

**FINNING**<sup>®</sup>



**NEW FOCUS** 2013 Annual Review

# TABLE OF CONTENTS

Corporate Profile	1
Value Proposition	2
Message From the President & CEO	3
Message From the Chairman of the Board	5
Financial Performance	6
Finning Operations – Canada	7
Finning Operations – South America	9
Finning Operations – UK & Ireland	11
Workplace, Environment & Community	13
Board of Directors and Executive Officers	15
Four-year Financial Summary	17
Shareholder Information	18
Forward Looking Statement	19

# CORPORATE PROFILE

## ABOUT FINNING

Finning International (TSX: FTT) is the world's largest Caterpillar dealer delivering unrivalled service to customers for over 80 years.

Finning sells, rents and provides parts and service for equipment and engines to customers in various industries, including mining, construction, petroleum, forestry and a wide range of power systems applications. Finning delivers solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

**Headquartered in Vancouver, British Columbia, Canada, Finning employs approximately 15,000 people worldwide and operates in three geographies:**

- Western Canada: Alberta, British Columbia, Yukon, the Northwest Territories, and a portion of Nunavut
- South America: Chile, Argentina, Bolivia and Uruguay
- The United Kingdom and Ireland

### KEY STATISTICS

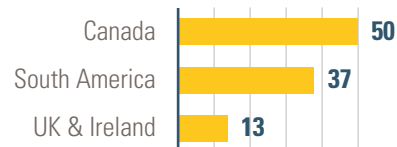
\$ millions*	2013
Revenue	6,756
EBIT <sup>1</sup>	521
Basic EPS (\$)	1.95
Invested Capital <sup>1</sup>	3,138
EBITDA <sup>1</sup>	736
Free Cash Flow <sup>1</sup>	441
Dividend per share <sup>2</sup> (\$)	0.5975

\*except where specified

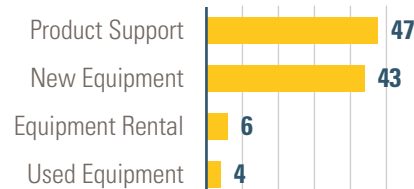
## REVENUE PROFILE

(%) Full year 2013

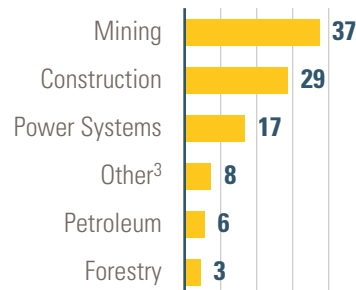
### BY REGION



### BY LINE OF BUSINESS



### BY INDUSTRY (New Equipment Deliveries)



<sup>1</sup> These financial metrics do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and may not be comparable to similar measures used by other issuers. For additional information and definitions of these financial metrics, see "Description of Non-GAAP and Additional GAAP Measures" in Management's Discussion and Analysis for the year ended December 31, 2013.

<sup>2</sup> Annualized dividend = \$0.61/share

<sup>3</sup> Industrial, government, agriculture

# VALUE PROPOSITION

*Passionate and committed employees*

*Great products - aligned with Caterpillar, world's best heavy equipment company*

*Serving diverse customer base*

*Operating in resource rich territories with significant organic growth opportunities*

*Strong business model*

- *Product support provides stable and resilient revenue stream (10-year CAGR<sup>1</sup> ~11%)*
- *Capability to generate positive free cash flow through the cycle*

*Significant opportunity to improve operating performance and increase return on invested capital*



<sup>1</sup> CAGR – compound annual growth rate

## MESSAGE FROM THE PRESIDENT AND CEO



Scott Thomson

I stepped into my role as CEO in June with a keen appreciation for Finning's proud tradition of success. Having now been in the role for several months, it is my firm belief that our past accomplishments provide a strong platform to build a brighter future.

### Compelling Strengths

I'm honoured to serve as the seventh CEO in Finning's 80-year history. What inspires even greater pride is to count myself amongst the company's 15,000 passionate and dedicated employees. Over eight decades, our employees' service commitment has earned our customers' trust. Today, their talent and dedication fuels a strong competitive advantage.

Also rooted in our early beginnings, is our association with the iconic Cat brand. Our relationship with Caterpillar continues to strengthen as we collaboratively address evolving customer needs and changes in the marketplace.

*Today, we're on a path that will enable us to continually improve our business and extend our legacy of delivering value for our employees, customers, Caterpillar and shareholders.*

From our origins as a local Vancouver company to an international enterprise, today we operate in diverse sectors and territories that provide tremendous equipment and service opportunities. These include, Alberta's oil sands, where production from existing and new mining operations is projected to continue to increase. In British Columbia, large LNG projects will drive significant opportunities for Finning in power systems, earthmoving and pipe-laying. In Chile, the top copper-producing region in the world, our customers' significant investment in mining will continue over the long-term.

Strong equipment sales over the past several years have translated to a large and ageing fleet in our territories that drives sustainable product support growth. And, we have the potential to generate strong free cash flow through the economic cycle due to the low capital intensity of the business.

Together, all of these strengths provide us with a powerful position on which to build.

### 2013 in Review

The challenges and opportunities of the past year were met with characteristic determination and persistence by Finning's people across the company.

We are committed to being an organization that ensures the safety of our employees. Despite overall improvements in incident trends over the years, I am deeply saddened to report that two of our colleagues lost their lives while at work in 2013. We extend our deepest sympathies to their families, friends and colleagues. These tragic incidents were thoroughly investigated and lessons learned have been shared and acted upon across the company. Our overarching goal is to achieve an injury-free workplace and we remain resolute in our commitment to achieve this vision.

# MESSAGE FROM THE PRESIDENT AND CEO

In 2013, we delivered solid financial results while continuing to make improvements for the future. We saw revenue grow to a record \$6.8 billion. Bucyrus, which was acquired in 2012, contributed to 12 percent growth in our product support business. Importantly, we increased profitability due to improvements in our Canadian operations. EPS increased to a record level and we generated significant free cash flow which puts us in a stronger financial position than before the Bucyrus acquisition.

While we are definitely making good progress on key measures, we recognize an opportunity to significantly raise the bar on our performance.

## Operational Imperatives

From our place of fundamental strength and in line with our customer commitment, we are working to deliver our products and services more effectively and efficiently. To guide our efforts, we have established a few, clear business imperatives.

First, we are committed to ensuring employee safety and developing our people – this is at the core of our success as a company. We will work hard to continuously improve our safety performance and cultivate a winning culture.

Second, we are working to achieve service excellence. Our aim is to deliver great service more consistently and efficiently to enhance customer loyalty and simultaneously increase service profitability. We are doing so by standardizing our processes and increasing training and support for our employees.

Third, we are improving our supply chain. Having the right products in the right place at the right time is a significant factor in improving customer loyalty. Reducing inventory touch points, shortening delivery lead times and managing our inventory efficiently will also reduce invested capital.

Fourth, we are focused on customer and market leadership. We have an opportunity to profitably grow market share irrespective of economic conditions. We are already seeing the benefits of enhancing sales coverage, expanding efforts to address all industry sectors and increasing our deal participation rates.

Fifth, we will ensure our capital is deployed prudently. Delivering great service safely is at the core of what we do and we will continue to invest to ensure employee safety, to meet customer requirements and to improve productivity. At the same time, we believe we have not fully capitalized on the significant investments we have made in our capacity over the last few years. In the short-term, we are optimizing the allocation of work across our facilities in order to increase asset utilization. Over a longer timeframe, these considerable historic investments position us strongly to meet future revenue growth without requiring significant capital expenditures.

## Focus on Factors We Control

These operational imperatives are underpinned by a focus on factors we can control, namely cost management and invested capital. This focus is squarely aimed at improving our return on invested capital over time.

Across the organization, we have aligned on priorities that will improve our profitability in a capital efficient fashion. While we recognize that there is significant work ahead to achieve our objectives, I'm proud of the progress we are making and I'm optimistic about where this journey will lead.

Today, we're on a path that will enable us to continually improve our business and extend our legacy of delivering value for our employees, customers, Caterpillar and shareholders.

In closing, I want to acknowledge those who contribute to our success each and every day. I thank the Board, our partners at Caterpillar, our customers and our shareholders for their ongoing trust and support.

I will end with Finning's people, the thousands of employees who pour their efforts and energy into forging strong customer relationships and making our company a success. It's through their hard work that Finning is in a position to deliver sustainable value to our customers and our shareholders. I have every confidence in the Finning team's ability to improve and innovate for the future and I look forward to continuing our proven track record of success.



**L. Scott Thomson**

President & Chief Executive Officer

## MESSAGE FROM THE CHAIRMAN OF THE BOARD



**Doug Whitehead**

Since first joining Finning in 1999 and now as Chairman of the Board of Directors since 2008, I've taken great pride in watching this company grow and reward shareholders during this time period. I believe our success can be attributed to the combination of quality Caterpillar products and the passion of Finning employees to exceed customer expectations.

At the core of the Board of Directors' commitment is our fundamental duty to oversee the management of the business of Finning and to enhance shareholder value with a focus on strong corporate governance. We fulfill our duty of accountability by building on best practices through continuous evaluation and improvement. In 2013, we invested considerable time on CEO succession, board renewal and executive compensation.

### **CEO Succession**

One of the Board's key responsibilities is succession planning, and there were a number of significant changes within Finning's executive team this year. Most significantly, the Board of Directors appointed Scott Thomson as President and Chief Executive Officer on June 17, 2013, following the retirement of Mike Waites.

Scott brings to Finning significant international experience, broad financial capabilities and considerable strategic acumen to complement the leadership team's existing breadth and operational strength. His knowledge and background, along with an energetic leadership style, are proving to be invaluable assets as we begin a new chapter of our company's history and continue to build on our successful track record of creating value at Finning over the long-term. Scott has had a major positive impact on the company in a very short period of time.

### **Board Renewal**

Finning's Directors are national and international business and community leaders who have demonstrated their integrity and sound and independent business judgment. Consistent with the Board's strategy on director renewal, we welcomed Kevin A. Neveu as the newest member of the company's Board of Directors.

Mr. Neveu has over 25 years of experience in the oil and gas industry and brings first-hand understanding of the needs and concerns of a large segment of our business. He is currently chief executive officer of Precision Drilling Corporation, which has grown to become one of the largest oil field service providers in North America under his leadership.

In addition, Marcelo Awad and Nicholas Hartery have been nominated to stand for election to the Company's Board of Directors at the Annual

Meeting of Shareholders on May 13, 2014. Mr. Awad is an experienced mining industry executive who was previously the president and chief executive officer of Antofagasta Minerals prior to which he held progressively senior positions with Codelco. Mr. Hartery is Chairman of CRH, an international building materials group based in Ireland. Previously, Mr. Hartery held executive positions at Dell, Eastman Kodak and Verbatim Corporation. Mr. Awad's extensive mining industry expertise and Mr. Hartery's wide-ranging business experience combined with their regional perspectives would further strengthen our Board's ability to provide oversight to ensure Finning maximizes sustainable return to its shareholders.

### **Compensation**

In 2013, your Board also undertook a thoughtful review of Finning's executive compensation program. Working with our Human Resources Committee and with the assistance of an independent consultant, our objective has been to evolve our incentive programs to more closely align with Finning's current business priorities.

The changes made to the executive incentive programs align with the fundamental importance of employee safety and customer loyalty, which are critical to the Company's success, and our renewed focus on factors that are within employees' control, such as cost and capital management. They also reinforce our focus on earnings growth and capital efficiency to improve our return on invested capital – the key financial metric for the company.

I will close by thanking the entire global community of Finning – our employees, our customers, Caterpillar and our shareholders. Their strong commitment to Finning gives me great optimism that a bright future lies ahead.

**Douglas W.G. Whitehead**  
Chairman of the Board

# FINANCIAL PERFORMANCE

*“In 2013, we grew our revenues, improved our profit pull-through, particularly in Canada, and strengthened our balance sheet by generating significant free cash flow. We recognize that there is much more opportunity to improve our financial performance, especially our return on invested capital. With that in mind, we have laid out a clear and credible roadmap to drive improved profitability and capital efficiency. We aim to generate a more consistent positive free cash flow through the cycle by managing our working capital more efficiently, reducing costs through operational excellence and improving asset utilization.”*

*Dave Smith, EVP and CFO, Finning International*

## 2013 Financial Highlights

- Revenue grew by 3% to a record \$6.8 billion, driven by additional revenue from the shovels and drills business and organic growth in product support
- Product support revenues rose by 12% and were higher in all operations compared to 2012
- EBIT increased by 7% to \$521 million, and EBIT margin<sup>2</sup> rose to 7.7% from 7.4% in 2012 due to improved EBIT margin in Canada
- Basic EPS increased by 3% to a record \$1.95
- Free cash flow was \$441 million, reflecting record EBITDA of \$736 million, lower working capital, and reduced capital expenditures compared to 2012
- Net debt to invested capital ratio<sup>2</sup> declined to 41% at the end of 2013 (around midpoint of the Company’s target range) from 50% at the end of 2012

\$ millions except where specified	2013	2012 <sup>1</sup>	2006-2013 average values
EBIT	521	489	
EBIT margin - %	7.7	7.4	7.0
Invested capital	3,138	3,131	
Invested capital turnover - x (times)	2.0	2.2	2.5
Return on invested capital - %	15.7	16.5	17.9

<sup>1</sup> Restated to reflect adoption of the amendments to International Accounting Standard (IAS) 19, Employee Benefits  
<sup>2</sup> These financial metrics do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), and may not be comparable to similar measures used by other issuers. For additional information and definitions of these financial metrics, see “Description of Non-GAAP and Additional GAAP Measures” in Management’s Discussion and Analysis for the year ended December 31, 2013.  
<sup>3</sup> Refer to 2013 MD&A for the complete list of performance metrics

## Focus on Improving Return on Invested Capital (ROIC<sup>2</sup>)

The Company plans to drive shareholder value by improving return on invested capital. From an operational perspective, the following priorities are identified as key to executing on this plan: customer and market leadership, service excellence, supply chain optimization, and asset utilization. These imperatives are linked directly to improving EBIT performance and capital efficiency.

### EBIT ↑

- Customer and Market Leadership - increase non-mining market share in a no-growth environment
- Service Excellence – improve profitability of service operations
- Supply Chain Optimization – network and transportation cost improvements

### Invested Capital ↓

- Supply Chain Optimization – reduce working capital, mainly inventory
- Asset Utilization – improve return on investment in facilities

The Company realigned its incentive plans to these priorities and identified new key performance indicators to consistently measure performance across the organization<sup>3</sup>. Going forward, the Company will report on its performance metrics on a quarterly and annual basis, with 2013 as the baseline for measuring progress.



# FINNING OPERATIONS - CANADA

Headquartered in Edmonton, Finning’s Canadian operations employ approximately 5,700 people across British Columbia, Alberta, Yukon, the Northwest Territories and a portion of Nunavut. Finning Canada serves a diverse range of industries that span mining (including oil sands), construction, petroleum, forestry, and power systems.

*“We want to provide our customers with a consistently superior service experience and improve our operating performance. To achieve this, we are focusing our efforts on five imperatives: supporting safe and engaged employees, growing equipment and parts market share in non-mining sectors, transforming our supply chain, increasing profitability of our service operations, and improving our asset performance.”*

Juan Carlos Villegas, *President, Finning Canada and COO, Finning International*

## 2013 Financial Highlights

- Revenues grew by 2% to \$3.4 billion. Higher product support revenues more than offset an 8% decline in new equipment sales due to reduced capital spending by mining customers
- Product support revenues rose by 11%, reflecting a full-year of revenues from shovels and drills as well as modest organic growth
- EBIT increased by 14% to \$263 million. Excluding a \$9.7 million gain on the sale of property in 2012, EBIT was up by 19% and EBIT margin improved to 7.8% from 6.8% in 2012
- Invested capital decreased by about \$100 million from 2012, mostly as a result of improved working capital, lower accounts receivable and reduced equipment inventory

\$ millions except where specified	2013	2012 <sup>1</sup>	2006-2013 average values
EBIT	263	231	
EBIT margin - %	7.8	7.1	7.1
Invested capital	1,488	1,589	
Invested capital turnover - x (times)	2.0	2.2	2.3
Return on invested capital - %	15.9	15.7	16.8



<sup>1</sup> Restated to reflect adoption of the amendments to IAS 19, Employee Benefits

# FINNING OPERATIONS - CANADA

## OPERATIONAL FOCUS

Finning Canada has a significant opportunity to achieve a higher return on invested capital through improving EBIT performance (measured by EBIT margin) and capital efficiency (measured by invested capital turnover).

Initiatives to increase EBIT are primarily focused on growing market share and improving profitability of service operations. The targeted reduction in invested capital will be driven through the transformation of the supply chain and improvements in asset utilization.

### MARKET LEADERSHIP

- Core equipment market share
  - Increasing sales coverage and participation rates
  - Improving customer experience through better equipment availability and forecasting accuracy
  - Introducing new products
- Parts market share
  - Improving parts availability and mix
  - Monitoring customer asset performance to predict future parts needs
- Power systems
  - Improving participation and seizing opportunities
  - Leveraging global collaboration among regions

### SERVICE EXCELLENCE

- Improving parts availability through supply chain efficiencies
- Implementing consistent service delivery model in all branches - standard processes for quoting, planning, service rates and definitions, roles and responsibilities
- Enhancing competencies and technical skills

### SUPPLY CHAIN

- Transforming parts warehouse and distribution network to reduce lead times and transfer points
- Consolidating transportation services to optimize delivery routes and frequency
- Introducing central inventory management function and standard parts warehouse processes

### ASSET UTILIZATION

- Optimizing allocation of work across facilities
- Capacity to grow the business without having to make significant investments

## Pulling Together for Emergency Response

When catastrophic flooding devastated southern Alberta in late June, Finning and Cat rental store employees pulled together to care for our customers and showcase their spirit of generosity. Through employee giving, along with corporate donations from Finning and the Caterpillar Foundation, we were able to contribute \$170,000 to provide relief for the flood impacted areas in southern Alberta.

The financial donation supported two worthwhile causes: the Red Cross to help with the immediate needs of residents, and the Flood Rebuilding Fund to assist with the longer-term needs in Calgary, Canmore, High River and surrounding First Nation communities.

In addition to the monetary contribution, Finning partnered with its customers and mobilized equipment and personnel required for all facets of the recovery and relief efforts. Finning and Cat Rental Store employees assisted with flood response through the deployment of a wide range of products and services such as generators, pumps, fans and light towers, as well as technicians to keep emergency management organizations and customers operating throughout Calgary, High River and Medicine Hat. Efforts included restoring power to City Hall, rebuilding the Calgary Stampede track, and assisting in the long-term clean-up.

## FINNING OPERATIONS - SOUTH AMERICA

Headquartered in Santiago, Chile, Finning's South American operations employ about 7,500 people throughout Chile, Argentina, Bolivia and Uruguay. In 2013, about 80% of Finning's revenue in South America was generated in Chile, approximately 15% of revenue came from Argentina, and the remaining business was split between Bolivia and Uruguay. The key markets served by Finning South America are mining (primarily copper), construction and power systems.

*"After record equipment deliveries to the mining industry in 2013, we expect slower rate of growth in 2014. While new equipment sales across most sectors are projected to decline, we expect our product support business in mining to grow as the fleets age and production levels are maintained. We will manage our customer centric business with a view to drive sustainable and profitable growth."*

Marcello Marchese, *President, Finning South America*

### 2013 Financial Highlights

- Revenues increased by 5% to \$2.5 billion
- New equipment sales were 3% lower, as record mining deliveries were more than offset by the decline in construction activity in Chile and Argentina
- Product support revenues grew by 14%, driven by continued demand from mining and a full-year of revenues from shovels and drills
- EBIT rose by 4% to \$249 million, and EBIT margin of 9.9% was consistent with 2012
- A \$93 million increase in invested capital from 2012 was largely due to the impact of the weaker Canadian dollar on working capital items. In functional currency (US dollar), invested capital was similar to 2012

\$ millions except where specified	2013	2012 <sup>1</sup>	2006-2013 average values
EBIT	249	239	
EBIT margin - %	9.9	9.9	9.8
Invested capital	1,391	1,298	
Invested capital turnover - x (times)	1.8	2.0	2.1
Return on invested capital - %	17.6	19.7	20.8

<sup>1</sup> Restated to reflect adoption of the amendments to IAS 19, Employee Benefits



# FINNING OPERATIONS - SOUTH AMERICA

## OPERATIONAL FOCUS

An efficient supply chain is a critical contributor to our customer value proposition in South America, particularly given the long distances from Caterpillar's sources of supply. Our supply chain initiatives are focused on targeted improvements in end-to-end planning processes and working capital management, particularly inventory.

### CORE (non-mining) EQUIPMENT MARKET SHARE

- Improving sales coverage through increasing the dedicated core equipment sales force, developing a detailed competitive analysis by territory and product and integrating the sales and operations planning process
- Improving the service experience for our customers
- Strengthening the product line-up

### PARTS MARKET SHARE IN SHOVELS AND DRILLS

- Managing shovels and drills with dedicated focus and distinctive resources
- Improving parts and component inventory performance

### Raising the Bar

Our commitment towards training and development is a fundamental building block of our operations. From on-the-job training initiatives, e-learning to external programs, Finning actively supports training and development to meet our business goals and deliver on our customers' expectations.

In line with this commitment, we announced the opening of a new training facility that raises the bar for industry training and contributes to employment opportunities in Antofagasta, Chile. The Finning Technical Institute opened its doors on July 19, 2013. The Institute offers training to Finning employees, youths interested in pursuing a career in equipment repair and maintenance, as well as customers' employees.

Representing a \$12 million investment by Finning, the Institute provides practical hands-on experience while highlighting the fundamental importance of safety, innovation and excellence. The 9,350 square meter, three-story facility replicates real working conditions and houses a workshop, 18 classrooms, 9 laboratories and 8 equipment simulators.

In addition, the building features environmentally sustainable features, including energy efficiency and water conservation technology.

## FINNING OPERATIONS - UK & IRELAND

Headquartered in Cannock, England, Finning's UK & Ireland operations employ about 1,700 people across England, Scotland, Wales, Northern Ireland and the Republic of Ireland. The UK & Ireland operations serve a very diverse range of markets through the Equipment Solutions and Power Systems divisions. The Equipment Solutions' principal customers operate in coal mining, quarrying, re-handling (recycling and waste management), infrastructure and general construction, plant hire, as well as other industrial segments. The Power Systems division provides services to a wide spectrum of power and energy markets, including industrial, oil & gas, marine, water treatment and other applications.

*"We are achieving outstanding customer loyalty through the transformation of the UK & Ireland business to capture value-added opportunities in a highly segmented and competitive market. Our market segmentation strategy in Equipment Solutions allows us to capture market share; and our advanced expertise in Power Systems enables us to win the deals where we add the most value to customers and grow our product support. As we are executing with operational discipline, our focus remains on supply chain efficiencies and cost control to continue generating a solid return on invested capital."*

Neil Dickinson, *Managing Director, Finning UK & Ireland and EVP, Global Power Systems*

### 2013 Financial Highlights

- Revenues declined by 2% to \$884 million, largely due to lower new equipment sales to the coal mining sector. Product support revenues grew by 4%
- EBIT of \$43 million was 5% below 2012, primarily as a result of the \$5.5 million write-off of previously capitalized ERP implementation costs in Q4 2013. EBIT margin of 4.9% was comparable to the prior year
- A slight increase in invested capital was mostly due to the impact of the weaker Canadian dollar. In functional currency (UK pound), invested capital declined from the prior year, reflecting lower equipment inventory

<b>\$ millions</b> except where specified	<b>2013</b>	<b>2012<sup>1</sup></b>	<b>2006-2013</b> average values
EBIT	43	45	
EBIT margin - %	4.9	5.0	4.5
Invested capital	265	260	
Invested capital turnover - x (times)	3.4	3.3	2.8
Return on invested capital - %	16.4	16.3	12.6

<sup>1</sup> Restated to reflect adoption of the amendments to IAS 19, Employee Benefits

# FINNING OPERATIONS - UK & IRELAND

## OPERATIONAL FOCUS

### EQUIPMENT SOLUTIONS

- The UK and Ireland operations have successfully segmented the equipment market to be able to grow share and the product support business. The Company is well positioned to capture opportunities for large equipment in the heavy construction, quarrying, coal mining and waste and recycling markets
- The UK team has been successful in growing market share in building construction product through its multi-channel approach to the small machine market
- In addition to operating its own rental business, the UK dealership sells equipment to plant hire or rental houses, as the UK customers commonly rent equipment. An increase in residential and general construction activity is expected to continue to drive strong sales to the plant hire sector

### POWER SYSTEMS

- The Power Systems group continues to develop its expertise in power and energy solutions, including water treatment, waste and recycling, oil & gas, marine and industrial power generation. The UK's Power Systems division is recognized by Caterpillar for its outstanding capabilities, and has been supporting Finning's operations in South America and Canada with renewable energy and large power projects

### Finning Scoops Safety Award for Second Year Running

For the second year running, Finning celebrated being awarded the Royal Society for the Prevention of Accidents (RoSPA's) Engineering Services Industry Sector Award for Occupational Health & Safety. This is significant recognition from RoSPA and is particularly significant as Finning is the only company to win this award for two years running. 2012 also saw the company win the prestigious Sir George Earle Trophy, the highest health & safety accolade awarded by RoSPA.

The Engineering Services Sector award was presented at a ceremony at the Hilton Birmingham Metropole Hotel, at the National Exhibition Centre.

Head of Health & Safety for Finning Keith Oakes commented: "We were absolutely delighted to once again receive the highest possible health and safety accolade in our Industry sector. This award acknowledges our ongoing commitment and dedication to achieving our Strategic Imperative 'to be recognised in the Caterpillar world and the Industries we serve as the leader in Health and Safety'."

The Royal Society for the Prevention of Accidents (RoSPA) is a safety charity. The awards program looks not only at accident records, but also entrants' overarching health and safety management systems, including important practices such as strong leadership and workforce involvement.

David Rawlins, RoSPA's awards manager, said: "RoSPA firmly believes that organisations that demonstrate commitment to continuous improvement in accident and ill health prevention deserve recognition. Finning has shown that it is committed to striving for such continuous improvement and we are delighted to honour it through the presentation of an award."



# WORKPLACE, ENVIRONMENT & COMMUNITY

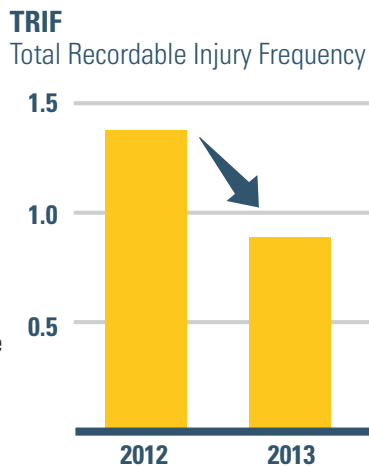
## Safety

Finning is committed to the safety of its employees and works hard to actively build on our safety culture. While safety is a core value across our operations and a major focus of the Board and management, we are saddened to report that we had two work-related employee fatalities in 2013. These fatalities serve as a tragic reminder that there is always more we need to do in this area and further drives us in our commitment towards our goal of a zero injury workplace. In alignment with this goal, we established a new executive role in 2013 that will provide strategic oversight and coordination across our operations to support safety excellence.

Our rigorous, company-wide dedication to safety is underscored by employee accountability, management commitment and leadership, open communication, training, prevention and continuous improvement of the safety of our operations. All of our sites track, analyze and report their safety performance with industry-standard key performance indicators that enable us to implement preventive action across our company to address the risks we identify.

As part of our commitment towards ongoing improvement in our safety processes, we continued to implement a number of new safety initiatives throughout our operations in 2013. Leadership safety training that focused on the psychology of safety was developed to help equip our Canadian operation leaders with a better understanding of the behavioural aspects of safety. As hand injuries are amongst the most common safety incidents, our South American operations launched the 'working together for the care of our hands' campaign to educate employees on ways to prevent hand injuries and sensitize them to the importance of injury prevention. The UK and Ireland operations took a highly impactful storytelling approach as part of their 'risk perception and risk tolerance' campaign which featured employees relating their own personal experiences and what they have learned as a result.

Supported by such new programs and processes, our total recordable injury frequency (TRIF) rate was 30 per cent lower in 2013 compared to 2012 – 0.99 in 2013 versus 1.40 in 2012. TRIF, which measures safety incidents that may or may not lead to absence from work, is one of the key metrics we use to monitor and deliver on our safety goals.



## Employee Engagement

One of the ways that Finning works towards creating a winning workplace is through the annual employee opinion survey process. The survey, which is offered by Caterpillar to all of its dealers, seeks employee feedback on a wide range of topics and assesses our progress in making improvements in the workplace. In response to the feedback gathered, employees work to create and implement action plans to address priority areas across the company.

In 2013, we obtained an 85 per cent response rate to the company-wide survey. This high response rate is comparable to our 2012 survey and is a good indication that our employees are engaged and believe their feedback is valuable. Compared to last year's results, we showed improvement on almost all measures. In comparison to other Caterpillar dealers, Finning scored at or higher than the dealer average in almost every category.

Reflecting our strong safety commitment, safety scored in the top 10 per cent of global organizations with employees giving high scores to resolving issues effectively, regular reinforcement of safe behaviours, holding employees accountable for creating and maintaining a safe workplace, and the company's commitment to employee safety. The results also showed that we have been successful in communicating our company's core values and fostering a workplace where people's actions are guided by: caring for each other's safety and well-being, communicating openly, taking responsibility, empowering and trusting one another, and doing our best.



In light of the opportunities to strengthen what is working well and address areas of improvement, leaders will work with their workgroups to foster discussions, identify priority areas and develop and implement targeted initiatives across the organization. Improving the workplace is an ongoing effort at Finning that all employees contribute towards and this survey provides the company with a powerful tool to do so.

## Community Giving

At Finning, we have a long history of investing in our communities. In 2013, we continued this legacy of giving by supporting a number of organizations and programs where our employees live and work.

This year's United Way campaign was the company's best, raising \$1.6 million through employee events and donations along with the corporate match. Dedicated to addressing key social issues, the United Way supports programs and services that significantly change lives and social conditions with a focus on education, income and wellness.

## WORKPLACE, ENVIRONMENT & COMMUNITY

During 2013, Finning employees across the company's Canadian locations took part in the annual campaign demonstrating their strong support for the community and a central company value, "we care".

The company's participation in the "Walk a Mile in Her Shoes" fundraiser was another highlight in 2013. Twenty-eight Finning men from across Edmonton put on a pair of fashionable high heels and collected pledges to participate in the YWCA event which helps women and children escape family violence. This marked Finning's second year participating in the event and the second year that we won honours as the "Top Fundraising Team" with the team collecting \$14,000 in pledges. In total, the event raised over \$80,000 for family violence prevention programs.

As a significant employer in the Fort McMurray area, Finning Canada committed \$200,000 over four years to the Northern Lights Health Foundation to fund an aboriginal health liaison role in the community for Alberta Health Services (AHS). The position helps promote awareness of programs and services available to the aboriginal community in Fort McMurray and assists in ensuring these programs and services are accessible. The role aligns well with the company's focus on health and safety and is a long-term investment in improving healthcare and promoting healthy lifestyles.

Together with the Make a Wish foundation in Chile, Finning helped fulfill the dream of Emilio, a two-year old from the city of Antofagasta. Emilio, who had been hospitalized for nine months with blood cancer, had his wish to drive in a Caterpillar truck fulfilled with the help of employees at our Lo Boza branch in Santiago. The mission of the Make-A-Wish foundation is to grant the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength and joy.

In the UK and Ireland operations, the "Finning Giving" initiative was launched encompassing three components. Employees may apply for sponsorship for any charitable activity they wish to undertake, or a sports sponsorship for a team which they or a family member are involved. Thirdly, employees may apply for community leave to volunteer their time to assist with local causes. Examples included assisting an outreach center for adults with learning difficulties achieve their "Gold Duke of Edinburgh Award" which recognizes adolescents and young adults for completing a series of self-improvement exercises. Alongside the "Finning Giving" activity, four employee charity events were held to raise funds for the following national UK charities: the BBC's Children in Need, Comic Relief, Breast Cancer Campaign's Wear it Pink and men's health charity, Movember.

### Environment

In 2013, Finning continued its efforts to reduce the impact of our operations on our global environment. To support us in this commitment, the company ensures adherence to the following six principles:

1. adopting management practices and procedures which meet and exceed the environmental standards of each community;
2. identifying, assessing and minimizing environmental risk through a regular audit program;
3. training employees on changes to environmental laws and regulation;
4. working with suppliers who have high environmental standards and practices and routinely audit their performance;
5. establishing and maintaining environmentally acceptable methods for managing waste, reusing and recycling materials;
6. ensuring that any future development of our facilities reflect our commitment to environmental issues and incorporate energy efficient solutions

Our commitment to the environment also extends to our products and services. In partnership with Caterpillar, we are proud to offer advanced technology that enhances equipment efficiency. We also offer operator training to assist customers in achieving significant reductions in fuel consumption.

In addition, our development of energy efficient solutions, such as remanufacturing and power systems technologies, provides us with a unique way to contribute towards environmental sustainability. Our power systems business has a proven track record in delivering fuel-efficient technology and renewable power solutions.

Keeping nonrenewable resources in circulation for multiple lifetimes through remanufacturing is one of the ways we contribute to sustainable development. Using state-of-the-art processes, our remanufacturing activities reduce environmental impacts by reducing waste and minimizing the need for raw materials to produce new parts and at the same time provide world-class quality and cost-effective component and equipment options for our customers.





# BOARD OF DIRECTORS



**Douglas W. G. Whitehead**

British Columbia, Canada  
 Director since: 1999  
 Chairman of the Board of Directors



**Ricardo Bacarreza**

Santiago, Chile  
 Director since: 1999



**James E.C. Carter**

Alberta, Canada  
 Director since: 2007



**Hon. David L. Emerson PC, OBC**

British Columbia, Canada  
 Director since: 2008



**Kevin A. Neveu**

Alberta, Canada  
 Director since: 2013



**Kathleen M. O'Neill**

Ontario, Canada  
 Director since: 2007



**Christopher W. Patterson**

Florida, United States  
 Director since: 2010



**John M. Reid**

British Columbia, Canada  
 Director since: 2006



**Andrew H. Simon, OBE**

Bougy-Villars, Switzerland  
 Director since: 1999



**L. Scott Thomson**

British Columbia, Canada  
 Director since: 2013



**Michael M. Wilson**

Alberta, Canada  
 Director since: 2013

# EXECUTIVE OFFICERS

**L. Scott Thomson**

President and Chief Executive Officer,  
Finning International Inc.

**David W. Cummings**

Senior Vice President and Chief Information Officer,  
Finning International Inc.

**Neil Dickinson**

Managing Director, Finning UK & Ireland  
and Executive Vice President, Global  
Power Systems

**Andrew S. Fraser**

Executive Vice President,  
Customer and External Relations,  
Finning International Inc.

**Marcello Marchese**

President, Finning South America

**Anna P. Marks**

Senior Vice President and acting  
Chief Human Resources Officer,  
Finning International Inc.

**Tom M. Merinsky**

Vice President, Treasurer,  
Finning International Inc.

**J. Gail Sexsmith**

Corporate Secretary,  
Finning International Inc.

**David S. Smith**

Executive Vice President and  
Chief Financial Officer,  
Finning International Inc.

**Juan Carlos Villegas**

President, Finning Canada and  
Chief Operating Officer,  
Finning International Inc.



# FOUR YEAR FINANCIAL SUMMARY

FOR YEARS ENDED DECEMBER 31	2013	2012	2011	2010
<b>OPERATING RESULTS</b>				
(\$ thousands)				
Revenue from continuing operations <sup>(1)(2)(3)</sup>				
Canada	\$ 3,357,881	\$ 3,277,660	\$ 2,943,738	\$ 2,267,742
South America <sup>(3)</sup>	2,514,458	2,397,071	2,120,072	1,668,438
UK & Ireland	883,655	900,893	831,100	648,425
<b>Total consolidated</b>	<b>\$ 6,755,994</b>	<b>\$ 6,575,624</b>	<b>\$ 5,894,910</b>	<b>\$ 4,584,605</b>
Earnings from continuing operations before finance costs and income tax (EBIT) <sup>(1)(2)(4)</sup>	\$ 520,718	\$ 488,576	\$ 374,251	\$ 286,576
As a percent of revenue (EBIT margin)	7.7%	7.4%	6.3%	6.3%
Net income from continuing operations <sup>(1)(2)(4)</sup>	\$ 335,255	\$ 326,774	\$ 251,404	\$ 175,552
As a percent of revenue	5.0%	5.0%	4.3%	3.8%
Free cash flow	\$ 440,681	\$ (37,432)	\$ (220,796)	\$ 262,458
<b>RATIOS</b>				
Net debt to invested capital	40.8%	50.0%	42.0%	35.3%
Invested capital turnover	2.0x	2.2x	2.5x	2.4x
Return on average shareholders' equity <sup>(1)(2)(4)</sup>	19.7%	22.8%	19.7%	15.9%
Return on invested capital	15.7%	16.5%	16.0%	15.3%
<b>SHARE AND PER SHARE DATA</b>				
Earnings per common share from continuing operations <sup>(1)(2)(4)</sup>				
Basic	\$ 1.95	\$ 1.90	\$ 1.47	\$ 1.03
Diluted	\$ 1.94	\$ 1.90	\$ 1.46	\$ 1.02
Dividends per common share	\$ 0.5975	\$ 0.55	\$ 0.51	\$ 0.47
Common Share Price				
High	\$ 27.68	\$ 29.97	\$ 30.25	\$ 27.40
Low	\$ 20.37	\$ 21.68	\$ 18.55	\$ 16.54
Year end	\$ 27.15	\$ 24.57	\$ 22.21	\$ 27.09
Common shares outstanding (thousands)	172,014	171,910	171,574	171,431
<b>NUMBER OF EMPLOYEES <sup>(5)</sup></b>				
Canada	5,698	6,061	5,435	4,408
South America	7,463	7,422	6,453	5,907
UK and Ireland	1,677	1,814	1,626	1,533
Head Office	86	85	78	73
<b>Total</b>	<b>14,924</b>	<b>15,382</b>	<b>13,592</b>	<b>11,921</b>
Revenue from continuing operations per employee <sup>(1)(2)(3)</sup>	\$ 452,693	\$ 427,488	\$ 433,704	\$ 384,582
Net income from continuing operations per employee <sup>(1)(2)(4)</sup>	\$ 22,464	\$ 21,244	\$ 18,496	\$ 14,726

## These results have been prepared in accordance with International Financial Reporting Standards (IFRS).

- In 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of Canada, South America and in the U.K. In addition, the Company acquired Damar, an engineering company specializing in the water utility sector in the U.K. In 2010, the Company was appointed the Caterpillar dealer for Northern Ireland and the Republic of Ireland. The results of operations and financial position of these businesses have been included in the figures above since the date of acquisition.
- In 2010, the Company sold Hewden Stuart Limited (Hewden), its U.K. equipment rental business. Results from that operation have been reclassified to discontinued operations for the year ended December 31, 2010. Therefore, revenue, EBIT, net income, earnings per common share, and return on average shareholders' equity reflect results from continuing operations for that year.
- The Company's South American operations began to export an agricultural product from Argentina in 2012 in response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange. In 2013, the Company reclassified the export revenues and expenses to other income and other expenses and have restated the results for the year ended December 31, 2012.
- In 2013, the Company retrospectively applied the amendments to IAS 19, Employee Benefits to January 1, 2010, the date of IFRS adoption and have restated the results for the years ended December 31, 2012, 2011, and 2010.
- Number of employees includes all employees up to the point of sale or since acquisition.

# SHAREHOLDER INFORMATION

**Corporate Information**

Finning prepares an Annual Information Form which is filed with the securities commission. The Annual Information Form and quarterly reports are available on the Investors section of [www.finning.com](http://www.finning.com)

**Corporate Governance Information**

Please refer to Finning’s management proxy circular in connection with the 2014 Annual Meeting of Shareholders and the Governance section of Finning’s website for a full discussion of Finning’s corporate governance and corporate policies and practices.

**Code of Conduct**

One important way that Finning promotes our values and communicates the behaviours and actions expected from our employees is through our Code of Conduct. The Code provides a common set of principles and key policies to help guide day-to-day behaviour in support of our values. All employees are required to review the Code and affirm that they understand their role in upholding Finning’s ethical standards. The Code of Conduct is available in the Governance section of [www.finning.com](http://www.finning.com)

**Annual General Meeting**

May 13, 2014  
 2:00 pm Pacific Time  
 Terminal City Club  
 837 West Hastings Street  
 Vancouver, British Columbia

**Investor Contact Information**

For inquiries related to Finning’s operating activities and financial performance:  
 Mauk Breukels  
 Vice President, Investor Relations and Corporate Affairs  
 604-331-4934  
[investor\\_relations@finning.ca](mailto:investor_relations@finning.ca)

For inquiries related to shares or dividends, please contact our transfer agent, Computershare Investor Services Inc.

**Company name:** Finning International Inc.

**Exchange:** Toronto Stock Exchange (TSX)

**Symbol:** FTT

**Filings:** SEDAR

**Head office**

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 Telephone: 604-691-6444  
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 Website: [www.finning.com](http://www.finning.com)

**Auditors**

Deloitte LLP

**Solicitors**

Borden Ladner Gervais LLP

**Transfer Agent and Registrar**

Computershare Investor Services Inc.  
 Phone: 1-800-564-6253 (North America)  
 514-982-7555 (International)  
 Email: [service@computershare.com](mailto:service@computershare.com)  
 Website: [www.computershare.com](http://www.computershare.com)



# FORWARD LOOKING STATEMENT

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include words such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy and associated impact on the Company's financial results; expected revenue; EBIT margin; ROIC; market share growth; expected results from service excellence action plans; anticipated asset utilization, inventory turns and parts service levels; and the expected target range of the Company's net debt to invested capital ratio. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at February 19, 2014. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, Finning cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's dependence on the continued market acceptance of Caterpillar's products and Caterpillar's timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenues occur; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources to meet growing product support demand; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; the integrity, reliability, availability and a

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

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

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date hereof. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. Finning therefore cannot describe the expected impact in a meaningful way or in the same way Finning presents known risks affecting its business.