates to the Company's investment in Hewden Stuart plc, acquired in 2001. The Company performs impairment tests on its goodwill balances on at least an annual basis or as warranted by events or circumstances. During the year, the Company performed its assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows, which resulted in no impairment in 2007.

Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

INCOME TAXES

The Company exercises judgment in estimating the provision for income taxes. Provisions for federal, provincial, and foreign taxes are based on the respective laws and regulations in each jurisdiction within which the Company operates. These complex laws and regulations are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Future income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses, and are measured according to the income tax law that is expected to apply when the asset is realized or liability settled. Assumptions underlying the composition of future income tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of future income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

DESCRIPTION OF NON-GAAP MEASURE

EBIT is defined herein as earnings from continuing operations before interest expense, interest income, and income taxes and is a measure of performance utilized by management to measure and evaluate the financial performance of its operating segments. It is also a measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. EBIT does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, this measure should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

Reconciliation between EBIT and net income from continuing operations:

For years ended December 31

($ MILLIONS)		**2007**		2006
Earnings from continuing operations before interest and income taxes (EBIT)	$	**455.8**	$	373.7
Finance costs		**(72.8)**		(69.8)
Provision for income taxes		**(102.9)**		(67.7)
Net income from continuing operations	$	**280.1**	$	236.2

RISK MANAGEMENT

Finning and its subsidiaries are exposed to market, financial, and other risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management (ERM) approach in identifying, prioritizing, and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning's risk management function are designed to ensure that risks are properly identified, managed, and reported. The Company discloses all of its key risks in its most recent Annual Information Form (AIF) with key financial risks also included herein. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A.

FINANCIAL DERIVATIVES

The Company uses various financial instruments such as interest rate swaps and forward foreign exchange contracts as well as foreign currency debt to manage its foreign exchange exposures, interest rate exposures, and expenses which fluctuate with share price movements (see Notes 3 and 4 of Notes to the Consolidated Financial Statements). The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

FINANCIAL RISKS AND UNCERTAINTIES

INTEREST RATES

The Company's debt portfolio is comprised of both fixed and floating rate debt instruments, with terms to maturity ranging up to six years. In relation to its debt financing, the Company is exposed to potential changes in interest rates, which may cause the Company's borrowing costs to fluctuate. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Fluctuations in current or future interest rates could result in a material adverse impact on the Company's financial results by causing related finance expense to rise. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company utilizes derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

CREDIT RISK

The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Credit risk is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion. Although there is usually no significant concentration of credit risk related to the Company's position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its foreign exchange derivative contracts. There is a risk that counterparties to these derivative contracts may default on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring, and by dealing only with highly rated financial institutions.

FINANCING ARRANGEMENTS

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

COMMODITY PRICES

The Company's revenues can be affected by fluctuations in commodity prices; in particular, changes in views on long-term commodity prices. In Canada, commodity price movements in the metals, coal, forestry, and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects, and customers base their capital expenditure decisions on the long-term outlook for metals. In the U.K., changes to prices for thermal coal may impact equipment demand in that sector. While commodity prices continue to be strong, significant fluctuations in future commodity prices could result in a material adverse impact on the Company's financial results.

FOREIGN EXCHANGE EXPOSURE

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso. As a result, the Company has a certain degree of foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company can be categorized as follows:

INVESTMENT IN FOREIGN OPERATIONS

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Any unrealized translation gains and losses are recorded as an item of comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments are recognized in net income when there is a reduction in the Company's net investment in the self-sustaining foreign operations.

It is the Company's objective to manage its exposure in net foreign investments. The Company has hedged a portion of its foreign investments through foreign currency denominated loans and other derivative contracts. Any exchange gains or losses arising from the translation of the hedging instruments are recorded as an item of comprehensive income and accumulated other comprehensive income. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2007 month end rates, assuming the same current level of hedging instruments, would result in an after tax deferred unrealized loss of approximately $50 million.

TRANSACTION EXPOSURE

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs throughout the world using different currencies. This potential mismatch of currencies creates transactional exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. It may also impact the Company's competitive position as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

It is the Company's objective to manage the impact of exchange rate movements and volatility in results. Each operation manages the majority of its transactional exposure through effective sales pricing policies. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

TRANSLATION EXPOSURE

The most significant foreign exchange impact on the Company's net income is the translation of foreign currency based earnings into Canadian dollars each reporting period. All of the Company's foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the U.S. dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the South American and U.K. operations in Canadian dollar terms. In addition, the Company's Canadian results are impacted by the translation of their U.S. dollar based earnings. Some of the Company's earnings translation exposure is offset by interest on foreign currency denominated loans and derivative contracts associated with the net investment hedges.

SENSITIVITY TO VARIANCES IN FOREIGN EXCHANGE RATES

The sensitivity of the Company's net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2007 month end rates, without any change in local currency volumes or hedging activities.

Currency	December 31, 2007 month end rates	Increase (decrease) in annual net income
		$ MILLIONS
USD	**0.9881**	**(16)**
GBP	**1.9600**	**(1)**
CHP	**0.0020**	**3**

The sensitivities noted above ignore the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

CONTROLS AND PROCEDURES CERTIFICATION

DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

As required by Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities regulatory authorities, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2007, by and under the supervision of management, including the CEO and CFO. The evaluation included documentation review, enquiries, and other procedures considered by management to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls were effective as of December 31, 2007.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

There have been no changes in internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

SELECTED QUARTERLY INFORMATION

($ MILLIONS, EXCEPT FOR SHARE AND OPTION DATA)

	2007				2006			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue[1]								
Canada	**$ 750.3**	**$ 639.9**	**$ 846.4**	**$ 699.6**	$ 737.0	$ 594.7	$ 681.0	$ 599.9
South America	**348.0**	**317.4**	**321.6**	**338.6**	301.0	261.0	216.2	231.7
UK Group	**361.2**	**371.8**	**329.6**	**337.8**	327.1	312.0	294.5	297.1
Total revenue	**$ 1,459.5**	**$ 1,329.1**	**$ 1,497.6**	**$ 1,376.0**	$ 1,365.1	$ 1,167.7	$ 1,191.7	$ 1,128.7
Net income (loss)[1]								
from continuing operations	**$ 70.5**	**$ 63.6**	**$ 75.3**	**$ 70.7**	$ 53.1	$ 71.8	$ 56.0	$ 55.3
from discontinued operations	**–**	**–**	**(1.2)**	**(0.8)**	(0.4)	(33.9)	0.6	1.6
Total net income	**$ 70.5**	**$ 63.6**	**$ 74.1**	**$ 69.9**	$ 52.7	$ 37.9	$ 56.6	$ 56.9
Basic earnings (loss) per share[1][2]								
from continuing operations	**$ 0.40**	**$ 0.35**	**$ 0.42**	**$ 0.39**	$ 0.30	$ 0.40	$ 0.31	$ 0.31
from discontinued operations	**–**	**–**	**(0.01)**	**–**	–	(0.19)	–	0.01
Total basic EPS	**$ 0.40**	**$ 0.35**	**$ 0.41**	**$ 0.39**	$ 0.30	$ 0.21	$ 0.31	$ 0.32
Diluted earnings (loss) per share[2]								
from continuing operations	**$ 0.39**	**$ 0.35**	**$ 0.42**	**$ 0.39**	$ 0.29	$ 0.40	$ 0.31	$ 0.31
from discontinued operations	**–**	**–**	**(0.01)**	**–**	–	(0.19)	–	0.01
Total diluted EPS	**$ 0.39**	**$ 0.35**	**$ 0.41**	**$ 0.39**	$ 0.29	$ 0.21	$ 0.31	$ 0.32
Total assets[1]	**$ 4,134.2**	**$ 4,079.7**	**$ 4,434.4**	**$ 4,386.2**	$ 4,200.8	$ 3,786.4	$ 3,900.2	$ 3,868.0
Long-term debt								
Current	**$ 215.7**	**$ 204.2**	**$ 204.1**	**$ 2.2**	$ 2.2	$ 79.3	$ 79.1	$ 80.3
Non-current	**590.4**	**554.5**	**600.6**	**753.8**	735.9	710.7	851.5	848.9
Total long-term debt[3]	**$ 806.1**	**$ 758.7**	**$ 804.7**	**$ 756.0**	$ 738.1	$ 790.0	$ 930.6	$ 929.2
Cash dividends paid per common share[2]	**$ 0.10**	**$ 0.09**	**$ 0.09**	**$ 0.08**	$ 0.08	$ 0.065	$ 0.065	$ 0.065
Common shares outstanding (000's)[2]	**176,132**	**178,521**	**179,601**	**179,272**	179,090	178,808	178,778	178,742
Options outstanding (000's)[2]	**4,656**	**4,737**	**4,934**	**3,606**	3,904	4,302	4,330	2,610

(1) On July 31, 2007, the Company's U.K. subsidiary, Hewden Stuart Plc, sold its Tool Hire Division. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division.
Results from the Tool Hire and Materials Handling divisions qualify as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in the third quarter of 2007 is the after-tax gain on the sale of the Tool Hire Division of $0.1 million. Restructuring and other costs associated with the disposition of $2.0 million after tax were recorded in the second and third quarters of 2007. Included in the loss from discontinued operations in the third quarter of 2006 is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.18 per share. Revenues from the UK Tool Hire and Materials Handling divisions have been excluded from the revenue figures above. Assets from the Tool Hire and Materials Handling divisions have been included in the total assets figures for periods prior to their sale – see Note 13 to the Consolidated Financial Statements.

(2) On May 9, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split. During 2007, the Company repurchased 3,691,400 common shares at an average price of $27.82 as part of a normal course issuer bid.
Earnings per share (EPS) for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

(3) In the third quarter of 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

NEW ACCOUNTING PRONOUNCEMENTS

CHANGES ADOPTED IN 2007

(A) FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, *Comprehensive Income;* Section 3855, *Financial Instruments – Recognition and Measurement;* Section 3865, *Hedges;* Section 3251, *Equity;* and Section 3861, *Financial Instruments – Disclosure and Presentation*. These new standards require all derivatives to be recorded on the balance sheet at fair value and establish new accounting requirements for hedges. In addition, these standards provide guidance for reporting items in other comprehensive income, which is included on the consolidated balance sheets as accumulated other comprehensive income or loss, a separate component of shareholders' equity.

If a derivative qualifies as a hedge, depending on the nature of the hedge, the effective portion of changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of designated hedges will be recognized immediately in income.

The new standards have been applied prospectively; accordingly comparative periods have not been restated. However, prior period financial statements retroactively reflect the classification of currency translation adjustments on the Company's net investment in self-sustaining operations and related hedging gains and losses as components of other comprehensive income. As at January 1, 2007, the impact on the consolidated balance sheet as a result of the adoption of these standards was a decrease in other long-term assets of $8.4 million; an increase in future income tax assets of $5.9 million; a decrease in accounts payable of $4.5 million; a decrease in long-term obligations of $13.1 million; a decrease of $0.8 million in long-term debt; an increase of $5.7 million in accumulated other comprehensive income; and an increase in retained earnings of $10.2 million.

The effect on net income for the year ended December 31, 2007 as a result of adopting the new standards is not material.

Details of the specific impact of these standards on the Company are disclosed in Note 1 to the Company's Consolidated Financial Statements.

(B) CAPITAL DISCLOSURES

Effective December 31, 2007, the Company early adopted the new recommendations of the CICA for disclosure of the Company's objectives, policies, and processes for managing capital, in accordance with Section 1535 *Capital Disclosures* (see Note 25 to the Company's Consolidated Financial Statements).

RECENT ACCOUNTING PRONOUNCEMENTS

(A) FINANCIAL INSTRUMENT DISCLOSURES

In March 2007, the CICA issued Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company will implement these disclosures in the first quarter of 2008.

(B) INVENTORIES

In June 2007, the CICA issued Section 3031, *Inventories* which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective in the first quarter of 2008, and the new standard is not expected to have a material impact on the Company's net income.

(C) GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section is effective in the first quarter of 2009, and the Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

(D) CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and since this Canadian convergence initiative is very much in its infancy as of the date of this MD&A, the Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company.

MARKET OUTLOOK

The outlook for Finning's businesses remains solid. The Company's order backlog remains at robust levels and the near term outlook for certain key commodities remains positive. As well, attendant infrastructure in the Company's market areas supports the demand for both equipment and parts and service.

The outlook for Finning's business in western Canada continues, on balance, to be sound. The mining industry (including the oil sands) continues to expand and capital expenditure plans for equipment remain robust for mining customers. General construction activity also continues at high levels and spending on infrastructure remains very strong. The forestry and conventional oil and gas industries in western Canada are presently undergoing challenging business conditions and equipment purchases are lower as a result. This situation is expected to continue through 2008. Weak housing markets and soft economic conditions in the United States are not having a noticeable impact on business conditions for the Company in western Canada at this time. However, the economic challenges in the United States are a source of some uncertainty for future economic activity in western Canada.

The heavy equipment markets in the Company's South American operations also remain healthy and demand for the Company's products and services remains strong. The construction and power markets in Argentina and Chile are strong and demand for equipment support services continues to grow. Copper and gold prices are expected to remain at attractive levels supporting ongoing good business conditions in mining. The outlook for strong growth in sales of new mining equipment is beginning to moderate, as expected, as the number of new projects and expansions to existing mining operations slows. However, revenues from support services for mining customers will continue to grow at attractive rates over the next several years reflecting the impact of the large volume of new equipment sales to the industry in the recent past.

Business at the Caterpillar dealership in the UK has improved and is expected to continue as construction activity remains healthy. Demand for power systems products and services also remain strong. Market conditions in the UK plant hire (equipment rental) industry are reasonable, although the business remains highly competitive. At Hewden, the Company continues to manage the effects of the recent disposition of the tool hire division and the start-up of a new information system. Both items have been disruptive to normal operations. While execution of both projects has gone reasonably well to this point, ongoing management of these changes continues to challenge Hewden employees. The improved management information that will be available from the new system will take several quarters of operations to gather and analyze and the operational and pricing changes which may be driven by this information will take a further period of time to implement and become visible in operating results.

Additional human resources are required to meet the projected growth in business in western Canada and South America. To date, Finning has been successful in attracting significant numbers of new employees and anticipates it will attract the requisite human resources to meet future growth.

Finning's financial results are negatively impacted by a stronger Canadian dollar compared to the U.S. dollar and the U.K. pound sterling in the translation of its foreign currency earnings. The Company's 2008 results will be negatively impacted as a result of translating foreign currency based earnings should the strengthening of the Canadian dollar continue against the U.S. dollar and the U.K. pound sterling.

The Company's outlook remains positive for the medium term.

February 19, 2008

SELECTED ANNUAL INFORMATION

($ MILLIONS, EXCEPT FOR SHARE DATA)		2007		2006		2005
Total revenue[1]	$	**5,662.2**	$	4,853.2	$	4,328.3
Net income (loss)[1]						
from continuing operations	$	**280.1**	$	236.2	$	161.7
from discontinued operations		**(2.0)**		(32.1)		2.3
Total net income	$	**278.1**	$	204.1	$	164.0
Basic earnings (loss) per share[2]						
from continuing operations	$	**1.57**	$	1.32	$	0.91
from discontinued operations		**(0.01)**		(0.18)		0.01
Total basic EPS	$	**1.56**	$	1.14	$	0.92
Diluted earnings (loss) per share[2]						
from continuing operations	$	**1.55**	$	1.31	$	0.90
from discontinued operations		**(0.01)**		(0.18)		0.01
Total diluted EPS	$	**1.54**	$	1.13	$	0.91
Total assets[1]	$	**4,134.2**	$	4,200.8	$	3,736.4
Long-term debt[3]						
Current	$	**215.7**	$	2.2	$	80.3
Non-current		**590.4**		735.9		844.6
	$	**806.1**	$	738.1	$	924.9
Cash dividends declared per common share[2]	$	**0.36**	$	0.275	$	0.22

(1) On July 31, 2007, the Company's U.K. subsidiary, Hewden Stuart Plc, sold its Tool Hire Division. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK), sold its Materials Handling Division.

Results from the Tool Hire and Materials Handling divisions qualify as discontinued operations and have been reclassified to that category for all periods presented. Included in the loss from discontinued operations in 2007 is the after-tax gain on the sale of the Tool Hire Division of $0.1 million. Restructuring and other costs associated with the disposition of $2.0 million after tax were recorded in 2007. Included in the loss from discontinued operations in 2006 is the after-tax loss on the sale of the Materials Handling Division of $32.7 million or $0.18 per share. Revenues from the UK Tool Hire and Materials Handling divisions have been excluded from the revenue figures above. Assets from the Tool Hire and Materials Handling divisions have been included in the total assets figures for periods prior to their sale – see Note 13 to the Consolidated Financial Statements.

(2) On May 9, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split. During 2007, the Company repurchased 3,691,400 common shares at an average price of $27.82 as part of a normal course issuer bid.

Earnings per share (EPS) for each year has been computed based on the weighted average number of shares issued and outstanding during the respective year.

(3) In the third quarter of 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of its £200 million Eurobond notes.

OUTSTANDING SHARE DATA

As at February 15, 2008	
Common shares outstanding	172,912,976
Options outstanding	4,595,604

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management's Discussion and Analysis (MD&A) are the responsibility of Finning International Inc.'s management. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada which recognize the necessity of relying on some of management's best estimates and informed judgements.

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

The Company's independent auditors, Deloitte & Touche LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2007.

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

The Consolidated Financial Statements and MD&A 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 the Consolidated Financial Statements.

D.W.G. Whitehead
President and Chief Executive Officer

M.T. Waites
Executive Vice President and Chief Financial Officer

February 19, 2008
Vancouver, BC, Canada

AUDITORS' REPORT

TO THE SHAREHOLDERS OF FINNING INTERNATIONAL INC.:

We have audited the consolidated balance sheets of Finning International Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the two year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007, in accordance with Canadian generally accepted accounting principles.

DELOITTE & TOUCHE LLP, Chartered Accountants
February 19, 2008
Vancouver, BC, Canada

CONSOLIDATED STATEMENTS OF INCOME

For years ended December 31 ($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**2007**	2006
Revenue		
New mobile equipment	**$ 2,233,512**	$ 1,732,766
New power and energy systems	**503,012**	419,954
Used equipment	**417,613**	401,056
Equipment rental	**781,194**	693,183
Customer support services	**1,701,253**	1,583,515
Other	**25,660**	22,765
Total revenue	**5,662,244**	4,853,239
Cost of sales	**4,063,079**	3,485,710
Gross profit	**1,599,165**	1,367,529
Selling, general, and administrative expenses	**1,144,753**	1,003,797
Other expenses (income) (Note 2)	**(1,435)**	(9,976)
Earnings from continuing operations before interest and income taxes	**455,847**	373,708
Finance costs (Notes 3 and 4)	**72,842**	69,842
Income from continuing operations before provision for income taxes	**383,005**	303,866
Provision for income taxes (Note 5)	**102,898**	67,679
Net income from continuing operations	**280,107**	236,187
Loss from discontinued operations, net of tax (Note 13)	**(2,050)**	(32,111)
Net income	**$ 278,057**	$ 204,076
Earnings (loss) per share – basic		
From continuing operations (Note 8)	**$ 1.57**	$ 1.32
From discontinued operations	**(0.01)**	(0.18)
	$ 1.56	$ 1.14
Earnings (loss) per share – diluted		
From continuing operations (Note 8)	**$ 1.55**	$ 1.31
From discontinued operations	**(0.01)**	(0.18)
	$ 1.54	$ 1.13
Weighted average number of shares outstanding		
Basic	**178,844,411**	178,741,334
Diluted	**180,459,955**	179,798,940

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

CONSOLIDATED BALANCE SHEETS

December 31 ($ THOUSANDS)	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents (Note 17)	**$ 61,860**	$ 78,485
Accounts receivable	**713,677**	666,602
Inventories		
On-hand equipment	**844,699**	839,819
Parts and supplies	**446,845**	450,612
Other assets (Note 9)	**181,861**	196,509
Total current assets	**2,248,942**	2,232,027
Finance assets (Note 10)	**26,714**	34,046
Rental equipment (Note 11)	**1,028,301**	1,038,640
Land, buildings, and equipment (Note 12)	**348,923**	365,656
Intangible assets (Note 12)	**24,548**	24,931
Goodwill (Note 14)	**251,099**	381,870
Other assets (Note 9)	**205,636**	123,583
	$ 4,134,163	$ 4,200,753
LIABILITIES		
Current liabilities		
Short-term debt (Note 3)	**$ 370,942**	$ 425,423
Accounts payable and accruals	**1,106,392**	1,176,531
Income tax payable	**32,440**	33,554
Current portion of long-term debt (Note 3)	**215,663**	2,224
Total current liabilities	**1,725,437**	1,637,732
Long-term debt (Note 3)	**590,382**	735,926
Long-term obligations (Note 15)	**101,699**	131,294
Future income taxes (Note 5)	**98,848**	71,395
Total liabilities	**2,516,366**	2,576,347
Commitments and Contingencies (Notes 22 and 23)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**571,402**	573,482
Contributed surplus	**15,356**	7,791
Accumulated other comprehensive loss	**(232,223)**	(87,038)
Retained earnings	**1,263,262**	1,130,171
Total shareholders' equity	**1,617,797**	1,624,406
	$ 4,134,163	$ 4,200,753

Approved by the Directors:

D.W.G. Whitehead, Director

C.A. Pinette, Director

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For years ended December 31 ($ THOUSANDS)	2007	2006
Net income	$ 278,057	$ 204,076
Other comprehensive income (loss), net of income tax		
Currency translation adjustments, net of hedges	–	46,098
Currency translation adjustments	(194,452)	–
Unrealized gains on net investment hedges, net of tax of $20.6 million	47,394	–
Realized translation adjustment, net of investment hedges, reclassified to earnings on disposition of investment, net of tax of $0.2 million	443	–
Unrealized losses on cash flow hedges, net of tax of $1.5 million	(3,512)	–
Realized gains on cash flow hedges, reclassified to earnings, net of tax of $0.8 million	(747)	–
Comprehensive income	$ 127,183	$ 250,174

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital			Accumulated Other Comprehensive Income (Loss)			
($ THOUSANDS, EXCEPT SHARE AMOUNTS)	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Gains/(Losses) on Net Investment Hedges	Gains/ (Losses) on Cash Flow Hedges	Retained Earnings	Total
Balance, December 31, 2005	178,403,328	$ 568,121	$ 2,739	$ (133,136)	$ –	$ 975,254	$ 1,412,978
Comprehensive income	–	–	–	46,098	–	204,076	250,174
Issued on exercise of stock options	687,410	5,361	(221)	–	–	–	5,140
Stock option expense	–	–	5,273	–	–	–	5,273
Dividends on common shares	–	–	–	–	–	(49,159)	(49,159)
Balance, December 31, 2006	179,090,738	$ 573,482	$ 7,791	$ (87,038)	$ –	$ 1,130,171	$ 1,624,406
Transition adjustment (Note 1)	–	–	–	9,992	(4,303)	10,244	15,933
Balance, January 1, 2007	179,090,738	573,482	7,791	(77,046)	(4,303)	1,140,415	1,640,339
Comprehensive income (loss)	–	–	–	(146,615)	(4,259)	278,057	127,183
Issued on exercise of stock options	732,541	9,848	(1,695)	–	–	–	8,153
Repurchase of common shares	(3,691,400)	(11,928)	–	–	–	(90,764)	(102,692)
Stock option expense	–	–	9,260	–	–	–	9,260
Dividends on common shares	–	–	–	–	–	(64,446)	(64,446)
Balance, December 31, 2007	176,131,879	$ 571,402	$ 15,356	$ (223,661)	$ (8,562)	$1,263,262	$1,617,797

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31

($ THOUSANDS)	2007	2006
OPERATING ACTIVITIES		
Net income	$ **278,057**	$ 204,076
Add items not affecting cash		
Depreciation and amortization	**351,289**	358,089
Future income taxes	**18,393**	(9,518)
Stock-based compensation	**25,540**	25,783
Gain on disposal of capital assets (Note 2)	**(6,552)**	(21,359)
Loss (gain) on disposal of discontinued operations (Note 13)	**(38,590)**	33,974
Other	**(5,122)**	8,191
	623,015	599,236
Changes in working capital items (Note 17)	**(218,588)**	(139,026)
Cash provided after changes in working capital items	**404,427**	460,210
Rental equipment, net of disposals	**(474,566)**	(343,564)
Equipment leased to customers, net of disposals	**13,449**	(19,490)
Cash flow provided by (used in) operating activities	**(56,690)**	97,156
INVESTING ACTIVITIES		
Additions to capital assets	**(74,226)**	(76,074)
Proceeds on disposal of capital assets	**20,212**	34,171
Proceeds from sale of discontinued operations (Note 13)	**242,851**	170,595
Acquisition of business (Note 14)	**(2,670)**	(10,250)
Proceeds on sale of business (Note 2)	**–**	5,331
Payment of contingent consideration (Note 14)	**(767)**	(22,350)
Proceeds (payments) on settlement of foreign currency forwards	**(4,065)**	6,383
Cash provided by investing activities	**181,335**	107,806
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	**(43,608)**	117,926
Increase (repayment) of long-term debt	**135,642**	(71,570)
Repurchase of securitized accounts receivable (Note 19)	**(45,000)**	–
Repayment of Eurobond and premium paid (Note 3)	**–**	(159,413)
Defined benefit pension plan special funding (Note 18)	**(17,066)**	–
Issue of common shares on exercise of stock options	**8,153**	5,140
Repurchase of common shares (Note 6)	**(102,692)**	–
Dividends paid	**(64,446)**	(49,159)
Cash used in financing activities	**(129,017)**	(157,076)
Effect of currency translation on cash balances	**(12,253)**	2,916
Increase (decrease) in cash and cash equivalents	**(16,625)**	50,802
Cash and cash equivalents, beginning of year	**78,485**	27,683
Cash and cash equivalents, end of year	$ **61,860**	$ 78,485

See supplemental cash flow information, Note 17

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

December 31, 2007 and 2006

1. SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars, unless otherwise stated.

The significant accounting policies used in these Consolidated Financial Statements are as follows:

(A) PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company"), which includes the Finning (Canada) division, Finning's wholly owned subsidiaries, and its proportionate share of joint venture investments. Principal operating subsidiaries include Finning (UK) Ltd., Finning Chile S.A., Hewden Stuart plc ("Hewden"), Finning Argentina S.A. and Finning Soluciones Mineras S.A. (in Argentina), Finning Uruguay S.A., and Finning Bolivia S.A.

For interests acquired or disposed of during the year, the results of operations are included in the consolidated statements of income from, or up to, the date of the transaction, respectively.

(B) USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. Actual amounts may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, fair values for goodwill impairment tests, allowance for doubtful accounts, reserves for warranty, provisions for income tax, employee future benefits, the useful lives of the rental fleet and related residual values, and costs associated with maintenance and repair contracts.

(C) FOREIGN CURRENCY TRANSLATION

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.
- Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of foreign operations, all considered self-sustaining, are translated from the functional currency into Canadian dollars as follows:

- Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.
- Unrealized translation gains and losses are recorded as an item of other comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments are recognized in net income when there is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged some of its investments in foreign subsidiaries using derivatives and foreign denominated borrowings. Exchange gains or losses arising from the translation of the hedge instruments are accounted for as items of other comprehensive income and presented in the accumulated other comprehensive loss account on the consolidated balance sheet.

(D) CASH AND CASH EQUIVALENTS

Short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, are considered to be cash equivalents and are recorded at fair value, which approximates cost.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) SECURITIZATION OF TRADE RECEIVABLES

In 2002 and 2004, the Company sold a co-ownership interest in certain accounts receivable in Canada to a securitization trust (the "Trust"). These transactions were accounted for as sales to the extent that the Company was considered to have surrendered control over the interest in the accounts receivable and received proceeds from the Trust, other than a beneficial interest in the assets sold. Losses on these transactions were recognized in selling, general, and administrative expenses and were dependent in part on the previous carrying amount of the receivable interest transferred, which was allocated between the interest sold and the interest retained by the Company, based on their relative value at the date of the transfer. The Company determined fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, dilution rates, and credit loss ratios. The Company serviced the receivables and recognized a servicing liability on the date of the transfer, which was amortized to income over the expected life of the transferred receivable interest. In November 2007, the co-ownership interest was repurchased from the Trust and the securitization program was terminated.

(F) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment. For approximately two-thirds of parts and supplies, cost is determined on a first-in, first-out basis. An average cost basis is used for the remaining inventory of parts and supplies.

(G) OTHER ASSETS

Investments in which the Company exercises significant influence, but not control, are accounted for using the equity method. A long-term investment is considered impaired if its fair value falls below its cost, and the decline is considered other than temporary.

(H) INCOME TAXES

The asset and liability method of tax allocation is used in accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change becomes substantively enacted.

(I) FINANCE ASSETS

Finance assets comprises instalment notes receivables and equipment leased to customers on long-term financing leases.

Instalment notes receivable represents amounts due from customers relating to financing of equipment sold and parts and service sales. These receivables are recorded net of unearned finance charges.

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

(J) RENTAL EQUIPMENT

Rental equipment is available for short and medium term rentals and is recorded at cost, net of accumulated depreciation. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line or on an actual usage basis.

(K) CAPITAL ASSETS

Land, buildings, and equipment are recorded at cost, net of accumulated depreciation. Depreciation of these capital assets is recorded in selling, general, and administrative expenses in the consolidated statement of income.

Buildings and equipment are depreciated over their estimated useful lives on either a declining balance or straight-line basis using the following annual rates:

Buildings	2% - 5%
General equipment	10% - 33%
Automotive equipment	20% - 33%

Intangible assets with indefinite lives are not amortized. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives to a maximum period of ten years. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of income.

(L) GOODWILL

Goodwill represents the excess cost of an investment over the fair value of the net assets acquired and is not amortized.

(M) ASSET IMPAIRMENT

The Company reviews both long-lived assets to be held and used and identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the assets, whereas assets to be disposed of are reported at the lower of carrying amount or fair value less estimated selling costs. As at December 31, 2007 and 2006, the Company determined that there were no triggering events requiring an impairment analysis.

Goodwill and intangible assets with indefinite lives are subject to an annual assessment for impairment unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill and intangible assets with indefinite lives are assessed primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected future cash flows. The Company also considers projected future operating results, trends and other circumstances in making such evaluations. An impairment loss would be recognized to the extent the carrying amount of goodwill or intangible assets exceeds their fair value.

(N) LEASES

Leases entered into by the Company as lessee are classified as either capital or operating leases. Leases where all of the benefits and risks of ownership of property rest with the Company are accounted for as capital leases. Equipment under capital lease is depreciated on the same basis as capital assets. Gains or losses resulting from sale/leaseback transactions are deferred and amortized in proportion to the amortization of the leased asset. Rental payments under operating leases are expensed as incurred.

(O) ASSET RETIREMENT OBLIGATIONS

The Company recognizes its obligations for the retirement of certain tangible long-lived assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over the estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows through charges to earnings. A gain or loss may be incurred upon settlement of the liability.

(P) REVENUE RECOGNITION

Revenue recognition, with the exception of cash sales, occurs when there is a written arrangement in the form of a contract or purchase order with the customer, a fixed or determinable sales price is established with the customer, performance requirements are achieved, and ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

- Revenue from sales of equipment is recognized at the time title to the equipment and significant risks of ownership passes to the customer, which is generally at the time of shipment of the product to the customer;

- Revenue from sales of power and energy systems includes construction contracts with customers that involve the design, installation, and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;

- Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used; and

- Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At or near the completion of the contract, any remaining deferred revenue on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) STOCK-BASED COMPENSATION

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees which are described in Note 7. Stock-based awards are measured and recognized using a fair value-based method of accounting.

For stock options granted after January 1, 2003, fair value is determined on the grant date of the stock option and recorded as compensation expense over the vesting period, with a corresponding increase to contributed surplus. For stock options granted prior to January 1, 2003, the Company recorded no compensation expense and will continue to use the intrinsic value-based method of accounting for those stock options. When stock options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Compensation expense which arises from fluctuations in the market price of the Company's common shares underlying other stock-based compensation plans (net of hedging instruments) is recorded with a corresponding accrual in long-term obligations or accounts payable and accruals on the consolidated balance sheet. Compensation expense is reported in selling, general, and administrative expenses and cost of sales in the consolidated statement of income.

(R) EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in Canada and the U.K. These plans include defined benefit and defined contribution plans.

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. The Company accrues its obligations to employees under these indemnity plans based on the actuarial valuation of anticipated payments to employees.

Defined benefit plans: The cost of pensions and other retirement benefits is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of assumptions including the expected return on plan assets and salary escalation rate, along with the use of a discount rate as prescribed under Canadian Institute of Chartered Accountants (CICA) Section 3461, *Employee Future Benefits*. For the purpose of calculating the expected return on plan assets, those assets are valued at market value.

Past service costs from plan amendments are amortized on a straight-line basis over the expected average remaining service life of employees active at the date of amendment.

Actuarial gains and losses arise from differences between actual experience and that expected as a result of economic, demographic, and other assumptions made. These include the difference between the actual and expected rate of return on plan assets for a period, and differences from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains or losses over 10% of the greater of the accrued benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the active employees covered by the plans.

Upon adoption of CICA 3461 on January 1, 2000, a transitional asset or obligation was determined for each plan as a result of the new standard. The Company is amortizing these transitional amounts on a straight-line basis over 13 years for the Finning (Canada) and Hewden plans and over 14 years for the Finning (UK) plan, representing the average remaining service period of employees expected to receive benefits under the benefit plans as of January 1, 2000, the transition date.

Defined contribution plans: The cost of pension benefits includes the current service cost, which comprise the actual contributions made by the Company during the year. These contributions are based on a fixed percentage of member earnings for the year.

(S) COMPREHENSIVE INCOME, FINANCIAL INSTRUMENTS, AND HEDGES

COMPREHENSIVE INCOME

Comprehensive income comprises the Company's net income and other comprehensive income. Comprehensive income represents changes in shareholders' equity during a period arising from non-owner sources and, for the Company, other comprehensive income includes currency translation adjustments on its net investment in self-sustaining foreign operations and related hedging gains and losses, unrealized gains and losses on available-for-sale securities, and hedging gains and losses on cash flow hedges. The Company's comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the Statements of Comprehensive Income and the Statements of Shareholders' Equity.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Classification

The Company has implemented the following classification of its financial assets and financial liabilities:

- Accounts and notes receivable are classified as "Loans and Receivables". They are measured at amortized cost using the effective interest rate method. At December 31, 2007, the recorded amount approximates fair value.
- Short-term and long-term debt and accounts payable and accruals are classified as "Other Financial Liabilities". They are measured at amortized cost using the effective interest rate method. At December 31, 2007, the measured amount approximates cost, with the exception of long-term debt. The estimated fair value of the Company's long-term debt as at December 31, 2007 and 2006 is disclosed in Note 4.

Transaction costs directly attributable to the acquisition or issue of a financial asset or financial liability are included in the carrying amount of the financial asset or financial liability, and are amortized to income using the effective interest rate method.

Derivatives

All derivative instruments are recorded on the balance sheet at fair value.

Embedded Derivatives

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held for trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. The Company selected January 1, 2003 as its transition date for embedded derivatives. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

HEDGES

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

The Company determines whether or not to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the balance sheet or specific firm commitments or forecasted transactions. For hedges designated as such for accounting purposes, the Company formally assesses, both at inception and on an ongoing basis, whether the hedging item is highly effective in offsetting changes in fair value or cash flows associated with the identified hedged items. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in income. The accounting treatment for the types of hedges used by the Company is described below.

Cash Flow Hedges

The Company uses foreign exchange forward contracts to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded in other comprehensive income and is released from accumulated other comprehensive income and recorded in income when the hedged item affects income.

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

Gains and losses relating to forward foreign exchange contracts that are not designated as hedges for accounting purposes are recorded in selling, general, and administrative expenses.

From time to time, the Company uses derivative financial instruments to hedge interest rate risk associated with future proceeds of debt.

As at December 31, 2007, approximately $0.4 million of deferred net losses (net of tax) included in accumulated other comprehensive income are expected to be reclassified to current earnings over the next twelve months when earnings are affected by the hedged transactions.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Hedges

Changes in the fair value of derivatives designated and qualifying as fair value hedging instruments are recorded in income along with changes in the fair value of the hedged item attributable to the hedged risk.

Generally, if a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortized to income based on a recalculated effective interest rate over the remaining expected life of the hedged item, unless the hedged item has been derecognized in which case the cumulative adjustment is recorded immediately in the income statement.

Net Investment Hedges

The Company uses forward contracts, cross-currency interest rate swaps, and foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in self-sustaining foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income each period. These gains or losses will be recorded in income in the same period during which corresponding exchange gains or losses arising from the translation of the financial statements of self-sustaining foreign operations are recognized in net income.

The Company uses the forward rate method for net investment hedges where derivative financial instruments are used. The Company uses the spot method, as required, when the Company uses debt to hedge foreign currency net investments.

(T) CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*; Section 3251, *Equity*; and Section 3861, *Financial Instruments – Disclosure and Presentation* (the New Standards). The New Standards require all derivatives to be recorded on the balance sheet at fair value and establish new accounting requirements for hedges. In addition, these standards provide guidance for reporting items in other comprehensive income, which is included on the Consolidated Balance Sheets as accumulated other comprehensive income or loss, a separate component of shareholders' equity.

If a derivative qualifies as a hedge, depending on the nature of the hedge, the effective portion of changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Any ineffective portion of designated hedges will be recognized immediately in income.

The New Standards have been applied prospectively; accordingly comparative periods have not been restated. However, prior period financial statements retroactively reflect the classification of currency translation adjustments on the Company's net investment in self-sustaining operations and related hedging gains and losses as components of other comprehensive income. The adoption of the New Standards resulted in the following adjustments as of January 1, 2007 in accordance with the transition provisions:

(i) Deferred Debt Costs
Previously deferred debt issue costs and discounts of $3.5 million were reclassified from other long-term assets, resulting in a reduction of long-term debt of $3.5 million.

(ii) Cash Flow Hedges
The Company discontinued hedge accounting for hedges of foreign currency purchase commitments that existed at the time of adoption of the New Standards. As such, upon adoption, the carrying value of the forward foreign exchange contracts was adjusted to fair value and the previously unrecognized after-tax gain of $2.5 million was recorded as an increase to accumulated other comprehensive income, with a corresponding decrease in accounts payable of $3.3 million, an increase in future income tax liability of $1.0 million and a decrease in retained earnings of $0.2 million. These gains are being recognized in cost of sales at the time the hedged inventory is sold.
In accordance with the Company's policy, deferred losses of $6.8 million associated with prior cash flow hedges of debt proceeds recorded in other long-term assets were reclassified as a reduction to accumulated other comprehensive income at the time of adoption of the New Standards.

(iii) Fair Value Hedges
Upon transition to the New Standards, the Company had no interest rate swaps. A $2.7 million deferred gain from a previous fair value hedge recorded in other long-term assets was reclassified as an adjustment to the carrying value of the hedged debt.

(iv) Net Investment Hedges

Prior to adoption of the New Standards, the Company valued its derivative instruments hedging net investments in self-sustaining foreign operations using spot exchange rates. Upon transition, the carrying value of the hedging derivative instruments was adjusted to their fair value and the effective portion of the gains and losses, net of associated income taxes, including amounts previously reported in cumulative currency translation adjustments, were recorded in accumulated other comprehensive income based on the previously designated hedged risk. As a result, accounts payable decreased by $1.2 million, long-term other assets decreased by $0.8 million, long-term obligations decreased by $13.1 million, future income tax assets increased by $6.9 million, accumulated other comprehensive income increased by $10.0 million, and retained earnings increased by $10.4 million on January 1, 2007.

The effect on net income for the year ended December 31, 2007 as a result of adopting the New Standards is not material.

(U) COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2007 presentation. The consolidated income statement has been restated for discontinued operations (see Note 13).

(V) RECENT ACCOUNTING PRONOUNCEMENTS

(i) Financial Instrument Disclosures

In March 2007, the CICA issued Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements for financial instruments. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

The Company will implement these disclosures in the first quarter of 2008.

(ii) Capital Disclosures

Effective December 31, 2007, the Company early adopted the new recommendations of the CICA for disclosure of the Company's objectives, policies, and processes for managing capital, in accordance with Section 1535 *Capital Disclosures* (Note 25).

(iii) Inventories

In June 2007, the CICA issued Section 3031 *Inventories* which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new pronouncement is effective in the first quarter of 2008, and the new standard is not expected to have a material impact on the Company's net income.

(iv) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section is effective in the first quarter of 2009, and the Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

(v) Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (GAAP), as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and since this Canadian convergence initiative is very much in its infancy as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company.

2. OTHER EXPENSES (INCOME)

Other expenses (income) include the following items:

For years ended December 31 ($ THOUSANDS)	2007	2006
Gain on disposition of distribution arrangement in Canada (a)	$ (2,408)	$ –
Gain on sale of properties in Canada (b)	–	(12,854)
Gain on sale of railroad and non-Cat remanufacturing business in Canada (c)	–	(5,331)
Project costs and other	5,117	11,383
Gain on sale of other surplus properties	(4,144)	(3,174)
	$ (1,435)	$ (9,976)

The tax expense on other income for the year ended December 31, 2007 was $0.1 million (2006: $0.6 million).

(a) In 2007, Finning (Canada) terminated its distribution arrangement with Shell Canada Products for net cash proceeds of approximately $7 million, resulting in a pre-tax gain of $2.4 million.

(b) In the first quarter of 2006, the Company sold certain surplus properties at Finning (Canada) for cash proceeds of $6.3 million, resulting in a pre-tax gain of $5.1 million. In the third quarter of 2006, the Company sold its interest in its Canadian operation's head office properties in Edmonton. As part of this transaction, the Company also terminated lease agreements for land and buildings in the same area and assigned the repurchase option to the buyer so as to lease back the entire property over lease terms ranging from 2 to 22 years. Net proceeds from this transaction were $12.7 million, resulting in a pre-tax gain of $7.8 million and a deferred gain of $2.5 million, which is being amortized to income over the lease terms.

(c) In the first quarter of 2006, the Company sold its railroad and non-Caterpillar engine component remanufacturing business for cash proceeds of $5.3 million, resulting in a pre-tax gain of approximately $5.3 million.

3. SHORT-TERM AND LONG-TERM DEBT

December 31 ($ THOUSANDS)	2007	2006
Short-term debt	$ 370,942	$ 425,423
Long-term debt:		
Medium Term Notes		
7.40%, $200 million, due June 19, 2008	200,812	200,000
4.64%, $150 million, due December 14, 2011	149,622	150,000
5.625%, £125 million Eurobond, due May 30, 2013	242,881	285,301
Other term loans (a)	212,730	102,849
	806,045	738,150
Less current portion of long-term debt	(215,663)	(2,224)
Total long-term debt	$ 590,382	$ 735,926

(a) Other loans include U.S. $130.6 million and £30.0 million (2006: U.S. $83.6 million) of unsecured borrowings under a five-year committed bank facility that is classified as long-term debt, and other unsecured term loans primarily from supplier merchandising programs. Other loans also include £11.2 million of rental equipment financing secured by the related equipment, with varying rates of interest from 5.5% - 10.3% and maturing on various dates up to 2011.

SHORT-TERM DEBT

Short-term debt primarily consists of commercial paper borrowings and other short-term bank indebtedness.

The Company maintains a maximum authorized commercial paper program of $500 million which is utilized as its principal source of short-term funding. This commercial paper program is backstopped by credit available under an $800 million long-term committed credit facility. In addition, the Company also maintains, as required, certain other unsecured bank credit facilities to support its subsidiary operations. As at December 31, 2007, the Company had approximately $1,380 million of unsecured credit facilities, and including all bank and commercial paper borrowings drawn against these facilities, approximately $800 million of capacity remained available.

Included in short-term debt is foreign currency denominated debt of U.S. $14.3 million (2006: U.S. $38.1 million) and £27.2 million (2006: £8.0 million).

The average interest rate applicable to the consolidated short-term debt for 2007 was 5.3% (2006: 4.8%).

LONG-TERM DEBT

The Company's Canadian dollar denominated medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity. The Company's £125.0 million 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity. Following the September 2006 sale of the Company's Materials Handling Division in the U.K. (see Note 13), the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the original £200 million Eurobond. The Company recorded a pre-tax charge of approximately $8.9 million in 2006, reflecting the early recognition of deferred financing costs and other costs associated with this redemption.

In December 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its commercial paper program.

The Company has an $800 million unsecured syndicated revolving credit facility, maturing in 2011. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. At December 31, 2007, $187.8 million (2006: $97.4 million) was drawn on this facility.

COVENANT

The Company is subject to a maximum debt to capitalization level pursuant to a covenant within its syndicated bank credit facility. As at December 31, 2007 and 2006, the Company is in compliance with this covenant.

LONG-TERM DEBT REPAYMENTS

Principal repayments on long-term debt in each of the next five years and thereafter are as follows:

($ THOUSANDS)		
2008	$	215,663
2009		4,024
2010		3,971
2011		339,504
2012		–
Thereafter		242,883
	$	806,045

FINANCE COSTS

Finance costs as shown on the consolidated statement of income comprise the following elements:

For years ended December 31 ($ THOUSANDS)		**2007**		2006
Interest on debt securities:				
Short-term debt	$	**25,600**	$	16,618
Long-term debt		**46,444**		53,822
		72,044		70,440
Interest on swap contracts		**(823)**		(319)
Costs associated with debt redemption		**–**		8,864
Other finance related expenses, net of sundry interest earned		**5,381**		7,257
		76,602		86,242
Less: interest expense related to discontinued operations		**(3,760)**		(16,400)
Finance costs from continuing operations	$	**72,842**	$	69,842

4. FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE

The Company has an exposure to foreign currency exchange rates primarily because the net assets and earnings of certain investments are denominated in foreign currencies. The Company utilizes perpetual cross-currency interest rate swaps and forward contracts to hedge a portion of the foreign exchange exposure relating to these net investments. The Company also uses forward foreign exchange contracts to hedge foreign exchange exposure to certain other liabilities, firm commitments, or forecasted transactions.

FINANCE COSTS

The Company monitors its debt portfolio mix of fixed and variable rate instruments and at times, will use forward interest rate agreements, swaps and collars to manage this balance of fixed and floating rate debt.

In contemplation of the planned refinancing of the $200 million Medium Term Note maturing June 19, 2008, the Company has entered into a bond forward to hedge a portion of the interest rate risk associated with the replacement debt. Hedge accounting has been applied to this bond forward.

LONG-TERM INCENTIVE PLANS

The Company's earnings are affected by its long-term incentive plans (LTIP) as a result of movements in the Company's share price. During 2007, the Company entered into a Variable Rate Share Forward (VRSF) with a financial institution to hedge a portion of its LTIP which is marked-to-market on a quarterly basis. The VRSF is cash-settled at the end of a five-year term, or at any time prior to that at the option of the Company, based on the difference between the Company's common share price at that time and the execution price plus accrued interest. The average execution price per share is $28.71 on 2.0 million common shares, which approximates the number of outstanding deferred share units and vested share appreciation units as at December 31, 2007. As the Company's share price changes, the mark-to-market impact related to the stock-based compensation liability is effectively offset by the mark-to-market impact related to the VRSF.

FAIR VALUES

The following fair value information is provided solely to comply with financial instrument disclosure requirements. The Company cautions readers in the interpretation of the impact of these estimated fair values. The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The fair value of accounts receivable, notes receivable, short-term debt, and accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments.

The fair values of the derivatives below have been estimated using market information as at December 31, 2007 and 2006. These fair values approximate the amount the Company would receive or pay to terminate the contracts:

($ OR £ THOUSANDS)	Balance Sheet Classification		Notional Value	Term to Maturity		Fair Value Receive (Pay)
2007						
Foreign Exchange						
Cross Currency Interest Rate Swaps						
Pay £ fixed / receive CAD $ fixed	**Other assets – long-term**	**£**	**150,000**	**perpetual**	**$**	**41,637**
Forwards buy US$ (sell CAD $)	**Accounts payable and accruals**	**US$**	**166,921**	**1-12 months**	**$**	**(3,283)**
Forwards buy US$ (sell Chilean peso)	**Accounts payable and accruals**	**US$**	**48,000**	**1-2 months**	**$**	**(48)**
Forward buy US$ (sell CAD $)	**Other assets – current**	**US$**	**3,875**	**3 months**	**$**	**71**
Interest Rates						
Bond Forward	**Accounts payable and accruals**	**$**	**200,000**	**September 2008**	**$**	**(5,028)**
Interest Rate Swaps	**Accounts payable and accruals**	**US$**	**11,250**	**1-4 years**	**$**	**(325)**
Long-Term Incentive Plans						
Variable Rate Share Forward	**Long-term obligations**	**$**	**57,422**	**November 2012**	**$**	**(193)**
2006						
Foreign Exchange						
Cross Currency Interest Rate Swaps						
Pay £ fixed / receive CAD $ fixed (a)	Long-term obligations	£	150,000	perpetual	$	(1,094)
Forwards sell £ (buy CAD $) (b)	Accounts payable and accruals	£	155,000	perpetual	$	(28,612)
Forwards buy US$ (sell CAD $)	Accounts payable and accruals	US$	215,998	1-12 months	$	9,806
Forwards buy US$ (sell Chilean peso)	Accounts payable and accruals	US$	32,000	1-2 months	$	278

The amounts above are recorded at fair value on the balance sheet as indicated above, except for the following:

(a) At December 31, 2006, the mark-to-market loss of $14.2 million was recorded in long-term obligations.
(b) At December 31, 2006, the mark-to-market loss of $29.8 million was recorded in accounts payable and accruals. These forwards were unwound during 2007.

LONG-TERM DEBT

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

December 31	2007		2006	
($ THOUSANDS)	**Book Value**	**Fair Value**	Book Value	Fair Value
Long-term debt	**$ 806,045**	**$ 788,459**	$ 738,150	$ 745,734

CREDIT RISK

The Company operates internationally as a full service provider (selling, servicing, and renting) of heavy equipment and related products. The Company is not overly dependent on any single customer or group of customers. There is no significant concentration of credit risk related to the Company's position in trade accounts or notes receivables. Credit risk is minimized because of the diversification of the Company's operations, as well as its large customer base and its geographical dispersion.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. However, the credit risk is limited to those contracts where the Company would incur a loss in replacing the instrument. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

5. INCOME TAXES

PROVISION FOR INCOME TAXES

As the Company operates in several tax jurisdictions, its income is subject to various rates of taxation. The components of the Company's income tax provision are as follows:

For years ended December 31 ($ THOUSANDS)	**2007**	2006
Provision for income taxes		
Current		
Canada	**$ 70,954**	$ 51,703
International	**19,352**	24,470
	90,306	76,173
Future		
Canada	**230**	(10,459)
International	**12,362**	1,965
	12,592	(8,494)
	$ 102,898	$ 67,679

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

For years ended December 31 ($ THOUSANDS)	**2007**		2006	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 125,971**	**32.89%**	$ 100,914	33.21%
Increase / (decrease) resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(24,183)**	**(6.31)%**	(33,007)	(10.86)%
Change in statutory tax rates in U.K. and Canada	**(4,536)**	**(1.18)%**	664	0.22%
Non-deductible stock-based compensation and other expenses	**6,012**	**1.57%**	3,014	0.99%
Income not subject to tax	**(410)**	**(0.11)%**	1,548	0.51%
Non-taxable capital gain	**(277)**	**(0.07)%**	(2,210)	(0.73)%
Other	**321**	**0.08%**	(3,244)	(1.07)%
Provision for income taxes	**$ 102,898**	**26.87%**	$ 67,679	22.27%

5. INCOME TAXES (continued)

FUTURE INCOME TAX ASSET AND LIABILITY

Included in other assets on the consolidated balance sheets are a current future income tax asset and long-term future income tax asset of $51.8 million (2006: $47.6 million) and $2.6 million (2006: $5.2 million), respectively.

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

December 31 ($ THOUSANDS)	2007	2006
Future income tax assets:		
Accounting provisions not currently deductible for tax purposes	$ 51,096	$ 47,151
Loss carry-forwards	5,416	9,885
Other stock-based compensation	10,938	11,128
Goodwill of foreign subsidiaries	849	965
Other	1,800	5,911
	70,099	75,040
Future income tax liabilities:		
Derivative financial instruments	(12,968)	–
Capital, rental and leased assets	(63,392)	(71,368)
Employee benefits	(38,214)	(22,252)
	(114,574)	(93,620)
Net future income tax liability	$ (44,475)	$ (18,580)

The Company has recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income and capital gains expiring through 2026 for Canada and available indefinitely for International:

December 31 ($ THOUSANDS)	2007	2006
Canada	$ 14,464	$ 23,652
International	5,821	9,229
	$ 20,285	$ 32,881

6. SHARE CAPITAL

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2007 and 2006.

The Company is authorized to issue an unlimited number of common shares.

On May 9, 2007, the Company's shareholders approved a split of the Company's outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All stock-based compensation plans, share, and per-share data have been adjusted to reflect the stock split.

The Company repurchased 3,691,400 common shares during 2007 as part of a normal course issuer bid. These shares were repurchased at an average price of $27.82, which has been allocated to reduce share capital by $11.9 million and retained earnings by $90.8 million.

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar Inc.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2008.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 60 days after the date of the bid circular.

7. STOCK-BASED COMPENSATION PLANS

The Company has a number of stock-based compensation plans, which are described below.

STOCK OPTIONS

The Company has several stock option plans for certain employees and directors with vesting occurring over a three-year period. The exercise price of each option is based on the closing price of the common shares of the Company on the date of the grant. Options granted after January 1, 2004 are exercisable over a seven-year period. Options granted prior to January 1, 2004 are exercisable over a ten-year period. Under the 2005 Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of stock options. At December 31, 2007, 3.7 million common shares remain eligible to be issued in connection with future grants under this Stock Option Plan.

Details of the stock option plans, adjusted for the May 2007 stock split, are as follows:

	2007		2006	
For years ended December 31	**Options**	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**3,903,526**	**$ 14.44**	2,948,586	$ 9.77
Issued	**1,721,000**	**$ 31.59**	1,769,400	$ 19.75
Exercised / cancelled	**(968,124)**	**$ 13.42**	(814,460)	$ 9.08
Options outstanding, end of year	**4,656,402**	**$ 20.99**	3,903,526	$ 14.44
Exercisable at year end	**1,745,280**	**$ 11.92**	1,691,974	$ 8.59

In the second quarter of 2007, the Company issued 1,721,000 common share options to senior executives and management of the Company (2006: 1,769,400 common share options). In 2007 and 2006, long term incentives for executives and senior management were all made in the form of stock options. It is the Company's practice to grant and price stock options only when it is felt that all material information has been disclosed to the market.

The Company determines the cost of all stock options granted since January 1, 2003 using the fair value-based method of accounting for stock options. This method of accounting uses an option-pricing model to determine the fair value of stock options granted which is amortized over the vesting period. The fair value of the options granted has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2007 Grant	2006 Grant
Dividend yield	**1.21%**	1.16%
Expected volatility	**21.57%**	21.32%
Risk-free interest rate	**4.09%**	4.21%
Expected life	**5.5 years**	5.5 years

At the grant date, the weighted average fair value of options granted during the year was $7.89 (2006: $4.96). Total stock option expense recognized in 2007 was $9.3 million (2006: $5.3 million).

7. STOCK-BASED COMPENSATION PLANS (continued)

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options Outstanding				Options Exercisable		
Range of exercise prices	Number Outstanding	Weighted Average Remaining Life		Weighted Average Exercise Price	Number Outstanding		Weighted Average Exercise Price
$4.52 - $8.50	**914,734**	**2.3 years**	**$**	**6.26**	**914,734**	**$**	**6.26**
$14.69 - $16.27	**468,668**	**4.0 years**	**$**	**15.79**	**320,542**	**$**	**15.60**
$19.75 - $19.82	**1,585,600**	**5.3 years**	**$**	**19.75**	**510,004**	**$**	**19.75**
$25.85 - $31.67	**1,687,400**	**6.3 years**	**$**	**31.59**	**–**	**$**	**–**
	4,656,402	**5.0 years**	**$**	**20.99**	**1,745,280**	**$**	**11.92**

OTHER STOCK-BASED COMPENSATION PLANS

The Company has other stock-based compensation plans in the form of deferred share units and stock appreciation rights plans that use notional common share units. These notional units, upon vesting, are valued based on the Company's common share price on the Toronto Stock Exchange and are marked to market at the end of each fiscal quarter. Changes in the value of the units as a result of fluctuations in the Company's share price and new issues as they vest are recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated balance sheet in long-term obligations.

In December 2007, the Company entered into a Variable Rate Share Forward (VRSF) with a financial institution to hedge a portion of its outstanding deferred share units and vested share appreciation units, reducing the exposure to movements in the Company's share price due to the impact on these stock-based compensation plans – see Note 4. The VRSF had a minimal impact on the stock-based compensation expense for the year ended December 31, 2007. Details of the plans are as follows:

DIRECTORS

DIRECTORS' DEFERRED SHARE UNIT PLAN A (DDSU)

The Company offers a Deferred Share Unit Plan (DDSU) for members of the Board of Directors. Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their annual compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable for cash or shares only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were allocated a total of 14,301 share units in 2007 (2006: 22,952 share units), which were issued to the Directors and expensed equally over the calendar year as the units are issued.

EXECUTIVE

DEFERRED SHARE UNIT PLAN A (DSU-A)

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. This plan utilizes notional units that are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of employment and must be redeemed by December 31st of the year following the year in which the termination occurred. No units have been awarded under the DSU-A plan since 2001.

DEFERRED SHARE UNIT PLAN B (DSU-B)

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested at specified percentages or become vested partially on December 30th of the year following the year of retirement, death or disability. These specified levels and vesting percentages are based on the Company's common share price at those specified levels exceeding, for ten consecutive days, the common share price at the date of grant. Vested deferred share units are redeemable for a period of 30 days after termination of employment, or by December 31st of the year following the year of retirement, death or disability. The notional deferred share units that have not vested within five years from the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. No units have been awarded under the DSU-B plan since 2005.

As at December 31, 2007 and 2006, all outstanding DSU units have vested.

Details of the deferred share unit plans, which reflect the vestings in the year as well as mark-to-market adjustments, are as follows:

For years ended December 31	**2007**				2006			
UNITS	**DSU-A**	**DSU-B**	**DDSU**	**Total**	DSU-A	DSU-B	DDSU	Total
Outstanding, beginning of year	**104,964**	**1,353,496**	**358,280**	**1,816,740**	103,566	1,510,172	316,958	1,930,696
Additions	**789**	**14,525**	**25,402**	**40,716**	1,398	16,680	41,322	59,400
Exercised/cancelled	**(48,574)**	**(228,321)**	**(89,649)**	**(366,544)**	–	(173,356)	–	(173,356)
Outstanding, end of year	**57,179**	**1,139,700**	**294,033**	**1,490,912**	104,964	1,353,496	358,280	1,816,740
Vested, beginning of year	**104,964**	**1,353,496**	**358,280**	**1,816,740**	103,566	1,337,522	316,958	1,758,046
Vested	**789**	**14,525**	**25,402**	**40,716**	1,398	172,830	41,322	215,550
Exercised/cancelled	**(48,574)**	**(228,321)**	**(89,649)**	**(366,544)**	–	(156,856)	–	(156,856)
Vested, end of year	**57,179**	**1,139,700**	**294,033**	**1,490,912**	104,964	1,353,496	358,280	1,816,740
LIABILITY ($ THOUSANDS)								
Balance, beginning of year	**$ 2,508**	**$ 32,342**	**$ 8,561**	**$ 43,411**	$ 1,923	$ 24,838	$ 5,886	$ 32,647
Expensed	**406**	**6,632**	**2,636**	**9,674**	585	10,682	2,675	13,942
Exercised/cancelled	**(1,275)**	**(6,310)**	**(2,770)**	**(10,355)**	–	(3,178)	–	(3,178)
Balance, end of year	**$ 1,639**	**$ 32,664**	**$ 8,427**	**$ 42,730**	$ 2,508	$ 32,342	$ 8,561	$ 43,411

MANAGEMENT SHARE APPRECIATION RIGHTS PLAN (SAR)

Beginning in 2002, awards under the SAR were granted to senior managers within Canada and the U.K. The exercise price is determined based on the Company's common share price on the Toronto Stock Exchange on the grant date. Under the SAR Plan, awards are expensed over the vesting period of three years when the market price of the common shares exceeds the exercise price under the plan for vested units. Changes, either increases or decreases, in the quoted market value of common shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting period. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange.

In 2007 and 2006, there were no SAR units issued to management. Details of the SAR plans are as follows:

For years ended December 31 UNITS	**2007**	2006
Outstanding, beginning of year	**1,162,132**	1,430,000
Exercised/cancelled	**(325,257)**	(267,868)
Outstanding, end of year	**836,875**	1,162,132
Vested, beginning of year	**762,722**	573,400
Vested	**265,937**	409,056
Exercised	**(317,557)**	(219,734)
Vested, end of year	**711,102**	762,722
LIABILITY ($ THOUSANDS)		
Balance, beginning of year	**$ 9,965**	$ 4,655
Expensed	**6,413**	6,588
Exercised	**(4,935)**	(1,278)
Balance, end of year	**$ 11,443**	$ 9,965
Strike price ranges:	**$13.03 - $16.22**	

SUMMARY – IMPACT OF STOCK-BASED COMPENSATION PLANS

Changes in the value of all deferred share units and share appreciation rights as a result of fluctuations in the Company's common share price and the impact of new issues, including stock options, was an expense of $25.5 million in 2007 (2006: $25.8 million).

8. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by applying the treasury stock method.

Earnings used in determining earnings per share from continuing operations are presented below. Earnings used in determining earnings per share from discontinued operations are the earnings from discontinued operations as reported within the consolidated statements of income and retained earnings.

For years ended December 31

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Income	Shares	Per Share
2007			
Basic EPS from continuing operations:			
Net income from continuing operations	**$ 280,107**	**178,844,411**	**$ 1.57**
Effect of dilutive securities: stock options	**–**	**1,615,544**	**–**
Diluted EPS from continuing operations:			
Net income from continuing operations and assumed conversions	**$ 280,107**	**180,459,955**	**$ 1.55**
2006			
Basic EPS from continuing operations:			
Net income from continuing operations	$ 236,187	178,741,334	$ 1.32
Effect of dilutive securities: stock options	–	1,057,606	–
Diluted EPS from continuing operations:			
Net income from continuing operations and assumed conversions	$ 236,187	179,798,940	$ 1.31

9. OTHER ASSETS

December 31

($ THOUSANDS)	**2007**	2006
Other assets – current:		
Future income taxes (Note 5)	**$ 51,806**	$ 47,611
Value Added Tax receivable	**6,519**	14,416
Prepaid expenses	**13,817**	20,980
Current portion of finance assets (Note 10)	**11,789**	14,274
Supplier claims receivable	**45,780**	42,630
Retained interest in transferred receivables (Note 19)	**–**	9,481
Income taxes recoverable	**582**	5,337
Other	**51,568**	41,780
	$ 181,861	$ 196,509
Other assets – long-term:		
Accrued defined benefit pension asset (Note 18)	**$ 126,747**	$ 77,285
Long-term swap contracts receivable (Note 4)	**41,637**	–
Deferred financing costs	**–**	8,937
Investment in Energyst B.V. (a)	**17,105**	16,388
Deferred project costs	**746**	2,988
Future income taxes (Note 5)	**2,567**	5,204
Other	**16,834**	12,781
	$ 205,636	$ 123,583

(a) The Company accounts for its 24.4% investment in Energyst using the equity method of accounting. In January 2008, the Company increased its interest in Energyst by purchasing 14,582 new shares that were issued from Treasury for cash of $4.6 million (EUR 3.0 million). As a result of this transaction, the Company's equity interest in Energyst increased to 24.85% from 24.4%.

10. FINANCE ASSETS

December 31 ($ THOUSANDS)	2007	2006
Instalment notes receivable	$ 36,590	$ 27,176
Equipment leased to customers	2,636	38,303
Less accumulated depreciation	(723)	(17,159)
	1,913	21,144
Total finance assets	38,503	48,320
Less current portion of instalment notes receivable	(11,789)	(14,274)
	$ 26,714	$ 34,046

Depreciation of equipment leased to customers for the year ended December 31, 2007 was $5.7 million (2006: $9.9 million).

11. RENTAL EQUIPMENT

December 31 ($ THOUSANDS)	2007	2006
Cost	$ 1,707,545	$ 1,918,880
Less accumulated depreciation	(679,244)	(880,240)
	$ 1,028,301	$ 1,038,640

Depreciation of rental equipment for the year ended December 31, 2007 was $278.7 million (2006: $241.9 million).

12. CAPITAL ASSETS

LAND, BUILDINGS AND EQUIPMENT

December 31	2007			2006		
($ THOUSANDS)	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 55,217	$ –	$ 55,217	$ 58,805	$ –	$ 58,805
Buildings and equipment	488,848	195,142	293,706	516,274	209,423	306,851
	$ 544,065	$ 195,142	$ 348,923	$ 575,079	$ 209,423	$ 365,656

Land, buildings, and equipment under capital leases of $13.5 million (2006: $13.0 million), net of accumulated amortization of $2.2 million (2006: $11.7 million), are included above.

Depreciation of buildings and equipment for the year ended December 31, 2007 was $38.1 million (2006: $34.9 million).

INTANGIBLE ASSETS

December 31	2007			2006		
($ THOUSANDS)	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Subject to amortization						
Customer contracts and related customer relationships	$ 3,132	$ 1,549	$ 1,583	$ 9,400	$ 4,095	$ 5,305
Software	34,994	12,675	22,319	28,431	9,451	18,980
	38,126	14,224	23,902	37,831	13,546	24,285
Indefinite lives						
Distribution rights	646	–	646	646	–	646
	$ 38,772	$ 14,224	$ 24,548	$ 38,477	$ 13,546	$ 24,931

The Company acquired intangible assets subject to amortization of $10.8 million in 2007 (2006: $15.1 million). Depreciation of intangible assets subject to amortization for the year ended December 31, 2007 was $4.1 million (2006: $2.9 million).

Certain intangible assets are considered to have indefinite lives because they are expected to generate cash flows indefinitely.

13. DISPOSITION OF DISCONTINUED OPERATION

FINNING UK GROUP – TOOLS HIRE DIVISION

On July 31, 2007, the Company sold the business and assets of the Tool Hire Division of the Company's U.K. subsidiary, Hewden Stuart Plc, excluding real estate, for cash proceeds of $242.9 million (approximately £112 million), net of costs.

The gross sale price, net of taxes and transaction costs, was approximately equal to the net book value of the net tangible assets and goodwill associated with the tools rental business, and resulted in an after-tax gain on disposal of $0.1 million.

Restructuring and other costs associated with the disposition of this business of $2.0 million after tax were recorded in 2007.

FINNING UK GROUP – MATERIALS HANDLING DIVISION

On September 29, 2006, the Company sold its Materials Handling Division for cash proceeds of $170.6 million (£81.7 million), net of costs. The sale of this business resulted in an after-tax loss on disposal of $32.7 million (£15.5 million) in the third quarter of 2006, which included the write-off of the goodwill and intangible assets associated with this business.

The results of operations of the Tool Hire and the Materials Handling divisions have been included in the consolidated statements of cash flow up to the date of disposition and as discontinued operations in the consolidated statements of income up to the date of disposition. The results of the Tool Hire and the Materials Handling divisions had previously been reported in the Finning UK Group segment.

Income (loss) from the Tool Hire and Materials Handling divisions to the date of disposition is summarized as follows:

For years ended December 31	Tool Hire Division		Materials Handling Division	
($ THOUSANDS)	**2007**	2006	**2007**	2006
Revenue	**$ 113,272**	$ 194,090	**$ –**	$ 183,563
Income (loss) before provision for income taxes	**(4,108)**	8,214	**–**	(5,690)
Gain (loss) on sale of discontinued operations	**38,590**	–	**–**	(33,974)
Provision for income taxes (expense) recovery	**(36,532)**	(3,663)	**–**	3,002
Income (loss) from discontinued operations	**$ (2,050)**	$ 4,551	**$ –**	$ (36,662)

The assets and liabilities of the Materials Handling Division were removed from the Consolidated Balance Sheet upon disposition in 2006 and are not presented on the Consolidated Balance Sheet at December 31, 2007 or 2006. The carrying amounts of assets and liabilities related to the Tool Hire Division as at the date of disposition, and for the comparative period presented, are as follows:

($ THOUSANDS)	July 31, 2007 (date of disposition)	December 31, 2006
ASSETS		
Current assets		
Accounts receivable	$ 35,270	$ 38,284
Inventories	3,893	5,169
Other assets	1,277	3,130
Total current assets	40,440	46,583
Rental equipment	77,334	81,775
Land, building and equipment	13,841	16,526
Goodwill	91,136	95,861
Other assets	–	7,529
	$ 222,751	$ 248,274
LIABILITIES		
Current liabilities		
Accounts payable and accruals	$ 19,071	$ 32,726
Income tax payable	–	1,011
Total current liabilities	19,071	33,737
Long-term obligations	–	2,915
	$ 19,071	$ 36,652

The significant net cash flows from discontinued operations up to the date of disposition included in the Consolidated Statements of Cash Flow are as follows:

For years ended December 31	Tool Hire Division		Materials Handling Division	
($ THOUSANDS)	**2007**	2006	**2007**	2006
Cash provided by (used in) operating activities	**$ (3,795)**	$ 31,528	**$ –**	$ 28,052
Cash provided by (used in) investing activities	**$ (561)**	$ 860	**$ –**	$ –

14. GOODWILL

The change in the carrying amount of goodwill is as follows:

December 31, 2007

($ THOUSANDS)	**Canada**	**South America**	**UK Group**	**Consolidated**
Goodwill, beginning of year	**$ 32,388**	**$ 33,342**	**$ 316,140**	**$ 381,870**
Acquired (a)	**1,043**	**–**	**–**	**1,043**
Adjustment to purchase price (c)	**–**	**253**	**–**	**253**
Disposed (Note 13)	**–**	**–**	**(91,136)**	**(91,136)**
Foreign exchange translation adjustment	**–**	**(5,091)**	**(35,840)**	**(40,931)**
Goodwill, end of year	**$ 33,431**	**$ 28,504**	**$ 189,164**	**$ 251,099**

December 31, 2006

($ THOUSANDS)	Canada	South America	UK Group	Consolidated
Goodwill, beginning of year	$ 30,304	$ 29,862	$ 304,661	$ 364,827
Acquired (a)	2,084	–	–	2,084
Adjustment to purchase price (b)	–	3,402	–	3,402
Disposed (Note 13)	–	–	(28,274)	(28,274)
Foreign exchange translation adjustment	–	78	39,753	39,831
Goodwill, end of year	$ 32,388	$ 33,342	$ 316,140	$ 381,870

(a) In 2007, the Company acquired the assets and business operations of Mainline Rent-All (1986) Ltd., an equipment rental company based in Alberta, Canada, for cash of approximately $2.7 million. In 2006, the Company acquired the assets and business operations of Wirtanen Electric Ltd., an electric distribution rental company based in Alberta, Canada, for cash of approximately $10.3 million.

(b) In April 2003, the Company acquired 100% of the voting shares of Matreq S.A. (subsequently renamed Finning Bolivia S.A.), the Caterpillar dealership in Bolivia. As part of this agreement, additional contingent consideration of U.S. $4.0 million was advanced to the seller in April 2003, and was settled in 2006 for U.S. $3.8 million. The agreed consideration was reclassified from other assets to goodwill and future income tax asset.

(c) In January 2003, the Company acquired 100% of the voting shares of Macrosa Del Plata S.A. (subsequently renamed Finning Argentina S.A.) and Servicios Mineras S.A. (subsequently renamed Finning Soluciones Mineras S.A.), the Caterpillar dealerships in Argentina. As part of this agreement, the sellers were entitled to additional future consideration based on the realization of certain performance criteria over a six-year period ending December 31, 2008 for the Argentina operations. Any additional consideration would be payable only if certain performance criteria were achieved and maintained for a stipulated period. The strong performance of the dealership in Argentina since acquisition to the end of 2005 indicated that the maximum future consideration criteria would likely be met, and was recorded in 2005 in accordance with the agreement as $24.7 million (U.S. $21.2 million) to goodwill.

In June 2006, a provisional payment of this additional consideration of approximately $14.8 million (U.S. $13.2 million) was paid directly to the sellers, and an additional $7.6 million (U.S. $6.8 million) was paid in trust as partial security, which has now been paid upon achievement of the performance criteria.

15. LONG-TERM OBLIGATIONS

December 31 ($ THOUSANDS)	2007	2006
Stock-based compensation (Note 7)	$ **54,173**	$ 53,376
Leasing obligations (a) (Note 22)	**12,618**	28,453
Employee future benefit obligations	**17,498**	14,727
Long-term swap contract payable (Note 4)	**–**	14,170
Sale leaseback deferred gain	**8,470**	9,230
Asset retirement obligations (b)	**1,423**	6,223
Argentina additional consideration (Note 14)	**–**	1,414
Other	**7,517**	3,701
	$ **101,699**	$ 131,294

(a) Capital leases issued at varying rates of interest from 0.9% - 10.6% and maturing on various dates up to 2026.

(b) Asset retirement obligations relate to estimated future costs to remedy dilapidation costs on certain operating leases in the U.K. and are based on the Company's prior experience, including estimates for labour, materials, equipment, and overheads such as surveyor and legal costs. To determine the recorded liability, the future estimated cash flows have been discounted using the Company's credit-adjusted risk-free rate of 4%. Should changes occur in estimated future dilapidation costs, revisions to the liability could be made. Due to the disposition of the Tool Hire Division in the U.K., the liability has been reduced by approximately $2.8 million. The total undiscounted amount of estimated cash flows is $2.2 million, and the expected timing of payment of the cash flows is estimated to be over the next thirty years.

16. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

The Company's subsidiaries operate in three functional currencies: Canadian dollars, U.S. dollars, and the U.K. pound sterling. The Company experiences foreign currency translation gains or losses as a result of consolidating the financial statements of self-sustaining foreign operations. These unrealized foreign currency translation gains or losses are recorded in the Accumulated Other Comprehensive Income/Loss account on the Consolidated Balance Sheet. Currency translation adjustments arise as a result of fluctuations in foreign currency exchange rates at the period end. The cumulative currency translation adjustment for 2007 mainly resulted from the stronger Canadian dollar relative to the U.S. dollar (15.2% stronger), and the U.K. pound sterling (14.1% stronger), from December 31, 2006 to December 31, 2007.

The exchange rates of the Canadian dollar against the following foreign currencies were as follows:

December 31 Exchange rate	2007	2006
U.S. dollar	**0.9881**	1.1653
U.K. pound sterling	**1.9600**	2.2824
For years ended December 31 Average exchange rates		
U.S. dollar	**1.0748**	1.1341
U.K. pound sterling	**2.1487**	2.0886

17. SUPPLEMENTAL CASH FLOW INFORMATION

NON CASH WORKING CAPITAL CHANGES

For years ended December 31 ($ THOUSANDS)	2007	2006
Accounts receivable and other	$ (158,857)	$ (127,177)
Inventories – on-hand equipment	(65,548)	(186,024)
Inventories – parts and supplies	(31,897)	(66,344)
Accounts payable and accruals	31,215	255,050
Income taxes	6,499	(14,531)
Changes in working capital items	(218,588)	(139,026)

COMPONENTS OF CASH AND CASH EQUIVALENTS

December 31 ($ THOUSANDS)	2007	2006
Cash	$ 16,533	$ 13,059
Short-term investments	45,327	65,426
Cash and cash equivalents	$ 61,860	$ 78,485

INTEREST AND TAX PAYMENTS

For years ended December 31 ($ THOUSANDS)	2007	2006
Interest paid	$ (74,668)	$ (89,045)
Income taxes paid	$ (105,091)	$ (84,258)

18. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries in Canada and the U.K. have defined benefit pension plans and defined contribution pension plans providing retirement benefits for most of their permanent employees.

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

- In Canada, defined benefit plans exist for eligible employees. Final average earnings are based on the highest 3-5 year average salary and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit plan was subsequently closed to all new non-executive employees, who are eligible to enter one of the Company's defined contribution plans. The defined benefit pension plan continues to be open to new executives. Pension benefits under the registered plans' formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- Finning (UK) provides a defined benefit plan for all employees hired prior to January 2003. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new non-executive employees and replaced with a defined contribution pension plan. The defined benefit plan was temporarily re-opened in June 2003, on a one-time basis, to allow for the transfer of employees assumed upon the acquisition of the Lex Harvey business. These employees were allowed to join the Finning (UK) defined benefit pension plan, for future service only. With the sale of the UK Materials Handling business, certain employees became non-active members of the defined benefit plan.
- Hewden has two defined benefit plans that are open to eligible management and executive members by invitation only. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. With the sale of the Hewden Tool Hire business, certain employees became non-active members of the defined benefit plan.

The defined contribution pension plans in Canada are registered pension plans that offer a base contribution rate for all members. For certain plans, the Company will partially match employee contributions to a maximum of 1% of employee earnings. The defined contribution pension plan in the UK offers a match of employee contributions, within a required range, plus 1%.

18. EMPLOYEE FUTURE BENEFITS (continued)

The Company's South American employees do not participate in employer pension plans but are covered by country specific legislation with respect to indemnity plans. The Company has recorded a liability to employees based on an actuarial valuation of anticipated payments to employees. An amount of $4.8 million was expensed in 2007 (2006: $3.2 million) for a total obligation of $17.5 million (2006: $14.7 million).

The expense for the Company's benefit plans, primarily for pension benefits, is as follows:

For years ended December 31	2007				2006			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Defined contribution plans								
Net benefit plan expense	**$ 16,193**	**$ 823**	**$ 241**	**$ 17,257**	$ 12,838	$ 948	$ 244	$ 14,030
Defined benefit plans								
Current service cost, net of employee contributions	**$ 8,343**	**$ 5,328**	**$ 2,039**	**$ 15,710**	$ 8,465	$ 9,557	$ 2,673	$ 20,695
Interest cost	**16,563**	**26,238**	**10,582**	**53,383**	15,956	21,137	9,808	46,901
Actual return on plan assets	**(8,120)**	**(17,619)**	**(7,321)**	**(33,060)**	(30,932)	(43,336)	(9,639)	(83,907)
Actuarial (gains) losses	**(3,559)**	**(75,643)**	**(21,148)**	**(100,350)**	(4,349)	28,202	(8,776)	15,077
Plan curtailment (a)	**–**	**–**	**958**	**958**	–	3,342	–	3,342
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**13,227**	**(61,696)**	**(14,890)**	**(63,359)**	(10,860)	18,902	(5,934)	2,108
Adjustments to recognize the long-term nature of employee future benefit costs:								
Difference between expected return and actual return on plan assets for year	**(11,707)**	**(11,498)**	**(4,280)**	**(27,485)**	12,882	19,944	(98)	32,728
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	**5,769**	**82,102**	**22,894**	**110,765**	8,348	(21,515)	11,452	(1,715)
Difference between amortization of past service costs for year and actual plan amendments for year	**298**	**(709)**	**–**	**(411)**	298	(3,739)	–	(3,441)
Amortization of transitional obligation / (asset)	**(19)**	**(1,248)**	**1,523**	**256**	1,047	(1,213)	1,552	1,386
Defined benefit costs recognized	**7,568**	**6,951**	**5,247**	**19,766**	11,715	12,379	6,972	31,066
Total	**$ 23,761**	**$ 7,774**	**$ 5,488**	**$ 37,023**	$ 24,553	$ 13,327	$ 7,216	$ 45,096

(a) As a result of the sales of the Tool Hire and Materials Handling divisions, the Company recognized a curtailment to reflect the impact of the significant reduction of the expected years of future services of active employees participating in the Hewden and Finning (UK) defined benefit plans, respectively.

Total cash payments for employee future benefits for 2007, which is made up of cash contributed by the Company to its defined benefit plans and its defined contribution plans was $78.5 million and $17.2 million, respectively (2006: $55.8 million and $14.0 million, respectively).

Information about the Company's defined benefit plans is as follows:

For years ended December 31	2007				2006			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation								
Balance at beginning of year	**$313,435**	**$531,799**	**$215,008**	**$1,060,242**	$ 307,646	$ 415,787	$ 192,306	$ 915,739
Current service cost	**10,068**	**8,126**	**3,298**	**21,492**	10,190	13,446	4,039	27,675
Interest cost	**16,563**	**26,238**	**10,582**	**53,383**	15,956	21,137	9,808	46,901
Benefits paid	**(18,355)**	**(19,959)**	**(8,820)**	**(47,134)**	(16,008)	(12,910)	(8,783)	(37,701)
Actuarial (gains) losses	**(3,559)**	**(75,643)**	**(21,148)**	**(100,350)**	(4,349)	28,202	(6,792)	17,061
Foreign exchange rate changes	**–**	**(69,741)**	**(28,956)**	**(98,697)**	–	62,795	26,414	89,209
Plan curtailment	**–**	**–**	**–**	**–**	–	3,342	–	3,342
Plan amendments (a)	**–**	**–**	**–**	**–**	–	–	(1,984)	(1,984)
Balance at end of year	**$318,152**	**$400,820**	**$169,964**	**$ 888,936**	$ 313,435	$ 531,799	$ 215,008	$1,060,242
Plan assets								
Fair value at beginning of year	**$295,019**	**$424,982**	**$160,792**	**$ 880,793**	$ 269,358	$ 312,418	$ 125,848	$ 707,624
Actual return on plan assets	**8,120**	**17,619**	**7,321**	**33,060**	30,932	43,336	9,639	83,907
Employer contributions (b)	**12,485**	**46,169**	**23,268**	**81,922**	9,012	26,928	13,730	49,670
Employees' contributions	**1,725**	**2,798**	**1,259**	**5,782**	1,725	3,889	1,366	6,980
Benefits paid	**(18,355)**	**(19,959)**	**(8,820)**	**(47,134)**	(16,008)	(12,910)	(8,783)	(37,701)
Foreign exchange rate changes	**–**	**(64,123)**	**(24,734)**	**(88,857)**	–	51,321	18,992	70,313
Fair value at end of year	**$298,994**	**$407,486**	**$159,086**	**$ 865,566**	$ 295,019	$ 424,982	$ 160,792	$ 880,793
Funded status – plan surplus/(deficit)	**$ (19,158)**	**$ 6,666**	**$ (10,878)**	**$ (23,370)**	$ (18,416)	$(106,817)	$ (54,216)	$ (179,449)
Unamortized net actuarial loss	**64,670**	**63,740**	**22,306**	**150,716**	58,732	149,223	47,661	255,616
Unamortized past service costs	**2,067**	**(7,762)**	**–**	**(5,695)**	2,365	(9,791)	–	(7,426)
Contributions remitted after valuation date	**3,984**	**1,833**	**998**	**6,815**	505	6,818	1,915	9,238
Unamortized transitional obligation/asset	**(102)**	**(6,756)**	**5,139**	**(1,719)**	(121)	(9,194)	8,621	(694)
Accrued benefit asset/ (liability) (c)	**$ 51,461**	**$ 57,721**	**$ 17,565**	**$ 126,747**	$ 43,065	$ 30,239	$ 3,981	$ 77,285

(a) The plan amendment of $2.0 million in 2006 in Hewden related to a reduction in the accrued benefit obligation of the defined benefit pension plan due to pension benefit changes that were agreed between the Company and the plan's trustees and communicated with the employee members of the plan. It was agreed that employee members' pension benefits would cease to be linked to their final pensionable salary after April 2010. From April 2010, employee members' pension benefits will increase broadly in line with inflation, as opposed to future salary increases. This resulted in a reduction in the pension plan's accrued benefit obligation because employee members' pension benefits are now assumed to increase in line with the salary increase assumption until April 2010 and then in line with the lower inflation assumption thereafter.

(b) In 2007, an additional pension payment of $17.1 million was made to fund the UK pension plans as agreed at the time of the sale of the Materials Handling Division.

(c) The accrued benefit asset or liability is classified in either other assets or long-term obligations, respectively, on the consolidated balance sheets.

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

For years ended December 31	2007				2006			
($ THOUSANDS)	**Canada**	**UK**	**Hewden**	**Total**	Canada	UK	Hewden	Total
Accrued benefit obligation	**$262,895**	**$ –**	**$154,093**	**$416,988**	$ 256,477	$ 531,800	$ 215,009	$ 1,003,286
Fair value of plan assets	**236,336**	**–**	**143,011**	**379,347**	229,213	424,983	160,793	814,989
Funded status – plan deficit	**$ 26,559**	**$ –**	**$ 11,082**	**$ 37,641**	$ 27,264	$ 106,817	$ 54,216	$ 188,297

For measurement purposes, assets and liabilities of the plans are valued as at November 30. Plan assets no longer include direct investment in common shares of the Company at December 31, 2007 and 2006.

18. EMPLOYEE FUTURE BENEFITS (continued)

Plan assets are principally invested in the following securities at November 30, 2007:

	Canada	UK	Hewden
Equity	54%	67%	69%
Fixed-income	39%	33%	31%
Real estate	7%	–	–

The significant actuarial assumptions are as follows:

	2007			2006		
	Canada	UK	Hewden	Canada	UK	Hewden
Discount rate – obligation	5.80%	6.20%	6.20%	5.25%	5.30%	5.30%
Discount rate – expense	5.25%	5.30%	5.30%	5.15%	4.95%	4.95%
Expected long-term rate of return on plan assets	7.25%	7.00%	7.25%	7.25%	7.00%	7.25%
Rate of compensation increase	3.50%	4.00%	4.00%	3.50%	3.50%	3.50%
Estimated remaining service life (years)	10-15	14	13	10-15	14	13

Defined benefit pension plans are country and entity specific. The major defined benefit plans and their respective valuation dates are:

Defined Benefit Plan	Last Actuarial Valuation Date	Next Actuarial Valuation Date
Canada – BC Regular & Executive Plan	December 31, 2006	December 31, 2009
Canada – Executive Supplemental Income Plan	December 31, 2006	December 31, 2009
Canada – General Supplemental Income Plan	December 31, 2006	December 31, 2009
Canada – Alberta Defined Benefit Plan	December 31, 2005	December 31, 2008
Finning UK Defined Benefit Scheme	December 31, 2005	December 31, 2008
Hewden Stuart Pension Scheme	December 31, 2005	December 31, 2008
Hewden Pension Plan	January 1, 2005	January 1, 2008

19. ACCOUNTS RECEIVABLE SECURITIZATION

In 2002, the Company entered into an arrangement and sold a $45.0 million co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust (the "Trust"), net of overcollateralization. Under the terms of the agreement, which expired on November 29, 2007, the Company could sell co-ownership interests of up to $120.0 million on a revolving basis. The Company retained a subordinated interest in the cash flows arising from the eligible receivables underlying the Trust's co-ownership interest. The Trust and its investors did not have recourse to the Company's other assets in the event that obligors failed to pay the underlying receivables when due. Pursuant to the agreement, the Company serviced the pool of underlying receivables.

On the expiry date, the Company terminated the co-ownership interests, ceased all securitization of its accounts receivable, and repurchased previously securitized receivables for cash of $45.0 million. At December 31, 2006, the Company carried a retained interest in the transferred receivables in the amount of $9.5 million, which equalled the amount of overcollateralization in the receivables it sold, which was reported on the consolidated balance sheet in other current assets (Note 9).

For the 2007 period up to the repurchase of the receivables held by the Trust, the Company recognized a pre-tax loss of $1.8 million (2006: $2.0 million) relating to these transfers.

Proceeds from revolving reinvestment of collections were $451.9 million in 2007 (2006: $520.6 million).

20. ECONOMIC RELATIONSHIPS

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

21. SEGMENTED INFORMATION

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

During the fourth quarter of 2006, the UK Group business model was reorganized to combine the operations of Finning (UK) and Hewden into one organization creating four distinct market units to more effectively service customers, improve alignment with Caterpillar, and to generate operating efficiencies. At the same time a new management team was appointed. These four market units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies among the market units. As a result of this reorganization, the Finning UK Group is reported as one operating segment beginning in 2007, with the four market units being: Heavy Construction, General Construction, Power Systems, and Rental (Hewden).

Prior to 2007, results from the UK Group were reported as two separate operating segments: Finning UK Operations, reflecting the results of Finning (UK), the UK Caterpillar dealership operation and Diperk UK, which distributes and services Perkins engines in the U.K.; and Hewden Operations, an equipment rental and associated services operation in the U.K.

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, the Yukon Territory, the Northwest Territories, and a portion of Nunavut.
- South American operations: Chile, Argentina, Uruguay, and Bolivia.
- UK Group operations: England, Scotland, Wales, Falkland Islands, and the Channel Islands.
- Other: corporate head office.

The reportable operating segments are:

For year ended December 31, 2007

($ THOUSANDS)	Canada	South America	UK Group	Other	Consolidated
Revenue from external sources	$2,936,229	$1,325,582	$1,400,427	$ 6	$5,662,244
Operating costs	(2,486,030)	(1,171,761)	(1,191,290)	(30,867)	(4,879,948)
Depreciation and amortization	(165,488)	(25,922)	(136,474)	–	(327,884)
Other income (expenses)	1,602	(551)	384	–	1,435
Earnings from continuing operations before interest and taxes	$ 286,313	$ 127,348	$ 73,047	$ (30,861)	$ 455,847
Finance costs					(72,842)
Provision for income taxes					(102,898)
Net income from continuing operations					280,107
Loss from discontinued operations, net of tax					(2,050)
Net income					$ 278,057
Identifiable assets	$1,820,394	$ 810,465	$1,434,608	$ 68,696	$4,134,163
Capital assets	$ 158,301	$ 58,339	$ 156,014	$ 817	$ 373,471
Gross capital expenditures[1]	$ 23,604	$ 21,856	$ 32,359	$ –	$ 77,819
Gross rental asset expenditures	$ 449,894	$ 76,481	$ 231,110	$ –	$ 757,485

(1) includes capital leases

21. SEGMENTED INFORMATION (continued)

For year ended December 31, 2006 ($ THOUSANDS)	Canada	South America	UK Group	Other	Consolidated
Revenue from external sources	$ 2,612,597	$ 1,009,906	$ 1,230,730	$ 6	$ 4,853,239
Operating costs	(2,251,348)	(876,286)	(1,042,438)	(32,916)	(4,202,988)
Depreciation and amortization	(145,664)	(24,660)	(116,195)	–	(286,519)
Other income (expenses)	17,729	–	(7,105)	(648)	9,976
Earnings from continuing operations before interest and taxes	$ 233,314	$ 108,960	$ 64,992	$ (33,558)	$ 373,708
Finance costs					(69,842)
Provision for income taxes					(67,679)
Net income from continuing operations					236,187
Loss from discontinued operations, net of tax					(32,111)
Net income					$ 204,076
Identifiable assets	$ 1,691,743	$ 779,817	$ 1,692,212	$ 36,981	$ 4,200,753
Capital assets	$ 158,485	$ 55,224	$ 176,450	$ 428	$ 390,587
Gross capital expenditures[1]	$ 41,817	$ 15,003	$ 32,550	$ –	$ 89,370
Gross rental asset expenditures	$ 295,512	$ 42,157	$ 200,656	$ –	$ 538,325

(1) includes capital leases

22. CONTRACTUAL OBLIGATIONS

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

For years ended December 31 ($ THOUSANDS)	Capital Leases	Operating Leases
2008	$ 2,311	$ 70,472
2009	1,766	59,771
2010	1,396	52,037
2011	1,208	38,924
2012	1,064	28,064
Thereafter	15,798	164,125
	23,543	413,393
Less imputed interest	(9,442)	n/a
	14,101	413,393
Less current portion of capital lease obligation	(1,483)	n/a
Total long-term capital lease obligation	$ 12,618	$ 413,393

23. COMMITMENTS AND CONTINGENCIES

(a) Due to the size, complexity, and nature of the Company's operations, various legal and tax matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

(b) The Company has committed to pay approximately $26.3 million over the next two years for the software licenses and implementation support for a new information technology system solution for its global operations.

24. GUARANTEES AND INDEMNIFICATIONS

The Company enters into contracts with rights of return, in certain circumstances, for the repurchase of equipment sold to customers for an amount based on an estimate of the future value of the fair market price at that time. As at December 31, 2007, the total estimated value of these contracts outstanding is $161.2 million coming due at periods ranging from 2008 to 2014. The Company's experience to date has been that the equipment at the exercise date of the contract is worth more than the repurchase amount. The total amount recognized as a provision against these contracts is $0.7 million.

As part of the Tool Hire and Materials Handling divisions Purchase and Sale Agreements, Finning has provided indemnifications to the respective third party purchaser, covering breaches of representation and warranties as well as litigation and other matters set forth in the agreement. Claims may be made by the third party purchaser under these agreements for various periods of time depending on the nature of the claim. The maximum potential exposure of Finning under these indemnifications is 100% of the purchase price with respect to the Tool Hire Division, and 75% of the purchase price with respect to the Materials Handling Division. As at December 31, 2007, Finning had no material liabilities recorded for these indemnifications.

In connection with the sale of the Materials Handling Division in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1.2 million to the end of the lease term in 2020. As at December 31, 2007, the Company had no liability recorded for this guarantee.

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

During the year, the Company entered into various other commercial letters of credit in the normal course of operations.

25. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are:

(i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
(ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity, short-term and long-term debt in the definition of capital.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company monitors the following ratios in this respect: debt to total capitalization; and dividend payout ratio. Debt to total capitalization and dividend payout ratio are Non-GAAP measures which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

Debt to total capitalization is calculated as short-term and long-term debt (total debt) divided by total capitalization. Total capitalization is defined as the sum of total debt and all components of equity (share capital, contributed surplus, accumulated other comprehensive loss, and retained earnings).

Dividend payout ratio is calculated as the annual dividend declared per share divided by basic earnings per share from continuing operations for the past twelve month period.

During 2007, the Company's strategy, which was unchanged from 2006, was to maintain the targets set out in the following table. The Company believes that these ratios are currently in the optimal range and provide access to capital at a reasonable cost.

As at and for years ended December 31

($ MILLIONS, EXCEPT AS NOTED)		**2007**	2006
Components of Debt and Coverage Ratios			
Short-term debt		**$ 370.9**	$ 425.5
Current portion of long-term debt		**215.7**	2.2
Long-term debt		**590.4**	735.9
Total debt		**$ 1,177.0**	$ 1,163.6
Shareholders' equity		**$ 1,617.8**	$ 1,624.4
	Company Targets		
Total debt to capital	40 - 50%	**42%**	42%
Dividend payout ratio	25 - 30%	**23%**	21%

The total debt to capital ratio is comparable, year over year, and is within the Company's target.

In 2007, the Company increased its dividend payout ratio target from 20-25% to 25-30%. The dividend payout ratio has increased over the 2006 level with the dividend rate per common share increasing twice during 2007, as the Company moves towards its stated target.

26. SUBSEQUENT EVENTS

(a) In January 2008, the Company's Canadian operations, Finning (Canada), acquired all of the issued and outstanding common shares of Collicutt Energy Services Ltd. The total value of this transaction is approximately $145 million, comprising $96 million of cash, 14,365 Finning common shares (valued at $0.4 million) issued in connection with the acquisition, with the difference being the assumption of debt. The purchase price allocation has not been finalized.
(b) In January and early February 2008, the Company's UK subsidiary, Hewden, sold certain properties for cash proceeds of approximately $28 million, resulting in a pre-tax gain of approximately $14 million.

TEN YEAR FINANCIAL SUMMARY

For years ended December 31 ($ THOUSANDS EXCEPT PER SHARE DATA)	**2007**	2006	2005	2004
REVENUE[1]				
Canadian operations	**$ 2,936,229**	$ 2,612,597	$ 2,049,675	$ 1,562,584
South American operations	**$ 1,325,582**	$ 1,009,906	$ 1,007,341	$ 869,893
UK Group	**$ 1,400,427**	$ 1,230,730	$ 1,271,264	$ 1,403,807
International operations	**$ 6**	$ 6	$ –	$ 15
TOTAL CONSOLIDATED	**$ 5,662,244**	$ 4,853,239	$ 4,328,280	$ 3,836,299
Earnings before interest and tax (EBIT)[1]	**$ 455,847**	$ 373,708	$ 257,955	$ 271,933
As a percent of revenue	**8.0%**	7.7%	6.0%	7.1%
Net income[1]	**$ 280,107**	$ 236,187	$ 161,672	$ 114,946
As a percent of revenue	**4.9%**	4.9%	3.7%	3.0%
EARNINGS PER COMMON SHARE[1]				
Basic	**$ 1.57**	$ 1.32	$ 0.91	$ 0.73
Diluted[2]	**$ 1.55**	$ 1.31	$ 0.90	$ 0.72
DIVIDENDS				
Per common share	**$ 0.36**	$ 0.275	$ 0.22	$ 0.20
Cash flow after working capital changes	**$ 404,427**	$ 460,210	$ 478,757	$ 247,422
Cash flow per share	**$ 2.30**	$ 2.57	$ 2.68	$ 1.40
Gross capital expenditures	**$ 77,819**	$ 89,370	$ 81,111	$ 106,202
RATIOS				
Asset turnover ratio	**1.36**	1.22	1.15	1.15
Debt to total capitalization[3]	**42%**	42%	47%	51%
Book value per common share	**$ 9.19**	$ 9.07	$ 7.92	$ 7.50
Return on average shareholders' equity[1]	**16.8%**	15.8%	11.8%	11.0%
COMMON SHARE PRICE				
High	**$ 33.50**	$ 23.90	$ 20.70	$ 17.70
Low	**$ 23.10**	$ 18.05	$ 16.13	$ 14.43
Year end	**$ 28.66**	$ 23.90	$ 18.57	$ 17.50
Common shares outstanding (thousands)	**176,132**	179,090	178,404	176,780
Revenue per employee	**$ 440,642**	$ 392,605	$ 377,554	$ 338,918
Net income per employee	**$ 21,798**	$ 18,726	$ 12,810	$ 9,360
NUMBER OF EMPLOYEES				
Canada	**4,618**	4,106	3,316	2,936
South America	**4,638**	3,865	3,377	3,203
UK Group	**3,543**	4,841	6,074	6,097
International	**51**	44	38	44
TOTAL	**12,850**	12,856	12,805	12,280

Certain comparative figures have been reclassified to conform to the 2007 presentation. In addition, financial data has been restated to incorporate common share subdivision occurring during the ten year period.

1. On July 31, 2007, the Company's U.K. subsidiary, Hewden Stuart Plc. sold its Tools Hire Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2007, 2006, and 2005. On September 29, 2006, the Company's U.K. subsidiary, Finning (UK) sold its Materials Handling Division. Results from that operation have been reclassified to discontinued operations for the years ended December 31, 2006, 2005, and 2004. Therefore, revenue, EBIT, net income, earnings per common share, and return on average shareholders' equity reflect results from continuing operations for those years.
2. In 2000, the diluted earnings per share calculation was changed to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. Diluted earnings for the years ended 1999 to 2005 have been stated using this method.
3. Equity ratios for the 2000 year does not include investment in Hewden Stuart; equity ratio for years 2001 to 2003 included non-controlling interest that was treated as equity.

TEN YEAR FINANCIAL SUMMARY

2003	2002	2001	2000	1999	1998
$ 1,456,357	$ 1,269,275	$ 1,398,623	$ 1,214,516	$ 1,032,922	$ 1,136,917
$ 561,964	$ 444,644	$ 448,005	$ 474,145	$ 377,777	$ 503,505
$ 1,574,950	$ 1,493,512	$ 1,391,566	$ 682,162	$ 712,941	$ 793,020
$ 24	$ 55	$ 8,849	$ 89,209	$ 106,221	$ 151,979
$ 3,593,295	$ 3,207,486	$ 3,247,043	$ 2,460,032	$ 2,229,861	$ 2,585,421
$ 255,168	$ 277,783	$ 241,601	$ 165,263	$ 148,912	$ 82,729
7.1%	8.7%	7.4%	6.7%	6.7%	3.2%
$ 131,951	$ 132,253	$ 103,917	$ 73,391	$ 59,600	$ 3,185
3.7%	4.1%	3.2%	3.0%	2.7%	0.1%
$ 0.86	$ 0.86	$ 0.69	$ 0.48	$ 0.38	$ 0.02
$ 0.84	$ 0.84	$ 0.67	$ 0.47	$ 0.37	$ 0.02
$ 0.18	$ 0.15	$ 0.10	$ 0.10	$ 0.10	$ 0.10
$ 384,210	$ 472,804	$ 445,623	$ 357,780	$ 438,232	$ 253,891
$ 2.47	$ 3.05	$ 2.94	$ 2.36	$ 2.75	$ 1.60
$ 89,657	$ 47,426	$ 51,180	$ 15,284	$ 20,864	$ 44,176
1.09	1.05	1.25	1.18	1.05	1.13
44%	38%	47%	57%	56%	63%
$ 6.17	$ 6.00	$ 5.12	$ 4.51	$ 4.37	$ 4.26
14.3%	15.7%	14.1%	10.5%	8.7%	0.5%
$ 16.60	$ 14.43	$ 10.18	$ 6.93	$ 7.70	$ 9.25
$ 11.50	$ 9.83	$ 6.05	$ 4.93	$ 4.50	$ 5.13
$ 15.00	$ 12.78	$ 10.00	$ 6.35	$ 6.75	$ 5.48
155,510	155,160	151,632	151,580	159,474	158,852
$ 314,953	$ 327,462	$ 331,230	$ 477,120	$ 450,113	$ 492,367
$ 11,566	$ 13,502	$ 10,601	$ 14,234	$ 12,031	$ 607
2,717	2,548	2,629	2,326	2,271	2,494
2,456	1,817	1,516	1,390	1,259	1,354
6,191	5,391	5,619	1,404	1,364	1,348
45	39	39	36	60	55
11,409	9,795	9,803	5,156	4,954	5,251

BOARD OF DIRECTORS

RICARDO BACARREZA
Santiago, Chile
President, Proinvest S.A.
Director since 1999
Member of the Audit Committee and
Environment, Health and Safety Committee

JAMES E.C. CARTER
Edmonton, Alberta, Canada
Director of EPCOR Utilities Inc., the Alberta Research Council
and CAREERS: The Next Generation
Director since 2007
Member of the Audit Committee and
Environment, Health and Safety Committee

KATHLEEN M. O'NEILL
Toronto, Ontario, Canada
Director of TSX Group Inc., MDS Inc., and Canadian Tire Bank
Director since 2007
Member of, and the designated 'financial expert' for, the Audit
Committee and a member of the Human Resources Committee

DONALD S. O'SULLIVAN
Calgary, Alberta, Canada
President, O'Sullivan Resources Ltd.
Director since 1991
Member of the Human Resources Committee and
Corporate Governance Committee (Chair)

CONRAD A. PINETTE (Chairman of the Board)
Vancouver, British Columbia, Canada
Director of A&W Revenue Royalties Income Fund, TimberWest
Forest Corporation and Northgate Minerals Corporation
Director since 1992
Member of the Corporate Governance Committee

JOHN M. REID
Vancouver, British Columbia, Canada
Director of Methanex Corporation
Director since 2006
Member of the Audit Committee and
Environment, Health and Safety Committee

ANDREW H. SIMON, OBE
London, England
Director of SGL Supervisory Board, Dalkia Plc,
Travis Perkins Plc and Management Consulting Group Plc
Director since 1999
Member of the Audit Committee (Chair) and Corporate
Governance Committee

BRUCE L. TURNER
Santiago, Chile
Turner Minerals S.A.
Director since 2006
Member of the Human Resources Committee and Environment,
Health and Safety Committee (Chair)

DOUGLAS W.G. WHITEHEAD
North Vancouver, British Columbia, Canada
President and Chief Executive Officer, Finning International Inc.
Director of Ballard Power Systems Inc., Inmet Mining Corporation,
International Forest Products Ltd., Belkorp Industries and
the Conference Board of Canada
Director since 1999
Member of the Environmental, Health and Safety Committee

JOHN M. WILLSON
Vancouver, British Columbia, Canada
Director of Nexen Inc., Pan American Silver Corporation
and Harry Winston Diamond Corporation
Director since 2000
Member of the Human Resources Committee (Chair)
and Corporate Governance Committee

Please refer to the Company's management proxy circular for complete biographies of Finning directors.

CORPORATE OFFICERS

CONRAD A. PINETTE
CHAIRMAN OF THE BOARD
FINNING INTERNATIONAL INC.

DOUGLAS W.G. WHITEHEAD
PRESIDENT AND CHIEF EXECUTIVE OFFICER
FINNING INTERNATIONAL INC.

ANDRE J. BEAULIEU
GENERAL COUNSEL AND
CORPORATE SECRETARY
FINNING INTERNATIONAL INC.

ANDREW W. BONE
PRESIDENT, POWER SYSTEMS
FINNING INTERNATIONAL INC.

ANDREW S. FRASER
MANAGING DIRECTOR
FINNING GROUP, UK

SANDEEP S. KALRA
VICE PRESIDENT,
CORPORATE TREASURER
FINNING INTERNATIONAL INC.

ANNA P. MARKS
SENIOR VICE PRESIDENT,
CORPORATE CONTROLLER
FINNING INTERNATIONAL INC.

THOMAS M. MERINSKY
VICE PRESIDENT,
INVESTOR RELATIONS
FINNING INTERNATIONAL INC.

DAVID F.N. PRIMROSE
SENIOR VICE PRESIDENT,
CORPORATE HUMAN RESOURCES
FINNING INTERNATIONAL INC.

IAN M. REID
PRESIDENT
FINNING (CANADA)

JUAN CARLOS VILLEGAS
PRESIDENT
FINNING SOUTH AMERICA

MICHAEL T. WAITES
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER
FINNING INTERNATIONAL INC.

CORPORATE GOVERNANCE

The Corporation's Board of Directors and management are committed to the highest standards of good corporate governance and understand that such standards are central to the efficient and effective operation of the Corporation in a manner that ultimately enhances shareholder value.

Board Mandate and Composition

The Board of Directors has overall responsibility for conduct of the business and affairs of the Corporation. The Board discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Corporation.

The Board of Directors is currently made up of 10 members. All directors, other than Douglas W. G. Whitehead (who is the President and Chief Executive Officer of the Corporation) are independent.

In addition, in order to ensure that the Board can function independently from management, the Corporation has separated the role of Chairman of the Board (currently Conrad A. Pinette) and Chief Executive Officer (currently Douglas Whitehead). The Board further ensures its independent function by convening an independent directors-only in camera session at every Board Meeting.

Finally, each year the Board (with the assistance of the Corporate Governance Committee) formally reviews its own performance, the performance of each committee of the Board, the performance of the Chairman of the Board, the performance of each individual director (peer assessment) and the performance of the Chief Executive Officer.

Committees of the Board of Directors

There are currently four standing committees of the Board of Directors: the Corporate Governance Committee, the Audit Committee, the Human Resources Committee and the Environment, Health and Safety Committee. Each committee operates in accordance with Board-approved terms of reference.

The Corporate Governance Committee

The mandate of the Corporate Governance Committee is to enhance corporate performance by assessing and making recommendations regarding Board effectiveness and by establishing a process for identifying, recruiting, appointing and re-appointing directors and providing for the on-going development of current Board members.

The Audit Committee

The Audit Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Corporation's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity and (g) risk identification, assessment and management program. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Corporation. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Corporation. It is also empowered to retain outside counsel or other experts as required.

The Human Resources Committee

One of the key mandates of the Human Resources Committee is to establish a market competitive total compensation program for the executive officers and other key employees. In all its deliberations the Committee takes into account the cost of the Corporation's executive compensation program, the interests of shareholders and good governance guidelines on executive compensation. In addition, the Committee reviews and approves the succession plan for the Chief Executive Officer and for the executive leadership team; reviews and approves any significant changes to the organizational structure; and ensures at a strategic level that there are appropriate and effective Human Resources policies in place for the employment and engagement of the Corporation's employees. The Committee also reviews, with the Corporation's management pension committee: (a) the pension fund investment strategy; (b) the choice of fund manager(s) for the Corporation's pension funds; (c) the ongoing performance of the fund manager(s); (d) the design and benefits of the Corporation's pension plans; and (e) contribution levels and funding status of the Corporation's pension plans.

The Environment, Health and Safety Committee

The mandate of the Environment, Health and Safety Committee is to encourage, assist and counsel the management of the Corporation in its drive towards attaining and maintaining a high level of performance in areas relating to the environment, health and safety. The Committee also seeks to ensure, through the management of the Corporation, that the Corporation's employees and contractors enjoy a safe and healthy workplace.

The Company's management proxy circular issued in connection with the 2008 Annual Meeting of Shareholders and the corporate governance section of the website provide a full discussion of Finning's corporate governance policies and practices.

SHAREHOLDER INFORMATION

STOCK EXCHANGES

The common shares of Finning International Inc.
are listed on the Toronto Stock Exchange. Symbol: FTT

AUDITORS

Deloitte & Touche LLP
Vancouver, Canada

SOLICITORS

Borden Ladner Gervais LLP
Vancouver, Canada

CORPORATE HEAD OFFICE

Suite 1000-666 Burrard Street
Vancouver, British Columbia
Canada V6C 2X8
Telephone: 604-691-6444

ANNUAL GENERAL MEETING

May 6, 2008
11:00 AM PDT

Four Seasons Hotel
Park Ballroom
791 West Georgia Street
Vancouver, British Columbia

CORPORATE INFORMATION

The Company prepares an Annual Information Form (AIF), which is filed with the securities commission or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's website at www.finning.com

INVESTOR INQUIRIES

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be directed to Tom Merinsky, Vice President, Investor Relations. Telephone 604-331-4950, Fax 604-691-6440
Email: investor_relations@finning.ca

FORWARD LOOKING STATEMENTS

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

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

REGISTRAR & TRANSFER AGENT
COMPUTERSHARE TRUST COMPANY OF CANADA

Vancouver
Computershare
510 Burrard Street
2nd Floor
Vancouver, B.C.
V6C 3B9

Toronto
Computershare
100 University Avenue
11th Floor
Toronto, Ontario
M5J 2Y1

Phone
North America
1-800-564-6253
International
514-982-7555

Website
www.computershare.com

Email
service@computershare.com

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