

**Finning Reports Q1 2014 Results**

**Vancouver, B.C.** – Finning International Inc. (TSX: FTT) reported first quarter 2014 results today (all monetary amounts are in Canadian dollars unless otherwise stated).

**Q1 2014 HIGHLIGHTS**

- Revenues rose by 7% to \$1.7 billion as higher revenues in Canada and the UK & Ireland more than offset the decline in South America.
- Product support revenues increased by 9% to record levels driven by improved demand for parts in Canada, mostly in mining.
- Earnings before finance costs and income taxes (EBIT)<sup>(1)</sup> of \$111 million was 5% below Q1 2013, reflecting lower sales volumes in South America and lower gross profit margins in Canada.
- Basic earnings per share (EPS) declined to \$0.39 from \$0.43 in Q1 2013, reflecting a lower EBIT and a higher effective tax rate.
- The order backlog<sup>(1)</sup> of \$1.3 billion at the end of Q1 was up by approximately 45% from \$0.9 billion at the end of December 2013, driven primarily by record order intake in Canada, including an equipment order for \$260 million from an existing oil sands producer for a fleet expansion.
- The Company raised its dividend to a level which represents an annualized dividend increase of 10 cents to 71 cents per share, reflecting confidence in operating performance and the expectation for strong free cash flow generation in 2014 and beyond.

“Overall, we generated solid top-line growth and increased our order backlog by over 45 percent. Strength in Canada and the UK and Ireland offset market softness in South America,” said Scott Thomson, president and chief executive officer of Finning International. “The market environment in South America is looking more challenging than we first thought and we expect that to continue through 2014. However, I am pleased that our team in South America is focused on what they can control, namely costs and invested capital. Costs were reduced significantly and profitability was maintained. For the remainder of the year, the team will be focused on reducing invested capital and costs to match current demand.”

“In Canada, I was pleased with our revenue growth during the quarter but our profitability was impacted by higher new equipment sales in the revenue mix and a higher proportion of sales that were lower margin mining machines. While higher sales activity drove an increase in invested capital and negative free cash flow, we were still able to modestly improve capital efficiency. For the remainder of the year, we continue to expect significant free cash flow generation. We also recognize the importance of improving profitability in our Canadian operations and our operational excellence agenda is focused on reducing the cost structure and increasing the profitability margins in this region,” continued Scott Thomson. “Reflecting the confidence we have in our ability to improve our operating performance and generate strong free cash flow, I am pleased to announce that we increased our annualized dividend by 10 cents or slightly more than 15 percent.”

## Q1 2014 FINANCIAL SUMMARY

\$ millions, except per share amounts	Three months ended Mar 31		
	2014	2013	% change
Revenue	<b>1,676</b>	1,560	7
EBIT	<b>111</b>	117	(5)
<i>EBIT margin</i>	<b>6.6%</b>	7.5%	
Net income	<b>68</b>	73	(8)
Basic EPS	<b>0.39</b>	0.43	(8)
EBITDA <sup>(1)</sup>	<b>166</b>	169	(2)
Free cash flow <sup>(1)</sup>	<b>(134)</b>	(93)	(44)

- Revenues rose by 7% from Q1 2013 to \$1.7 billion as higher revenues from Canada and the UK & Ireland more than offset the revenue decline in South America. Product support revenues grew by 9%, driven by Canada. New equipment sales increased by 8%, reflecting strong market activity in Canada and the UK & Ireland. Rental revenues declined by 6% with a slower start to the year in all operations. Used equipment sales were down slightly.
- Gross profit was flat relative to Q1 of last year as gross profit margin<sup>(1)</sup> declined to 29.8% from 32.0% in Q1 2013. In South America, lower gross profit from volume reductions was partially offset by a shift in revenue mix to a higher proportion of product support. In Canada, the increase in sales volumes included a higher percentage of new equipment sales in the revenue mix and a greater proportion of lower-margin mining equipment sales, which were the main contributors to a lower gross profit margin. Also negatively impacting gross profit in all operations were lower revenue and gross profit from rental.
- Selling, general and administrative (SG&A) expenses were slightly above Q1 2013. In Canada, volume-related increases, higher provision adjustments in Q1 2013 and a negative impact from the weaker Canadian dollar were partly offset by workforce reductions and improvements from operating efficiencies. In South America and the UK & Ireland, SG&A expenses were lower in functional currencies.
- EBIT declined to \$111 million from \$117 million in Q1 2013 due to lower sales volumes in South America reflecting soft market conditions, and slightly lower EBIT in Canada where higher sales volumes were more than offset by lower gross profit margins. Also contributing to an EBIT decrease was \$2 million in lower equity earnings from joint venture and associate. Consolidated EBIT margin of 6.6% was below 7.5% in Q1 2013, driven mainly by the reduced gross profit margin.
- Net income decreased by 8% to \$68 million and basic EPS of \$0.39 was 8% below \$0.43 in Q1 2013, primarily due to lower EBIT. Provision for income taxes was negatively impacted by taxable foreign exchange gains on U.S. dollar denominated net assets in Argentina from the devaluation of the Argentine peso. As a result, the effective tax rate was 24.8%, up from 23.2% in Q1 2013.

\$ millions	Q1 2014	Q4 2013
Invested capital	<b>3,414</b>	3,138
Return on invested capital <sup>(1)</sup>	<b>15.4%</b>	15.7%

- Invested capital increased by \$276 million from Q4 2013, primarily driven by higher working capital in Canada, mostly equipment inventory and account receivable associated with growth in sales volumes. Consolidated parts inventory was similar to Q4 2013 levels despite 7% growth in product support from Q4 2013, reflecting continued focus on supply chain optimization across all operations. A weaker Canadian dollar resulted in approximately \$65 million increase in consolidated invested capital compared to Q4 2013. In functional currencies, invested capital declined by about US\$2 million in South America and increased by approximately £10 million in the UK & Ireland from Q4 2013. Return on invested capital of 15.4% was slightly below Q4 2013 due lower EBIT and slightly

higher invested capital over the last four quarters. However, invested capital turnover of 2.1 times improved slightly from 2.0 times in Q4 2013, driven by Canada.

- Free cash outflow was \$134 million due to higher working capital in Canada and the UK & Ireland in response to strong customer demand.
- Net debt to invested capital was 42.9% at the end of March 2014, compared to 40.8% at the end of December 2013, and remains within the Company's 35-45% target range.

### ***Backlog***

- The order backlog was \$1.3 billion at the end of March 2014, up from \$0.9 billion at the end of December 2013 and \$1.1 billion at the end of March 2013. An increase in backlog reflected record order intake in Canada in Q1, which included a \$260 million mining equipment order from an existing oil sands customer for a fleet expansion, as well as strong order intake in the UK & Ireland. In South America, the order intake weakened as a result of slower market activity in mining and construction.

## **Q1 2014 HIGHLIGHTS BY OPERATION**

### ***Canada***

- Revenues were up 18% driven by improved market activity in Western Canada compared to Q1 of last year. New equipment sales rose by 35%, driven primarily by mining. Product support revenues increased by 13% reflecting stronger demand for parts across all sectors, most notably in mining. Rental revenues declined by 5% reflecting softer rental markets compared to Q1 of last year.
- EBIT of \$54 million was down 5%, and EBIT margin declined to 6.0% from 7.5% in Q1 2013. Gross profit was only slightly higher as gross profit margins declined compared to Q1 of last year. The margin reduction is primarily due to a higher percentage of new equipment sales in the revenue mix (38.1% vs. 33.4% in Q1 2013), a higher proportion of lower-margin mining equipment sales and an increase in lower-margin mining and power systems parts sales. Gross profit was also negatively impacted by a decrease in rental gross profit from lower volumes and higher positive equipment cost adjustments in Q1 2013. SG&A expenses were marginally higher as volume-related increases, higher provision adjustments in Q1 2013 and a negative impact of the weaker Canadian dollar were partly offset by cost savings from workforce reductions and service-related operating efficiencies.
- Invested capital rose by \$195 million from the end of December, driven by higher equipment inventory and accounts receivable, reflecting increased sales volumes. Although the invested capital was higher, invested capital turnover improved marginally from Q4 2013.

### ***South America***

- Revenues declined by 10% (down 18% in functional currency - USD) reflecting weaker market conditions in the region compared to Q1 2013. New equipment sales were down 30% in functional currency, mostly as a result of slower mining and construction activity. While mining production levels remained steady in Q1, demand for equipment replacement and additional fleets was impacted by the lower copper price environment. Product support revenue was down 7% in functional currency. This was primarily due to lower service revenues in the mining sector where customers continue to focus on reducing costs. Reduced demand for parts was driven by the construction sector, where equipment utilization levels have declined.
- EBIT was \$50 million compared to \$57 million Q1 2013 (down 21% in functional currency) reflecting lower revenues and gross profit. SG&A costs were down 9% in functional currency as a result of lower sales volumes and actions taken to reduce costs, which were partly offset by higher service-related expenses and severance costs. In response to decreased activity levels, the South American operations reduced its workforce by 240 employees from the end of 2013, and by about 330 people from the peak level in the summer of 2013. The Company will continue to reduce costs and invested capital in South America as

necessary to align with expected activity levels and maintain profitability. The EBIT margin of 9.0% was slightly below 9.3% a year ago.

- Invested capital declined by US\$2 million in functional currency from Q4 2013, including reduced equipment inventory due to slower demand and improved inventory management. However, the weakening Canadian dollar against the U.S. dollar resulted in a \$53 million increase in invested capital in South America compared to Q4 2013.

### ***United Kingdom & Ireland***

- Revenues increased by 23% (up 5% in functional currency - GBP) driven by higher new equipment sales in the construction sector, while product support business remained stable. In functional currency, new equipment sales and product support grew by 8% and 1%, respectively, compared to Q1 of last year.
- EBIT of \$12 million was \$2 million higher compared to Q1 2013. In functional currency, EBIT was down marginally, reflecting a slight decline in gross profit due to a higher proportion of new equipment sales in the revenue mix. SG&A costs were lower in functional currency compared to last year while revenues grew. EBIT margin of 4.9% was below 5.4% a year ago, mainly due to the revenue mix.
- Invested capital increased by approximately £10 million in functional currency and \$31 million in Canadian dollars compared to Q4 2013, reflecting higher equipment inventory to meet anticipated demand.

## **CORPORATE AND BUSINESS DEVELOPMENTS**

### **Dividend**

The Board of Directors has approved a \$0.025 increase in the quarterly dividend to \$0.1775 per share from \$0.1525 per share, payable on June 12, 2014 to shareholders of record on May 29, 2014. This dividend will be considered an eligible dividend for Canadian income tax purposes.

### **Board of Directors nominations**

On April 4, Finning announced that Marcelo Awad and Nicholas Hartery had been nominated to stand for election to the Company's Board of Directors at the Annual Meeting of Shareholders scheduled to be held on May 13, 2014. Mr. Awad is an experienced mining industry executive who was previously the president and chief executive officer of Antofagasta Minerals for over seven of his sixteen years with the company. Prior to joining Antofagasta Minerals, Mr. Awad spent eighteen years with Codelco in progressively senior positions in London and Chile. Mr. Hartery is Chairman of CRH plc, one of the world's leading building materials companies with operations in 35 countries, where he has been a non-executive director since 2004. From 2000 to 2008, Mr. Hartery was vice president of manufacturing and business operations for Dell Inc.'s Europe, Middle East and Africa operations.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**  
**(C\$ millions, except per share amounts)**

	<b>Three months ended Mar 31</b>		
	<b>2014</b>	2013	% change
Revenue			
New equipment	<b>692.8</b>	643.9	8
Used equipment	<b>58.9</b>	60.1	(2)
Equipment rental	<b>87.5</b>	93.0	(6)
Product support	<b>830.2</b>	761.3	9
Other	<b>6.8</b>	1.6	
<b>Total revenue</b>	<b>1,676.2</b>	1,559.9	7
Gross profit	<b>499.1</b>	498.4	0
<i>Gross profit margin</i>	<b>29.8%</b>	32.0%	
SG&A	<b>(388.2)</b>	(382.0)	(2)
<i>SG&amp;A as a percentage of revenue</i>	<b>(23.2)%</b>	(24.5)%	
Equity earnings of joint venture and associate	<b>0.7</b>	2.8	
Other income (expenses)	<b>(0.8)</b>	(2.1)	
<b>EBIT</b>	<b>110.8</b>	117.1	(5)
<i>EBIT margin</i>	<b>6.6%</b>	7.5%	
<b>Net income</b>	<b>67.9</b>	73.4	(8)
<b>Basic EPS</b>	<b>0.39</b>	0.43	(8)
<b>EBITDA</b>	<b>165.7</b>	169.3	(2)
<b>Free Cash Flow</b>	<b>(134.2)</b>	(93.4)	(44)
	<b>Mar 31, 14</b>	Dec 31, 13	
Total assets	<b>5,353.2</b>	5,057.6	
Total shareholders' equity	<b>1,951.0</b>	1,857.8	
Net debt to invested capital <sup>(1)</sup>	<b>42.9%</b>	40.8%	
Return on invested capital <sup>(1)</sup>	<b>15.4%</b>	15.7%	

To download Finning's complete Q1 2014 results in PDF, please open the following link:  
<http://media3.marketwire.com/docs/FinningQ114results.pdf>

## **Q1 2014 RESULTS INVESTOR CALL**

The Company will hold an investor call on Wednesday, May 14 at 11:00 am Eastern Time. Dial-in numbers: 1-800-766-6630 (anywhere within Canada and the U.S.) or 416-340-8527 (for participants dialing from Toronto and overseas). The call will be webcast live and subsequently archived at [www.finning.com](http://www.finning.com). Playback recording will be available at 1-800-408-3053 from 1:00 pm Eastern Time on May 14 until May 21. The pass code to access the playback recording is 7182919 followed by the number sign.

### **ABOUT FINNING**

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for over 80 years. Finning sells, rents and provides parts and services for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, Uruguay, as well as in the United Kingdom and Ireland.

### **CONTACT INFORMATION**

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### **Footnotes**

- (1) These financial metrics do not have a standardized meaning under 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. Management's Discussion and Analysis (MD&A) includes additional information regarding these financial metrics, including definitions, under the heading "Description of Non-GAAP and Additional GAAP Measures".

## Forward-Looking Disclaimer

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; the expected target range of the Company's net debt to invested capital ratio; and the expected target range of the Company's dividend payout 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 May 13, 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 benefits from information technology and the data processed by that technology. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

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 this 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 current 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

May 13, 2014

This discussion and analysis of the financial results of Finning International Inc. (Finning or the Company) should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, and are presented in Canadian dollars unless otherwise stated. Additional information relating to the Company, including its current Annual Information Form (AIF), can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at [www.sedar.com](http://www.sedar.com).

## 2014 First Quarter Highlights

- Revenues grew by 7% to \$1.7 billion, driven by higher revenues from the Company's Canadian and UK & Ireland operations, which more than offset a reduction from the Company's South American operations.
- Product support revenues increased 9% to record levels, driven primarily by improved demand for parts in the Company's Canadian operations, particularly in the mining sector.
- EBIT<sup>(1)(2)</sup> was down 5% from the same period last year, primarily due to volume-related decreases in the Company's South American operations, where market conditions have softened, and lower gross profit margins in the Company's Canadian operations.
- Order backlog<sup>(1)</sup> was \$1.3 billion at the end of March 2014 compared to \$0.9 billion at the end of December 2013 due to record order intake in the Company's Canadian and UK & Ireland operations during the first quarter of 2014.
- Investment in inventory to meet increased order intake was the primary factor in higher working capital and invested capital levels since December 2013. Inventory investment also drove a greater use of cash compared to the first quarter of 2013, with free cash flow<sup>(1)</sup> of \$(134.2) million versus \$(93.4) million in the first quarter of 2013.
- Basic EPS<sup>(1)</sup> declined to \$0.39 from \$0.43 in the same period of 2013, reflecting a lower EBIT and a higher effective tax rate.

## Results of Operations and Financial Performance

### First Quarter Overview

	Q1 2014	Q1 2013	Q1 2014	Q1 2013
	(\$ millions)		(% of revenue)	
Revenue	\$ 1,676.2	\$ 1,559.9		
Gross profit <sup>(1)</sup>	499.1	498.4	29.8%	32.0%
SG&A <sup>(2)</sup>	(388.2)	(382.0)	(23.2)%	(24.5)%
Equity earnings of joint venture and associate	0.7	2.8	0.1%	0.2%
Other income	0.1	24.6	0.0%	1.5%
Other expenses	(0.9)	(26.7)	(0.1)%	(1.7)%
EBIT	110.8	117.1	6.6%	7.5%
Finance costs	(20.5)	(21.5)	(1.2)%	(1.4)%
Provision for income taxes	(22.4)	(22.2)	(1.3)%	(1.4)%
Net income	\$ 67.9	\$ 73.4	4.1%	4.7%
Basic EPS <sup>(2)</sup>	\$ 0.39	\$ 0.43		
EBITDA <sup>(1)(2)</sup>	\$ 165.7	\$ 169.3	9.9%	10.8%
Free Cash Flow	\$ (134.2)	\$ (93.4)		

<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 regarding these financial metrics, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

<sup>(2)</sup> Earnings Before Finance Costs and Income Taxes (EBIT); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Earnings per Share (EPS)



## Key Performance Measures

The Company's operational priorities include: customer & market leadership; supply chain optimization; service excellence; and asset utilization. The Company has realigned its 2014 incentive plans and defined the following key performance indicators (KPIs) to consistently measure performance across the organization and to track the Company's progress in improving Return on Invested Capital (ROIC)<sup>(1)</sup>.

	2014	2013				2012 (Restated) <sup>(2)</sup>			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Return on Invested Capital</b>									
<b>ROIC</b>									
Consolidated	15.4%	15.7%	15.8%	15.8%	16.2%	16.5%	16.2%	14.0%	14.9%
Canada	15.7%	15.9%	15.9%	15.5%	16.3%	15.7%	14.7%	10.5%	11.4%
South America	17.0%	17.6%	17.9%	18.1%	18.4%	19.7%	19.7%	20.6%	22.0%
UK & Ireland	16.3%	16.4%	16.8%	15.4%	15.3%	16.3%	18.3%	20.0%	19.5%
<b>Earnings Before Interest and Taxes</b>									
<b>EBIT (\$ millions)</b>									
Consolidated	111	145	136	123	117	148	124	120	97
Canada	54	69	76	61	57	73	59	61	39
South America	50	76	56	59	57	76	58	56	48
UK & Ireland	12	8	12	13	10	9	10	14	12
<b>EBIT Margin<sup>(1)</sup></b>									
Consolidated	6.6%	8.1%	7.6%	7.6%	7.5%	8.5%	7.8%	6.8%	6.6%
Canada	6.0%	7.9%	7.9%	7.9%	7.5%	9.2%	7.7%	6.4%	5.0%
South America	9.0%	11.3%	9.4%	9.5%	9.3%	10.3%	9.6%	9.8%	10.0%
UK & Ireland	4.9%	3.3%	5.3%	5.7%	5.4%	4.2%	4.6%	5.5%	5.8%
<b>Invested Capital</b>									
<b>Invested Capital<sup>(1)(3)</sup> (\$ millions)</b>									
Consolidated	3,414	3,138	3,342	3,443	3,317	3,131	3,070	3,031	2,597
Canada	1,682	1,488	1,716	1,740	1,663	1,589	1,424	1,445	1,442
South America	1,443	1,391	1,379	1,454	1,419	1,298	1,357	1,293	905
UK & Ireland	296	265	268	259	256	260	320	285	244
<b>Invested Capital Turnover<sup>(1)</sup> (times)</b>									
Consolidated	2.1x	2.0x	2.0x	2.0x	2.1x	2.2x	2.4x	2.4x	2.5x
Canada	2.1x	2.0x	2.0x	1.9x	2.1x	2.2x	2.5x	2.5x	2.5x
South America	1.7x	1.8x	1.9x	1.9x	1.9x	2.0x	2.0x	2.1x	2.3x
UK & Ireland	3.4x	3.4x	3.3x	3.1x	3.1x	3.3x	3.4x	3.4x	2.4x
Inventory (\$ millions)	1,945	1,756	1,904	1,978	1,911	1,930	1,903	1,891	1,767
Inventory Turns <sup>(1)</sup> (times)	2.6x	2.7x	2.4x	2.2x	2.4x	2.5x	2.5x	2.7x	3.0x
Working Capital to Sales Ratio <sup>(1)</sup>	26.3%	26.5%	26.7%	27.0%	25.4%	24.5%	22.9%	23.3%	23.5%
Free Cash Flow (\$ millions)	(134)	365	163	6	(93)	245	(28)	(31)	(223)
Net Debt to Invested Capital Ratio <sup>(1)</sup>	42.9%	40.8%	47.8%	50.6%	51.1%	50.0%	52.3%	52.7%	47.2%
Net Debt to EBITDA Ratio <sup>(1)</sup>	2.0	1.7	2.2	2.4	2.3	2.2	2.5	2.8	2.2

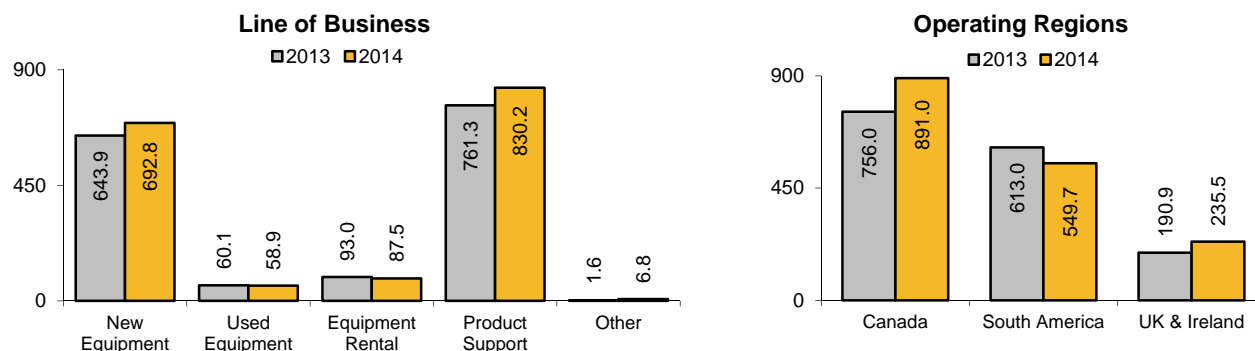
<sup>(1)</sup> These financial metrics do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and may not be comparable to similar measures used by other issuers. For additional information regarding these financial metrics, including definitions, see the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A.

<sup>(2)</sup> The comparative results described in this MD&A have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.

<sup>(3)</sup> Calculated at end of period. Refer to the heading "Description of Non-GAAP and Additional GAAP Measures" later in this MD&A for the calculation of this metric using an average of the last four quarters.

## Revenue

Three months ended March 31  
(\$ millions)



For the three months ended March 31, 2014, the Company achieved revenue of \$1.7 billion, an increase of 7% over 2013, driven primarily by significant increases in product support and new equipment revenues in the Company's Canadian operations. This increase, along with a modest increase from the Company's UK & Ireland operations more than offset the decrease in new equipment revenues from the Company's South American operations. Foreign exchange had a positive impact on revenue, mainly due to the 9% weaker Canadian dollar relative to the U.S. dollar for the first quarter of 2014 compared to the same period last year.

Product support revenue was up 9% over the same period in 2013. The most notable increase was in the Company's Canadian operations, with parts revenues up in all markets, particularly mining. In functional currency terms, product support revenues in the Company's UK & Ireland operations were flat compared to the same period of 2013 and the South American operations were down 7%, primarily a reflection of reduced activity in the Chilean mining sector.

New equipment sales were up 8% compared to the prior year, with increases in the Canadian and UK & Ireland operations more than offsetting the decrease in South America. The significant increase in new equipment revenue in the Company's Canadian operations was primarily due to improved demand from mining customers compared to the same period of 2013. The increase in the UK & Ireland operations was driven primarily by construction, whereas lower activity in all sectors led to the decrease in South America.

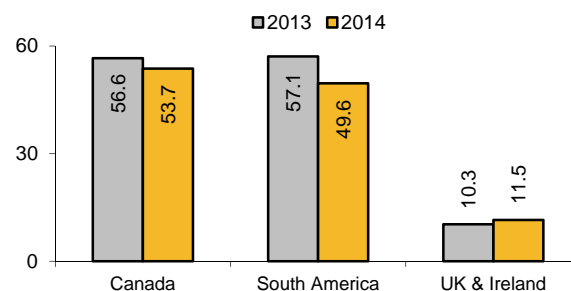
Rental revenues were lower by 6% compared to the first quarter of 2013, with a slower start to the year in all operations. Used equipment sales were down slightly from the first quarter of 2013.

## Earnings Before Finance Costs and Income Taxes

On a consolidated basis, EBIT was \$110.8 million in the first three months of 2014, 5% lower than the \$117.1 million earned in the same period of 2013. The decrease was driven primarily by lower sales volumes in the Company's South American operations, where the market has softened, and a slight decrease in the Canadian operations where higher sales volumes were more than offset by lower gross profit margins. The decrease in EBIT was partially offset by the positive impact of foreign exchange, driven primarily by the strengthening U.S. dollar against the Argentinean peso, Canadian dollar and Chilean peso.

Gross profit of \$499.1 million in the first quarter of 2014 was similar to the \$498.4 million earned in the same period in 2013. Gross profit margin was 29.8%, down from 32.0% in 2013. In the Company's South American operations, the decrease in gross profit from lower sales volumes was partially offset by a shift in revenue mix to a higher proportion of product support revenues. The increase in sales volume in the Company's Canadian operations included a higher proportion of new equipment sales in the revenue mix and a greater proportion of lower-margin mining equipment sales, which were the main contributors to a lower gross profit margin. Gross profit was also negatively impacted by lower rental gross profit in all operations due to softening in the rental market compared to the first quarter of 2013.

**EBIT by Operation<sup>(1)</sup>**  
Three months ended March 31  
(\$ millions)



<sup>(1)</sup> Excluding other operations – corporate head office

SG&A costs were \$388.2 million for the first quarter of 2014, a 2% increase over the same period last year, with higher SG&A costs in the Company's Canadian operations being partly offset by lower costs in the Company's South American operations. The increase in SG&A in the Company's Canadian operations was primarily the result of volume-related increases and higher positive provision adjustments in the first quarter of 2013, which were partially offset by cost savings from workforce reductions and service-related operating efficiencies. A decrease in SG&A in the Company's South American operations reflected lower sales volumes and reduced salary costs associated with workforce reductions. These decreases were partially offset by higher service-related expenses and severance costs. The weakening Argentinean and Chilean pesos lowered operating costs in comparison to the first quarter of 2013, which reduced the overall increase to SG&A.

Also contributing to lower EBIT in the first quarter of 2014 compared to the same period of 2013 was \$2.1 million in lower equity earnings from PipeLine Machinery International (PLM) and Energyst B.V. (Energyst).

The Company's EBIT margin was 6.6% in the first quarter of 2014, down from 7.5% in the same period of 2013, driven mainly by the reduced gross profit margin, discussed above.

## Finance Costs

Finance costs in the first three months ended March 31, 2014 of \$20.5 million were comparable to the \$21.5 million reported in the first quarter of 2013.

## Provision for Income Taxes

The effective income tax rate for the first quarter of 2014 was 24.8%, up from 23.2% in the prior year, primarily due to the foreign exchange impacts from the devaluation of the Argentinean peso. Provision for income taxes was negatively impacted by taxable foreign exchange gains on U.S. dollar denominated net assets in Argentina.

## Net Income

Net income was \$67.9 million in the first quarter of 2014, a decrease of 8% from the \$73.4 million earned in the same period last year. Basic EPS was \$0.39 per share compared with \$0.43 per share in the comparative period last year. Lower EBIT and a higher effective tax rate led to a decrease in net income and basic EPS compared to the first quarter of 2013.

## Invested Capital

(\$ millions, unless otherwise stated)	March 31, 2014	December 31, 2013	Increase (Decrease)
Consolidated	\$ 3,414.2	\$ 3,138.1	\$ 276.1
Canada	\$ 1,682.1	\$ 1,487.6	\$ 194.5
South America	\$ 1,443.4	\$ 1,390.9	\$ 52.5
UK & Ireland	\$ 296.2	\$ 265.3	\$ 30.9
<i>South America (U.S. dollar millions)</i>	\$ 1,305.9	\$ 1,307.7	\$ (1.8)
<i>UK &amp; Ireland (U.K. pound sterling millions)</i>	£ 160.7	£ 150.5	£ 10.2

The increase in consolidated invested capital of \$276.1 million from Q4 2013 to Q1 2014 was primarily driven by:

- An increase in inventory, primarily in the Company's Canadian operations where the Company invested in new equipment inventory to replenish stock levels after strong sales in Q1 2014 and to support strong order intake seen in Q1 2014;
- An increase in accounts receivable in the Company's Canadian and UK & Ireland operations due to strong sales in the first quarter of 2014, partly offset by a reduction in the Company's South American operations reflecting lower sales volume; and
- Lower deferred revenues, largely in South America, primarily due to lower advance payments from customers for mining equipment;
- Partly offset by an increase in accounts payable primarily in the Company's UK & Ireland operations due to the timing of equipment purchases, which exceeded the decrease in the Company's South American operations.

In functional currency terms, invested capital in the Company's South American operations decreased marginally from December 2013 and was slightly up in the UK & Ireland operations. A weaker Canadian dollar, relative to the U.S. dollar and U.K. pound sterling, contributed to an increase of approximately \$65 million in consolidated invested capital compared to December 31, 2013.

Invested capital turnover was 2.1 times, an improvement from 2.0 times in the fourth quarter of 2013, driven primarily by the Company's Canadian operations.

## Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the selling, servicing, and renting of heavy equipment, engines, and related products in various markets worldwide as noted below. Finning's reportable segments are as follows:

- *Canadian operations*: British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut.
- *South American operations*: Chile, Argentina, Uruguay, and Bolivia.
- *UK & Ireland operations*: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- *Other*: corporate head office.

The table below provides details of revenue by operations and lines of business.

Three months ended March 31, 2014 (\$ millions)						
	Canada	South America	UK & Ireland	Consolidated	Revenue percentage	
New equipment	\$ 339.9	\$ 215.7	\$ 137.2	\$ 692.8	41.3%	
Used equipment	41.7	5.0	12.2	58.9	3.5%	
Equipment rental	63.4	17.8	6.3	87.5	5.2%	
Product support	444.5	310.5	75.2	830.2	49.5%	
Other	1.5	0.7	4.6	6.8	0.5%	
<b>Total</b>	<b>\$ 891.0</b>	<b>\$ 549.7</b>	<b>\$ 235.5</b>	<b>\$ 1,676.2</b>	<b>100.0%</b>	
Revenue percentage by operations	53.2%	32.8%	14.0%	100.0%		

Three months ended March 31, 2013 (\$ millions)						
	Canada	South America	UK & Ireland	Consolidated	Revenue percentage	
New equipment	\$ 252.4	\$ 283.1	\$ 108.4	\$ 643.9	41.3%	
Used equipment	42.1	6.8	11.2	60.1	3.9%	
Equipment rental	67.1	18.3	7.6	93.0	6.0%	
Product support	393.4	304.2	63.7	761.3	48.8%	
Other	1.0	0.6	—	1.6	—	
<b>Total</b>	<b>\$ 756.0</b>	<b>\$ 613.0</b>	<b>\$ 190.9</b>	<b>\$ 1,559.9</b>	<b>100.0%</b>	
Revenue percentage by operations	48.5%	39.3%	12.2%	100.0%		

## Canadian Operations

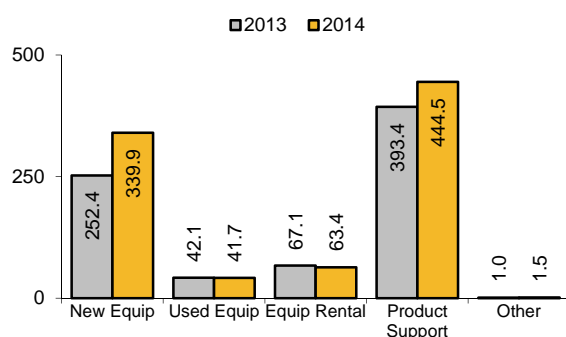
The Canadian reportable segment includes Finning (Canada), OEM Remanufacturing Company Inc. (OEM), and a 25% interest in PLM. Finning (Canada) sells, services, and rents mainly Caterpillar equipment and engines in British Columbia, Alberta, Yukon, Northwest Territories, and a portion of Nunavut. The Canadian operation's markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

The table below provides details of the results from the Canadian operations:

Three months ended March 31 (\$ millions)	2014	2013
Revenue from external sources	\$ 891.0	\$ 756.0
Operating costs	(810.9)	(675.7)
Depreciation and amortization	(27.9)	(26.3)
	<b>52.2</b>	54.0
Equity earnings of joint venture	1.5	2.6
Earnings before finance costs and income taxes	\$ 53.7	\$ 56.6
EBIT		
- as a percentage of revenue	6.0%	7.5%
- as a percentage of consolidated EBIT	48.5%	48.4%

### Canada – Revenue by Line of Business

Three months ended March 31  
(\$ millions)



First quarter 2014 revenues of \$891.0 million increased 18% compared to the first quarter of 2013, largely due to higher new equipment sales.

New equipment revenues in the first three months of 2014 were up 35% compared with the same period in 2013 primarily due to market activity in mining. Record order intake in the first quarter of 2014 was reflected in a significant increase to order backlog compared to December 2013.

Product support revenues were 13% higher than in the first quarter of 2013, driven primarily by greater demand for parts in all markets, most notably in mining.

The weakening Canadian dollar relative to the U.S. dollar had a positive impact on total revenue of approximately \$55 million.

Gross profit in absolute dollars from the Canadian operations increased only marginally on higher sales volumes compared to the first quarter of 2013, and gross profit margin was lower than the first quarter of 2013. This was primarily driven by the revenue mix, which included a higher percentage of new equipment sales, combined with a higher proportion of lower-margin mining equipment, as well as an increase in parts sales volume, including a higher proportion of mining and power systems products. Gross profit was also negatively impacted by a decrease in rental gross profit driven by lower volume from a softening in the market compared to the first quarter of 2013, and higher positive equipment cost adjustments in the first quarter of 2013. New equipment revenues made up 38.1% of total revenues in the first quarter of 2014, compared to 33.4% in the prior year quarter, while product support revenues comprised 49.9% of first quarter 2014 total revenues relative to 52.0% in the first quarter of 2013.

SG&A increased 2% over the same period last year driven by volume-related increases, higher positive provision adjustments in the first quarter of 2013, and a negative impact on SG&A from the weakening Canadian dollar relative to the U.S. dollar in the first quarter of 2014. This increase was partially offset by cost savings from workforce reductions and service-related operating efficiencies.

EBIT in the Canadian operations of \$53.7 million in the first quarter of 2014 was down from \$56.6 million in the same period of 2013, with the slight gross profit increase offset by higher SG&A, as described above, as well as lower earnings reported by PLM. The weakening Canadian dollar did not impact the results of the Company's Canadian operations as much as expected. While foreign exchange did negatively impact SG&A in the first quarter of 2014, this was offset by a positive impact on gross profit margins and hedging gains, resulting in no significant impact to the quarter.

## South American Operations

Finning's South American operation sells, services, and rents mainly Caterpillar equipment and engines in Chile, Argentina, Uruguay and Bolivia. The South American operation's markets include mining, construction, and power systems.

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

Three months ended March 31 (\$ millions)	2014		2013	
Revenue from external sources	\$	549.7	\$	613.0
Operating costs		(480.9)		(536.9)
Depreciation and amortization		(18.4)		(17.2)
		<b>50.4</b>		58.9
Other income (expenses)				
Export of agricultural product		0.1		24.6
Costs of export of agricultural product		(0.2)		(25.4)
Other		(0.7)		(1.0)
Earnings before finance costs and income taxes	\$	49.6	\$	57.1
EBIT				
- as a percentage of revenue		9.0%		9.3%
- as a percentage of consolidated EBIT		44.7%		48.8%

In the first quarter of 2014, revenues decreased 10% to \$549.7 million compared to the same period in 2013 (down 18% in functional currency, U.S. dollars). Softening market conditions throughout the Company's South American operations led to a decrease in revenue in functional currency terms in all lines of business compared to the first quarter of 2013.

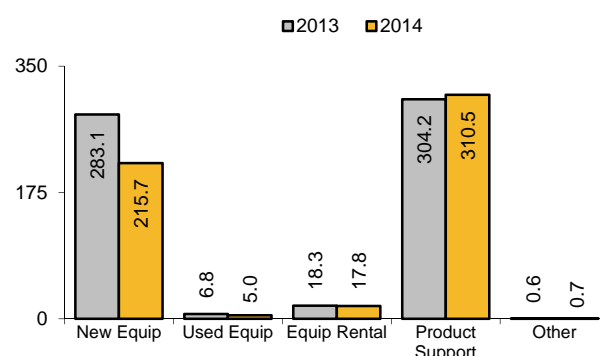
New equipment revenue was down 24% (30% in functional currency) compared to the first quarter of 2013. Reduced construction demand and the slowdown in mining activity in Chile and Argentina from the end of 2013 continued into the first quarter of 2014, driving a decrease in new equipment demand. This decrease was reflected in lower deliveries and weakening order intake, primarily driven by mining and construction.

Product support revenue increased marginally over the same period last year, but was down 7% in functional currency. The decrease in functional currency terms was driven primarily by lower service revenue in the mining sector, where customers continue to focus on reducing costs, as well as lower parts revenue, driven by a decline in equipment utilization in the construction sector.

The positive impact on total revenue from the weakening Canadian dollar relative to the U.S. dollar was partially offset by the negative impact from the weakening Chilean and Argentinean pesos against the U.S. dollar. The net positive impact on total revenue was approximately \$30 million.

Gross profit decreased 5% over 2013 (13% in functional currency), reflecting lower sales volumes from the comparative period. Gross profit margin increased slightly over the first quarter of 2013, driven primarily by a shift in revenue mix to higher margin product support sales, and higher margins earned on mining contracts. Product support revenues comprised 56.5% of total revenues in the first quarter 2014 relative to 49.6% in the first quarter of 2013, while new equipment revenues made up 39.2% of first quarter 2014, compared to 46.2% of first quarter 2013.

### South America – Revenue by Line of Business Three months ended March 31 (\$ millions)



SG&A costs were down slightly in the Company's South American operations compared to the first quarter of 2013, and down 9% in functional currency, reflecting lower sales volumes and reduced salary costs associated with workforce reductions. These decreases were partially offset by higher service-related expenses and severance costs. In response to decreased activity levels, the South American operations reduced its workforce by 240 employees from the end of 2013, and by about 330 people from the peak level in the summer of 2013. The Company will continue to reduce costs and invested capital in its South American operations as necessary to align with expected activity levels.

Net costs associated with exporting an agricultural product from Argentina were \$0.1 million in the first quarter of 2014, down from \$0.8 million in the first quarter of 2013. During the quarter, conditions permitted the Company's South American operations to import goods into Argentina to satisfy customer demand without further exportation of agricultural product.

First quarter EBIT decreased 13% (21% in functional currency) from the first quarter of 2013, reflecting the decrease in revenues and gross profit. The decrease in EBIT was partially offset by the positive impact from foreign exchange of approximately \$19 million. The weakening Argentinean and Chilean pesos relative to the U.S. dollar had a positive impact on EBIT, combined with the positive impact from the weakening Canadian dollar against the U.S. dollar. EBIT margin of 9.0% in the first quarter of 2014 was marginally down from 9.3% in the comparative period.

## UK & Ireland Operations

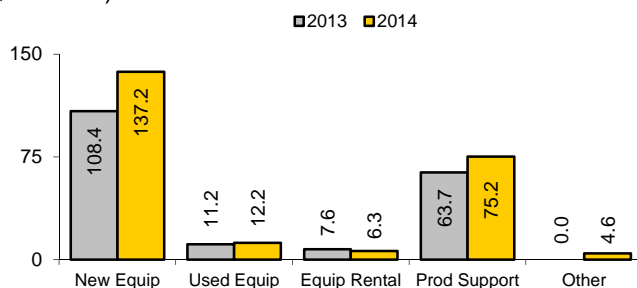
The Company's UK & Ireland operations sell, service, and rent mainly Caterpillar equipment and engines in England, Scotland, Wales, Northern Ireland, and the Republic of Ireland. The UK & Ireland operation's markets include mining, quarrying, construction and power systems.

The table below provides details of the results from the UK & Ireland operations:

Three months ended March 31 (\$ millions)	2014	2013
Revenue from external sources	\$ 235.5	\$ 190.9
Operating costs	(215.4)	(171.7)
Depreciation and amortization	(8.6)	(8.6)
Other expenses	—	(0.3)
Earnings before finance costs and income taxes	\$ 11.5	\$ 10.3
EBIT		
- as a percentage of revenue	4.9%	5.4%
- as a percentage of consolidated EBIT	10.4%	8.8%

### UK & Ireland – Revenue by Line of Business

Three months ended March 31  
(\$ millions)



Revenues from the UK and Ireland for the first quarter of 2014 were \$235.5 million, 23% higher than in the prior year (up 5% in functional currency – U.K. pound sterling). The increase was primarily driven by higher new equipment sales in the construction sector. The weakening Canadian dollar relative to the U.K. pound sterling had a positive impact on revenue of approximately \$35 million.

Gross profit in absolute dollars was higher in the first quarter of 2014 compared to 2013, although marginally lower in functional currency and as a percentage of revenues, reflecting a shift in mix to lower margin new equipment revenues. New equipment revenues comprised 58.3% of total revenues in the first quarter of 2014, compared to 56.8% in the same period of 2013, while product support revenues comprised 31.9% of first quarter 2014 total revenues relative to 33.4% in the first quarter of 2013.

SG&A increased 15% compared to the same period in 2013, but was slightly down in functional currency terms including volume-related increases which were offset by lower costs from a reduced workforce.

2014 first quarter EBIT was \$11.5 million, representing an increase of 12% over the prior year (down marginally in functional currency). EBIT was not impacted significantly by foreign exchange fluctuations. EBIT margin of 4.9% was down compared to the 5.4% earned in the same period last year, reflecting the lower margins mentioned above.

## Corporate and Other Operations

Three months ended March 31 (\$ millions)	2014	2013
Operating costs – corporate	\$ (4.2)	\$ (6.0)
Long-term incentive plan (LTIP)	1.0	(1.0)
Depreciation and amortization	—	(0.1)
	<b>(3.2)</b>	<b>(7.1)</b>
Equity gain (loss) of associate	<b>(0.8)</b>	0.2
Loss before finance costs and income taxes	<b>\$ (4.0)</b>	<b>\$ (6.9)</b>

Fluctuations in the Company's share price during the year led to a cost recovery from the Company's compensation hedge, in place to offset the mark-to-market impact relating to certain stock-based compensation plans.

The equity gain (loss) of associate for the first three months of 2014 and 2013 relates to the Company's investment in Energyst. Recent results from Energyst have been impacted by the slowdown in the mining industry and the competitive pressures on its international power projects business.

## Outlook

The Company is committed to improving ROIC over time, and is executing on its operational excellence agenda to improve performance. Initiatives to increase EBIT are primarily focused on growing market share in non-mining segments and increasing the profitability of service operations. The expected improvement in capital efficiency will be driven through optimization of the supply chain to reduce working capital and improvements in asset utilization. The Company believes it can generate higher ROIC, even if it were to operate in a no-growth market environment.

Business activity in Western Canada is projected to remain strong through 2014. Mining continues to be stable, with the exception of a slowdown in the metallurgical coal mines; however, many customers continue to focus on operating cost efficiencies. Solid infrastructure activity remains a positive driver for heavy construction and power systems. The Company is achieving market share gains in core and building construction product. Pipeline activity is strong with several projects underway, and the Company expects that LNG pipeline developments under consideration will be a positive driver for power systems, earthmoving and pipelaying opportunities for the next few years. Market conditions in the conventional oil segment remain weak, while gas compression and electric power generation have strengthened. Demand for rental equipment has softened slightly in early 2014 across all sectors. Product support is expected to remain healthy across all sectors. The weaker Canadian dollar is expected to continue to impact the competitive pricing environment. While progress is being made to improve profitability of the Canadian operations, achieving full benefits of the service excellence and supply chain initiatives will take time.

Looking ahead, the Company expects softer market conditions in South America to continue. Concerns regarding a weaker copper price, high capital expenditures, project execution risk, and production costs in the mining sector have resulted in delays of greenfield projects and revision of investments for brownfield projects. Mining customers are maintaining production levels, while focusing on reducing costs and improving productivity and efficiencies. The Company expects continued equipment replacement and fleet additions, but at a significantly slower pace than record sales levels achieved in 2013. Decisions on component purchases, major repairs and equipment and maintenance contracts are being delayed. The slowdown in the mining sector is also impacting construction equipment markets in Chile, where machine utilization levels and product support activity have been reduced. In Argentina, the Company's market share for new equipment and product support remain subject to current import restrictions. With the devaluation of the Argentine peso, the Company expects its effective tax rate to remain around its current level and will impact EPS comparisons with the prior year. The Company is closely monitoring the proposed corporate tax reform in Chile which the government is intending to pass during the second half of 2014. The proposed reform includes a number of changes which could raise the current corporate income tax rates gradually between 2014 and 2017 from 20% to 35%. Any impacts from these changes cannot be recognized until they are substantively enacted. The Company will comment on the impact on its effective tax rate range once these changes are enacted.



In the U.K. & Ireland, new equipment outlook and order intake are good, as macro-economic conditions are showing signs of improvement. Equipment sales to the plant hire sector have increased due to the strengthening in house building and general construction sectors. The coal mining industry has remained weak due to inexpensive coal imports, and consolidation continues in the quarry and aggregates market, impacting new equipment sales and product support in those industries. The Power Systems division continues to develop its expertise in power and energy, including water treatment, oil & gas, marine and industrial power generation. The Company is also encouraged by the increased order intake for electric power generation projects.

## Liquidity and Capital Resources

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### Operating Activities

Cash flow used in operations was \$127.9 million in the first quarter of 2014 compared to \$66.2 million in the comparative period in 2013. The higher use of cash was primarily the result of an investment in inventory by the Company's Canadian operations to rebuild inventory levels after solid deliveries during the quarter and to meet future delivery needs, with a significant increase in order intake relative to the same period last year.

Contributing to the higher use of cash was a decrease in EBITDA of 2% or \$3.6 million compared to the same period last year, partially offset by lower investment in rental assets. In the first three months of 2014, the Company invested \$0.6 million in rental assets, net of disposals, compared to the first quarter of 2013 with cash invested of \$9.8 million.

The Company's Free Cash Flow was a use of cash of \$134.2 million compared to a use of cash of \$93.4 million in the first quarter of 2013. The main driver resulting in lower free cash flow was higher working capital, driven primarily by an increase in equipment inventory partially offset by lower capital and rental expenditures.

### Investing Activities

Net cash used in investing activities in the first quarter of 2014 totalled \$6.3 million compared with \$31.8 million in the comparative period in 2013. The primary use of cash in 2014 related to property, plant and equipment additions of \$15.9 million, lower than the \$27.4 million invested in the comparable period of 2013. This investment was partially offset by an increase in cash provided by the disposal of property, plant and equipment, which was \$9.4 million higher than in the comparable period last year.

In the first quarter of 2013, the Company paid \$4.5 million, which increased its investment in Energyst B.V. from 27.3% to 27.9%.

### Financing Activities

To complement the internally generated funds from operating and investing activities in 2014, the Company has \$1.9 billion in unsecured credit facilities. Included in this amount are committed bank facilities totalling \$1.1 billion with various Canadian, U.S., and South American financial institutions. At March 31, 2014, \$0.8 billion was available under these committed facilities.

Based on the availability of these facilities, the Company's business operating plans, and the discretionary nature of some of the cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs.

The Company is rated by both Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P). During the first quarter of 2014, DBRS re-confirmed the Company's short-term and long-term debt ratings at R-1 (low) and A (low), respectively, and S&P re-confirmed the Company's long-term debt rating at BBB+. The Company continues to utilize the Canadian commercial paper market, as well as borrowings under its credit facilities as its principal sources of short-term funding. The increase in cash provided by financing activities in the first quarter of 2014 compared to the same period last year was primarily due to an increase in short-term debt compared to the period year of \$66.4 million to fund working capital requirements.

Dividends paid to shareholders in the first quarter of 2014 were \$26.2 million, up 9% compared to the first quarter of 2013. In May 2014, the Board of Directors increased the Company's quarterly dividend by \$0.025 to \$0.1775 per common share, reflecting the Company's confidence in the business outlook and expectation for positive cash generation. The Company targets a dividend payout ratio in the 25% to 35% range over the long term.

## Net Debt to Invested Capital

Net Debt to Invested Capital at March 31, 2014 was 42.9% compared with 40.8% at December 31, 2013. Net Debt to Invested Capital is within the Company's target range of 35% to 45%. The Company is subject to a maximum Net Debt to Invested Capital level pursuant to a covenant within its syndicated bank credit facility. The Company was in compliance with this covenant at the end of Q1 2014.

## Description of Non-GAAP and Additional GAAP Measures

### Additional GAAP Measures

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to understanding of the Company's results.

### EBIT

EBIT is defined herein as earnings before finance costs and income taxes and is utilized by management to assess and evaluate the financial performance of its operating segments. This measure is provided to improve comparability between periods by eliminating the impact of finance costs and income taxes.

A reconciliation between EBIT and net income is as follows:

Three months ended March 31 (\$ millions)	2014	2013
EBIT	\$ 110.8	\$ 117.1
Finance costs	(20.5)	(21.5)
Provision for income taxes	(22.4)	(22.2)
Net income	\$ 67.9	\$ 73.4

### Net Debt to Invested Capital

Net Debt to Invested Capital is calculated as net debt divided by invested capital (defined below), and is used by management as a measurement of the Company's financial leverage.

Net debt is calculated as short-term and long-term debt, net of cash. Invested capital is net debt plus all components of shareholders' equity (share capital, contributed surplus, accumulated other comprehensive income (loss), and retained earnings). Invested capital is also calculated as total assets less total liabilities, excluding net debt. Invested capital is used by management as a measure of the total cash investment made in the Company and each operating segment. Management uses invested capital in a number of different measurements in assessing financial performance against other companies and between segments.

The calculation of Net Debt to Invested Capital is as follows:

(\$ millions, except as noted)	March 31, 2014	December 31, 2013
Cash and cash equivalents	\$ (210.4)	\$ (176.3)
Short-term debt	279.2	89.4
Current portion of long-term debt	0.6	0.7
Long-term debt	1,393.7	1,366.5
Net debt	1,463.1	1,280.3
Shareholders' equity	1,951.1	1,857.8
Invested capital	\$ 3,414.2	\$ 3,138.1
Net debt to invested capital	42.9%	40.8%

## Non-GAAP Measures

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

The non-GAAP measures used by management do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with IFRS.

### EBITDA

EBITDA is defined as earnings before finance costs, income taxes, depreciation and amortization and is utilized by management to assess and evaluate the financial performance of its operating segments. Management believes that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses and is a common valuation metric.

A reconciliation between EBITDA and net income is as follows:

Three months ended March 31 (\$ millions)	2014	2013
EBITDA	\$ 165.7	\$ 169.3
Depreciation and amortization	(54.9)	(52.2)
Finance costs	(20.5)	(21.5)
Provision for income taxes	(22.4)	(22.2)
Net income	\$ 67.9	\$ 73.4

### ROIC

ROIC is defined as EBIT (adjusted for significant non-recurring items) for the last twelve months divided by invested capital, based on an average of the last four quarters.

Management views ROIC (at a consolidated and segment level), as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments.

March 31 (\$ millions, except as noted)	2014	2013
EBIT – last twelve months	\$ 514.4	\$ 508.8
Invested capital – average	\$ 3,334.4	\$ 3,137.2
ROIC	15.4%	16.2%

### Working Capital

Working capital is defined as total current assets (excluding cash) less total current liabilities (excluding short-term debt and current portion of long-term debt), both based on an average of the last four quarters. Management views working capital as a measure for assessing overall liquidity.

(\$ millions)	2014		2013			2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total current assets	\$ 3,553.6	\$ 3,248.6	\$ 3,325.6	\$ 3,463.4	\$ 3,408.0	\$ 3,317.2	\$ 3,342.8	\$ 3,423.9
Cash	(210.4)	(176.3)	(83.1)	(115.0)	(116.2)	(114.9)	(135.8)	(111.3)
Total current assets <sup>(1)</sup>	\$ 3,343.2	\$ 3,072.3	\$ 3,242.5	\$ 3,348.4	\$ 3,291.8	\$ 3,202.3	\$ 3,207.0	\$ 3,312.6
Total current liabilities	\$ 1,730.7	\$ 1,549.3	\$ 1,737.5	\$ 2,156.4	\$ 2,256.3	\$ 2,250.2	\$ 2,163.5	\$ 2,067.7
Short-term debt	(279.2)	(89.4)	(327.3)	(454.2)	(429.2)	(303.3)	(303.4)	(252.5)
Current portion of long-term debt	(0.6)	(0.7)	(0.6)	(250.5)	(358.3)	(363.6)	(361.3)	(112.3)
Total current liabilities <sup>(2)</sup>	\$ 1,450.9	\$ 1,459.2	\$ 1,409.6	\$ 1,451.7	\$ 1,468.8	\$ 1,583.3	\$ 1,498.8	\$ 1,702.9
Working capital	\$ 1,892.3	\$ 1,613.1	\$ 1,832.9	\$ 1,896.7	\$ 1,823.0	\$ 1,619.0	\$ 1,708.2	\$ 1,609.7
Four quarter average	\$ 1,808.8	\$ 1,791.4			\$ 1,690.0			

(1) Excluding cash

(2) Excluding short-term debt and current portion long-term debt

### Free Cash Flow

Free Cash Flow is defined as cash flow provided by (used in) operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in the Company's consolidated statement of cash flow.

Free Cash Flow is a measure used by the Company to assess cash operating performance and the ability to raise and service debt.

A reconciliation of Free Cash Flow is as follows:

Three months ended March 31		2014	2013
(\$ millions)			
Cash flow used in operating activities		\$ (127.9)	\$ (66.2)
Additions to property, plant, and equipment and intangible assets		(15.9)	(27.4)
Proceeds on disposal of property, plant, and equipment		9.6	0.2
Free Cash Flow		\$ (134.2)	\$ (93.4)

### Key Performance Indicators

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, EBIT margin, inventory turns, invested capital turnover, working capital to sales ratio, order backlog and net debt to EBITDA ratio. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

#### Gross Profit Margin

This measure is defined as gross profit divided by total revenue.

#### EBIT Margin

This measure is defined as earnings before finance costs and income taxes divided by total revenue.

### *Inventory Turns*

Inventory turns is the number of times the Company's inventory is sold and replaced over a period and is used by management as a measure of asset utilization. Inventory turns is calculated as annualized cost of goods sold for the last six months divided by average inventory, based on an average of the last two quarters.

(\$ millions, except as noted)	March 31, 2014	December 31, 2013
Cost of sales – annualized	\$ 4,837.4	\$ 5,014.8
Inventory – average	\$ 1,850.6	\$ 1,830.1
Inventory turns (number of times)	2.6	2.7

### *Invested Capital Turnover*

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as total revenue for the last twelve months divided by invested capital, based on an average of the last four quarters.

(\$ millions, except as noted)	March 31, 2014	December 31, 2013
Revenue – last twelve months	\$ 6,872.3	\$ 6,756.0
Invested capital – average	\$ 3,334.4	\$ 3,310.1
Invested capital turnover	2.1	2.0

### *Working Capital to Sales Ratio*

This ratio is calculated as working capital, based on an average of the last four quarters, divided by total revenue for the last twelve months. This is a useful KPI for management in assessing the Company's efficiency in its use of working capital to generate sales.

(\$ millions, except as noted)	March 31, 2014	December 31, 2013
Working capital – average	\$ 1,808.8	\$ 1,791.4
Revenue – last twelve months	\$ 6,872.3	\$ 6,756.0
Working capital to sales	26.3%	26.5%

### *Order Backlog*

The Company's global order book, or order backlog, is defined as the retail value of new equipment units ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future new equipment deliveries. There is no directly comparable IFRS measure for order backlog.

### *Net Debt to EBITDA Ratio*

This ratio is calculated as net debt, defined and calculated above, divided by EBITDA for the last twelve months, calculated above. This ratio is used by management in assessing the Company's operating leverage and ability to repay its debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA held constant.

(\$ millions, except as noted)	March 31, 2014	December 31, 2013
Net debt	\$ 1,463.1	\$ 1,280.3
EBITDA – last twelve months	\$ 732.9	\$ 736.4
Net Debt to EBITDA	2.0	1.7

## Risk Management

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's Enterprise Risk Management (ERM) process is designed to ensure that such risks are identified, managed, and reported. 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 Company discloses all of its key risks in its AIF with key financial risks also included in the Company's annual MD&A. 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. Also on a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial risks and exposures and the steps taken to monitor and control such exposures. Changes to the key risks are also reviewed by the Audit Committee. For further details on the management of liquidity and capital resources, financial derivatives, and financial risks and uncertainties, please refer to the Company's AIF and MD&A for the year ended December 31, 2013. There have been no material changes to existing risk factors and no new key risks identified from the key risks disclosed in the Company's AIF for the year ended December 31, 2013, which can be found at [www.sedar.com](http://www.sedar.com) and [www.finning.com](http://www.finning.com).

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

<b>Exchange rate</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>March 31, 2013</b>
U.S. dollar	<b>1.1053</b>	1.0636	1.0156
U.K. pound sterling	<b>1.8430</b>	1.7627	1.5417
Chilean peso	<b>0.0020</b>	0.0020	0.0021
Argentine peso	<b>0.1381</b>	0.1631	0.1983

<b>Three months ended March 31 Average exchange rates</b>	<b>2014</b>	<b>2013</b>
U.S. dollar	<b>1.1033</b>	1.0083
U.K. pound sterling	<b>1.8256</b>	1.5641
Chilean peso	<b>0.0020</b>	0.0021
Argentine peso	<b>0.1455</b>	0.2011

## **Controls and Procedures Certification**

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### **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 CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

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, reviews 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.

### **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended March 31, 2014, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Selected Quarterly Information

\$ millions (except for share and option data)	2014		2013			2012 (Restated)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from operations <sup>(1)</sup>								
Canada	\$ 891.0	\$ 873.7	\$ 960.5	\$ 767.7	\$ 756.0	\$ 788.2	\$ 768.9	\$ 942.8
South America <sup>(2)</sup>	549.7	674.9	597.6	628.9	613.0	740.3	601.9	574.0
UK & Ireland	235.5	247.2	222.1	223.5	190.9	217.2	222.9	247.7
<b>Total revenue</b>	<b>\$1,676.2</b>	<b>\$1,795.8</b>	<b>\$1,780.2</b>	<b>\$1,620.1</b>	<b>\$1,559.9</b>	<b>\$1,745.7</b>	<b>\$1,593.7</b>	<b>\$1,764.5</b>
Net income <sup>(1) (3)</sup>	\$ 67.9	\$ 92.9	\$ 86.2	\$ 82.7	\$ 73.4	\$ 102.6	\$ 81.2	\$ 78.7
Earnings Per Share <sup>(1) (3)</sup>								
Basic EPS	\$ 0.39	\$ 0.54	\$ 0.50	\$ 0.48	\$ 0.43	\$ 0.60	\$ 0.47	\$ 0.46
Diluted EPS	\$ 0.39	\$ 0.54	\$ 0.50	\$ 0.48	\$ 0.43	\$ 0.60	\$ 0.47	\$ 0.46
Total assets <sup>(1)</sup>	\$5,353.2	\$5,057.6	\$5,138.6	\$5,301.6	\$5,194.4	\$5,118.0	\$4,994.0	\$5,110.5
Long-term debt								
Current	\$ 0.6	\$ 0.7	\$ 0.6	\$ 250.5	\$ 358.3	\$ 363.6	\$ 361.3	\$ 112.3
Non-current	1,393.7	1,366.5	1,351.4	1,152.4	1,022.5	1,012.2	1,076.1	1,344.7
<b>Total long-term debt <sup>(4)</sup></b>	<b>\$1,394.3</b>	<b>\$1,367.2</b>	<b>\$1,352.0</b>	<b>\$1,402.9</b>	<b>\$1,380.8</b>	<b>\$1,375.8</b>	<b>\$1,437.4</b>	<b>\$1,457.0</b>
Cash dividends paid per common share	15.25¢	15.25¢	15.25¢	15.25¢	14¢	14¢	14¢	14¢
Common shares outstanding (000's)	172,126	172,014	172,000	171,999	171,971	171,910	171,905	171,880
Options outstanding (000's)	5,381	5,685	5,596	5,643	4,708	5,060	5,118	5,235

- 1) In May 2012, the Company acquired the former Bucyrus distribution and support business in its dealership territories of South America and in the U.K. In October 2012, the Company acquired the former Bucyrus distribution and support business in its Canadian dealership territory. The results of operations and financial position of these acquired businesses have been included in the figures above since the date of acquisition.

The results for 2012 have been restated to reflect the Company's adoption of the amendments to IAS 19, Employee Benefits, for the financial year beginning January 1, 2013.

- 2) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange, the Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses effective second quarter of 2013 and comparative periods adjusted accordingly. The Company has not exported agricultural product since Q3 2013.
- 3) The results for 2012 were negatively impacted by the ERP system implementation issues experienced in the Company's Canadian operations. The second, third and fourth quarters of 2012 included costs associated with the ERP system issues of \$0.07, \$0.05 and \$0.04, respectively.
- 4) In April 2012, the Company issued unsecured U.S. \$300 million Notes in the U.S. private placement market due in 2022 - 2027. Proceeds from the Notes were used to fund the acquisition of the former Bucyrus distribution and support business in the Company's South American operations.

In June 2012, the Company issued \$150 million Medium Term Notes (MTN) due June 13, 2042. Proceeds from the MTN were applied to fund the purchase of the former Bucyrus distribution and support business in the Company's Canadian operations on October 1, 2012.

In May 2013, the Company refinanced its £70 million Eurobond, due May 30, 2013, with the issuance of £70 million in unsecured Notes in the U.S. private placement market.

In July 2013, the Company issued unsecured \$200 million MTN due July 3, 2020. Proceeds from the issuance were used to early redeem the Company's \$250 million MTN due September 30, 2013.

In September 2013, the Company negotiated a two-year extension to its \$1.0 billion global unsecured syndicated committed operating credit facility, under which \$937.5 million was extended to September 2017 from the original maturity of September 2015.



## New Accounting Pronouncements

### (a) Change in Accounting Policy

The Company has adopted the following amendments to standards and new International Financial Reporting Interpretations Committee (IFRIC) interpretation for the financial year beginning January 1, 2014:

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2014) clarifies the accounting by entities with defined benefit plans that require contributions linked only to service in each period. The adoption of this amendment had no impact on the Company's financial position.
- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarifies existing application issues relating to offsetting requirements. The adoption of this amendment had no impact on the Company's financial position.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. This interpretation had no impact on the Company's financial position.

### (b) Future Accounting Pronouncements

The Company has not applied the following new standards and amendments to standards that have been issued but are not yet effective:

- IFRS 9, *Financial Instruments* (the IASB tentatively decided an effective date of January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Management is currently assessing the impact of the issued and proposed changes to IFRS 9.
- Amendments to IFRS 8, *Operating Segments* (effective January 1, 2015) require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. Management is currently assessing the impact of the amendments on its annual financial statement disclosures.

## Outstanding Share Data

### As at May 8, 2014

Common shares outstanding	172,125,500
Options outstanding	5,363,405

### **Forward-Looking Disclaimer**

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; the expected target range of the Company's net debt to invested capital ratio; and the expected target range of the Company's dividend payout 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 May 13, 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 benefits from information technology and the data processed by that technology. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

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 this 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 current 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.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<b>(Canadian \$ thousands)</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 210,439	\$ 176,268
Accounts receivable	1,004,752	963,733
Service work in progress	120,478	101,544
Inventories	1,945,441	1,755,808
Income tax recoverable	6,180	9,086
Other assets	266,299	242,172
Total current assets	3,553,589	3,248,611
Property, plant, and equipment	667,819	668,094
Rental equipment	397,985	414,126
Intangible assets	71,021	75,881
Distribution network	329,181	320,300
Goodwill	116,816	114,131
Investment in and advances to joint venture and associate	79,181	77,988
Finance assets	33,147	36,065
Deferred tax assets	53,951	53,216
Other assets	50,481	49,156
Total assets	\$ 5,353,171	\$ 5,057,568
<b>LIABILITIES</b>		
Current liabilities		
Short-term debt	\$ 279,242	\$ 89,423
Accounts payable and accruals	1,039,157	1,010,747
Income tax payable	13,570	6,409
Provisions	95,779	93,978
Deferred revenue	289,655	332,040
Derivative liabilities (Note 4)	12,703	16,045
Current portion of long-term debt	575	643
Total current liabilities	1,730,681	1,549,285
Long-term debt	1,393,759	1,366,512
Long-term obligations	82,819	80,486
Net employee benefit obligations	136,002	144,930
Provisions	7,066	6,528
Deferred revenue	8,362	9,931
Deferred tax liabilities	43,442	42,132
Total liabilities	3,402,131	3,199,804
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	574,506	573,165
Contributed surplus	40,996	40,296
Accumulated other comprehensive income	61,176	13,803
Retained earnings	1,274,362	1,230,500
Total shareholders' equity	1,951,040	1,857,764
Total liabilities and shareholder's equity	\$ 5,353,171	\$ 5,057,568

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

<b>Three months ended March 31</b>		
<b>(Canadian \$ thousands, except share and per share amounts)</b>	<b>2014</b>	<b>2013</b>
Revenue		
New equipment	<b>\$ 692,818</b>	\$ 643,891
Used equipment	<b>58,870</b>	60,077
Equipment rental	<b>87,571</b>	93,041
Product support	<b>830,194</b>	761,320
Other	<b>6,770</b>	1,597
<b>Total revenue</b>	<b>1,676,223</b>	1,559,926
<b>Cost of sales</b>	<b>(1,177,138)</b>	(1,061,507)
<b>Gross profit</b>	<b>499,085</b>	498,419
Selling, general, and administrative expenses	<b>(388,181)</b>	(381,956)
Equity earnings of joint venture and associate	<b>725</b>	2,744
Other income (Note 2)	<b>42</b>	24,549
Other expenses (Note 2)	<b>(883)</b>	(26,682)
<b>Earnings before finance costs and income taxes</b>	<b>110,788</b>	117,074
<b>Finance costs (Note 3)</b>	<b>(20,503)</b>	(21,539)
<b>Income before provision for income taxes</b>	<b>90,285</b>	95,535
<b>Provision for income taxes</b>	<b>(22,378)</b>	(22,147)
<b>Net income</b>	<b>\$ 67,907</b>	\$ 73,388
Earnings per share (Note 5)		
Basic	<b>\$ 0.39</b>	\$ 0.43
Diluted	<b>\$ 0.39</b>	\$ 0.43
Weighted average number of shares outstanding		
Basic	<b>172,070,600</b>	171,935,771
Diluted	<b>172,906,230</b>	172,444,253

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31 (Canadian \$ thousands)	2014	2013
Net income	\$ 67,907	\$ 73,388
Other comprehensive income (loss), net of income tax		
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustments	75,761	17,077
Unrealized loss on net investment hedges	(27,496)	(8,574)
Income tax recovery on net investment hedges	260	583
Foreign currency translation and loss on net investment hedges, net of income tax	48,525	9,086
Unrealized gain (loss) on cash flow hedges	(2,621)	1,554
Realized loss (gain) on cash flow hedges, reclassified to earnings	1,198	(1,568)
Income tax recovery (expense) on cash flow hedges	271	(24)
Loss on cash flow hedges, net of income tax	(1,152)	(38)
Items that will not be reclassified subsequently to net income:		
Actuarial gain (loss)	2,676	(4,353)
Income tax (expense) recovery on actuarial gain (loss)	(473)	1,423
Actuarial gain (loss), net of income tax	2,203	(2,930)
<b>Total comprehensive income</b>	<b>\$ 117,483</b>	<b>\$ 79,506</b>

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ thousands, except share amounts)	Share Capital			Accumulated Other Comprehensive Income (Loss)				Total
	Shares	Amount	Contributed Surplus	Foreign Currency Translation and Gain / (Loss) on Net Investment Hedges	Gain / (Loss) on Cash Flow Hedges	Retained Earnings		
Balance, January 1, 2013	171,909,758	\$ 571,100	\$ 36,046	\$ (43,868)	\$ (6,606)	\$ 1,009,882	\$ 1,566,554	
Net income	—	—	—	—	—	73,388	73,388	
Other comprehensive income (loss)	—	—	—	9,086	(38)	(2,930)	6,118	
Total comprehensive income (loss)	—	—	—	9,086	(38)	70,458	79,506	
Issued on exercise of share options	61,020	1,067	(1,004)	—	—	—	63	
Share option expense	—	—	1,131	—	—	—	1,131	
Dividends on common shares	—	—	—	—	—	(24,072)	(24,072)	
<b>Balance, March 31, 2013</b>	<b>171,970,778</b>	<b>\$ 572,167</b>	<b>\$ 36,173</b>	<b>\$ (34,782)</b>	<b>\$ (6,644)</b>	<b>\$ 1,056,268</b>	<b>\$ 1,623,182</b>	
Balance, January 1, 2014	172,014,230	\$ 573,165	\$ 40,296	\$ 28,103	\$ (14,300)	\$ 1,230,500	\$ 1,857,764	
Net income	—	—	—	—	—	67,907	67,907	
Other comprehensive income (loss)	—	—	—	48,525	(1,152)	2,203	49,576	
Total comprehensive income (loss)	—	—	—	48,525	(1,152)	70,110	117,483	
Issued on exercise of share options	111,270	1,341	(1,240)	—	—	—	101	
Share option expense	—	—	1,940	—	—	—	1,940	
Dividends on common shares	—	—	—	—	—	(26,248)	(26,248)	
<b>Balance, March 31, 2014</b>	<b>172,125,500</b>	<b>\$ 574,506</b>	<b>\$ 40,996</b>	<b>\$ 76,628</b>	<b>\$ (15,452)</b>	<b>\$ 1,274,362</b>	<b>\$ 1,951,040</b>	

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

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Three months ended March 31 (Canadian \$ thousands)	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 67,907	\$ 73,388
Adjusting for:		
Depreciation and amortization	54,896	52,175
Gain on sale of rental equipment and property, plant, and equipment	(2,079)	(2,597)
Equity earnings of joint venture and associate	(725)	(2,744)
Share-based payment expense	2,411	3,135
Provision for income taxes	22,378	22,147
Finance costs	20,503	21,539
Defined benefit and other post-employment benefit expense	3,655	4,865
Changes in operating assets and liabilities (Note 6)	(279,750)	(193,858)
Additions to rental equipment	(49,109)	(46,293)
Proceeds on disposal of rental equipment	48,512	36,454
Equipment leased to customers, net of disposals	—	140
Interest paid	(6,715)	(11,829)
Income tax paid	(9,758)	(22,697)
Cash flow used in operating activities	(127,874)	(66,175)
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant, and equipment and intangible assets	(15,855)	(27,409)
Proceeds on disposal of property, plant, and equipment	9,565	156
Investment in associate	—	(4,542)
Cash flow used in investing activities	(6,290)	(31,795)
<b>FINANCING ACTIVITIES</b>		
Increase in short-term debt	188,039	121,687
Decrease in long-term debt	(250)	(133)
Issue of common shares on exercise of share options	101	63
Dividends paid	(26,248)	(24,072)
Cash flow provided by financing activities	161,642	97,545
Effect of currency translation on cash balances	6,693	1,701
Increase in cash and cash equivalents	34,171	1,276
Cash and cash equivalents, beginning of period	176,268	114,924
Cash and cash equivalents, end of period (Note 6)	\$ 210,439	\$ 116,200

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

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These unaudited interim condensed consolidated financial statements (Interim Statements) of Finning International Inc. ("Finning" or "Company") and its subsidiaries were prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standard Board (IASB). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted or condensed, and therefore these Interim Statements should be read in conjunction with the December 31, 2013 audited annual consolidated financial statements and the notes.

These Interim Statements are based on the IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective as of May 13, 2014, the date these Interim Statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the impact of the changes in accounting policy disclosed below:

### (a) Change in Accounting Policy

The Company has adopted the following amendments to standards and new IFRIC interpretation for the financial year beginning January 1, 2014:

- Amendments to IAS 19, *Employee Benefits* (effective January 1, 2014) clarifies the accounting by entities with defined benefit plans that require contributions linked only to service in each period. The adoption of this amendment had no impact on the Company's financial position.
- Amendments to IAS 32, *Financial Instruments: Presentation* (effective January 1, 2014) clarifies existing application issues relating to offsetting requirements. The adoption of this amendment had no impact on the Company's financial position.
- IFRIC 21, *Levies* (effective January 1, 2014) provides guidance on the recognition of liabilities to pay levies to government bodies in accordance with legislation. This interpretation had no impact on the Company's financial position.

### (b) Future Accounting Pronouncements

The Company has not applied the following new standards and amendments to standards that have been issued but are not yet effective:

- IFRS 9, *Financial Instruments* (the IASB tentatively decided an effective date of January 1, 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Management is currently assessing the impact of the issued and proposed changes to IFRS 9.
- Amendments to IFRS 8, *Operating Segments* (effective January 1, 2015) require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. Management is currently assessing the impact of the amendments on its annual financial statement disclosures.

## 2. OTHER INCOME AND OTHER EXPENSES

Other income includes the following items:

Three months ended March 31 (\$ thousands)	2014	2013
Export of agricultural product (a)	\$ 42	\$ 24,549
	<b>\$ 42</b>	<b>\$ 24,549</b>

Other expenses include the following items:

Three months ended March 31 (\$ thousands)	2014	2013
Costs of export of agricultural product (a)	\$ 158	\$ 25,398
Project costs (b)	725	1,284
	<b>\$ 883</b>	<b>\$ 26,682</b>

- (a) In response to the Argentinean government's efforts to balance imports and exports and to manage access to foreign currency exchange, the Company's South American operations began to export an agricultural product from Argentina in the third quarter of 2012. As these export activities are not related to the Company's core business, income and expenses related to these exports have been reported in other income and other expenses effective second quarter 2013, and comparative figures in the statement of income have been adjusted accordingly.
- (b) Project costs relate to the implementation of a new Enterprise Resource Planning (ERP) system for the Company's global operations.

## 3. FINANCE COSTS

Finance costs include the following items:

Three months ended March 31 (\$ thousands)	2014	2013
Short-term debt	\$ 2,108	\$ 1,624
Long-term debt	15,730	17,209
Interest on debt securities	17,838	18,833
Loss on interest rate derivatives	220	367
Net interest on pension and other post-employment benefit obligations	1,215	1,230
Other finance related expenses	1,235	1,214
	<b>20,508</b>	<b>21,644</b>
Less:		
Borrowing costs capitalized to property, plant, and equipment	(5)	(105)
Finance costs	<b>\$ 20,503</b>	<b>\$ 21,539</b>



#### 4. FINANCIAL INSTRUMENTS

##### Fair Values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities

Level 2 – significant observable inputs other than quoted prices included in Level 1

Level 3 – significant unobservable inputs

<b>March 31, 2014</b> (\$ thousands)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
Foreign currency forward contracts	\$ —	\$ 1,106	\$ —	\$ 1,106
<b>Total</b>	<b>\$ —</b>	<b>\$ 1,106</b>	<b>\$ —</b>	<b>\$ 1,106</b>

Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	\$ —	\$ (7,567)	\$ —	\$ (7,567)
Variable rate share forward contract	—	(5,136)	—	(5,136)
<b>Total</b>	<b>\$ —</b>	<b>\$ (12,703)</b>	<b>\$ —</b>	<b>\$ (12,703)</b>

<b>December 31, 2013</b> (\$ thousands)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
Foreign currency forward contracts	\$ —	\$ 1,403	\$ —	\$ 1,403
<b>Total</b>	<b>\$ —</b>	<b>\$ 1,403</b>	<b>\$ —</b>	<b>\$ 1,403</b>

Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	\$ —	\$ (4,372)	\$ —	\$ (4,372)
Variable rate share forward contract	—	(11,673)	—	(11,673)
<b>Total</b>	<b>\$ —</b>	<b>\$ (16,045)</b>	<b>\$ —</b>	<b>\$ (16,045)</b>

The Company did not move any instruments between levels of the fair value hierarchy during the three months ended March 31, 2014 and year ended December 31, 2013.

### Variable rate share forward (Level 2)

The fair value of the variable rate share forward (VRSF) is determined based on the present value of future cash flows required to settle the VRSF which are derived from the current share price, actual interest accrued to date and future estimated interest cost to termination of the VRSF. Future interest cost is derived from market observable forward interest rates and contractual interest spreads.

### Other derivative instruments (Level 2)

The fair value of derivative instruments is determined using present value techniques applied to estimated future cash flows. These techniques utilize a combination of quoted prices and market observable inputs. Where appropriate, fair values are adjusted for credit risk based on observed credit default spreads or fair market yield curves for counterparties when the derivative instrument is an asset and based on Finning's credit risk when the derivative instrument is a liability. Finning's credit risk is derived from yield spreads on Finning's market quoted debt.

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from swap curves for comparable assets and liabilities. Contractual cash flows are calculated using a forward price at the maturity date derived from observed forward prices.

The fair value of accounts receivable, instalment notes receivable, short-term debt, and accounts payable approximates their recorded values due to the short-term maturities of these instruments.

### **Long-Term Debt**

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

(\$ thousands)	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 1,394,334	\$ 1,446,934	\$ 1,367,155	\$ 1,376,578

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the actual interest accrued to date. The present value of future cash flows is discounted using the yield to maturity rate as at December 31. This technique utilizes a combination of quoted prices and market observable inputs (Level 2).

### **5. 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 EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees.

#### **Three months ended March 31** **(\$ thousands, except share and per share amounts)**

2014	Income	Shares	Per Share
<b>Basic EPS:</b>			
Net income	\$ 67,907	172,070,600	\$ 0.39
Effect of dilutive securities: share options	—	835,630	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 67,907	172,906,230	\$ 0.39
<b>2013</b>			
<b>Basic EPS:</b>			
Net income	\$ 73,388	171,935,771	\$ 0.43
Effect of dilutive securities: share options	—	508,482	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 73,388	172,444,253	\$ 0.43

## 6. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in operating assets and liabilities

<b>Three months ended March 31</b> <b>(\$ thousands)</b>	<b>2014</b>	<b>2013</b>
Accounts receivable and other assets	\$ (36,846)	\$ (83,373)
Service work in progress	(17,024)	(10,797)
Inventories – on-hand equipment	(115,815)	106,934
Inventories – parts and supplies	(36,081)	(78,406)
Accounts payable and accruals and other liabilities	(74,281)	(125,505)
Income tax recoverable/payable	(1,518)	(4,642)
Other	1,815	1,931
<b>Changes in operating assets and liabilities</b>	<b>\$ (279,750)</b>	<b>\$ (193,858)</b>

### Components of cash and cash equivalents

<b>March 31</b> <b>(\$ thousands)</b>	<b>2014</b>	<b>2013</b>
Cash	\$ 153,770	\$ 113,967
Short-term investments	56,669	2,233
<b>Cash and cash equivalents</b>	<b>\$ 210,439</b>	<b>\$ 116,200</b>

## 7. EMPLOYEE BENEFITS

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans are as follows:

	March 31, 2014		December 31, 2013		March 31, 2013	
	Canada	UK	Canada	UK	Canada	UK
Discount rate – obligation	4.3%	4.4%	4.6%	4.5%	4.1%	4.7%
Discount rate – expense <sup>(1)</sup>	4.6%	4.5%	4.1%	4.6%	4.1%	4.6%
Retail price inflation – obligation	n/a	3.5%	n/a	3.5%	n/a	3.4%
Retail price inflation – expense <sup>(1)</sup>	n/a	3.5%	n/a	3.0%	n/a	3.0%

<sup>(1)</sup> Used to determine the net interest cost and expense for the three months ended March 31, 2014 and March 31, 2013, and the year ended December 31, 2013.

The expense and actuarial loss (gain) for the Company's pension plans is as follows:

Three months ended (\$ thousands)	March 31, 2014			March 31, 2013		
	Canada	UK & Ireland	Total	Canada	UK & Ireland	Total
<b>Defined contribution (DC) pension plans</b>						
Net benefit cost	\$ 10,389	\$ 2,163	\$ 12,552	\$ 10,248	\$ 1,666	\$ 11,914
<b>Defined benefit (DB) pension plans</b>						
Current service cost, net of employee contributions	1,870	—	1,870	2,400	—	2,400
Administration costs	99	274	373	99	39	138
Net interest cost	377	542	919	510	426	936
Net benefit cost	2,346	816	3,162	3,009	465	3,474
Net DC and DB benefit cost recognized in net income	\$ 12,735	\$ 2,979	\$ 15,714	\$ 13,257	\$ 2,131	\$ 15,388
Actuarial gain on plan assets	\$(16,357)	\$(4,841)	\$(21,198)	\$(7,475)	\$(26,100)	\$(33,575)
Actuarial loss on plan liabilities	17,781	10,333	28,114	27,674	10,254	37,928
Total actuarial loss (gain) recognized in other comprehensive income	\$ 1,424	\$ 5,492	\$ 6,916	\$ 20,199	\$(15,846)	\$ 4,353

The actuarial gain recognized in other comprehensive income for the Company's other post-employment benefit obligations for the three months ended March 31, 2014 was \$9.6 million.

## 8. SEGMENTED INFORMATION

The Company and its subsidiaries have operated primarily in one principal business during the year, that being the selling, servicing, and renting of heavy equipment, engines, and related products. The reportable segments are:

Three months ended March 31, 2014 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 891,035	\$ 549,662	\$ 235,526	\$ —	\$ 1,676,223
Operating costs	(810,879)	(480,893)	(215,451)	(3,200)	(1,510,423)
Depreciation and amortization	(27,930)	(18,386)	(8,561)	(19)	(54,896)
	52,226	50,383	11,514	(3,219)	110,904
Equity earnings (loss)	1,464	—	—	(739)	725
Other income (Note 2)	—	42	—	—	42
Other expenses (Note 2)	—	(883)	—	—	(883)
Earnings (loss) before finance costs and income taxes	\$ 53,690	\$ 49,542	\$ 11,514	\$ (3,958)	\$ 110,788
Finance costs					(20,503)
Provision for income taxes					(22,378)
Net income					\$ 67,907
Invested capital <sup>(1)</sup>	\$ 1,682,141	\$ 1,443,383	\$ 296,239	\$ (7,586)	\$ 3,414,177
Identifiable assets	\$ 2,495,882	\$ 2,202,640	\$ 605,323	\$ 49,326	\$ 5,353,171
Capital and rental equipment <sup>(2)</sup>	\$ 648,405	\$ 375,417	\$ 112,656	\$ 347	\$ 1,136,825
Gross capital expenditures <sup>(3)</sup>	\$ 9,899	\$ 5,268	\$ 522	\$ 171	\$ 15,860
Gross rental asset expenditures	\$ 46,481	\$ 1,816	\$ 812	\$ —	\$ 49,109
Three months ended March 31, 2013 (\$ thousands)	Canada	South America	UK & Ireland	Other	Consolidated
Revenue from external sources	\$ 755,968	\$ 613,087	\$ 190,871	\$ —	\$ 1,559,926
Operating costs	(675,571)	(536,935)	(171,642)	(7,140)	(1,391,288)
Depreciation and amortization	(26,306)	(17,236)	(8,614)	(19)	(52,175)
	54,091	58,916	10,615	(7,159)	116,463
Equity earnings	2,558	—	—	186	2,744
Other income (Note 2)	—	24,549	—	—	24,549
Other expenses (Note 2)	—	(26,333)	(349)	—	(26,682)
Earnings (loss) before finance costs and income taxes	\$ 56,649	\$ 57,132	\$ 10,266	\$ (6,973)	\$ 117,074
Finance costs					(21,539)
Provision for income taxes					(22,147)
Net income					\$ 73,388
Invested capital <sup>(1)</sup>	\$ 1,663,154	\$ 1,418,834	\$ 255,930	\$ (20,876)	\$ 3,317,042
Identifiable assets	\$ 2,464,442	\$ 2,220,520	\$ 493,287	\$ 16,176	\$ 5,194,425
Capital and rental equipment <sup>(2)</sup>	\$ 664,578	\$ 388,739	\$ 95,569	\$ 251	\$ 1,149,137
Gross capital expenditures <sup>(3)</sup>	\$ 12,039	\$ 7,787	\$ 599	\$ 125	\$ 20,550
Gross rental asset expenditures	\$ 35,958	\$ 9,289	\$ 1,046	\$ —	\$ 46,293

<sup>(1)</sup> Invested capital is calculated as total assets less total liabilities, excluding net debt

<sup>(2)</sup> Capital includes property, plant, and equipment and intangibles

<sup>(3)</sup> Includes finance leases and borrowing costs capitalized