2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 5, 2010

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, the Company's expectations of the future, and how the Company manages risk and capital resources. It is intended to enhance the understanding of the audited annual consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents, and should also be **read together with the text below on forward-looking statements**. Reference in this MD&A to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint ventures, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint ventures.

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in Canadian dollars, and prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

FORWARD-LOOKING STATEMENTS

Statements made in this MD&A that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions or projections of the future may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes.

Many factors and assumptions could have an impact on the materialization of the Company's projections, including, but not limited to, project performance, cost overruns, performance of joint venture partners, ability to attract and retain qualified personnel, subcontractors and suppliers, economic and political conditions, and other factors that are beyond its control. The Company cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties, and assumptions that would cause the Company's actual results to differ from current expectations, please refer to the section "Risks and Uncertainties" and the section "How We Analyze and Report Our Results", respectively, in this report, and under the section "Caution regarding forward-looking statements" of the Company's most recent Annual Information Form filed with the securities regulatory authorities in Canada, available at SEDAR (www.sedar.com).

The forward-looking statements in this document reflect the Company's expectations as at March 5, 2010, when the Company's Board of Directors approved this document, and are subject to change after this date.

TABLE OF CONTENTS

1 2009 Highlights

15.0% GROWTH IN NET INCOME	27.3% RETURN ON AVERAGE SHAREHOLDERS' EQUITY	$722.9 million NET CASH POSITION

INCREASE IN 2009 NET INCOME

> Net income for the year ended December 31, 2009 increased to $359.4 million ($2.36 per share on a diluted basis), compared to $312.5 million ($2.05 per share on a diluted basis) in 2008.

- The significant year over year increase in net income for 2009 of 15.0%, or $46.9 million, was mainly due to an overall increase in the Company's gross margin-to-revenue ratio, primarily from the improved profitability of its Packages activities, partially offset by a lower Services gross margin-to-revenue ratio, and the expected lower level of Packages activities. The Company's gross margin-to-revenue ratio for its Packages activities, on which the focus in 2009 was to bring back to within its historical range of 7% to 10%, was 16.2%, surpassing this range. This was mainly due to favourable cost reforecasts on certain major projects nearing completion, or completed in 2009, and approved change orders for which the Company had already reflected the costs.
- The main contributors to the increase in profitability for 2009 were Power, and Infrastructure and Environment, partially offset by Chemicals and Petroleum, and Mining and Metallurgy.

LOWER REVENUES IN 2009

> Revenues were $6.1 billion in 2009, compared to $7.1 billion in 2008, mainly reflecting an anticipated decrease in the Packages revenue category.

- Packages activities were lower compared with 2008, primarily due to certain major projects in Chemicals and Petroleum, and Power that were near or nearing completion towards the end of 2008.

STRONG FINANCIAL POSITION

> The Company's balance sheet position remained solid, with cash and cash equivalents of $1,218.2 million as at December 31, 2009, compared to $988.2 million as at December 31, 2008.

- The increase in 2009 mainly reflects cash generated from operations totalling $398.5 million, coupled with the proceeds from the issuance of recourse long-term debt totalling $350 million, partially offset primarily by cash used for investing activities, including the acquisition of property and equipment from infrastructure concession investments and payments for infrastructure concession investments.
- Net cash position (cash and cash equivalents, excluding cash and cash equivalents from Infrastructure Concession Investments less recourse debt) remained strong at $722.9 million as at December 31, 2009, and $854.6 million as at December 31, 2008, and is a key financial indicator of the Company's financial capability to meet its expected operating, investing and financing plans.

ISSUANCE OF RECOURSE LONG-TERM DEBT

> On July 3, 2009, the Company issued 10-year unsecured debentures totalling $350 million maturing in July 2019, bearing interest at a rate of 6.19% per year. The Company expects to use the net proceeds from this issuance for the following:

- Fully repay its $105 million principal amount 7.70% unsecured debentures due in September 2010;
- Fund potential investments in Infrastructure Concession Investments opportunities;
- Make potential selective business acquisitions; as well as
- For general corporate purposes.

STRONG REVENUE BACKLOG

> The Company's revenue backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and Infrastructure Concession Investments, remained strong, totalling $10.8 billion as at December 31, 2009, and $9.6 billion as at December 31, 2008, as detailed below:

DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009	2008
Services	**$ 1,464.9**	$ 1,545.3
Packages	**4,197.5**	3,508.0
Operations and Maintenance	**2,596.1**	2,196.2
Infrastructure Concession Investments	**2,578.7**	2,342.7
Total	**$ 10,837.2**	$ 9,592.2

INFRASTRUCTURE CONCESSION INVESTMENTS ("ICI") NOTABLE EVENTS

> The following notable events took place during the year with respect to the Company's ICI portfolio:

- Astoria II, 18.5% owned by the Company, obtained over US$1 billion of project financing, which is non-recourse to SNC-Lavalin, to construct a 550 MW natural gas-fired combined cycle power plant in Queens, New York, for which construction is currently underway; and
- Groupe Immobilier Ovation, 100% owned by the Company, was awarded a contract by the Government of Quebec to design, build and finance a new concert hall for the Montreal Symphony Orchestra that it will subsequently operate and maintain under a 29-year concession agreement ending in 2038.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

> ROASE was 27.3% for the 12-month period ended December 31, 2009, compared to 29.1% in 2008, and to 16.4% in 2007, significantly surpassing the Company's performance objective of 600 basis points above the long-term Canada Bond Yield, which totalled 9.9% in 2009.

DIVIDENDS INCREASE

> On March 5, 2010, the Company's Board of Directors approved a quarterly dividend of $0.17 per share, a 13.3% increase from the previous dividend declared, consistent with the Company's positive outlook.

2010 OUTLOOK

> With a strong revenue backlog and diverse prospects in Canada and outside Canada, the Company expects its 2010 net income to be as high or higher than 2009.

2 Overview of Our Business and Strategy

2.1 OUR BUSINESS

SNC-Lavalin, with its global workforce totalling about 22,000 people, provides its clients with engineering and construction, and operations and maintenance expertise. The Company has a network of offices located across Canada and in over 35 other countries around the world, and is currently working on projects in some 100 countries, making it the leading engineering and construction company in Canada, and among the leaders in the world, as well as a leader in operations and maintenance in Canada. SNC-Lavalin also makes selective investments in infrastructure concessions.

SNC-LAVALIN CONSISTS OF:
22,000 EMPLOYEES
working on over
10,000 PROJECTS in some 100 COUNTRIES
offering all-inclusive expertise that meets Client's needs
and making selective investments in infrastructure concessions

Engineering and construction expertise offered as **Services** or **Packages**, to clients in multiple industries:

- Infrastructure and Environment
- Power
- Chemicals and Petroleum
- Mining and Metallurgy
- Other Industries (including agrifood, pharmaceuticals and biotechnology, and sulphuric acid)

Operations and Maintenance activities provided for asset life cycle management to clients, in various lines of business:

- Facility management
- Industrial
- Transportation
- Defence and remote camp logistics

Selectively invest in **Infrastructure Concession Investments**, that whenever possible, yield potential complementary engineering and construction, and/or operations and maintenance contract opportunities, while seeking an acceptable return for our shareholders, in utilities such as:

- Airports
- Bridges
- Cultural and public service buildings
- Power
- Mass transit systems
- Roads
- Water

2.1.1 ENGINEERING AND CONSTRUCTION EXPERTISE PROVIDED VIA **SERVICES** AND **PACKAGES** ACTIVITIES

Engineering and construction expertise is provided by the Company's employees to clients as either Services or Packages activities:

> Services: include contracts in which SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning. In particular, Services contracts that provide for engineering, project and construction management are referred to as "EPCM" contracts. Services revenues are derived primarily from cost-plus reimbursable contracts.

> Packages: include contracts in which SNC-Lavalin takes on the responsibility not only for providing one or more of the Services activities listed above, but also **undertakes the responsibility** for providing materials/equipment and/or construction activities. In particular, Packages contracts that include all of engineering services, providing materials/equipment and construction activities are referred to as "EPC" contracts. Packages revenues are derived primarily from fixed-price contracts.

Services and Packages activities are offered to clients in multiple industries including, amongst others, Infrastructure and Environment, Power, Chemicals and Petroleum, and Mining and Metallurgy. Refer to section 3.2 of this report for a complete list and accompanying descriptions of the Company's industry segments.

2.1.2 OPERATIONS AND MAINTENANCE ACTIVITIES

Operations and Maintenance activities are provided by the Company's employees to clients in the following lines of business:

> **Facility management:** includes all aspects of building operations and management, realty management, project delivery and commissioning, energy management and sustainability initiatives, and program management;

> **Industrial:** includes specialized expertise to oversee the operations and maintenance of assets such as turbines, steam generators, boilers, electrical systems, mechanical systems, and manufacturing installations, from start-up mobilization to steady-state operation;

> **Transportation:** includes operations, maintenance and rehabilitation management for large infrastructure assets including water supply and treatment systems, public transit systems, highways, bridges and tunnels; and

> **Defence and remote camp logistics:** includes support to Canada's Navy, servicing many different types of vessels, from research and defence boats to tugs and many other classes of ships, and also includes support to Canada's Armed Forces, as well as large mining, metallurgy, petrochemical, and oil and gas operations by building and maintaining temporary camps and living facilities around the world.

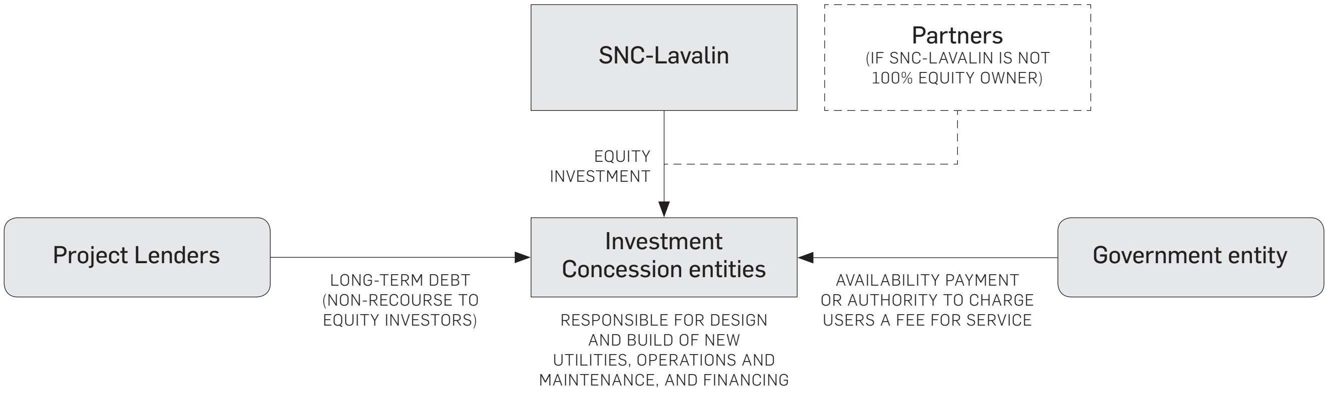
SNC-Lavalin's expertise in Operations and Maintenance activities permits the Company to combine such activities with Services or Packages, offering all-inclusive expertise that meets clients' needs, and to complement its Infrastructure Concession Investments.

2.1.3 INFRASTRUCTURE CONCESSION INVESTMENTS ("**ICI**")

SNC-Lavalin **makes selective investments** in infrastructure concessions that are complementary to its other activities discussed above, and for which its technical, engineering, project and construction management, construction, and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinct advantage.

The Company's ICI are typically public utilities including **airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water**. These public utilities are usually being provided by government-owned entities, however, many countries are now turning to the private sector to take ownership and to finance, operate and maintain the assets, usually for a defined period of time. Also, in many instances, government-owned entities are looking to the private sector for designing and building new public utilities. Governments are turning to the private sector as a way of transferring some of the risks associated with designing, building, operating, maintaining and financing such utilities. In return, the government will either: i) commit to make regular payments, usually in the form of availability payments, upon the start of operations of the utility for a defined period of time (typically 20 to 40 years); ii) authorize the infrastructure concession entity to charge users of the utilities for a defined period of time; or iii) a combination of both.

For SNC-Lavalin, a **typical** structure when investing in an infrastructure concession is illustrated below:



Typically, SNC-Lavalin will be interested to invest in an ICI when:

> The investment is expected to provide an internal rate of return reflective of the responsibilities being assumed under a long-term arrangement with the government entity;

> The investment gives SNC-Lavalin the opportunity to provide complementary engineering and construction and/or operations and maintenance activities;

> SNC-Lavalin has an established technical base in the country;

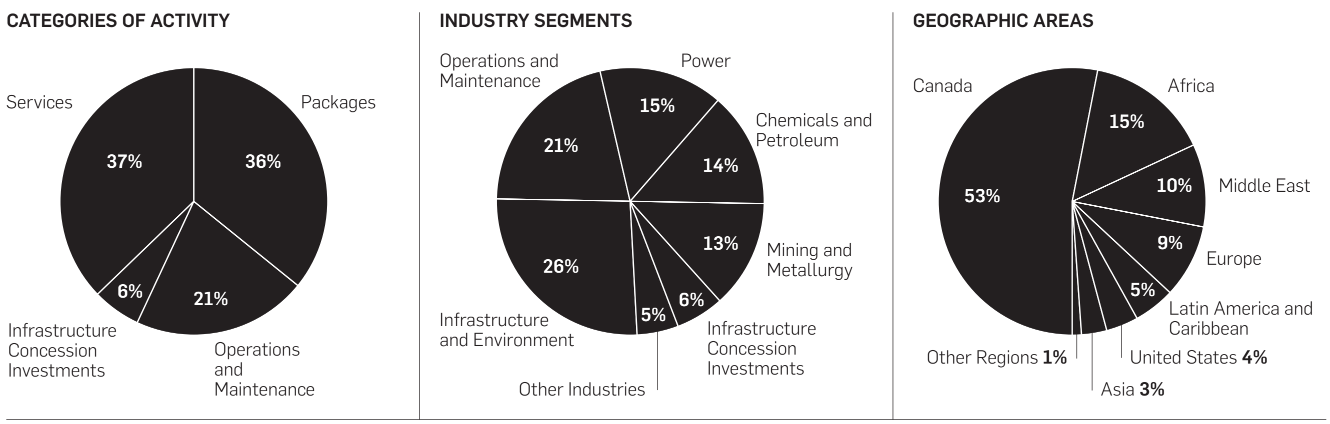
> SNC-Lavalin has an understanding of any applicable regulatory framework; and

> Financing is available through long-term non-recourse debt secured by the ICI's specific assets.

2.1.4 DIVERSITY OF THE COMPANY'S REVENUE BASE

SNC-Lavalin has more than 10,000 projects ongoing in multiple geographic regions and for multiple industry segments. The Company's geographic and industry diversification is a key factor that has enabled it to sustain its profitability growth over the years. The diversity of the Company's revenue base and its capacity to operate in different categories of activity, as well as industry segments and geographic areas, is illustrated in the charts below, based on its 2009 revenues.

DIVERSITY OF THE COMPANY'S REVENUE BASE



FOUR CATEGORIES OF ACTIVITY THAT ARE COMPLEMENTARY… | …SERVING MULTIPLE INDUSTRY SEGMENTS… | …WITH WORLDWIDE GEOGRAPHIC COVERAGE WITH CANADA BEING ITS LARGEST BASE

2.2 OUR BUSINESS STRATEGY AND ACTIONS TAKEN IN 2009

SNC-Lavalin's business strategy is founded on three key components which are:

> Maintain world-class expertise in the technical sectors where we have already achieved it, and attain the same level of expertise in the Company's other sectors;

> Develop well-established engineering bases in several key geographic areas; and

> Continue to selectively invest in infrastructure concessions.

SNC-Lavalin, with its technical expertise, is recognized as a global leader for engineering and construction in mining and metallurgy (light metals, base metals, iron ore and fertilizers), chemicals and petroleum, power (hydro, nuclear, thermal, and transmission and distribution), and transport (airports, mass transit systems and seaports), as well as for its infrastructure activities in local markets. The Company is also a leader in operations and maintenance in Canada and strives to expand this activity internationally while continuing to grow in Canada by expanding its offering across its multiple lines of business.

A key value of SNC-Lavalin that has traditionally contributed to its growth is performing and delivering to clients quality work. The Company cultivates technical expertise through its centres of excellence that are responsible for establishing best practices and ensuring technical knowledge sharing amongst the Company's employees working on similar projects.

Successful project execution requires proper project risk management in order to ensure high quality projects are delivered to clients on budget and on schedule. The Company's ability to obtain projects from repeat clients or attain awards from new clients depends on its ability to successfully execute its projects. As such, SNC-Lavalin continuously invests in developing best industry practices for project execution, as well as risk management, and caring for the environment, the community and its employees with investments in such areas as training and health and safety.

The Company has a network of offices in over 35 countries and continues to search for opportunities either to expand its presence in a particular country or enter a new country, or to expand or gain technical expertise. In 2009, the Company completed acquisitions or invested for partial ownership in a number of companies, as listed below, which added to its technical expertise and presence in certain geographic areas:

> Marte Engenharia Ltda., a Brazilian engineering firm with approximately 1,000 people serving the power industry in Brazil and Latin America, with particular expertise in the design of high voltage transmission lines and electrical substations. This acquisition expands the Company's world-class technical expertise in Power to Brazil where SNC-Lavalin is already a leader in Mining and Metallurgy;

> Investment in OAO VNIPIneft (48% of common shares), a leading Russian engineering company specialized in oil refining, gas processing, petrochemicals and chemicals with approximately 900 employees. This transaction increases the Company's access to the Russian market and Russian expertise;

> Spectrol Energy Services Inc., a Canadian engineering and technical services firm in St. John's, Newfoundland and Labrador, employing approximately 75 people. This acquisition brings to the Company technical expertise in inspection, quality, asset integrity, maintenance and reliability engineering for the oil and gas industry and other natural resource sectors and adds to the Company's already strong presence in Newfoundland and Labrador, Canada;

> BV2 BVBA, a Belgian firm specialized in pharmaceutical and biotechnology engineering employing approximately 60 people enhances the Company's presence in this industry sector;

> VST Ingenieros Ltda, a Chilean consulting engineering firm of approximately 50 employees specialized in mining geotechnical work with expertise and technology in the field of thickened tailings disposal; and

> Antis Conseils et Ingénierie S.A.S., involved in industrial engineering and logistics, and Cabinet d'Études Édouard Coumelongue Ingénieurs Conseils S.A., with expertise in infrastructure studies, employing a total of approximately 30 people.

SNC-Lavalin continues to selectively invest in ICI that complement its other activities. The Company primarily targets ICI whereby it can obtain engineering and construction contracts to design and build the assets and apply its operations and maintenance expertise to operate such assets primarily focusing within countries that are familiar to the Company through its established network of offices. SNC-Lavalin's objective is to create value for its shareholders, and therefore, may divest of an ICI when deemed appropriate. In 2009, the Company was awarded a 29-year concession agreement from the Government of Quebec to design, build, operate, maintain and finance a new concert hall for the Montreal Symphony Orchestra, to be located in downtown Montreal, Canada.

SNC-Lavalin's business strategy described above, along with its strong operating efficiencies, the strong culture of financial accountability among its workforce, and the diversity of its revenue base, has permitted the Company to consistently sustain good results for over a decade and to pay increasing dividends to its shareholders.

3 How We Analyze and Report Our Results

3.1 RESULTS BY CATEGORY OF ACTIVITY

The Company reports its results under **four categories of activities**, which are **Services**, and **Packages** (which together regroup activities from engineering and construction), **Operations and Maintenance**, and **Infrastructure Concession Investments**. The Company regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles.

3.1.1 SERVICES ACTIVITIES

Services revenues are derived primarily from cost-plus reimbursable contracts. When entering into EPCM contracts the Company does not account for construction and/or procurement amounts in its revenues, as it is acting as an agent to manage the procurement and/or construction on behalf of its clients. As such, Services revenues are typically lower than those of Packages activities, which are discussed below, as they only reflect the professional services rendered and not the capital cost of the materials, equipment and/or construction. Services activities have historically generated a gross margin yield between 25% and 29%.

3.1.2 PACKAGES ACTIVITIES

Packages activities are different than Services activities in that the Company assumes the risk of construction and/or procurement. As such, **Packages revenues** include the capital cost of materials, equipment and/or construction. Below are detailed examples that differentiate between an EPCM Services contract and an EPC Packages contract. The Company's Packages activities have historically generated a gross margin yield between 7% and 10%.

UNDERSTANDING THE DIFFERENCE BETWEEN AN EPCM CONTRACT (SERVICES) AND AN EPC CONTRACT (PACKAGES)

Scenario 1 assumes that the client has awarded an EPCM contract to SNC-Lavalin for a project with an estimated capital cost of $100 million, and that the project generates a gross margin-to-revenue ratio of 27%, in line with the Company's historical average for Services activities. The nominal gross margin generated on this project would be $4.1 million on revenues of $15 million. In this example, revenues generated on the EPCM contract, which would be included under the Services revenues category as the services are rendered, represent 15% of the capital cost of the project. Such percentage could vary from one project to another.

SCENARIO 1—EPCM SERVICES CONTRACT

(IN MILLIONS OF CANADIAN DOLLARS)	
Services:	
Total revenues	**$ 15.0**
Total gross margin	**$ 4.1**
Gross margin-to-revenue ratio	**27%**

Scenario 2 assumes that the client has awarded a $100 million fixed-price EPC contract (i.e., corresponding to the project's capital cost) to SNC-Lavalin. The Company will recognize the following results over the life of the project based on the percentage of completion method, assuming that the project generates a gross margin-to-revenue ratio of 9%, in line with the Company's historical average for Packages activities.

SCENARIO 2—EPC PACKAGES CONTRACT

(IN MILLIONS OF CANADIAN DOLLARS)	
Packages:	
Total revenues	**$ 100.0**
Total gross margin	**$ 9.0**
Gross margin-to-revenue ratio	**9%**

The higher nominal gross margin generated under Scenario 2 (i.e., $9.0 million) compared to Scenario 1 (i.e., $4.1 million) reflects the additional risks assumed by the Company related to fixed-price Packages contracts, which are subject to cost-overruns as well as delivering the project on time to the client for its commercial use.

3.1.3 OPERATIONS AND MAINTENANCE ACTIVITIES

Operations and Maintenance revenues are derived primarily from cost reimbursable with a fixed-fee contracts and from fixed-price contracts. Operations and Maintenance activities usually involve a high volume of transactions, which are mainly cost-reimbursable by the client, and thereby result in a lower gross margin-to-revenue ratio than Services and Packages activities. Operations and Maintenance activities have historically attracted a gross margin yield between 3% and 5%.

3.1.4 INFRASTRUCTURE CONCESSION INVESTMENTS ("**ICI**") ACTIVITIES

ICI revenues are generated from dividends or distributions received by SNC-Lavalin from the investment concession entities or from all or a portion of an investment concession entity's net results or revenues, depending on the accounting method required by Canadian GAAP.

3.1.4.1 ADDITIONAL FINANCIAL INFORMATION ON ICI TO BETTER UNDERSTAND OUR FINANCIAL STATEMENTS

Per Canadian GAAP, the basis under which the Company's audited annual consolidated financial statements are prepared, SNC-Lavalin's ICI are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. As a result, the Company's consolidated balance sheet includes the line by line impact of fully consolidating and proportionately consolidating some of its ICI.

ICI, unlike Services, Packages and Operations and Maintenance activities, are often capital intensive due to the ownership of infrastructure assets that are financed mainly with project-specific debt, which is non-recourse to the general credit of the Company. Therefore, when fully consolidating or proportionately consolidating the investment concession entities that are controlled or jointly controlled, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts. Also, a large portion of the Company's depreciation and amortization, and most of its interest expense is from the full consolidation or proportionate consolidation of these investment concession entities.

In order to provide the reader with a better understanding of its financial statements, the Company presents certain distinct financial information related specifically to its ICI segment throughout its financial statements:

> On the consolidated balance sheet, the property and equipment and the related non-recourse long-term debt of ICI are shown on separate lines;

> In Note 4 to the 2009 audited annual consolidated financial statements, the Company presents additional information about the line by line impact on the consolidated balance sheet from its investments that are fully and proportionately consolidated and provides the net book value for its ICI by the applicable method of accounting; and

> In certain other notes to the audited annual consolidated financial statements, information regarding ICI is disclosed separately from other activities. Also, the Company discloses the net income from ICI, comprised of its proportionate share of the net income of Highway 407 and the net income from other ICI, as this information is useful for assessing the value of the Company's share price.

In certain places throughout this MD&A activities from Services, Packages, and Operations and Maintenance are collectively referred to as "from other activities" or "excluding ICI" to distinguish them separately from ICI.

3.2 RESULTS BY SEGMENT USED FOR ACCOUNTABILITY

The Company's results are analyzed by segment. The segments regroup related activities within SNC-Lavalin **consistent with the way management performance is evaluated.**

Services and Packages activities relate to engineering and construction operations and are presented in the way management performance is evaluated by regrouping its projects within the industries they are executed for, and are as follows:

> **Infrastructure and Environment** includes a full range of infrastructure projects, including airports, bridges, buildings, seaports, marine and ferry terminals, flood control systems, healthcare facilities, mass transit systems, railways, roads, and water treatment and distribution infrastructure and facilities for the public and private sectors, as well as environmental projects, including impact assessments and studies, site assessment, remediation and reclamation, ecological and human health risk assessments, waste management, water and wastewater, marine and coastal management, air quality and acoustics, environmental management, climate change, institutional strengthening and rural development.

> **Power** includes projects in hydro, nuclear and thermal power generation, transmission and distribution, as well as in energy control systems.

> **Chemicals and Petroleum** includes projects in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas ("LNG"), coal to liquid gas, carbon capture, transportation and sequestration, pipelines, terminals and pump stations, refining and upgrading, bitumen production, biofuels, petrochemicals and chemicals.

> **Mining and Metallurgy** includes a full range of services for all mineral and metal recovery processes, including mine development, mineral processing, smelting, refining, mine closure and reclamation, and fertilizers.

> **Other Industries** combines projects in several industry sectors, namely agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as projects related to other industrial facilities not already identified as part of any other segment above.

Operations and Maintenance regroups activities as discussed in section 2.1.2 above.

Infrastructure Concession Investments regroups SNC-Lavalin's investments in infrastructure concessions, as discussed in sections 2.1.3 and 8.3 of this report.

Accountability for the Company's performance rests with members of senior management, whereby a portion of their remuneration is based on the profitability of their respective operations, as well as their individual objectives and on the Company's overall financial performance.

3.3 HOW WE BUDGET AND FORECAST OUR RESULTS AND BASIS FOR PROVIDING FORWARD-LOOKING FINANCIAL GUIDANCE

The Company prepares a formal annual budget ("Annual Budget"), a process that begins at the project level, whereby budget information is prepared for individual projects and/or prospects, which form the primary basis for the Company's consolidated Annual Budget. The project information is then compiled by each division and approved by the Company's divisional management. The divisional budgets are subsequently reviewed by the Company's senior executives followed by approval from the Board of Directors. This Annual Budget forms the basis for the Company being able to provide a financial outlook. The Annual Budget is updated to reflect current information during the year as the Company prepares forecasts of its annual expected results in the first, second and third quarters ("Quarterly Forecasts"), which are presented to the Board of Directors. In addition, the performance of each individual project (i.e., its estimated revenues and costs to complete) is continuously reviewed by its respective project manager and, depending on the size and risk profile of the project, by key management personnel, including the divisional manager, the divisional executive vice-president, the chief financial officer and the chief executive officer.

The two key elements taken into account when preparing the Company's Annual Budget for Services, Packages, and Operations and Maintenance activities are, 1) its revenue **backlog** (a non-GAAP financial measure described in section 6 of this report) and **prospects list**, and 2) the **execution and expected performance**, which reflects estimated revenues and costs, **on each individual project**.

1. The Company's revenue **backlog** is used to estimate a portion of its future revenues taking into account each individual project. The backlog is maintained current at all times, reflecting any changes to projects in which the Company is currently involved. Such changes could include, although not exhaustively, additions in the form of newly awarded contracts that are considered firm, changes of scope to the amount of work to be performed on a given project, and project cancellations, if any.

   The Company's **prospects list** is derived from contracts that the Company is currently bidding on, and/or future projects for which it intends to actively compete. For prospects, the Company utilizes what is referred to as a "Go-Get Percentage", which is a product of the expectation that the client will go forward with the contract (i.e., "Go"), and the probability that it will be awarded to the Company (i.e., "Get"). This "Go-Get Percentage" is applied to the value of the contract, taking into account the duration of the project, the project's expected revenues and costs (as discussed below), as well as the expected start date of the work.

2. The **expected revenues and costs** (or execution) **of projects** are determined on an individual project basis, and take into consideration assumptions on risks and uncertainties that can have an impact on the progress and/or profitability of that project, such as, but not limited to, performance of the Company's employees and of subcontractors or equipment suppliers, as well as price and availability of labour, equipment and materials. The expected performance of a project is estimated for both backlog and prospects in order to derive the Company's consolidated budgeted or forecasted revenues and gross margin.

Budgeted and forecasted selling, general and administrative expenses, interest and capital taxes expense, and income tax expense are derived from detailed analyses and are influenced by the level of anticipated activities and profitability.

In regards to its Infrastructure Concession Investments budget and forecast, the Company uses expected results based on assumptions specific to each investment, and updates these expectations on a quarterly basis.

A key management tool is the monthly evaluation and analysis of actual results compared to the Annual Budget or the Quarterly Forecasts, for revenue, gross margin and profitability. This enables management to analyze its performance and if necessary take remedial actions. Variations from plan may arise mainly from the following:

> The level of activities, which varies depending on the number of newly awarded, ongoing, completed or near-completed projects and on the progress made on each of these projects in the period;

> Any changes in the estimated revenues and/or costs to complete each individual project, such as the estimated costs to complete projects for fixed-price contracts, resulting in either a positive or negative impact to a project's reforecast. Increases or decreases in profitability for any given fixed-price project are largely dependent on project execution;

> Any change in the revenue mix between Services, Packages, and Operations and Maintenance activities; and

> Any changes in the results or dividends and distributions of its ICI.

As discussed above, the Annual Budget and Quarterly Forecasts are built up by individual project, which form the basis for the Company's forward-looking information.

3.4 HOW THE COMPANY IS GENERALLY VALUED

The Company is generally valued based on the nature of its business, and, as such, most financial analysts and investors who monitor the Company's performance estimate its fair value as the sum of the following three components:

1. **Value of the Company's business excluding ICI and freehold cash.** The value of this component is calculated based on a price/earnings multiplier applied to consolidated net income excluding the Company's net income from its ICI and interest income net of tax from freehold cash. For this purpose, the Company discloses as supplementary information its net income excluding ICI, as well as the amount of freehold cash, on which the effective yield earned was 0.55% and 2.82% before taxes, in 2009 and 2008, respectively.
2. **Value of SNC-Lavalin's ICI**, based on an estimate of the fair value for each ICI. The fair value is calculated using a discounted expected future cash flows methodology, or using the stock market bid price for shares of any investment that is traded on an active market, both of which are more relevant than a price/earnings methodology. The Company believes that the value of its ICI is considerably higher than its book value of $720.3 million at December 31, 2009, which is disclosed in Note 4 of its 2009 audited annual consolidated financial statements.
3. **Value of freehold cash**, defined as the amount of cash and cash equivalents not committed for the Company's operations or investments in infrastructure concessions, which amounted to approximately $800 million as at December 31, 2009, compared to approximately $600 million as at December 31, 2008 (refer to Section 10.2 of this report).

It should be noted that, although this methodology is used by most of the financial analysts and investors who monitor the Company's performance, it is not the only way to estimate the Company's fair value. The description of this methodology is intended to provide the reader with a better understanding of how the market generally evaluates the fair value of the Company and to help the reader understand why management discloses certain financial information through this MD&A and its audited annual consolidated financial statements.

3.5 NON-GAAP FINANCIAL MEASURES

Some of the indicators used by the Company to analyze and evaluate its results represent non-GAAP financial measures. Consequently, they do not have a standardized meaning as prescribed by Canadian GAAP, and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful information because they allow for the evaluation of the performance of the Company and its components based on various aspects, such as past, current and expected profitability and financial position. These non-GAAP financial measures include the following Company indicators:

NON-GAAP FINANCIAL MEASURE	DEFINITION
Performance	
Revenue backlog	A forward-looking indicator of unearned revenues from awarded contracts, described in detail in section 6 of this report.
ROASE	Return on equity corresponding to the Company's trailing 12-month after-tax earnings divided by its trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)", described in detail in section 10.9 of this report.
Operating income	Described in section 8 of this report.
Liquidity	
Net cash position	Cash and cash equivalents less cash and cash equivalents from ICI and recourse debt, described in detail in section 10.2 of this report.
Freehold cash	Cash and cash equivalents not committed for the Company's operations and not committed for investments in ICI, described in detail in section 10.2 of this report.

Definitions of all non-GAAP financial measures are provided above, as well as throughout this document, as necessary, to give the reader a better understanding of the indicators used by management, and when applicable, the Company provides a clear quantitative reconciliation from the non-GAAP financial measures to the most directly comparable measure calculated in accordance with GAAP. Of the measures described above, the Company's net cash position can be readily reconciled to GAAP measures, and therefore is done so in section 10.2 of this report.

4 Our Key Financial Performance Indicators

The Company continuously strives to create value for its shareholders by regularly evaluating its overall performance using key financial indicators, namely:

> **Net income**, which is used by the Company to evaluate its profitability and communicate its growth objective, as the Company focuses on net income growth as opposed to revenue growth;

> **Return on Average Shareholders' Equity**, which is used as a measure of return on equity; and

> **Net cash position, excluding net cash position from ICI**, which is a key indicator of the Company's financial capability.

The following table presents a summary of the Company's key financial performance indicators and compares the results achieved as at or for the years ended December 31, 2009, 2008 and 2007, with the Company's corresponding financial objectives.

KEY FINANCIAL INDICATORS

FINANCIAL INDICATOR	FINANCIAL OBJECTIVE	ACTUAL RESULTS		
		2009	2008	2007
Growth in net income	Annual growth between 7% and 12%	☑ **15.0%**	☑ 106.4%	☒ (4.1%)
Return on Average Shareholders' Equity ("ROASE")	At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 9.9% for 2009 and 10.1% for 2008)	☑ **27.3%**	☑ 29.1%	☑ 16.4%
Net cash position (cash and cash equivalents, excluding cash and cash equivalents from ICI, less recourse debt)	Maintain a strong balance sheet with a net cash position sufficient to meet expected operating, financing and investing plans	☑ **$722.9M**	☑ $854.6M	☑ $963.9M

☑ IN LINE OR ABOVE FINANCIAL OBJECTIVE ☒ BELOW FINANCIAL OBJECTIVE

Net income in 2009 increased by 15.0%, or $46.9 million, to $359.4 million ($2.36 per share on a diluted basis), compared to $312.5 million ($2.05 per share on a diluted basis) in 2008, surpassing the Company's long-term objective of attaining annual growth in net income between 7% and 12%. The significant growth in net income for 2009 reflects an overall increase in the Company's gross margin-to-revenue ratio, primarily from the improved profitability of its Packages activities, partially offset by a lower Services gross margin-to-revenue ratio, and the expected lower level of Packages activities. The Company's gross margin-to-revenue ratio for its Packages activities, on which the focus in 2009 was to bring back to within its historical range of 7% to 10%, was 16.2%, surpassing this range. This was mainly due to favourable cost reforecasts on certain major projects nearing completion, or completed in 2009, and approved change orders for which the Company had already reflected the costs. The 106.4% growth in net income in 2008 followed a 4.1% decrease in 2007, as the 2007 results included a significant loss from Power.

The 2009 ROASE of 27.3% exceeded the Company's objective for the year of 9.9%, reflecting a solid performance. The Company was able to achieve such significant ROASE while having a strong cash position ($1.2 billion of cash and cash equivalents at December 31, 2009), which generated an average yield of 0.55% before taxes in 2009, as interest rates were at historically low levels.

The Company's net cash position of $722.9 million as at December 31, 2009 is representative of its strong balance sheet, which allows the Company to meet expected operating, investing and financing plans.

The Company ensures these key financial performance indicators are communicated throughout its divisions as both net income and ROASE are key components of its employee bonus plans.

The Company also uses other indicators throughout this report to analyze the performance of specific items or areas of its business, such as operating income by segment, gross margin by project and by category of activity, internal rate of return, dividends and distributions from ICI, cash flows from operating activities, working capital employed by project and overall working capital position, recourse debt-to-capital ratio, capital expenditures compared to depreciation (excluding ICI), level of selling, general and administrative expenses compared to gross margin, revenue backlog and gross margin backlog.

5 Breakdown of Income Statement

FINANCIAL RESULTS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	2009		2008		2007	
Revenues by activity:						
Services	**$ 2,221.4**		$ 2,305.4		$ 1,726.1	
Packages	**2,202.2**		3,229.5		3,635.7	
Operations and Maintenance	**1,297.9**		1,225.0		1,058.4	
ICI	**380.2**		347.0		309.4	
	$ 6,101.7		$ 7,106.9		$ 6,729.6	
Gross margin by activity:						
Services	**$ 562.7**	**25.3%**	$ 678.1	29.4%	$ 492.5	28.5%
Packages	**357.4**	**16.2%**	130.0	4.0%	(121.4)	(3.3%)
Operations and Maintenance	**50.1**	**3.9%**	43.6	3.6%	48.8	4.6%
ICI	**180.9**	**47.6%**	161.2	46.5%	145.4	47.0%
	$ 1,151.1	**18.9%**	$ 1,012.9	14.3%	$ 565.3	8.4%
Selling, general and administrative expenses	**545.6**		515.2		392.8	
Interest (revenues) and capital taxes:						
From ICI	**112.2**		108.2		104.6	
From other activities	**16.0**		(13.7)		(32.1)	
	128.2		94.5		72.5	
Income from continuing operations before income taxes and non-controlling interest	**477.3**		403.2		100.0	
Income taxes	**108.2**		85.1		23.5	
Non-controlling interest	**9.7**		5.6		9.2	
Net income from continuing operations	**359.4**		312.5		67.3	
Net income from discontinued operations	**–**		–		84.1	
Net income	**$ 359.4**		$ 312.5		$ 151.4	
Earnings per share from continuing operations ($)						
Basic	**$ 2.38**		$ 2.07		$ 0.45	
Diluted	**$ 2.36**		$ 2.05		$ 0.44	
Earnings per share ($)						
Basic	**$ 2.38**		$ 2.07		$ 1.00	
Diluted	**$ 2.36**		$ 2.05		$ 0.99	
Supplementary information:						
SNC-Lavalin's net income from ICI						
From Highway 407	**$ 9.8**		$ 20.0		$ 10.1	
From other ICI	**27.1**		17.2		13.2	
Net income excluding ICI						
From continuing operations	**322.5**		275.3		44.0	
From discontinued operations	**–**		–		84.1	
Net income	**$ 359.4**		$ 312.5		$ 151.4	

5.1 NET INCOME ANALYSIS

Net income increased to $359.4 million in 2009, compared to $312.5 million in 2008, and to $151.4 million in 2007. The increase in net income in 2009 compared to 2008 was mainly due to the growth in net income excluding ICI. The increase in net income in 2008 compared to 2007 was mainly due to the growth in net income excluding ICI, combined with a higher contribution from ICI.

Net income excluding ICI increased to $322.5 million, compared to $275.3 million in 2008, mainly due to an overall increase in the Company's gross margin-to-revenue ratio, primarily from the improved profitability of its Packages activities, partially offset by a lower Services gross margin-to-revenue ratio, and the expected lower level of Packages activities. The Company's gross margin-to-revenue ratio for its Packages activities, on which the focus in 2009 was to bring back to within its historical range of 7% to 10%, was 16.2%, surpassing this range. This was mainly due to favourable cost reforecasts on certain major projects nearing completion, or completed in 2009, and approved change orders for which the Company had already reflected the costs. The increase in net income in 2008, compared to 2007, was mainly due to a higher gross margin-to-revenue ratio from Packages, coupled with an increased level of Services activities. The net income from 2007 included a significant loss in Power that was partially offset by a net income from discontinued operations.

Net income from ICI of $36.9 million in 2009 was in line with the previous year, as a decrease in net income from Highway 407, was offset by an increase in net income from other ICI primarily due to AltaLink. The net income from ICI increased in 2008 compared to the previous year, reflecting higher contributions mainly from AltaLink, primarily from increased revenues, and from Highway 407, mainly due to lower interest expense coupled with a future income tax benefit.

5.2 REVENUE AND GROSS MARGIN ANALYSIS

Revenues decreased to $6,101.7 million in 2009, compared to $7,106.9 million in 2008, mainly reflecting the expected decreased level of activities in Packages. The increase in 2008 compared to 2007, reflected increased activities in Services, Operations and Maintenance, and ICI, partially offset by decreased activities in Packages.

Gross margin increased to $1,151.1 million in 2009, from $1,012.9 million in 2008, mainly reflecting an increase in the Packages gross margin-to-revenue ratio, partially offset by a lower Services gross margin-to-revenue ratio, and the expected decreased level of Packages activities. The increase in gross margin in 2008, compared to 2007, mainly reflects a positive contribution from Packages, which had a negative gross margin in 2007 primarily due to the loss on the Goreway 880 MW combined cycle thermal power plant project in Power, coupled with increased Services activities.

In 2010, the Company expects its revenues to increase, with a higher level of activities in Packages and ICI, while Services, and Operations and Maintenance revenues are expected to remain in line with 2009. **Gross margin is also expected to increase**, mainly reflecting higher expected Services gross margin, from a higher gross margin-to-revenue ratio, coupled with an increased level of gross margin from ICI, and Operations and Maintenance activities.

5.2.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues, which were expected to remain in line with the previous year, **decreased slightly to $2,221.4 million**, compared to $2,305.4 million in 2008, mainly due to decreased activities primarily in Chemicals and Petroleum, partially offset mainly by Infrastructure and Environment.

Over the past five years, Services activities have more than doubled, as illustrated in the table below:

(IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008	2007	2006	2005
Services revenues	**$ 2,221.4**	$ 2,305.4	$ 1,726.1	$ 1,180.2	$ 958.5

Services gross margin decreased to $562.7 million in 2009, compared to $678.1 million in 2008, mainly due to a decreased gross margin-to-revenue ratio, reflecting a lower profitability on certain major projects, and a decreased level of activities.

As illustrated in the table below, Services gross margin-to-revenue ratio has been approximately between 25% and 29% over the past five years.

	2009	2008	2007	2006	2005
Services gross margin-to-revenue ratio	**25.3%**	29.4%	28.5%	27.7%	26.1%

The Company expects Services revenues for 2010 to remain in line with 2009, while **the Company expects the Services gross margin in 2010 to increase** compared to 2009, reflecting an expected higher gross margin-to-revenue ratio.

5.2.2 PACKAGES REVENUES AND GROSS MARGIN

As expected, **Packages revenues decreased in 2009, totalling $2,202.2 million**, compared to $3,229.5 million in 2008, with decreases primarily from Chemicals and Petroleum, and Power, mainly due to certain major projects that were near or nearing completion towards the end of 2008.

Packages activities increased significantly from 2005 to 2007 as illustrated in the table below, while some major projects were completed or nearing completion in 2008 and 2009.

(IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008	2007	2006	2005
Packages revenues	**$ 2,202.2**	$ 3,229.5	$ 3,635.7	$ 2,835.9	$ 1,704.1

The gross margin for Packages increased to $357.4 million in 2009, compared to $130.0 million in 2008, due to a higher gross margin-to-revenue ratio, mainly from favourable cost reforecasts on certain major projects nearing completion, or completed in 2009, and approved change orders for which the company had already reflected the costs, partially offset by a decreased level of activities primarily due to the completion and near-completion of certain major projects.

Packages gross margin-to-revenue ratio has historically been between 7% and 10%, however as illustrated in the table below this ratio has been lower than this range from 2005 to 2008. In 2009, the historical range was surpassed, mainly due to the favourable cost reforecasts and change orders mentioned above.

	2009	2008	2007	2006	2005
Packages gross margin-to-revenue ratio	**16.2%**	4.0%	(3.3%)	2.5%	6.4%

The Company expects Packages revenues for 2010 to increase compared to 2009, reflecting increased activities, mainly in Chemicals and Petroleum, and Infrastructure and Environment, with a revenue backlog as at December 31, 2009 that is higher compared to December 31, 2008. **Packages gross margin for 2010 is expected to remain in line** with 2009, as the Company expects its Packages gross margin-to-revenue ratio to be lower than 2009, but towards the upper end of the Company's historical range of 7% to 10%, offset by an increased level of activities.

5.2.3 OPERATIONS AND MAINTENANCE REVENUES AND GROSS MARGIN

As expected, **Operations and Maintenance revenues increased, totalling $1,297.9 million in 2009**, compared to $1,225.0 million in 2008, mainly reflecting increased volume from certain ongoing contracts primarily in Canada.

As illustrated in the table below, Operations and Maintenance activities have increased every year for the past five years:

(IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008	2007	2006	2005
Operations and Maintenance revenues	**$ 1,297.9**	$ 1,225.0	$ 1,058.4	$ 920.9	$ 695.9

Operations and Maintenance gross margin increased to $50.1 million in 2009, from $43.6 million in 2008, mainly reflecting a higher gross margin-to-revenue ratio on certain ongoing contracts, coupled with an increased volume.

Gross margin-to-revenue ratio for Operations and Maintenance has been approximately between 3% and 5% over the past five years, as shown in the table below.

	2009	2008	2007	2006	2005
Operations and Maintenance gross margin-to-revenue ratio	**3.9%**	3.6%	4.6%	3.9%	5.4%

The Company expects Operations and Maintenance revenues in 2010 to remain in line with 2009. **In 2010, the gross margin is expected to increase** compared to 2009, due to a higher gross margin-to-revenue ratio.

5.2.4 ICI REVENUES AND GROSS MARGIN

The relationship between revenues and gross margin for ICI activities may not be meaningful, as a significant portion of the investments are accounted for under the equity and cost methods, which do not reflect the line by line items of the individual ICI's financial results.

As expected, **ICI revenues increased, totalling $380.2 million in 2009**, compared to $347.0 million in 2008, reflecting higher revenues mainly from AltaLink and Okanagan Lake Concession, both of which report revenues that are fully consolidated. **The gross margin increased to $180.9 million in 2009**, from $161.2 million in 2008, relating mainly to the increase in revenues.

As illustrated in the table below, the Company's gross margin from ICI has increased significantly over the past five years, reflecting mainly growth from AltaLink and Highway 407, coupled with the commencement of operations of Okanagan Lake Concession in 2008.

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	2007	2006	2005
ICI gross margin	**$ 180.9**	$ 161.2	$ 145.4	$ 102.0	$ 60.9

The Company expects ICI revenues to increase in 2010, mainly due to AltaLink and Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), as this latter will benefit from a full year of operations in 2010, and Highway 407. **Gross margin in 2010 is expected to increase**, mainly due to anticipated increased activities from AltaLink, SKH and Highway 407.

5.3 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

Selling, general and administrative expenses, which were expected to remain in line with the previous year, **increased to $545.6 million in 2009**, compared to $515.2 million in 2008, mainly reflecting the increase in selling costs, while general and administrative expenses remained in line with the previous year. Selling costs relate mainly to costs for proposals and business development activities. General and administrative expenses are comprised primarily of occupancy costs relating mostly to the cost of rent, and support functions such as accounting, human resources and general management. The table below presents the Company's selling costs and general and administrative expenses.

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	Change (%)
Selling costs	**$ 163.0**	$ 135.8	20.1%
General and administrative expenses	**382.6**	379.4	0.8%
Selling, general and administrative expenses	**$ 545.6**	$ 515.2	5.9%

The Company expects selling, general and administrative expenses in 2010 to remain in line with 2009. The Company continues to maintain an appropriate balance between gross margin and selling, general and administrative expenses, while sustaining the necessary investment in selling activities in order to achieve its growth objective. In 2009, the selling, general and administrative expenses as a percentage of gross margin was approximately 47%, below the level of the past five years, mainly due to the higher gross margin from Packages activities in 2009.

	2009	2008	2007	2006	2005
Selling, general and administrative expenses as a percentage of total gross margin	**47.4%**	50.9%	69.5%	53.1%	56.2%

5.4 INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

As expected, **interest and capital taxes expenses increased in 2009, totalling $128.2 million**, compared to $94.5 million in 2008. Interest and capital taxes are analyzed separately for amounts from ICI and from other activities.

Interest and capital taxes expenses from ICI increased in 2009, totalling $112.2 million, compared to $108.2 million in 2008, mainly due to i) higher interest expense of $20.3 million from the inflation component of the Company's proportionate share of Highway 407's inflation-indexed debt, **partly offset** mainly by ii) lower Capital taxes and other, primarily due to the Company's proportionate share of a favourable fair value adjustment of $3.0 million relating to Highway 407's investment in long-term non-bank notes ("Notes", mainly asset-backed commercial paper converted to Notes in 2009), compared with a proportionate share of an unfavourable fair value adjustment on these Notes of $6.7 million in 2008, and iii) interest revenues of $10.0 million generated from providing temporary financing to Astoria II.

Interest expense and capital taxes from other activities increased in 2009, totalling $16.0 million, compared to interest revenues net of capital taxes of $13.7 million in 2008. The increase was mainly due to i) decreased interest revenues resulting, as expected, from lower effective yields, partially offset by a higher average cash balance in 2009, and ii) increased interest expense mainly from the recourse 10-year unsecured debentures totalling $350 million, bearing interest at a rate of 6.19% per year, issued by the Company on July 3, 2009.

(IN MILLIONS OF CANADIAN DOLLARS)	2009			2008		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (11.6)**	**$ (5.0)**	**$ (16.6)**	$ (3.7)	$ (26.0)	$ (29.7)
Interest on long-term debt:						
Recourse	**–**	**19.0**	**19.0**	–	8.3	8.3
Non-recourse						
AltaLink	**55.1**	**–**	**55.1**	59.7	–	59.7
Highway 407	**62.7**	**–**	**62.7**	39.4	–	39.4
Others	**9.5**	**–**	**9.5**	6.1	0.4	6.5
Capital taxes and other	**(3.5)**	**2.0**	**(1.5)**	6.7	3.6	10.3
Interest (revenues) and capital taxes	**$ 112.2**	**$ 16.0**	**$ 128.2**	$ 108.2	$ (13.7)	$ 94.5

The Company expects interest and capital taxes expenses to increase in 2010, mainly due to higher interest expense from ICI and from other activities.

Interest expense from ICI is expected to increase in 2010, mainly from higher interest expense from AltaLink, primarily for the additional debt anticipated to be issued to finance its expected capital expenditure program in 2010.

Interest expense from other activities is expected to increase in 2010, primarily due to the full year of expense for the debentures totalling $350 million issued in July 2009, partly offset by higher expected interest revenues.

5.5 INCOME TAXES ANALYSIS

The effective income tax rate, which was expected to be higher than the previous year, **increased to 22.7% in 2009**, from 21.1% in 2008. The increase in the effective income tax rate was mainly due to SNC-Lavalin's proportionate share of the recognition of future income tax assets that were previously unrecognized related to Highway 407, which were significantly higher in 2008 than in 2009.

The following table shows a summary of the Company's effective tax rate presented separately from ICI and from other activities.

(IN MILLIONS OF CANADIAN DOLLARS)	2009			2008		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Income before income taxes and non-controlling interest	**$ 54.0**	**$ 423.3**	**$ 477.3**	$ 37.7	$ 365.5	$ 403.2
Income taxes	**$ 8.4**	**$ 99.8**	**$ 108.2**	$ 0.5	$ 84.6	$ 85.1
Effective tax rate (%)	**15.5%**	**23.6%**	**22.7%**	1.4%	23.1%	21.1%

The Company expects the 2010 overall effective income tax rate to be in line with 2009.

As illustrated in the table below, the Company's effective tax rate has been lower than the statutory Canadian tax rate since 2006, mainly resulting from the geographic mix of the Company's activities, and in 2008 and 2009, from the recognition of income tax benefit of Highway 407 described above.

	2009	2008	2007	2006	2005
Statutory tax rate	**30.6%**	30.9%	32.7%	32.5%	32.3%
Effective tax rate	**22.7%**	21.1%	23.5%	27.7%	32.5%

6 Revenue Backlog

The Company reports revenue backlog, which is a non-GAAP financial measure, for its **categories of activities**: i) **Services**, ii) **Packages**, iii) **Operations and Maintenance**, and iv) **ICI**. Revenue backlog is a **forward-looking indicator of anticipated revenues** that will be recognized by the Company. It is determined based on **contract awards** that are considered **firm**, as well as on a **five-year rolling basis** for recurring revenues from **ICI** activities accounted for under the **full consolidation** or **proportionate consolidation** methods where the Company exercises control or joint control, respectively. In the case of **Operations and Maintenance** activities, the Company **limits** the revenue backlog to **the earlier of**, i) **the contract term awarded**, and ii) **the next five years**.

The Company reports ICI backlog revenues from fully and proportionately consolidated investments since the future revenues of these concessions constitute one of the Company's categories of revenue activities, and also because this is useful information for the reader about the Company's expected revenues from such concessions, which include mainly AltaLink and Highway 407. Future revenues from ICI accounted for under the equity or cost methods are not reported in backlog as they represent the Company's expected share of net results or dividends and distributions, which although important to the Company's net income, are less significant as a percentage of the Company's overall revenues.

The Company aims to provide a revenue backlog that is both meaningful and current. As such, the Company regularly reviews its backlog to ensure that it reflects any modifications, which include awards of new projects, changes of scope on current projects, and project cancellations, if any.

REVENUE BACKLOG BY SEGMENT AND BY CANADA AND OUTSIDE CANADA, BY CATEGORY OF ACTIVITY

The following table provides a breakdown of revenue backlog by segment, and by Canada and outside Canada, both by category of activity.

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
Services and Packages					
Infrastructure and Environment	$ 677.9	$ 2,034.6	$ –	$ –	$ 2,712.5
Power	253.5	436.1	–	–	689.6
Chemicals and Petroleum	170.5	1,553.5	–	–	1,724.0
Mining and Metallurgy	297.9	–	–	–	297.9
Other Industries	65.1	173.3	–	–	238.4
Operations and Maintenance	–	–	2,596.1	–	2,596.1
ICI	–	–	–	2,578.7	2,578.7
Total	$ 1,464.9	$ 4,197.5	$ 2,596.1	$ 2,578.7	$ 10,837.2
BY CANADA AND OUTSIDE CANADA					
Canada	$ 364.7	$ 1,225.4	$ 2,234.5	$ 2,578.7	$ 6,403.3
Outside Canada	1,100.2	2,972.1	361.6	–	4,433.9
Total	$ 1,464.9	$ 4,197.5	$ 2,596.1	$ 2,578.7	$ 10,837.2

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
Services and Packages					
Infrastructure and Environment	$ 676.8	$ 2,174.4	$ –	$ –	$ 2,851.2
Power	194.7	546.0	–	–	740.7
Chemicals and Petroleum	179.5	647.9	–	–	827.4
Mining and Metallurgy	392.0	–	–	–	392.0
Other Industries	102.3	139.7	–	–	242.0
Operations and Maintenance	–	–	2,196.2	–	2,196.2
ICI	–	–	–	2,342.7	2,342.7
Total	$ 1,545.3	$ 3,508.0	$ 2,196.2	$ 2,342.7	$ 9,592.2
BY CANADA AND OUTSIDE CANADA					
Canada	$ 305.6	$ 778.7	$ 1,878.1	$ 2,342.7	$ 5,305.1
Outside Canada	1,239.7	2,729.3	318.1	–	4,287.1
Total	$ 1,545.3	$ 3,508.0	$ 2,196.2	$ 2,342.7	$ 9,592.2

The Company's revenue backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and ICI, **increased to $10.8 billion at December 31, 2009**, compared to $9.6 billion at the end of 2008, reflecting an increase in the Packages, Operations and Maintenance, and ICI categories, partly offset by a decrease in the Services category.

Backlog from Canada increased to $6,403.3 million at the end of 2009, from $5,305.1 million at the end of the previous year, primarily due to an increase in Packages mainly from Infrastructure and Environment, as well as an increase in Operations and Maintenance, and ICI.

Backlog from Outside Canada was $4,433.9 million at the end of 2009, compared to $4,287.1 million at the end of the previous year, mainly due to an increase in Packages, primarily from Chemicals and Petroleum, partially offset by a decrease in Services, mainly in Mining and Metallurgy.

6.1 SERVICES BACKLOG

Services backlog totalled $1,464.9 million at the end of 2009, compared to $1,545.3 million at the end of the previous year, reflecting progress on projects mainly from Mining and Metallurgy, and Other Industries, partially offset by an increase from Power.

RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008
Opening backlog	**$ 1,545.3**	$ 1,556.5
Add: Contract bookings during the year	**2,060.6**	2,281.1
Backlog from engineering business acquisitions	**80.4**	13.1
Less: Revenues recognized during the year	**2,221.4**	2,305.4
Ending backlog	**$ 1,464.9**	$ 1,545.3

Services bookings totalled $2,060.6 million in 2009, compared to $2,281.1 million in 2008, and included notable additions in 2009 such as:

> **Astoria Project Partners II LLC** (Power/United States): The EPCM contract for a 550 MW natural gas-fired combined cycle power plant in New York, USA;

> **Dahla Dam Project** (Infrastructure and Environment/Asia): The cost-plus reimbursable project financed by the Canadian International Development Agency ("CIDA") to provide consulting and professional services to conduct emergency repairs to an irrigation dam and irrigation system, perform a feasibility study to increase the water retention capacity of the dam, institute government rules and regulations to better manage the water and provide training to improve crop production in Afghanistan;

> **Ferro Carajás** (Mining and Metallurgy/Latin America and Caribbean): The specialized management and engineering services contract for basic engineering completion and consolidation, and early works development for a 90 million metric tpy greenfield iron ore mine, processing plant and train loading facility in Brazil;

> **Gaby Phase II** (Mining and Metallurgy/Latin America and Caribbean): The cost-plus reimbursable EPCM contract to expand the capacity of the dry area facilities from 31 million tpy to 47½ million tpy of leach heaps and ore handling and the wet area from 150,000 tpd to 170,000 tpd of fine copper in Antofagasta, Chile;

> **Guelb II Enrichment Plant** (Mining and Metallurgy/Africa): The cost-plus EPCM contract for the construction of an iron ore enrichment plant with a capacity of 4 million tpy in Mauritania;

> **Mali Agriculture Sector Support Project** (Infrastructure and Environment/Africa): A joint venture cost reimbursable project financed by the CIDA to reduce poverty for the shallot/onion/garlic and shea-butter sub-sectors in Mali, by improving production, productivity and product quality, reducing losses, increasing sales and strengthening the organizations/networks to reach an equitable distribution of profits;

> **La Romaine II Hydroelectric Power Plant** (Infrastructure and Environment/Canada): A cost-plus reimbursable contract for Hydro-Québec, awarded through a consortium, to provide professional services for materials engineering, geological and geotechnical testing and for quality control over materials for the development of a hydroelectric power plant in Quebec;

> **Sino Iron Offshore Fabrication Supervision Services** (Mining and Metallurgy/Asia): A cost-plus contract to provide contract management services for the construction of a desalination plant and to provide engineering project management services for the fabrication of in-mine crushing equipment for a magnetite mine in Western Australia; and

> **Wasit Gas Development Program** (Chemicals and Petroleum/Middle East): The front-end engineering and project management services contract for the Wasit gas development program that will provide for the production and processing of up to 2.5 billion standard cubic feet per day of gas in Saudi Arabia.

6.2 PACKAGES BACKLOG

Packages backlog increased to $4,197.5 million at the end of 2009, compared to $3,508.0 million at the end of 2008, resulting primarily from new awards in Chemicals and Petroleum, partially offset by Infrastructure and Environment, and Power.

RECONCILIATION OF PACKAGES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008
Opening backlog	**$ 3,508.0**	$ 4,457.0
Add: Contract bookings during the year	**2,891.7**	2,280.5
Less: Revenues recognized during the year	**2,202.2**	3,229.5
Ending backlog	**$ 4,197.5**	$ 3,508.0

Packages bookings in 2009 amounted to $2,891.7 million, compared to $2,280.5 million in the previous year. Contract bookings in 2009 included notable additions such as:

> **Calgary West Light Rapid Transit ("LRT")** (Infrastructure and Environment/Canada): A contract to design, build and manage the procurement for an eight-kilometre extension to the LRT Transit System consisting primarily of six passenger stations, nine traction power substations, a major highway interchange, and two park-and-ride facilities in Calgary;

> **Concentra** (Other Industries/Europe): The fixed-price EPC contract for the design and construction of a replacement to one of the current evapo-crystallization facilities with a new mechanical vapour recompression ("MVR") unit for the now 560,000 tpy of dry sodium saltworks in the commune of Varangéville, France;

> **Edmonton Region 240 kV** (Power/Canada): The contract for the commissioning and testing of 12 kilometres of new line, 50 kilometres of rebuilt lines and the restringing of approximately 12 kilometres of additional line to remove existing system constraints and increase the capacity of certain 240 kV lines in Edmonton;

> **Montreal Symphony Orchestra ("MSO")** (Infrastructure and Environment/Canada): The EPC portion of an agreement with the Government of Quebec to design and build a new 2,100-seat concert hall for the MSO in downtown Montreal;

> **New Research & Development Facility** (Other Industries/Canada): An EPC contract to provide architectural, engineering, procurement and construction services to build a new 88,230 sq ft LEED certified research and development facility for GeneOhm Sciences Canada Inc. in Quebec;

> **Rhourde Nouss** (Chemicals and Petroleum/Africa): An EPC contract to design and build a gas treatment complex and a natural gas process facility capable of producing and processing 3.5 billion m^3 of natural gas per year in Algeria;

> **SaskPower Yellowhead** (Power/Canada): The contract for the installation of three aeroderivative gas turbine generator sets and the completion of a 140 MW natural gas-fired thermal power plant in Saskatchewan;

> **Unit 2 Steam Generator Replacement Installation** (Power/United States): A multi-phase EPC project to replace two existing steam generators for the Prairie Island nuclear generating plant in Minnesota; and

> **World Expo Pavilion** (Infrastructure and Environment/Asia): A contract to design and construct the 6,000 square-metre Canada Pavilion for the 2010 World Exposition in Shanghai, China, a building that will include many green features.

6.3 OPERATIONS AND MAINTENANCE BACKLOG

Operations and Maintenance backlog totalled $2,596.1 million at the end of 2009, compared to $2,196.2 million at the end of 2008, in large part due to renewals on certain key contracts in Canada, partially offset by contracts that have come to term and normal fluctuations in the timing of the long-term contracts, primarily in Canada.

RECONCILIATION OF OPERATIONS AND MAINTENANCE BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008
Opening backlog	**$ 2,196.2**	$ 2,513.9
Add: Contract bookings during the year	**1,697.8**	907.3
Less: Revenues recognized during the year	**1,297.9**	1,225.0
Ending backlog	**$ 2,596.1**	$ 2,196.2

Notable contract bookings in 2009 included additions such as:

> The 2-year extension of the contract with Public Works and Government Services Canada for property management and project delivery services;

> The 5-year extension of the contract with Canada Post Corporation to provide engineering, installation, snow clearance and maintenance services for its Community Mailbox program; and

> The agreement to operate and maintain a 2,100-seat concert hall for the MSO in downtown Montreal, Canada.

A large number of the Company's Operations and Maintenance contracts have been signed for a period that extends well beyond the five-year timeframe that is included in its backlog for this category of activity. The following table indicates the revenue backlog for the Operations and Maintenance category by year for the five years that have been included in backlog, per the Company's booking policy, as well as the anticipated revenues to be derived thereafter, based on its firm contracts, which are not included in backlog.

	INCLUDED IN BACKLOG						NOT INCLUDED IN BACKLOG
(IN MILLIONS OF CANADIAN DOLLARS)	2010	2011	2012	2013	2014	TOTAL	THEREAFTER
Operations and Maintenance backlog	$ 679.5	$ 668.7	$ 661.9	$ 372.6	$ 213.4	$ 2,596.1	$ 1,976.2

6.4 INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The following table presents the details of the ICI revenue backlog as at December 31, 2009 and 2008:

INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008
AltaLink	**$ 1,877.4**	$ 1,685.2
Highway 407	**600.7**	558.4
Others	**100.6**	99.1
Total backlog	**$ 2,578.7**	$ 2,342.7

The ICI revenue backlog increased to $2,578.7 million at the end of 2009, compared to $2,342.7 million at the end of the previous year, mainly due to expected increased revenues from AltaLink.

The revenue backlog presented for AltaLink as at December 31, 2009 and 2008 represents 100% of its estimated recurring revenues for the next five years, as the investment is fully consolidated, whereas for Highway 407, which is proportionately consolidated, it represents SNC-Lavalin's 16.77% proportionate share of the estimated recurring revenues for the next five years.

7 Geographic Breakdown of Revenues by Category of Activity

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**					
	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL	
Canada	**$ 694.3**	**$ 948.1**	**$ 1,196.0**	**$ 380.3**	**$ 3,218.7**	**53%**
Outside Canada						
Africa	**235.0**	**597.0**	**56.7**	**(1.2)**	**887.5**	**15%**
Middle East	**361.4**	**229.1**	**0.8**	**–**	**591.3**	**10%**
Europe	**342.7**	**204.8**	**17.9**	**2.1**	**567.5**	**9%**
Latin America and Caribbean	**164.9**	**124.3**	**–**	**–**	**289.2**	**5%**
United States	**217.0**	**56.0**	**–**	**(1.0)**	**272.0**	**4%**
Asia	**178.4**	**12.9**	**21.0**	**–**	**212.3**	**3%**
Other Regions	**27.7**	**30.0**	**5.5**	**–**	**63.2**	**1%**
	1,527.1	**1,254.1**	**101.9**	**(0.1)**	**2,883.0**	**47%**
Total	**$ 2,221.4**	**$ 2,202.2**	**$ 1,297.9**	**$ 380.2**	**$ 6,101.7**	**100%**

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008					
	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL	
Canada	$ 740.9	$ 1,368.9	$ 1,154.5	$ 346.1	$ 3,610.4	51%
Outside Canada						
Africa	280.5	586.8	44.7	(1.4)	910.6	13%
Middle East	305.6	874.7	1.2	–	1,181.5	17%
Europe	369.0	183.9	–	2.3	555.2	8%
Latin America and Caribbean	199.0	148.0	–	–	347.0	5%
United States	203.3	31.8	–	–	235.1	3%
Asia	135.1	2.1	18.0	–	155.2	2%
Other Regions	72.0	33.3	6.6	–	111.9	1%
	1,564.5	1,860.6	70.5	0.9	3,496.5	49%
Total	$ 2,305.4	$ 3,229.5	$ 1,225.0	$ 347.0	$ 7,106.9	100%

7.1 REVENUES IN CANADA

Revenues in Canada, as expected, **decreased in 2009, totalling $3,218.7 million**, compared to $3,610.4 million in 2008, mainly due to a lower level of Packages activities.

Services activities in Canada decreased to $694.3 million in 2009, compared to $740.9 million in 2008, mainly reflecting decreased activities in Chemicals and Petroleum, partially offset by increased activities in Infrastructure and Environment.

Packages activities in Canada decreased to $948.1 million in 2009, compared to $1,368.9 million in the previous year, reflecting mainly a lower level of activities from Infrastructure and Environment, Power, and Chemicals and Petroleum, primarily due to the near-completion or completion of certain major projects.

Operations and Maintenance activities in Canada increased by $41.5 million in 2009, to $1,196,0 million, mainly due to an increased volume from ongoing contracts.

The increase of $34.2 million in ICI in Canada for 2009 compared with 2008 reflects primarily higher revenues from AltaLink and Okanagan Lake Concession.

In 2010, revenues in Canada are expected to increase compared to 2009, mainly due to higher Services activities, primarily from Mining and Metallurgy, and Power, as well as from ICI activities, mainly due to AltaLink and Highway 407, partially offset by decreased activities in Packages, primarily from Power.

7.2 REVENUES FROM OUTSIDE CANADA

As expected, **revenues from outside Canada decreased in 2009, totalling $2,883.0 million**, compared to $3,496.5 million in 2008, with decreased activities mainly in Packages.

- **Revenues from Africa were $887.5 million in 2009**, compared to $910.6 million in 2008, due to decreased Services activities, mainly from Mining and Metallurgy, and Power, partly offset primarily by Infrastructure and Environment.
- **Revenues from the Middle East decreased to $591.3 million in 2009**, compared to $1,181.5 million in 2008, mainly reflecting decreased Packages activities from Chemicals and Petroleum, due to the near-completion, or completion of certain major projects, as well as from Infrastructure and Environment, and Mining and Metallurgy.
- **Revenues from Europe were $567.5 million in 2009**, compared to $555.2 million in 2008, mainly attributable to increased activities in Packages, mainly from Chemicals and Petroleum, partially offset by decreased Services activities, mainly from Mining and Metallurgy.
- **Revenues in Latin America and Caribbean were $289.2 million in 2009**, compared to $347.0 million in 2008, mainly reflecting decreased Services activities in Mining and Metallurgy, coupled with decreased Packages activities from Other Industries.
- **United States revenues increased to $272.0 million in 2009** from $235.1 million in 2008, mainly due to increased Packages activities primarily in Chemicals and Petroleum.
- **In Asia, revenues increased to $212.3 million in 2009**, from $155.2 million in the previous year, primarily reflecting increased Services activities mainly from Mining and Metallurgy.
- **Revenues from Other Regions totalled $63.2 million in 2009**, compared to $111.9 million in 2008, mainly due to decreased Services activities in Chemicals and Petroleum.

The Company expects revenues from outside Canada in 2010 to increase compared to 2009, mainly due to an overall higher level of Packages activities, mainly in Chemicals and Petroleum, and Infrastructure and Environment.

8 Operating Results by Segment

As mentioned previously, the Company's results are analyzed by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is evaluated: i) **Services and Packages** relate to engineering and construction expertise, for which the Company presents the information in the way management performance is evaluated, and regroups its projects within the industries they are executed for, namely **Infrastructure and Environment**, **Power**, **Chemicals and Petroleum**, **Mining and Metallurgy**, and **Other Industries**; ii) **Operations and Maintenance**; and iii) **ICI**.

The following discussion reviews the Company's revenues and operating income by segment. Refer to Note 3 of the 2009 audited annual consolidated financial statements to obtain information on the way the Company determines operating income.

The table below summarizes the contribution by segment for 2009 and 2008.

OPERATING RESULTS BY SEGMENT

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**			2008		
	REVENUES	OPERATING INCOME	OPERATING INCOME OVER REVENUES	REVENUES	OPERATING INCOME (LOSS)	OPERATING INCOME (LOSS) OVER REVENUES
Services and Packages						
Infrastructure and Environment	**$ 1,602.6**	**$ 212.9**	**13.3%**	$ 1,700.4	$ 113.0	6.6%
Power	**921.9**	**88.0**	**9.5%**	1,176.2	(24.4)	(2.1%)
Chemicals and Petroleum	**829.4**	**21.0**	**2.5%**	1,416.8	104.4	7.4%
Mining and Metallurgy	**764.7**	**72.2**	**9.4%**	859.0	117.0	13.6%
Other Industries	**305.0**	**40.6**	**13.3%**	382.5	46.8	12.2%
Operations and Maintenance	**1,297.9**	**32.5**	**2.5%**	1,225.0	25.4	2.1%
ICI	**380.2**	**36.9**	**9.7%**	347.0	37.2	10.7%
Total	**$ 6,101.7**	**$ 504.1**	**8.3%**	$ 7,106.9	$ 419.4	5.9%

The summary table below compares the actual contributions of each segment in 2009 to the initial expectations expressed in the 2008 annual Management's Discussion and Analysis, and presents the Company's expectations for 2010.

SUMMARY TABLE—OPERATING INCOME BY SEGMENT

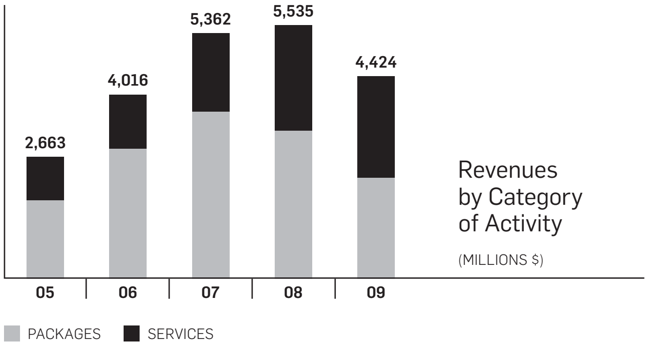
	2009			2010
	EXPECTATIONS	ACTUAL	ACTUAL VS. EXPECTATIONS	EXPECTATIONS
Services and Packages				
Infrastructure and Environment	⬆	⬆	☑	⬇
Power	⬆	⬆	☑	⬇
Chemicals and Petroleum	⬇	⬇	☑	⬆
Mining and Metallurgy	⬇	⬇	☑	—
Other Industries	—	⬇	☒	—
Operations and Maintenance	⬆	⬆	☑	⬆
ICI	⬆	—	☒	⬆
Total operating income	⬆	⬆	☑	⬆

⬆ INCREASE COMPARED TO PREVIOUS YEAR ⬇ DECREASE COMPARED TO PREVIOUS YEAR — IN LINE WITH PREVIOUS YEAR ☑ IN LINE OR ABOVE EXPECTATIONS ☒ BELOW EXPECTATIONS

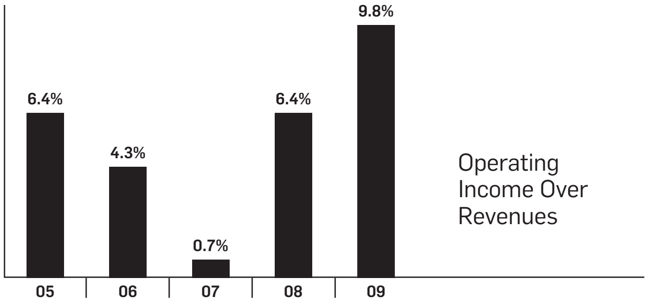
In 2009, the Company's operating income by segment was either in line with or above expectations, except for Other Industries and ICI.

8.1 SERVICES AND PACKAGES ACTIVITIES

Engineering and construction expertise is provided by the Company's employees to clients as either Services or Packages activities. The graphs below illustrate the distribution of revenues between Services and Packages (i.e., Services contracts which are typically cost-plus and Packages contracts which are typically fixed-price) as well as the operating income-to-revenue ratio. The variation in the operating income-to-revenue ratio is influenced mainly by i) the revenue mix as Services and Packages activities generate different gross margin-to-revenue ratios, and ii) the execution of fixed-price Packages contracts.



Revenues by Category of Activity
(MILLIONS $)



Operating Income Over Revenues

8.1.1 INFRASTRUCTURE AND ENVIRONMENT

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Infrastructure and Environment			
Services	**$ 634.3**	$ 534.5	18.7%
Packages	**968.3**	1,165.9	(17.0%)
Total	**$ 1,602.6**	$ 1,700.4	(5.8%)
Operating income from Infrastructure and Environment	**$ 212.9**	$ 113.0	88.3%
Operating income over revenues from Infrastructure and Environment (%)	**13.3%**	6.6%	N/A

Revenues from Infrastructure and Environment totalled $1,602.6 million in 2009, compared to $1,700.4 million in 2008, reflecting a lower level of Packages activities, partly offset by a higher level of Services activities.

The major revenue contributors in 2009 were as follows:

> **Benina Airport** (Packages/Africa): This ongoing contract, awarded in 2008, for the procurement and construction activities for a new international terminal, runway and apron for a greenfield airport in Benghazi, Libya, ramped up in 2009;

> **Canada Line** (Packages/Canada): This EPC contract with InTransit BC to design and build the rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, entered commercial operations in August 2009, more than three months ahead of schedule;

> **Coast Meridian Overpass** (Packages/Canada): The contract to design and construct a 580 metre-long cable-stayed bridge in British Columbia, began in 2008 and is expected to be completed in the first half of 2010;

> **East-West Highway** (Services/Africa): The engineering contract, awarded in 2008, for the supervision of construction work for the 169 kilometre-long centre section of a six-lane divided highway in Algeria;

> **Koudiat Acerdoune** (Packages/Africa): Construction work continued to progress in 2009 for this EPC contract, which consists of a water treatment plant, reservoirs, pumping stations and a water conveyance system in Algeria;

> **Sarir Phase II** (Packages/Africa): The second phase of the EPC contract for the fabrication of 45,000 pre-stressed cylinder concrete pipes for the Great Man-Made River Authority in Libya began in 2008 and is ongoing;

> **Taksebt** (Packages/Africa): The EPC contract to design and build a water treatment plant, pumping stations and a water conveyance system in Algeria, awarded in 2004, was delivered for commercial use in 2009; and

> **Tiznados Phase II** (Packages/Latin America and Caribbean): This EPC contract to design and build an integrated irrigation system in the State of Guarico, Venezuela, was awarded in 2008, and represents a multi-phase project that succeeds the project completed by the Company in early 2008 for the same client, to rehabilitate an existing portion of an irrigation canal of the Tiznados River.

As expected, **operating income increased in 2009, totalling $212.9 million** compared to $113.0 million in 2008. The increase mainly reflects a higher gross margin from Packages, as well as an increased level of Services activities compared to the previous year. The increase in Packages was mainly due to a higher gross margin-to-revenue ratio, primarily reflecting favourable cost reforecasts on certain major projects nearing completion, or completed in 2009, and approved change orders for which the Company had already reflected the costs, which resulted in a higher than expected contribution and more than offset the lower level of activities.

The Company expects the 2010 contribution from Infrastructure and Environment to decrease, as its gross margin-to-revenue ratio is expected to be lower in 2010, since the 2009 gross margin benefited from the favourable reforecasts and change orders mentioned above, partially offset by an expected increased level of activities in 2010, compared to 2009.

8.1.2 POWER

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Power			
Services	**$ 291.9**	$ 258.5	12.9%
Packages	**630.0**	917.7	(31.3%)
Total	**$ 921.9**	$ 1,176.2	(21.6%)
Operating income (loss) from Power	**$ 88.0**	$ (24.4)	N/A
Operating income (loss) over revenues from Power (%)	**9.5%**	(2.1%)	N/A

Power revenues were $921.9 million in 2009, compared to $1,176.2 million in 2008, mainly reflecting the decreased level of activities from certain major Packages projects that are nearing completion or completed, mainly inside Canada, partially offset by increased Services activities primarily outside Canada.

The major revenue contributors in 2009 were as follows:

> **Astoria Project Partners II LLC** (Services/United States): This EPCM contract for a 550 MW natural gas-fired combined cycle power plant in New York, was ongoing in 2009;

> **Bruce Power A.L.P.** (Packages/Canada): This EPC contract, awarded in 2005, to perform various Balance of Plant work packages at a nuclear power station in Ontario, was ongoing in 2009, and is expected to be completed in 2010;

> **Emirates Aluminium Smelter Complex** (Services/Middle East): The EPCM services contract was awarded in 2007 to design and build a new aluminium smelter in Abu Dhabi with a total capacity of 0.7 million tpy, and includes a 2,000 MW combined cycle thermal power plant. Services activities relating to the construction of the thermal power plant were ongoing in 2009. Activities relating to the aluminium smelter are presented in the Mining and Metallurgy segment;

> **SaskPower Ermine Power Plant** (Packages/Canada): The EPC contract for the greenfield 80 MW gas-fired thermal power plant in Saskatchewan, achieved commercial operation in 2009;

> **SaskPower Queen Elizabeth Power Station** (Packages/Canada): The turnkey engineering and cost-plus reimbursable civil works contract to add three gas turbine generators totalling 96 MW to the existing thermal power station in Saskatchewan, entered commercial operation in December 2009, ahead of schedule;

> **Shariket Kahraba Hadjret En Nouss S.p.A.** (Packages/Africa): This EPC contract for a 1,227 MW gas-fired power plant in Algeria was awarded in 2006, and was completed in 2009;

> **Sithe Global Power Goreway ULC ("Goreway")** (Packages/Canada): This EPC contract to design and build an 880 MW combined cycle thermal power plant in Ontario, entered into commercial operation in the second quarter of 2009;

> **South East Development** (Packages/Canada): This EPC project includes various upgrades to the transmission and distribution system in three different areas of southeast Alberta, consisting in part, of new and upgraded substations, thermal upgrades and 12 kilometres of new lines; and

> **South West Development** (Packages/Canada): The EPC contract to reinforce the transmission system in southwestern Alberta, to accommodate current and future wind generation projects, consisting of new, upgraded and expanded substations, 90 kilometres of double circuit 240 kV transmission line and 25 kilometres of additional 138 kV transmission line, is expected to be completed in 2010.

As expected, **Power contributed positively to the Company's consolidated results in 2009, reporting operating income of $88.0 million**, compared to an operating loss of $24.4 million in the previous year. The operating loss recorded in 2008 was due primarily to the loss recognized on the Goreway 880 MW power plant project, whose description is provided above, that reflected higher revised expected costs to complete the project.

In 2010, the Company expects the contribution from Power to decrease, primarily due to a lower level of Packages activities resulting from the completion or near-completion of certain major projects mainly in Canada, as well as from Services activities, primarily due to the near-completion and completion of certain projects, mainly outside Canada.

8.1.3 CHEMICALS AND PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Chemicals and Petroleum			
Services	$ 363.5	$ 543.4	(33.1%)
Packages	465.9	873.4	(46.7%)
Total	**$ 829.4**	$ 1,416.8	(41.5%)
Operating income from Chemicals and Petroleum	$ 21.0	$ 104.4	(79.9%)
Operating income over revenues from Chemicals and Petroleum (%)	2.5%	7.4%	N/A

Chemicals and Petroleum revenues decreased in 2009 to $829.4 million, compared to $1,416.8 million in the previous year, mainly reflecting an overall decreased level of Packages and Services activities, in part due to the completion and near-completion of certain major projects.

The major revenue contributors in 2009 were as follows:

> **Canaport LNG Limited Partnership** (Packages/Canada): Awarded in 2006, this EPC contract to design and build a Liquefied Natural Gas ("LNG") import re-gasification terminal in New Brunswick, attained a major milestone in 2009, and is expected to be completed in the second quarter of 2010;

> **ExxonMobil Refining and Chemical Plant** (Services/United States): The ongoing agreement to provide front-end engineering, project management, detailed engineering and procurement services for a refinery and chemical complex located in Baytown, Texas;

> **Husky Sunrise Oil Sands Project** (Services/Canada): The cost-plus front-end engineering development and design work for the recovery of 200,000 bpd of bitumen using steam-assisted gravity drainage ("SAGD") technology, consisting of a central processing facility, well pads and a pipeline gathering system in Alberta, was completed in 2009;

> **Nitric and Sulphuric Acid Concentration Facility** (Packages/United States): The lump-sum turnkey contract for the modernization of the 130 tpd nitric acid and 80 tpd sulphuric acid concentration facility in Virginia, for Alliant Techsystems, Inc. is expected to be completed in 2010;

> **Oscar II** (Packages/Europe): The turnkey and construction contract for GRTgaz, a subsidiary of Gaz de France, to construct two new natural gas compressor and interconnection stations in the communes of Fontenay-Mauvoisin and Saint-Avit, France, is ongoing;

> **Rhourde Nouss** (Packages/Africa): The EPC contract to design and build a gas treatment complex and a natural gas process facility capable of producing and processing 3.5 billion m^3 of natural gas per year in Algeria was awarded in 2009 and is ongoing; and

> **Shaybah Expansion Program Phase II** (Packages/Middle East): This fixed price lump sum turnkey contract, awarded in 2007, to design and build the Shaybah Central Processing Facilities began commercial operation in 2009.

As expected, **operating income decreased in 2009, totalling $21.0 million**, compared to $104.4 million in 2008, mainly due to a lower level of Packages and Services activities, coupled with unfavourable cost reforecasts on a major Packages project in 2009.

The Company expects the 2010 contribution from Chemicals and Petroleum to increase compared to 2009, mainly reflecting a higher gross margin-to-revenue ratio, primarily due to the unfavourable cost reforecasts recognized in 2009, coupled with an anticipated higher level of activities from Packages and Services activities.

8.1.4 MINING AND METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Mining and Metallurgy			
Services	**$ 762.8**	$ 764.4	(0.2%)
Packages	**1.9**	94.6	(98.0%)
Total	**$ 764.7**	$ 859.0	(11.0%)
Operating income from Mining and Metallurgy	**$ 72.2**	$ 117.0	(38.3%)
Operating income over revenues from Mining and Metallurgy (%)	**9.4%**	13.6%	N/A

Mining and Metallurgy revenues decreased to $764.7 million in 2009, compared to $859.0 million in 2008, reflecting a lower level of Packages activities in 2009 compared to 2008, while Services revenues remained in line with 2008.

The major revenue contributors in 2009 were as follows:

> **Ambatovy Nickel Project** (Services/Africa): Construction continued on this EPCM contract, awarded in 2006, to construct an open-pit mine operation, and a hydrometallurgical processing plant expected to produce mainly nickel and cobalt in Madagascar. SNC-Lavalin has a 5% equity investment in this project accounted for by the cost method;

> **Barro Alto Ferro-Nickel Project** (Services/Latin America and Caribbean): The ongoing EPCM contract was awarded in 2007 to provide project management and related technical services for expansion work on a greenfield ferro-nickel plant in Brazil;

> **Boyne Smelter** (Services/Asia): The joint venture EPCM contract for the furnace and crane replacement projects for Rio Tinto Alcan's 550,000 tpy brownfield and greenfield aluminium smelter in Queensland, Australia is ongoing;

> **Cortez Hills** (Services/United States): The EPCM contract, awarded in 2006, for the commissioning and construction of a plant capable of processing 10,000 short tpd of ore to produce gold using heap leaching technology in Nevada, is expected to be completed in 2010;

> **Emirates Aluminium Smelter Complex** (Services/Middle East): The EPCM contract was awarded in 2007 to design and build a new aluminium smelter in Abu Dhabi with a total capacity of 0.7 million tpy was ongoing in 2009;

> **Qatar Petroleum and Hydro Aluminium AS** (Services/Middle East): The EPCM contract for the service areas and potroom building of a greenfield aluminium smelter in Qatar was ongoing in 2009; and

> **Reko Diq Mine** (Services/Asia): The contract for pre-feasibility and feasibility studies for the initial mine development and expansion phases of 110,000 tpd and 220,000 tpd capacity of ore, respectively, for the production of copper concentrate in Pakistan, which is expected to be completed in the first quarter of 2010.

As expected, **operating income decreased in 2009**, mainly due to an overall lower level of activities, coupled with a lower gross margin-to-revenue ratio on Services activities in 2009, compared to 2008.

The Company expects the 2010 contribution from Mining and Metallurgy to remain in line with 2009, mainly reflecting a higher gross margin-to-revenue ratio in 2010, offset by a lower level of anticipated activities from certain major ongoing Services projects.

8.1.5 OTHER INDUSTRIES

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Other Industries			
Services	**$ 168.9**	$ 204.7	(17.5%)
Packages	**136.1**	177.8	(23.5%)
Total	**$ 305.0**	$ 382.5	(20.3%)
Operating income from Other Industries	**$ 40.6**	$ 46.8	(13.1%)
Operating income over revenues from Other Industries (%)	**13.3%**	12.2%	N/A

The Other Industries segment includes activities in agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as other industrial facilities not already identified as part of any other segment above.

Other Industries revenues totalled $305.0 million in 2009 compared to $382.5 million in 2008, mainly reflecting decreased activities from Packages projects outside Canada. **Operating income, which was expected to remain in line with 2008, decreased, totalling**

$40.6 million, compared to $46.8 million in 2008. The decrease in operating income was due mainly to a lower level of activities from Packages projects.

The Company expects the 2010 contribution from Other Industries to remain in line with 2009.

8.2 OPERATIONS AND MAINTENANCE

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from Operations and Maintenance			
Facility management	**$ 1,038.4**	$ 1,030.7	0.8%
Industrial	**108.0**	100.1	7.9%
Transportation	**76.9**	29.3	162.5%
Defence and remote camp logistics	**74.6**	64.9	14.9%
Total	**$ 1,297.9**	$ 1,225.0	6.0%
Operating income from Operations and Maintenance	**$ 32.5**	$ 25.4	27.7%
Operating income over revenues from Operations and Maintenance (%)	**2.5%**	2.1%	N/A

Operations and Maintenance revenues increased to $1,297.9 million in 2009, compared to $1,225.0 million in 2008, mainly reflecting increased volume from certain ongoing contracts, primarily in Canada.

The Operations and Maintenance segment, in addition to obtaining stand-alone operations and maintenance contracts, provides SNC-Lavalin with the opportunity to expand on its Services, Packages, and ICI activities by offering its clients complementary engineering and construction expertise as well as assistance with the ongoing operations of a particular facility.

The Company currently manages more than 7,500 facilities that include buildings, Canada's only Air-Rail Link—the Canada Line, bridges, power plants, ships and highways, as well as 9.5 million square metres of real estate and 250,000 infrastructure sites, making SNC-Lavalin one of the largest facility operations and management providers in Canada.

As expected, **operating income increased in 2009, totalling $32.5 million**, compared to $25.4 million in 2008, mainly reflecting higher profitability on certain ongoing contracts, coupled with an increase in the volume of activities.

The Company expects the 2010 contribution from the Operations and Maintenance segment to increase, compared with 2009, mainly due to an anticipated increase in the gross margin-to-revenue ratio, with the volume expected to be in line with 2009.

8.3 INFRASTRUCTURE CONCESSION INVESTMENTS

As mentioned previously, SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

8.3.1 NET BOOK VALUE OF ICI

Given the significant effect of ICI on the Company's consolidated balance sheet, the Company provides additional information in Note 4 of its 2009 audited annual consolidated financial statements regarding the net book value of its ICI by the method accounted for on SNC-Lavalin's consolidated balance sheet. As at December 31, 2009, the net book value of the Company's ICI was $720.3 million, compared to $547.6 million as at December 31, 2008, for which the Company estimates their fair value to be significantly greater than their net book value in both years, with the Company's investment in Highway 407 having the highest estimated fair value of the Company's ICI portfolio.

The net book value of the ICI includes the investment in Highway 407, which is accounted for by the proportionate consolidation method. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture cumulative losses irrespective of the carrying amount of its investment in such joint venture. Consistent with this requirement, the net book value of the Company's investment in Highway 407 resulted in a negative balance of $60.1 million as at December 31, 2009, compared to a negative balance of $37.9 million as at December 31, 2008, which does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party. This negative balance is the result of accounting for SNC-Lavalin's proportionate share of Highway 407's accounting losses and income and dividends received. Highway 407 has reported positive net income since 2006, whereas previously it had reported net accounting losses since its inception in 1999. The Company received dividends from Highway 407 totalling $31.9 million in 2009, compared to $22.6 million in 2008.

NET BOOK VALUE OF ICI

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009	2008
Investments accounted for by the full or proportionate consolidation methods	**$ 250.9**	$ 204.2
Investments accounted for by the equity method	**194.6**	110.4
Investments accounted for by the cost method	**274.8**	233.0
Net book value of infrastructure concession investments	**$ 720.3**	$ 547.6

The ICI segment includes SNC-Lavalin's equity participation in the following investments as at December 31, 2009 (refer to Note 4B to the 2009 audited annual consolidated financial statements for additional disclosure on the impact of these investments on the balance sheet):

INVESTMENTS ACCOUNTED FOR BY THE FULL OR PROPORTIONATE CONSOLIDATION METHODS

NAME	EQUITY PARTICIPATION	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	DESCRIPTION OF ACTIVITIES
Groupe Immobilier Ovation	100%	2009	2038	Once construction is completed, expected in 2011, will operate and maintain a 2,100-seat concert hall for the Montreal Symphony Orchestra in downtown Montreal, Canada, under a 29-year concession agreement.
TC Dome S.A.S. ("TC Dome")	51%	2008	2043	Will operate a 5.3 km electric cog railway in France once construction is completed, expected in 2012. During 2009, SNC-Lavalin decreased its ownership percentage from 100% to 51%.
Okanagan Lake Concession L.P. ("Okanagan Lake Concession")	100%	2005	2035	Operates, maintains and manages the new five-lane, 1.1 km William R. Bennett Bridge in Kelowna, British Columbia, under a 30-year concession agreement.
AltaLink L.P. ("AltaLink")	76.92%	2002	N/A	Owns and operates approximately 11,800 km of transmission lines and over 270 substations in Alberta on a rate-regulated basis.
407 International Inc. ("Highway 407")	16.77%	1999	2098	Operates, maintains and manages highway 407, a 108 km all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement.
Gazmont Limited Partnership	50%	1996	N/A	Owns and operates a 25 MW biogas thermal power plant in Quebec.

N/A: not applicable

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

NAME	EQUITY PARTICIPATION	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	DESCRIPTION OF ACTIVITIES
Astoria Project Partners II LLC ("Astoria II")	18.5%	2008	N/A	Once construction is completed, expected in 2011, Astoria II will own and operate a 550 MW natural gas-fired combined cycle power plant in Queens, New York. Astoria II signed a 20-year firm Power Purchase Agreement with the New York Power Authority ("NYPA").
Myah Tipaza S.p.A. ("Myah Tipaza")	25.5%	2008	N/A	Once construction is completed, expected in 2010, Myah Tipaza will own, operate and maintain a 120,000 m^3/day seawater desalination plant in Algeria and will sell the total capacity of treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year take-or-pay agreement.
Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH")	26%	2006	N/A	SKH owns, operates and maintains a 1,227 MW gas-fired thermal power plant in Algeria and the total capacity of electricity is sold to Sonelgaz S.p.A. under a 20-year take-or-pay agreement.
InTransit BC L.P. ("InTransit BC")	33.3%	2005	2040	InTransit BC operates and maintains the Canada Line, a 19-kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport, in British Columbia, under a 35-year concession agreement.
Astoria Project Partners LLC ("Astoria")	21.0%	2004	N/A	Owns and operates a 500 MW natural gas-fired combined cycle power plant in Queens, New York.
Malta International Airport p.l.c.	15.5%	2002	2067	Has the rights to own and manage the Malta International Airport under a 65-year concession agreement.
Société d'exploitation de Vatry-Europort ("SEVE")	51.1%	1999	2020	Manages and operates a cargo airport under a 20-year concession agreement expiring in 2020. During 2008, SNC-Lavalin increased its ownership percentage from 33.4% to 51.1%.
West End Dam Associates	21%	1985	2016	A 4.5 MW hydro-power generation facility in New York State.

N/A: not applicable

INVESTMENTS ACCOUNTED FOR BY THE COST METHOD

NAME	EQUITY PARTICIPATION	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	DESCRIPTION OF ACTIVITIES
Ambatovy Nickel Project ("Ambatovy")	5%	2007	N/A	An open-pit mine operation, and a hydrometallurgical processing plant in Madagascar that will produce mainly nickel and cobalt once construction is completed.
Gaz Métro Limited Partnership ("Gaz Métro")	2.42%	2006	N/A	A publicly traded entity involved mainly in natural gas distribution in Canada and the U.S. SNC-Lavalin also has an indirect participation in Gaz Métro through its investment in Trencap Limited Partnership presented below.
Trencap Limited Partnership	11.1%	2004	N/A	Holds an indirect interest in Gaz Métro equivalent to 3.97%.

N/A: not applicable

8.3.2 REVENUES AND OPERATING INCOME OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	CHANGE (%)
Revenues from ICI	**$ 380.2**	$ 347.0	9.6%
Operating income from ICI	**$ 36.9**	$ 37.2	(0.8%)

The Company's investments are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. In evaluating the performance of the segment, the relationship between revenues and operating income may not be meaningful, as a significant portion of the investments are accounted for by the cost and equity methods, which do not reflect the line by line items of the financial results.

Revenues from ICI are presented based on the following accounting methods:

ACCOUNTING METHOD FOR ICI	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Full consolidation	**Revenues** that are recognized and reported by the ICI
Proportionate consolidation	SNC-Lavalin's **share of revenues** that are generated and reported by the ICI
Equity method	SNC-Lavalin's **share of net results** of the ICI
Cost method	**Dividends and distributions** from the ICI

Operating income for the ICI segment, which was expected to increase in 2009, **remained in line with 2008, totalling $36.9 million**, mainly due to a lower contribution from Highway 407.

During the year, the following notable events took place with respect to the Company's ICI portfolio:

> Astoria II, 18.5% owned by the Company based on total outstanding shares, obtained over US$1 billion of project financing, which is non-recourse to SNC-Lavalin, to construct a 550 MW natural gas-fired combined cycle power plant in Queens, New York, for which construction is currently underway; and

> Groupe Immobilier Ovation, 100% owned by the Company, was awarded a contract by the Government of Quebec to design, build and finance a new concert hall for the MSO that it will subsequently operate and maintain under a 29-year concession agreement ending in 2038.

The Company expects the 2010 operating income from the ICI segment to increase compared to 2009, mainly reflecting higher revenues from AltaLink and SKH, as this latter will benefit from a full year of operation of the gas-fired power plant in 2010 compared to six months in 2009, and Highway 407.

The Company also discloses in the table below as supplementary information its 16.77% proportionate share of Highway 407's net income, its net income from other ICI, as well as other financial indicators related to the ICI, as this information is useful in assessing the value of the Company's share price.

(IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	2007	2006	2005
Net income (loss) from ICI:					
From Highway 407	**$ 9.8**	$ 20.0	$ 10.1	$ 8.1	$ (4.7)
From other ICI	**27.1**	17.2	13.2	6.8	6.1
Total	**$ 36.9**	$ 37.2	$ 23.3	$ 14.9	$ 1.4
Dividends and distributions received by SNC-Lavalin:					
From Highway 407	**$ 31.9**	$ 22.6	$ 20.1	$ 24.3	$ 14.3
From other ICI	**41.4**	12.8	10.4	12.4	10.5
Total	**$ 73.3**	$ 35.4	$ 30.5	$ 36.7	$ 24.8
Net book value on SNC-Lavalin's balance sheet at December 31:					
From Highway 407	**$ (60.1)**	$ (37.9)	$ (35.1)	$ (28.2)	$ (12.1)
From other ICI	**780.4**	585.5	561.1	499.9	376.7
Total	**$ 720.3**	$ 547.6	$ 526.0	$ 471.7	$ 364.6

8.3.3 SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE TRANSACTIONS WITH ICI

With its expertise in designing, building, owning, operating and maintaining infrastructure facilities and systems, as well as its ability to structure capital transactions, the Company selectively makes equity investments in ICI. The underlying philosophy in making these investments is to endeavour to, whenever possible, invest in concessions that can yield potential complementary engineering and construction, and/or operations and maintenance contract opportunities, while attracting an acceptable internal rate of return. Refer to Note 25 to the audited annual consolidated financial statements for additional information on related party transactions.

9 Company's Outlook for 2010

9.1 ECONOMIC AND MARKET TRENDS

The Company's outlook for 2010 is formulated based on economic and market trends, as well as from its revenue backlog and prospects.

Driven by unprecedented international monetary and fiscal stimulus, world Gross Domestic Product ("GDP") gradually recovered at the end of 2009, from a steep decline in the first half of the year resulting in a decrease for 2009 of 2.2%. According to a report published by the World Bank in January 2010, the world GDP is expected to grow 2.7% in 2010, following the contraction in 2009, and 3.2% in 2011. However, the gradual pace of the recovery that is currently underway remains fragile and faces risk factors such as the high level of private and public indebtedness along with the expected reduction of fiscal stimulus.

The Canadian economy, although not spared from the effects of the recession, was more modestly affected than other major advanced economies, with a decrease in GDP of 2.6% in 2009, and is expected to see forecasted growth in 2010 and 2011 of 2.9% and 3.5%, respectively, according to a Bank of Canada publication dated January 19, 2010.

In 2009, especially in the early parts of the year, the foreign currency exchange rates were subject to significant volatility as world markets were affected by the general contraction of the economy, however exchange rates are forecasted to be more stable in 2010. The impact from the fluctuation of the Canadian dollar against the US dollar or other currencies, however, is not significant for SNC-Lavalin's activities, as it sources its project material and equipment on a global basis using the best value criteria, and takes advantage of its worldwide employee base to draw on the best available expertise in a cost effective manner. In addition, the Company enters into forward foreign currency exchange contracts to hedge exposure to foreign currency exchange variability upon award of a project, as described in section 10.6.2 of this report.

Given the fact that the Company delivers projects to clients in multiple industries, these industries may be impacted by various economic factors:

> The Infrastructure and Environment, as well as Power sectors are typically driven by a country's needs and by industrial production, the latter, which although remaining lower than 2008, has begun to rebound in 2009, according to the World Bank report.

> The Chemicals and Petroleum sector is influenced by the price of oil which is expected to increase in 2010 averaging about US$76 a barrel, according to the World Bank report, compared to an average oil price for 2009 of US$62 a barrel.

> The Mining and Metallurgy sector is affected by commodity prices, which are expected to rise modestly by about 3% in 2010 and 2011, according to the World Bank report.

> Infrastructure Concession Investment opportunities are expected to increase in 2010 with more public-private partnership contracts tendered, especially in Canada where federal and provincial governments are replenishing their aging infrastructure and developing new infrastructure.

9.2 COMPANY 2010 OUTLOOK

With a strong revenue backlog and diverse prospects in Canada and outside Canada, the Company expects its 2010 net income to be as high or higher than 2009.

10 Liquidity and Capital Resources

As discussed in section 4 of the current MD&A, achieving a ROASE at least equal to the long-term Canada Bond Yield plus 600 basis points, and maintaining a strong balance sheet with a net cash position sufficient to meet expected operating, investing and financing plans, are two key financial objectives of the Company.

This Liquidity and Capital Resources section has been prepared to provide the reader with a better understanding of the major components of these financial objectives and has been structured as follows:

> A **balance sheet** analysis, which has been prepared with the objective of providing additional information on the major changes in the Company's consolidated balance sheet in 2009 and 2008;

> A review of the **net cash position** and **freehold cash** of the Company;

> A **cash flow analysis**, providing details on how the Company generated and used cash and cash equivalents;

> A discussion on the Company's **working capital**, **recourse revolving credit facilities**, **credit ratings**, and **recourse debt to capital**, which all represent indicators of the financial strength of the Company;

> A review of the Company's **contractual obligations** and **derivative financial instruments**, which provides additional information for a better understanding of the Company's financial situation; and finally

> The presentation of the Company's **dividends declared** and **ROASE** over the past five years, as well as **market indices** in which the Company's stock is included.

These elements, as discussed in their corresponding sections below, demonstrate that the Company has cash and cash equivalents as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business acquisitions and investments in infrastructure concessions, share repurchases and business growth, as well as satisfying its contractual obligations. In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time optimizing return on average shareholders' equity.

10.1 BALANCE SHEET ANALYSIS

As mentioned in section 3.1.4, the Company's consolidated balance sheet includes the line by line impact of fully consolidating and proportionately consolidating some of its ICI, which are often capital intensive, as they relate to the ownership of infrastructure assets that are financed mainly with project-specific debt, which is non-recourse to the general credit of the Company. Therefore, when fully consolidating or proportionately consolidating such investments, the main impact on the Company's balance sheet is on the property and equipment, and the non-recourse long-term debt accounts.

Consistent with Note 4 to the 2009 audited annual consolidated financial statements where the Company presents additional information on the line by line impact of accounting for its investments and provides the net book value of its ICI, the following analysis of the consolidated balance sheet distinguishes the assets and liabilities of the ICI from those of the other activities.

10.1.1 TOTAL ASSETS

2009 VARIATION IN TOTAL ASSETS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Total assets at beginning of year	**$ 2,828.9**	**$ 3,942.6**	**$ 6,771.5**
Change in assets during the year:			
Cash and cash equivalents	**13.5**	**216.5**	**230.0**
Current assets other than cash and cash equivalents	**45.2**	**(434.6)**	**(389.4)**
Property and equipment	**466.4**	**(9.4)**	**457.0**
Goodwill	**–**	**24.7**	**24.7**
Investments accounted for by the equity or cost methods	**126.0**	**–**	**126.0**
Other non-current assets and non-current future income tax asset	**6.5**	**(20.0)**	**(13.5)**
Total change in assets during the year	**657.6**	**(222.8)**	**434.8**
Total assets at end of year	**$ 3,486.5**	**$ 3,719.8**	**$ 7,206.3**

Total assets increased to $7,206.3 million as at December 31, 2009, compared to $6,771.5 million as at December 31, 2008, representing an increase of $434.8 million, which is discussed below.

An increase of $657.6 million in assets **from ICI**, mainly reflecting:

> An increase of $466.4 million in property and equipment, mainly from AltaLink.

> An increase of $126.0 million in investments accounted for by the equity or cost methods, due mainly to the Company's commitment to invest in Astoria II and the increased commitment to invest in Ambatovy.

A decrease of $222.8 million in assets **from other activities** including mainly:

> A decrease of $434.6 million in current assets other than cash and cash equivalents, primarily due to a decrease of $207.1 million in trade and other receivables and a decrease of $228.4 million in contracts in progress.

> An increase of $216.5 million in cash and cash equivalents, resulting primarily from cash generated from financing activities, mainly the issuance of the debentures totalling $350 million in 2009, coupled with the generation of cash from operating activities, partially offset by cash used for investing activities (refer to section 10.3 of this report for additional details on the movement of cash and cash equivalents).

2008 VARIATION IN TOTAL ASSETS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Total assets at beginning of year	$ 2,742.5	$ 3,737.0	$ 6,479.5
Change in assets during the year:			
Cash and cash equivalents	8.9	(109.3)	(100.4)
Current assets other than cash and cash equivalents	(68.2)	300.0	231.8
Property and equipment	110.0	11.4	121.4
Goodwill	–	14.6	14.6
Investments accounted for by the equity or cost methods	(20.7)	–	(20.7)
Other non-current assets and non-current future income tax asset	56.4	(11.1)	45.3
Total change in assets during the year	86.4	205.6	292.0
Total assets at end of year	$ 2,828.9	$ 3,942.6	$ 6,771.5

Total assets increased to $6,771.5 million as at December 31, 2008, compared to $6,479.5 million as at December 31, 2007, representing an increase of $292.0 million, which is discussed below.

An increase of $86.4 million in assets **from ICI**, mainly reflecting:

> An increase of $110.0 million in property and equipment, mainly from AltaLink and Okanagan Lake Concession, which completed the William R. Bennett Bridge that was opened to traffic in 2008.

> An increase of $56.4 million in other non-current assets and non-current future income tax asset, due mainly to AltaLink.

> A decrease of $68.2 million in current assets other than cash and cash equivalents due to a decrease in restricted cash and in trade and other receivables of $47.3 million and of $20.9 million, respectively.

An increase of $205.6 million in assets **from other activities** including mainly:

> An increase of $300.0 million in current assets other than cash and cash equivalents, primarily due to an increase of $176.9 million in trade and other receivables and an increase of $66.4 million in contracts in progress.

> An increase of $14.6 million in goodwill mainly reflecting the engineering business acquisitions completed in 2008.

> A decrease of $109.3 million in cash and cash equivalents, resulting primarily from the utilization of cash for investing and financing activities, partially offset by the generation of cash from operating activities (refer to section 10.3 of this report for additional details on the movement of cash and cash equivalents).

10.1.2 TOTAL CURRENT LIABILITIES

Total consolidated current liabilities amounted to $2.8 billion as at December 31, 2009, $3.3 billion as at December 31, 2008 and $3.2 billion as at December 31, 2007. The change in total current liabilities for 2009, compared to 2008, was mainly due to the following movements: i) a decrease in trade and other payables from other activities, and ii) a decrease in downpayments on contracts, partly offset by iii) an increase in the current portion of non-recourse long-term debt from ICI, and iv) an increase in the current portion of recourse long-term debt from other activities following the reclassification to current liabilities of the unsecured debentures totalling $105 million due in September 2010.

The slight increase from 2007 to 2008 was mainly due to i) an increase in downpayments on contracts, and ii) an increase in trade and other payables, partly offset by iii) a decrease in deferred revenues.

10.1.3 TOTAL NON-CURRENT LIABILITIES

2009 VARIATION IN TOTAL NON-CURRENT LIABILITIES

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Total non-current liabilities at beginning of year	$ 2,136.3	$ 202.3	$ 2,338.6
Change in non-current liabilities during the year:			
Long-term debt			
Recourse	–	243.3	243.3
Non-recourse	2.2	–	2.2
Other non-current liabilities	245.5	13.0	258.5
Total change in non-current liabilities during the year	247.7	256.3	504.0
Total non-current liabilities at end of year	$ 2,384.0	$ 458.6	$ 2,842.6

Total non-current liabilities increased to $2,842.6 million as at December 31, 2009, compared to $2,338.6 million at the end of the previous year. The increase reflects the issuance of the debentures totalling $350 million in 2009 and the reclassification to current liabilities of the unsecured debentures totalling $105 million due in September 2010, combined with the increase of $245.5 million in other non-current liabilities from ICI, mainly due to AltaLink for i) an increase of $145.4 million on January 1, 2009 pursuant to a change in accounting standards for rate-regulated operations (refer to the section "Accounting Changes" in this report), and ii) an increase of $86.6 million in the second quarter of 2009 pursuant to a change in estimates related to asset retirement obligations (refer to Note 14 to the 2009 audited annual consolidated financial statements).

2008 VARIATION IN TOTAL NON-CURRENT LIABILITIES

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Total non-current liabilities at beginning of year	$ 2,050.1	$ 284.9	$ 2,335.0
Change in non-current liabilities during the year:			
Long-term debt			
Recourse	–	0.1	0.1
Non-recourse	32.3	–	32.3
Other non-current liabilities	53.9	(82.7)	(28.8)
Total change in non-current liabilities during the year	86.2	(82.6)	3.6
Total non-current liabilities at end of year	$ 2,136.3	$ 202.3	$ 2,338.6

Total non-current liabilities of $2,338.6 million as at December 31, 2008 were in line with the previous year, reflecting an increase of non-recourse long-term debt from AltaLink and Highway 407, offset by a decrease in other non-current liabilities. Other non-current liabilities from ICI increased mainly due to AltaLink, more than offset by a decrease from other activities mainly due to the Company's commitments to invest in ICI, which are reflected under current liabilities in 2008.

10.1.4 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 20A to the 2009 audited annual consolidated financial statements, **were $4.6 billion as at December 31, 2009**, compared to $4.7 billion and $4.5 billion as at December 31, 2008 and 2007, respectively.

10.1.5 NON-CONTROLLING INTEREST

Non-controlling interest was $80.0 million as at December 31, 2009, compared to $67.7 million as at the end of the previous year, mainly due to AltaLink.

10.1.6 SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009	2008	2007	2006	2005
Balance at beginning of year	**$ 1,089.2**	$ 922.4	$ 847.8 *	$ 786.2	$ 716.7
Net income	**359.4**	312.5	151.4	157.8	127.5
Other comprehensive income (loss):					
Exchange differences on translating self-sustaining foreign operations	**(20.0)**	27.7	(19.8)	12.0	(11.2)
Net unrealized gain (loss) on available-for-sale financial assets	**11.7**	(10.7)	0.7	–	–
Net unrealized gain (loss) on derivative financial instruments designated as cash flow hedges	**86.4**	(69.4)	22.2	–	–
Dividends paid to Company shareholders	**(90.6)**	(72.5)	(54.5)	(42.3)	(32.3)
Stock option compensation	**11.8**	9.6	7.8	7.6	3.7
Shares issued under stock option plans	**10.9**	16.8	15.0	7.7	7.8
Shares redeemed and cancelled	**(24.1)**	(47.2)	(48.2)	(27.1)	(26.0)
Balance at end of year	**$ 1,434.7**	$ 1,089.2	$ 922.4	$ 901.9	$ 786.2

(*) The shareholders' equity balance at the beginning of 2007 is not equal to the balance at the end of 2006 by $54.1 million, which represents the transitional accounting adjustment following the adoption of new CICA accounting standards effective January 1, 2007, that relate to the accounting for financial instruments and hedges.

Shareholders' equity was $1,434.7 million as at December 31, 2009, compared to $1,089.2 million as at December 31, 2008, and $922.4 million as at December 31, 2007. The increase from 2008 to 2009 was mainly due to the higher net income for the year combined with the impact from other comprehensive income, mainly from cash flow hedges, partially offset by i) dividends paid to Company shareholders, as well as ii) the repurchase of Company common shares under its normal course issuer bid program.

The increase from 2007 to 2008 was mainly due to higher net income for the year, partially offset by i) the impact from other comprehensive income, mainly from cash flow hedges, ii) dividends paid to Company shareholders, as well as iii) the repurchase of Company common shares under its normal course issuer bid program.

10.2 NET CASH POSITION AND FREEHOLD CASH

The Company's net cash position, which is a non-GAAP financial measure, is arrived at by excluding from the Company's cash and cash equivalents, cash and cash equivalents from ICI and the Company's recourse debt, and was as follows:

NET CASH POSITION

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008	2007	2006	2005
Cash and cash equivalents	**$ 1,218.2**	$ 988.2	$ 1,088.6	$ 1,106.3	$ 1,153.5
Less:					
Cash and cash equivalents of ICI accounted for by the full or proportionate consolidation methods	**42.4**	28.9	20.1	21.9	17.0
Recourse debt	**452.9**	104.7	104.6	104.5	104.4
Net cash position	**$ 722.9**	$ 854.6	$ 963.9	$ 979.9	$ 1,032.1

The net cash position as at December 31, 2009 was $722.9 million, compared to $854.6 million as at December 31, 2008, due mainly to cash used for investing activities, primarily payments related to ICI, partially offset by cash generated from operating activities. The higher level of cash and cash equivalents and recourse debt in 2009 reflects the 10-year unsecured debentures totalling $350 million issued by the Company on July 3, 2009.

In addition to determining its net cash position, the Company estimates its **freehold cash**, a non-GAAP financial measure defined as the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in ICI. As such, the freehold cash is derived from the cash and cash equivalents, excluding cash and cash equivalents from fully consolidated and proportionately consolidated ICI at the end of the period, adjusted for estimated cash requirements to complete existing projects and the estimated net cash inflows from major ongoing projects upon their completion, as well as deducting the remaining commitments to invest in ICI, and the balance of payment for business acquisitions made during the year. The freehold cash **was approximately $800 million as at December 31, 2009**, compared to approximately $600 million as at December 31, 2008, mainly due to the 10-year unsecured debentures totalling $350 million issued by the Company on July 3, 2009, which added approximately $245 million to its freehold cash, after deducting the principal amount of its unsecured debentures totalling $105 million due in September 2010, partially offset by additional commitments to invest in ICI. The Company's freehold cash, consistent with its overall business strategy, is available for making engineering business acquisitions and investments in selective infrastructure concessions.

10.3 CASH FLOWS ANALYSIS

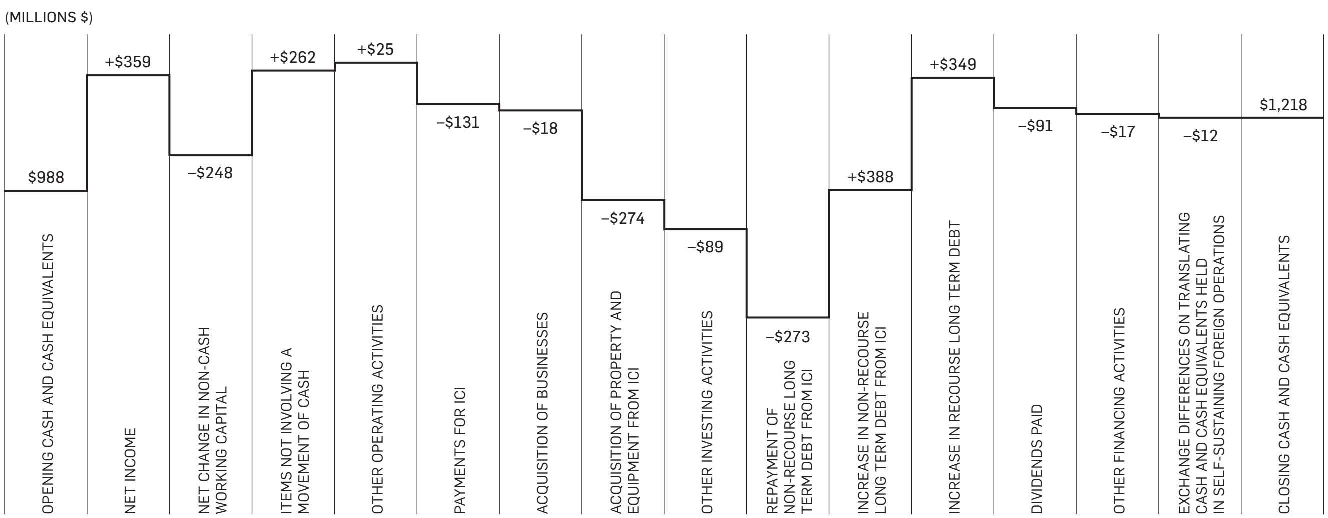
SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	**2009**	2008
Cash flows generated from (used for):		
Operating activities	**$ 398.5**	$ 313.3
Investing activities	**(512.5)**	(310.9)
Financing activities	**356.2**	(118.1)
Increase (decrease) in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations	**(12.2)**	15.3
Net increase (decrease) in cash and cash equivalents	**230.0**	(100.4)
Cash and cash equivalents at beginning of year	**988.2**	1,088.6
Cash and cash equivalents at end of year	**$ 1,218.2**	$ 988.2

Cash and cash equivalents amounted to $1,218.2 million as at December 31, 2009, compared to $988.2 million as at December 31, 2008.

The graph below displays the major cash flow items that impacted the movement of the Company's cash and cash equivalents for the year ended December 31, 2009. These items are explained in additional detail further below.

2009 VARIATION OF CASH AND CASH EQUIVALENTS



10.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities totalled $398.5 million in 2009, compared to cash generated of $313.3 million in 2008, mainly due to:

> The cash generated from operating activities before the net change in non-cash working capital items of $646.0 million, compared to $456.3 million in the corresponding period of 2008, mainly due to i) a higher level of items not involving a movement of cash, such as future income taxes, and the accrued interest expense and fair value adjustment on non-recourse long-term debt from ICI, as well as ii) an increase in net income.

> The cash used by the net change in non-cash working capital items of $247.6 million in 2009, compared to cash used of $143.0 million in 2008, primarily reflecting working capital requirements, mainly on certain Packages projects.

10.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was $512.5 million in 2009, compared to $310.9 million in 2008.

The major 2009 investing activities were as follows:

> The acquisition of property and equipment from fully consolidated and proportionally consolidated ICI used a total cash outflow of approximately $274.1 million, in large part due to AltaLink, relating mainly to higher capital expenditures for transmission projects. Also of note, during the year, AltaLink reflected on its balance sheet an increase in its property and equipment with a corresponding increase in other non-current liabilities, which did not have any impact on cash flows, for $145.4 million, pursuant to a change in accounting standards for entities subject to rate-regulation (refer to the section "Accounting Changes" in this report), coupled with an increase of $86.6 million pursuant to a change in estimates related to asset retirement obligations (refer to Note 14 to the 2009 audited annual consolidated financial statements).

> The acquisition of property and equipment from other activities for a total cash outflow of approximately $32.4 million, compared to depreciation of property and equipment and amortization of other non-current assets from these activities of $43.5 million. Approximately 64% of the acquisitions of property and equipment from these activities were related to information technology in 2009, compared to 58% in 2008.

> The acquisition of businesses for a total cash outflow of $18.4 million.

> The cash outflow of $130.9 million relating to payments for ICI, as detailed in Note 4C to the 2009 audited annual consolidated financial statements, mainly reflecting payments in 2009 for i) Ambatovy, and ii) InTransit BC L.P.

> The amount loaned to the Project Operator of Ambatovy totalled $39.6 million in 2009, compared to $6.6 million in 2008.

The major 2008 investing activities were as follows:

> The acquisition of property and equipment from fully consolidated and proportionally consolidated ICI, mainly AltaLink and Okanagan Lake Concession, for a total cash outflow of approximately $193.5 million.

> The acquisition of property and equipment from other activities for a total cash outflow of approximately $46.3 million, compared to depreciation of property and equipment and amortization of other non-current assets from these activities of $41.9 million. In line with 2007, approximately 58% of the acquisitions of property and equipment from these activities were related to information technology in 2008.

> The acquisition of businesses for a total cash outflow of $38.6 million.

> The cash outflow of $25.9 million reflecting payments for ICI, mainly Ambatovy.

10.3.3 CASH GENERATED FOR FINANCING ACTIVITIES

Cash generated for financing activities was $356.2 million in 2009, compared to cash used of $118.1 million in 2008. The major financing activities were as follows:

> The increase in recourse long-term debt from other activities totalled $348.6 million, which reflects the 10-year unsecured debentures totalling $350 million issued by the Company on July 3, 2009, net of the agency fee.

> The increase in non-recourse long-term debt from ICI totalling $388.1 million in 2009, compared to $215.2 million in 2008, while the repayment of non-recourse long-term debt from ICI amounted to $272.5 million in 2009, compared to $187.5 million in 2008. Also, in 2008 the Company repaid the remaining balance of the mortgage of $25.8 million on its head office building in downtown Montreal.

> Under its normal course issuer bid, the Company repurchased shares for a total amount of $24.1 million in 2009 (538,800 shares at an average redemption price of $44.74), compared to $47.2 million in 2008 (933,100 shares at an average redemption price of $50.58). The Company expects to be as active in repurchasing its shares in 2010. As a general practice, when managing its capital, the Company repurchases its common shares under its normal course issuer bid mainly to offset the dilutive effect of stock issuance under its stock options programs.

> Dividends paid to the Company shareholders amounted to $90.6 million in 2009, compared to $72.5 million in 2008, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of $0.60 per share in 2009, compared to $0.48 per share in the same period of 2008.

> The issuance of shares pursuant to the exercise of stock options generated $10.9 million in cash in 2009 (538,393 stock options at an average price of $20.28), compared to $16.8 million in 2008 (927,920 stock options at an average price of $18.07). As at February 24, 2010, there were 5,047,204 stock options outstanding with exercise prices varying from $16.66 to $55.10 per common share. At that same date there were 150,960,902 common shares issued and outstanding.

10.4 WORKING CAPITAL

WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO)	**2009**	2008
Current assets	**$ 3,393.0**	$ 3,552.4
Current liabilities	**2,848.9**	3,276.0
Working Capital	**$ 544.1**	$ 276.4
Current Ratio	**1.19**	1.08

Working capital of $544.1 million and a current ratio of 1.19 as at December 31, 2009, improved compared to working capital of $276.4 million and a current ratio of 1.08 as at December 31, 2008, mainly due to i) cash generated from net income, ii) a net amount of $245 million from the issuance of 10-year unsecured debentures totalling $350 million issued by the Company in 2009, net of the unsecured debentures in the principal amount of $105 million due in September 2010, now included in current liabilities, partially offset by iii) cash used for the acquisition of property and equipment from ICI of $274.1 million, partly offset by $115.6 million proceeds from the increase in non-recourse long-term debt from ICI net of repayments, and iv) cash used for dividends paid to Company shareholders.

10.5 RECOURSE DEBT AND NON-RECOURSE DEBT

10.5.1 RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling $452.5 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 1%. As at December 31, 2009, $280.6 million of these lines of credit remained unused, while the balance of $171.9 million was exclusively used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically available for the issuance of letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

10.5.2 RECOURSE DEBENTURES—CREDIT RATINGS

On July 16, 2009, and again on January 25, 2010, **Standard & Poor's** reconfirmed SNC-Lavalin Group's rating of **BBB+ with a stable outlook**. On June 26, 2009, **DBRS** reconfirmed its rating for the Company's debenture of **BBB (high) with a stable trend**.

10.5.3 RECOURSE DEBT-TO-CAPITAL RATIO

This ratio compares the recourse debt balance to the sum of recourse debt and shareholders' equity, excluding accumulated other comprehensive income (loss), and is a measure of the Company's financial capabilities. **As at December 31, 2009** and 2008, **the Company's recourse debt-to-capital ratio was 24:76** and 8:92, respectively, below the Company's objective, which is not to surpass a ratio of 30:70. The ratio as at December 31, 2009 includes in recourse debt, the 10-year unsecured debentures totalling $350 million issued by the Company on July 3, 2009 as well as the unsecured debentures totalling $105 million due in September 2010. Refer to the Company's 2009 audited annual consolidated financial statements Note 21 for more information.

10.5.4 NON-RECOURSE DEBT

SNC-Lavalin does not consider non-recourse debt when monitoring its capital because such debt results from the full or proportionate consolidation of certain ICI held by the Company. As such, the lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the ICI they finance. The Company's equity investment in its ICI may, however, be at risk if such investments were unable to repay their non-recourse long-term debt.

10.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

10.6.1 CONTRACTUAL OBLIGATIONS

In the normal course of business, SNC-Lavalin has various contractual obligations. The following table provides a summary of SNC-Lavalin's future contractual commitments specifically related to long-term debt repayments, investments in ICI, and rental obligations:

(IN MILLIONS OF CANADIAN DOLLARS)	2010	2011-2012	2013-2014	THEREAFTER	TOTAL
Long-term debt repayments:					
Recourse	$ 105.0	$ –	$ –	$ 350.0	$ 455.0
Non-recourse from ICI	139.6	406.4	377.5	1,235.0	2,158.5
Commitments to invest in ICI	101.5	–	–	–	101.5
Rental obligations under long-term operating leases	74.8	104.0	59.2	67.0	305.0
Total	$ 420.9	$ 510.4	$ 436.7	$ 1,652.0	$ 3,020.0

Additional details of the future principal repayments of the Company's recourse and non-recourse long-term debt are provided in Note 13D to the Company's 2009 audited annual consolidated financial statements. The commitments to invest in ICI result from SNC-Lavalin not being required to make its equity contribution immediately when making an equity investment, but instead committing to make its equity contribution over time, as detailed in Note 4C to its 2009 audited annual consolidated financial statements. The commitments to invest in ICI relate to Ambatovy and Astoria II. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 23 to its 2009 audited annual consolidated financial statements.

10.6.2 FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 20 of its 2009 audited annual consolidated financial statements.

SNC-Lavalin enters into derivative financial instruments, namely i) forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects, and ii) interest-rate swaps and bond forwards to hedge the variability of interest rates relating to financing arrangements. Also, the Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the Performance Share Unit ("PSU") plan caused by fluctuations in its share price, and intends to extend this arrangement to cover the upcoming issuance of units under the 2009 Deferred Share Unit plan for Executive Employees (the "2009 DSU plan") (refer to Note 15C to the 2009 audited annual consolidated financial statements). These financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

The Company does not hold or issue any derivative instruments for speculative purposes, but rather for hedging purposes only. The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

10.7 DIVIDENDS DECLARED

Given the positive outlook and the Company's strong revenue backlog, the Board of Directors has decided to **increase the quarterly cash dividend paid to shareholders from $0.15 per share to $0.17 per share for the fourth quarter of 2009, resulting in total cash dividends declared of $0.62 per share in 2009**. The table below summarizes the dividends declared for each of the past five years:

DIVIDENDS DECLARED

YEAR ENDED DECEMBER 31 (IN CANADIAN DOLLARS)	**2009**	2008	2007	2006	2005
Dividends per share declared to Company shareholders	**$ 0.62**	$ 0.51	$ 0.39	$ 0.30	$ 0.23
Dividend increase in %	**22%**	31%	30%	30%	28%

Total cash dividends paid in 2009 were $90.6 million, compared to $72.5 million in 2008. The Company has paid quarterly dividends for 20 consecutive years and has increased its yearly dividend paid per share for each of the past 9 years.

10.8 MARKET INDICES

SNC-Lavalin is listed on the Toronto Stock Exchange and is included in the S&P/TSX Composite Index, which is the principal broad market measure for the Canadian equity markets. In addition, the Company's stock is part of the following two S&P/TSX indices:

> The **S&P/TSX 60 Index**, which is comprised of 60 large Canadian publicly-traded companies with a view to matching the sector balance of the S&P/TSX Composite Index.

> The **S&P/TSX Canadian Dividend Aristocrats Index**, an index designed to measure the performance of S&P Canada Broad Market Index ("BMI") constituents, which have consistently increased dividends annually for at least five years. The index consists of 70 stocks and tracks Canada's most consistent dividend-raisers. The Company's stable and increasing dividends signal that management has confidence in the Company's strength and growth.

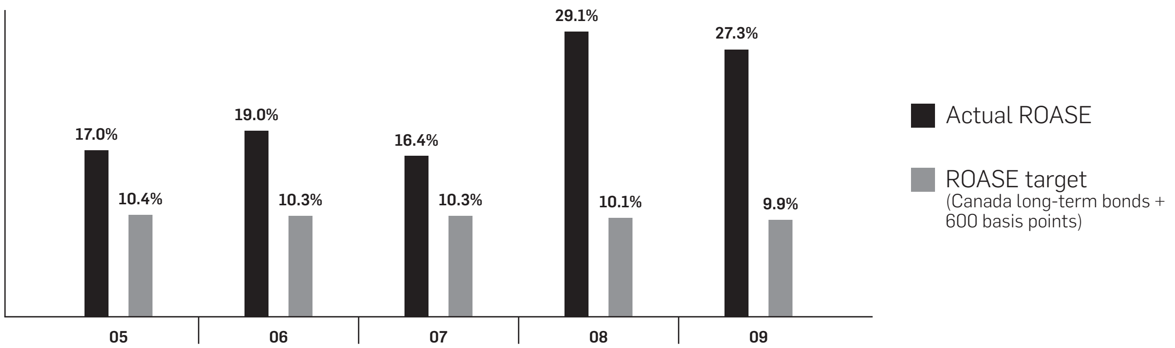
10.9 RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

ROASE, a non-GAAP financial measure, is a key performance indicator used to measure the Company's return on equity. ROASE, as calculated by the Company, corresponds to the trailing 12-month after-tax earnings, divided by a trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)".

The Company excludes accumulated other comprehensive income (loss) because it results mainly from the accounting treatment of cash flow hedges, and is not representative of the way the Company evaluates its management of its foreign currency exchange risk, and is not representative of the Company's financial position.

ROASE was 27.3% in 2009, compared to 29.1% in 2008, both of which are significantly higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e., totalling 9.9% in 2009 and 10.1% in 2008). The graph below illustrates that the Company generated ROASE of 16.4% or better per year over the past five years, surpassing its target of long-term Canada Bond Yield plus 600 basis points by at least an additional 600 basis points each year. The Company strives to position itself to achieve a consistently high ROASE while maintaining a strong balance sheet, which it has achieved over the last years.

ROASE



11 Shareholders and Employee Shareholdings

The Company's shares are held by a variety of different shareholders, including employee shareholders. The majority of the Company's shares are held by institutional investors, and based on the most recent publicly available information at March 5, 2010, the only investor who owns or exercises control or direction over shares carrying more than 10% of the voting rights attached to all shares of the Company is Jarislowsky, Fraser Limited, a fund manager, representing approximately 16.9% of the outstanding common shares of the Company.

The Company encourages its employees to invest in its shares by offering two programs: the Management Share Ownership Program ("MSOP"), which is available to the Company's key employees by invitation based on their responsibilities and performance; and the Employee Shareholder Ownership Plan ("ESOP"), a plan offered to the vast majority of Canadian employees, as well as to employees in a number of other countries, through the Company's payroll. At December 31, 2009, the holdings from the two plans coupled with private holdings of the members of the Company's Management Committee that are considered insiders, and under Canadian securities regulations are required to report their respective Company shareholdings, and for which the Company maintains records, totalled 3.6% of the total outstanding shares of the Company.

12 Critical Accounting Estimates and Judgment Applied

The preparation of the Company's consolidated financial statements in conformity with Canadian GAAP requires management to apply judgment when making estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the financial statements. The estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ from these estimates. The following are the Company's most critical accounting estimates, which are those that require management's most challenging, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

REVENUE RECOGNITION

Revenues are generated from **Services**, **Packages**, **Operations and Maintenance**, and **ICI** activities. Services revenues are derived primarily from cost-plus reimbursable contracts. Packages revenues are derived primarily from fixed-price contracts. Revenues from Operations and Maintenance activities are derived primarily from cost reimbursable with a fixed-fee contracts and from fixed-price contracts.

SERVICES AND PACKAGES ACTIVITIES

On **cost-plus reimbursable contracts**, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. Revenue recognition for cost-plus reimbursable contracts does not usually involve significant estimates.

On **fixed-price contracts**, revenues are recorded on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred costs and anticipated costs for completing a contract.

i) The determination of **anticipated costs** for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, as well as productivity.

ii) The determination of **anticipated revenues** includes the contractually agreed revenue and may also involve estimates of future revenues from claims and unapproved change orders if such additional revenues can be reliably estimated and it is considered probable that they will be recovered. A change order results from a change to the scope of the work to be performed compared with the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby costs related to such variation might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, management's judgment is required in determining the probability that additional revenue will be recovered from these variations and in determining the measurement of the amount to be recovered.

Estimates used to determine revenues and costs of fixed-price contracts involve uncertainties that ultimately depend on the outcome of future events and are periodically revised as projects progress. The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract is recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenue on a contract, such loss is recognized in its entirety in the period it becomes known.

The determination of estimates is based on SNC-Lavalin's business practices as well as its historical experience. Furthermore, management regularly reviews underlying estimates of project profitability.

OPERATIONS AND MAINTENANCE ACTIVITIES

On **cost reimbursable with a fixed-fee contracts** from **Operations and Maintenance** activities, fixed-fee revenues are recognized on a straight-line basis over the term of the contract, while the revenues from the cost-reimbursable portion are recognized as costs are incurred. Revenue on **fixed-price contracts** are recognized based on the stage of completion of the contract activity, which involves taking the costs incurred as at the balance sheet date and dividing by the estimated total costs for the activity. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenue proportionately with the stage of completion at any given time.

GOODWILL IMPAIRMENT

Goodwill is subject to at least an annual assessment of impairment by applying a fair value based test at the reporting unit level. An impairment loss is recognized to the extent that the carrying amount of goodwill for each reporting unit exceeds its estimated fair value. The fair values of the reporting units are derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. All factors used in the valuation models are based on management's estimates and are subject to uncertainties and judgment. Changes in any of these estimates could affect the fair value of the reporting units and, consequently, the value of the reported goodwill. The Company performs the annual review of goodwill as at October 31 of each year. Based on the impairment test performed as at October 31, 2009 and 2008, the Company concluded that no goodwill impairment loss was required.

LONG-LIVED ASSETS

SNC-Lavalin reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. To determine whether impairment exists, management compares the estimated undiscounted future cash flows that are projected to be generated by those assets to their respective carrying value. If the undiscounted future cash flows and fair value are lower than the carrying value, then an impairment loss is recognized. Estimated undiscounted future cash flows reflect management's estimates, and changes in those estimates could affect the carrying amount of the long-lived assets. The Company concluded that no impairment charge was required for its long-lived assets for 2009 and 2008.

In addition, management is required to estimate the useful life, residual value and related depreciation method for each significant category of depreciable assets. These estimates affect the net carrying value of these assets and, as such, have an impact on the Company's consolidated balance sheet and statement of income.

STOCK OPTION COMPENSATION

The Company offers a stock option compensation plan to selected individuals within the organization. At each measurement date, management is required to estimate the fair value of the options awarded. Management uses the Black-Scholes option pricing model to value its options, which requires assumptions related to the risk-free interest rate (with a term that matches the expected life of the options), the expected stock price volatility, the expected life of the options and the expected dividend yield on the Company's shares.

FINANCIAL INSTRUMENTS

The Company measures certain of its financial instruments at fair value. The determination of such fair value is based on the most readily available market data. When no readily available data is available, management is required to estimate the fair value of the instrument using various inputs that are either, directly or indirectly observable, or not based on observable market data. Refer to Notes 2D and 20 to the 2009 audited annual consolidated financial statements for further details.

PENSION PLANS

SNC-Lavalin's obligations and expenses relating to defined benefits pension plans are determined using actuarial valuations, and are dependent on significant weighted average assumptions such as the expected long-term rate of return on plans' assets and the rate of compensation increase as determined by management. While management believes these assumptions are reasonable, differences in actual results or changes in assumptions could have an impact on the obligations and expenses recorded by the Company. Refer to Notes 2Q and 22 to the 2009 audited annual consolidated financial statements for further details.

INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements. Future income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. Such method requires the exercise of significant judgment in determining whether or not the Company's future tax assets are "more likely than not" to be recovered from future taxable income and therefore, can be recognized in the Company's consolidated financial statements. Also estimates are required to determine the expected timing upon which tax assets will be realized and upon which tax liabilities will be settled, and the enacted or substantially enacted tax rates that will apply at such time.

13 Accounting Changes

13.1 INITIAL ADOPTION IN 2009 AND 2008

GOODWILL AND INTANGIBLE ASSETS

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets", which provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new section, which requires the recognition in net income of pre-operating expenditures that were capitalizable under the previous standards, needed to be applied retroactively with restatement of comparative figures.

The adoption of the new section resulted in a transitional adjustment reducing the Company's retained earnings at January 1, 2008 by $5.9 million, representing the cumulative net income impact of applying the new standards up to that date. The transitional adjustment also resulted in the following changes to the Company's consolidated balance sheet at the same date: i) a decrease of $6.7 million in ICI accounted for by the equity method; ii) a decrease of $0.7 million in other non-current assets; and iii) an increase of $1.5 million in non-current future income tax asset. These changes relate mainly to pre-operating expenditures that were incurred and capitalized by ICI that are no longer capitalized under the new accounting standards. The adoption of the new accounting standards did not have any impact on the Company's 2008 consolidated net income and, accordingly, the transitional adjustments are limited to those described above.

RATE-REGULATED OPERATIONS

On January 1, 2009, the removal of the temporary exemption granted to rate-regulated enterprises from applying Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles" took effect. The Company has a 76.92% equity interest in AltaLink L.P. ("AltaLink"), a rate-regulated subsidiary which owns and operates transmission lines and substations. The temporary exemption permitted rate-regulated entities to apply industry practice as a primary source of Canadian GAAP. Accordingly, based on industry practice, AltaLink was recording the portion of the amount collected for future removal and site restoration as a reduction to its property and equipment. The removal of the temporary exemption of Section 1100 requires AltaLink to present such amount as a liability, with the change being made prospectively. As such, the removal of the temporary exemption resulted in a $145.4 million increase in property and equipment, with a corresponding increase in other non-current liabilities at January 1, 2009.

CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

On January 1, 2009, the Company adopted Emerging Issues Committee ("EIC")-173 of the CICA Handbook, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which requires credit risk to be taken into account in determining the fair value of derivative instruments. The guidance, which requires a retrospective application without restatement of prior periods, did not have any material impact on the Company's financial statements.

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

In December 2009, the Company early adopted EIC-175 of the CICA Handbook, "Multiple Deliverable Revenue Arrangements", which provides amendments to the existing EIC-142. One of the amendments is the change in the level of evidence of the stand-alone selling price required to separate deliverables by allowing the use of the best estimate selling price when vendor-specific objective evidence or third-party evidence of the selling price are not available. The adoption of EIC-175, which was made prospectively to revenue arrangements entered into or modified since January 1, 2009, did not have any material impact on the Company's financial statements.

13.2 FUTURE CHANGES TO ACCOUNTING STANDARDS (EXCLUDING ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS)

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In 2009, the CICA issued the following new Handbook Sections:

> Section 1582, "Business Combinations";

> Section 1601, "Consolidated Financial Statements"; and

> Section 1602, "Non-controlling Interests".

Section 1582, which replaces the former Section 1581, requires all business combinations to be accounted for by applying the acquisition method. Under this method, assets acquired and liabilities assumed are measured at their full fair value at the date of acquisition, unless another standard requires otherwise. Section 1582 provides the option of accounting for non-controlling interest at either fair value, or at the non-controlling interest's proportionate share of the identifiable net assets acquired. Acquisition costs associated with a business combination are to be expensed in the periods in which they are incurred. Section 1601 carries forward the standards for the preparation of consolidated financial statements of former Section 1600, while Section 1602 requires non-controlling interests to be reported as a separate component of equity, with net income calculated without deduction for non-controlling interests. The new standards require consolidated net income to be allocated between controlling and non-controlling interest.

These three new sections are to be implemented concurrently and applied prospectively to all business combinations for which the acquisition date is on or after January 1, 2011, with early adoption permitted. The Company intends to adopt new guidance on these topics upon transition to International Financial Reporting Standards ("IFRS").

13.3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In October 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to IFRS, as issued by the International Accounting Standards Board ("IASB"). Accordingly, the Company will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Company's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and January 1, 2010 ("date of transition") opening balance sheet restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1").

As part of its transition to IFRS, the Company has completed the initial phase of its implementation plan which consisted of the establishment of a steering committee comprising senior executives and the identification of internal resources to conduct the implementation and is progressing well on the three remaining phases of the Company's implementation plan described below.

STEP	DESCRIPTION	CORRESPONDING MD&A SECTION	STATUS AS AT DECEMBER 31, 2009	EXPECTED COMPLETION DATE
1	Extensive analysis of the expected accounting differences between Canadian GAAP and IFRS and assessment of the expected impact of the accounting differences on the consolidated financial statements, including the review of choices available upon the initial adoption of IFRS	13.3.1	Substantially complete	Second quarter of 2010
2	Training sessions provided to key finance personnel and management and the preparation of additional training sessions to be given throughout the implementation process	13.3.2	In progress	Third quarter of 2010
3	Review of the potential impact on: (i) the business activities of the Company, (ii) its disclosure controls and internal controls over financial reporting; and (iii) its financial reporting systems	13.3.3	In progress	Third quarter of 2010

13.3.1 EXPECTED ACCOUNTING DIFFERENCES BETWEEN CANADIAN GAAP AND IFRS AND THEIR IMPACT EXPECTED ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2009, the process of identifying fundamental accounting differences between Canadian GAAP and IFRS having a significant impact on the Company's consolidated financial statements and the review of choices available upon the initial adoption of IFRS were substantially completed. The final step of the phase, which is the assessment of the expected impact of the accounting differences identified on the Company's consolidated financial statements, is progressing well and the quantification of the impact is expected to be completed in the second quarter of 2010, with a publication of a summary of the results expected in the third quarter of 2010.

Based on its current analysis of expected accounting differences, which is subject to changes pending finalization of this phase and potential modifications to IFRS by the IASB, the Company has prepared a summary description of potential impact on its consolidated financial statements. This summary description, presented below, describes certain differences between current IFRS and Canadian GAAP that will or could impact the Company's consolidated financial statements, with any quantified impact being before income taxes:

13.3.1.1 SIGNIFICANT ACCOUNTING POLICIES

SUBJECT	DIFFERENCES IDENTIFIED BETWEEN IFRS AND CANADIAN GAAP	POTENTIAL IMPACT ON SNC-LAVALIN
Revenue recognition	IFRS provides guidance on revenue recognition that are, in general, consistent with Canadian GAAP applied to the Company's activities.	No significant impact expected on its revenue recognition accounting policy described in Note 2C to its 2009 audited annual consolidated financial statements, except for the application of IFRIC 12 discussed below.
Foreign currency transactions	Canadian GAAP requires self-sustaining foreign operations to be accounted for using the current rate method and integrated foreign operations to be accounted for using the same method as foreign transactions for Canadian operations. IFRS does not distinguish between self-sustaining or integrated foreign operations. It rather requires all entities, including foreign operations, to determine their functional currency and to translate their results and financial position into that functional currency. Then, the financial statements of foreign operations, if any, are translated into the functional currency of the consolidated reporting entity by using a method equivalent to the current rate method, with any resulting difference recorded as part of the consolidated shareholders' equity, and therefore, having no impact on net income. An optional exception provided under IFRS 1 allows transferring to retained earnings any balance included in the foreign currency translation adjustment account under Canadian GAAP at the date of transition.	At the date of transition to IFRS, the Company expects to transfer to retained earnings the Canadian GAAP balance included in accumulated other comprehensive income (loss), under "exchange differences on translating foreign operations" account ($9.3 million cumulative loss at December 31, 2009), as permitted by the optional exemption available under IFRS 1. Consequently, the Company will apply the IFRS guidance on foreign currency on a prospective basis, with no significant impact expected on net income.

SUBJECT	DIFFERENCES IDENTIFIED BETWEEN IFRS AND CANADIAN GAAP	POTENTIAL IMPACT ON SNC-LAVALIN
Service Concession Arrangements (IFRIC 12)	IFRIC 12 provides guidance on the accounting for certain qualifying private-to-public partnership arrangements, whereby the grantor (usually a public sector entity) i) controls or regulates what services the operator (usually a private sector entity) must provide with the infrastructure, to whom it must provide them, and at what price, and ii) controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement. Under such arrangements, the operator accounts for the infrastructure asset by applying the intangible asset model, the financial asset model, or a combination of both, depending on whether the operator bears market risk through the usage of the infrastructure, or if it bears none or part of such risk, respectively. Under the **intangible asset model**, the intangible asset is amortized over the term of the concession agreement. Under the **financial asset model**, the infrastructure asset gives rise to an account receivable, which is reduced by payments received for the services provided, notwithstanding the usage level of the infrastructure asset. Under both models, the operator will recognize revenues on the construction or upgrade activities from the beginning of the arrangement (i.e., while the asset is under construction), and thereafter revenues from the operation of the infrastructure asset. In contrast, Canadian GAAP does not have any specific guidance on private-to-public partnership arrangements and, therefore, the accounting treatment will be derived from other relevant standards based on the project's facts and circumstances.	While the overall profitability and cash flows over the duration of the arrangements affected by IFRIC 12 will not change, the timing of net income recognition, as well as the measurement and presentation of revenues, assets and liabilities, are expected to be different than under Canadian GAAP. For example, an infrastructure asset that would be constructed through an ICI wholly-owned by SNC-Lavalin and accounted for as an item of property and equipment under Canadian GAAP would result in recognizing no revenue until the infrastructure asset is in operation. Once in operation, the ICI would recognize revenues generated by the item of property and equipment, with such asset being depreciated over time. If the same infrastructure asset was accounted for under IFRIC 12, revenues and profit from the construction activity would be recognized during the construction period. Upon completion of construction, the ICI would recognize revenues generated from the usage of the facility, under the intangible asset model, or from financing the grantor and operating the facility, under the financial asset model. Further differences may arise between Canadian GAAP and IFRS from the accounting treatment of borrowing costs during construction and obligation to restore the infrastructure to a specified condition before handing it back to the grantor, amongst others, depending on the accounting treatment of the infrastructure asset. The Company has determined that the following ICI will be affected by IFRIC 12 and is currently assessing the impact of its application: > Groupe Immobilier Ovation > InTransit BC > Malta International Airport > Okanagan Lake Concession > TC Dome
Interest in Joint Ventures	IFRS currently allows accounting for jointly controlled entities using either the equity method or the proportionate consolidation method, while Canadian GAAP requires the use of the proportionate consolidation method only. Also, IFRS states that the investor shall continue recognizing its share of the losses of an investee accounted for by the equity method when the recognition of such losses would result in a negative balance for its investment, only to the extent the investor has incurred legal or constructive obligations or made payments on behalf of the investee. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture losses irrespective of the carrying amount of its investment in such joint venture.	The Company's jointly controlled entities having the most significant impact on its consolidated financial statements are its ICI, mainly Highway 407. These ICI are often capital intensive and result in the proportionate consolidation of infrastructure assets and related non-recourse long-term debt. As such, the Company intends to account for jointly controlled entities by applying the equity method under IFRS to reflect the way the Company views the nature of its investments, which will enable the reader a greater understanding of the Company's underlying assets, earnings and financial resources. More specifically, the accounting of Highway 407 under the equity method would result in removing approximately $780 million of assets and $840 million of liabilities from the Company's consolidated balance sheet as at December 31, 2009. As SNC-Lavalin does not have any legal or constructive obligations or made payments on behalf of Highway 407, the negative carrying value of its investment in Highway 407 of approximately $60 million at December 31, 2009 under Canadian GAAP, would become $nil under IFRS, resulting in an increase of approximately $60 million in retained earnings at the date of transition.

SUBJECT	DIFFERENCES IDENTIFIED BETWEEN IFRS AND CANADIAN GAAP	POTENTIAL IMPACT ON SNC-LAVALIN
Property and equipment	IAS 16 reinforces the requirement under Canadian GAAP to depreciate property and equipment by major components, and provides more specific guidance on the cost of a component and the accounting for its replacement. IAS 16 also permits assets to be measured based on either a cost model or a revaluation model. Under the revaluation model, which is not allowed under Canadian GAAP, an item of property and equipment is carried at a revalued amount, being the fair value at the date of the revaluation.	The only significant impact expected on the Company's consolidated balance sheet for its property and equipment, other than from the impact from IFRIC 12 and Interest in Joint Ventures discussed above, is from its full consolidation of AltaLink, which anticipates certain reclassifications resulting from the application of IFRS, with no expected impact on its financial position and results of operations. The Company intends to continue accounting for its property and equipment under the cost model.
Financial instruments: recognition and measurement	Canadian GAAP and IFRS are substantially aligned on accounting for financial instruments, including the conditions to qualify for hedge accounting. However, a difference between IFRS and Canadian GAAP remains when it comes to measurement of unlisted securities, which are measured at cost under Canadian GAAP. IFRS requires all available-for-sale financial assets to be measured at fair value, unless fair value is not reliably determinable.	SNC-Lavalin held $231.0 million of available-for-sale financial assets accounted for at cost (refer to Note 20 to the audited annual consolidated financial statements) at December 31, 2009, which would be accounted for at fair value under IFRS if their fair value can be reliably measured. Based on the Company's estimate of fair value, the potential impact upon transition to IFRS would be the recognition of an approximate $15 million unrealized gain in accumulated other comprehensive income at the date of transition.
Employee benefits	In accordance with Canadian GAAP, the Company does not recognize the full amount of actuarial gains and losses arising on the measurement of defined benefit plan obligation in the income statement as soon as they arise ("corridor method"), which is consistent with IFRS. However, as an alternative to the method described above, IFRS allows for the recognition of the full amount of actuarial gains and losses in other comprehensive income ("OCI method") with an equivalent increase or decrease in the pension benefit obligation or asset in the statement of financial position; thus, reflecting the full surplus or deficit of the pension plans at each balance sheet date.	Under IFRS, the Company will recognize on its balance sheet actuarial losses that are currently unrecognized under Canadian GAAP ($15.6 million at December 31, 2009 for its defined benefit pension plans, as presented in Note 22 of its audited annual consolidated financial statements). At transition date, the Company expects to use the optional exemption available under IFRS 1, which allows recognizing the impact discussed above in retained earnings. As a result, the accounting for defined benefit plans under IFRS will be applied prospectively beginning on January 1, 2010. Also, the Company expects to adopt the OCI method for the recognition of actuarial gains and losses arising on or after that date, which will result in no amortization of such gains and losses under IFRS. Under Canadian GAAP, the amortization of previously deferred actuarial losses on its defined benefit pension plans resulted in an expense of $8.8 million in 2009 and $6.2 million in 2008 for the Company.
Rate-regulated activities	Canadian GAAP provides guidance for entities subject to rate regulation related to the recognition of their regulatory assets and regulatory liabilities. Additionally, Canadian GAAP prescribes specific disclosures for entities subject to rate regulation and provides specific guidance requiring the Company to recognize intercompany profits resulting from the construction of facilities for AltaLink, as the transactions are considered realized by AltaLink with a third party through the approval of rates. Under IFRS, there is currently no specific guidance relating to entities subject to rate regulation, although the IASB has issued an exposure draft on this topic in July 2009.	AltaLink, 76.92%-owned by the Company, is an entity subject to rate regulation. The Company applies current Canadian GAAP requirements upon consolidation of AltaLink. The potential impact of transition to IFRS on the Company's consolidated financial statements has only been partially determined and is subject to uncertainties due to the unknown outcome of the exposure draft relating to rate-regulated activities issued by the IASB in July 2009.

13.3.1.2 DISCUSSION ON IFRS 1 EXEMPTIONS

In terms of the implementation decisions as to whether accounting policy changes will be applied by the Company on a retrospective basis or a prospective basis, IFRS 1 generally requires a retrospective basis of application, except for some mandatory exceptions and optional exemptions permitted by IFRS 1. In addition to those described above, the Company expects to apply certain optional exemptions permitted by IFRS 1, including the following:

> Business combinations
In accordance with the option provided by IFRS 1, the Company does not intend to restate business combinations that occurred prior to January 1, 2010. Consequently, when preparing its IFRS financial statements, the Company will apply the guidance substantially aligned with the description given in Section 13.2 under "Business combinations, consolidated financial statements and non-controlling interests" to business combinations occurring on or after January 1, 2010.

13.3.2 TRAINING SESSIONS

As of December 31, 2009, a number of IFRS internal training sessions to key finance personnel such as divisional business controllers and other finance staff, as well as to the Company's management committee comprised of key employees and to members of the Audit Committee and Board of Directors were offered by the IFRS implementation team. The materials relating to these IFRS internal training sessions have been posted on the Company's intranet for continuous learning purposes on a Company-wide basis. Additional IFRS training sessions are expected to be conducted throughout the implementation process, and thereafter, and will incorporate the impact of amendments to IFRS by the IASB.

13.3.3 POTENTIAL IMPACT ON BUSINESS ACTIVITIES, DISCLOSURE CONTROLS AND FINANCIAL REPORTING SYSTEMS

As at December 31, 2009, the Company does not foresee any issue with clauses referring to Canadian GAAP contained in contractual agreements.

As at December 31, 2009, the Company does not expect its disclosure controls and internal control over financial reporting to be significantly impacted by its transition to IFRS. As part of its implementation plan, the Company has developed and implemented internal controls over its transition to IFRS process and expects to complete its update of internal policies and procedures for IFRS in the third quarter of 2010.

As at December 31, 2009, the assessment of the impact on information systems regarding IFRS requirements for capturing data is completed, resulting in no significant impact.

14 Risks and Uncertainties

While management remains optimistic about SNC-Lavalin's long-term outlook, the Company is subject to a number of risks and uncertainties in carrying out its activities. The Company has adopted various strategies, policies and practices to mitigate its risks and uncertainties. The Company's principal risks and uncertainties are described below.

CONTRACTUAL ARRANGEMENTS

OVERVIEW

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus, fixed-fee, and fixed-price contracts, as well as investments in infrastructure concessions. SNC-Lavalin has developed and applies rigorous risk assessment, mitigation and management practices to reduce the nature and extent of the financial, technical and legal risks under each of these types of contractual agreements.

Prior to submitting a proposal for a fixed-price project that exceeds a certain revenue threshold and/or contains elements considered to have a high or unusual risk, the proposal must be reviewed and analyzed by a Risk Evaluation Committee ("REC"). The REC is composed of managers with appropriate expertise who are responsible for recommending a course of action to both the proposal team as well as senior management in respect of the project under consideration. In addition, proposals for projects exceeding a certain threshold must also be reviewed by the Company's Bid and Investment Approval Committee ("BIAC"). The BIAC is composed of senior executives and, under certain circumstances, is expanded to add members of the Company's Board of Directors when certain levels are reached or under specific circumstances. The BIAC also reviews proposed acquisitions or dispositions of businesses and Infrastructure Concession Investments.

As a result of the involvement of the REC and BIAC in a wide variety of projects, both committees are capable of bringing to the proposal team all lessons learned from other past and ongoing projects. This is an important method of bringing the latest realities directly to the attention of the proposal team for their consideration and action.

SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE

SNC-Lavalin's continued commitment to sound risk management practices when undertaking Services, Packages, and Operations and Maintenance type contracts, includes technical risk assessments, rigorous drafting and legal review of contracts, applying stringent cost and schedule control over projects, the regular review of project forecasts to complete, the structuring of positive cash flow arrangements on projects, securing project insurance, obtaining third party guarantees, being selective when choosing partners, subcontractors and suppliers and other risk mitigating measures. Maintaining insurance coverage for various aspects of its business and operations is an important element in SNC-Lavalin's risk management process. SNC-Lavalin elects, at times, to retain a portion of losses that may occur by applying selective self-insurance practices and professionally managing such retention through its regulated captive insurance company.

INFRASTRUCTURE CONCESSION INVESTMENTS

In accordance with its business strategy, SNC-Lavalin makes selective investments in infrastructure concessions, for which its technical, engineering and construction, project management, and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinct advantage.

When investing in infrastructure concessions, the Company typically structures such transactions with debt financing that is non-recourse to the general credit of the Company. Erosion of the Company's investment value in concessions, which is dependent on the ability of the concession to attain its revenue and cost projections as well as the ability to secure financing, is mitigated by sound risk management practices when investing in such infrastructure concessions, such as:

> Independence of the Investment group from the engineering, construction and operations and maintenance groups within SNC-Lavalin;

> Detailed review and structuring of concession contract arrangements;

> Detailed analysis of the risks specific to each investment, such as construction, operation, environment and supply and demand estimates;

> Ensuring, when applicable, the financial strength of equity partners, as well as ensuring that SNC-Lavalin's interests in the concession are well aligned with those of its equity partners;

> In-depth financial modelling performed in-house, coupled with independent third party modelling review; and

> Review by independent third party consultants of financial projections and forecasts performed in-house.

COST OVERRUNS

SNC-Lavalin benefits from cost savings, but bears the risk for cost overruns from fixed-price contracts. Contract revenues and costs are established, in part, on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, productivity, performance of our people and of subcontractors or equipment suppliers, price, availability of labour, equipment and materials and other requirements that may affect project costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. The risk of cost overruns is mitigated by regular and proactive monitoring by employees with appropriate expertise, regular review by senior management, and by securing the purchase price of certain equipment and material with suppliers. Cost overruns also occur when unforeseen circumstances arise.

PROJECT PERFORMANCE

In certain instances, SNC-Lavalin may guarantee a client that it will complete a project by a scheduled date or that a facility will achieve certain performance standards. As such, SNC-Lavalin may incur additional costs, should the project or facility subsequently fail to meet the scheduled or performance standards.

ABILITY TO ATTRACT AND RETAIN QUALIFIED PERSONNEL

The success of SNC-Lavalin ultimately depends on its workforce, and the ability to attract and retain qualified personnel in a competitive work environment is achieved by providing diversified and challenging career opportunities, a safe and healthy work environment, as well as competitive compensation and benefits.

JOINT VENTURE PARTNERS

SNC-Lavalin undertakes certain contracts with joint venture partners. The success of its joint ventures relies on the satisfactory performance of SNC-Lavalin's joint venture partners in their joint venture obligations. The failure of the joint venture partners to perform their obligations could impose additional financial and performance obligations on SNC-Lavalin that could result in increased costs.

SUBCONTRACTORS AND SUPPLIERS

SNC-Lavalin undertakes contracts as Packages activities whereby it subcontracts a portion of the project or the supply of material and equipment to third parties. Should the subcontractors or suppliers fail to meet these standards by not delivering their portion of a project according to the contractual terms, including not meeting the delivery schedule or experiencing a deterioration of their financial conditions, the ability of SNC-Lavalin to perform and/or to achieve the anticipated profitability on the project may be impacted. This risk is managed by rigorously selecting the third party subcontractors and suppliers, by proactively monitoring the project schedules and budgets and by obtaining letters of credit or other guarantees.

CONTRACT AWARDS

Obtaining new awards, which is a key component for the sustainability of profits, is a risk factor in a competitive environment for which SNC-Lavalin's globally recognized technical expertise, diversity of activities, segments and geographic base have proven to be mitigating factors.

BACKLOG

Backlog includes contract awards that are considered firm and is thus an indication of future revenues. However, there can be no assurance that cancellations or scope adjustments will not occur, that the revenue backlog will ultimately result in earnings or when revenues and earnings from such backlog will be recognized.

FOREIGN CURRENCY RISK

The Company's activities outside Canada expose SNC-Lavalin to foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure. The hedging strategy includes the use of forward foreign exchange contracts, which contain an inherent credit risk related to default on obligations by the counterparty. SNC-Lavalin reduces this credit risk by entering into foreign exchange contracts with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

INTEREST RATE RISK

The Company's non-recourse long-term debt from ICI and recourse long-term debt from other activities are interest-bearing and therefore, can be affected by fluctuations in interest rates.

ICI usually reduce their exposure to interest rate risk by entering into fixed-rate financing arrangements or by hedging the variability of interest rates through derivative financial instruments. Fixing the interest rates gives the ICI stable and predictable financing cash outflows, which are usually structured to match the expected timing of their cash inflows. As a result, the changes in interest rates do not have a significant impact on SNC-Lavalin's consolidated net income.

The Company's recourse long-term debt bears interest at a fixed rate and is measured at amortized cost, therefore, the Company's net income is not exposed to a change in interest rates on these financial liabilities.

CREDIT RISK AND DELAY IN COLLECTION

Credit risk corresponds to the risk of loss due to the client's inability to fulfill its obligations with respect to trade and other receivables and contracts in progress. Delay in collection occurs when payments from clients exceed the contractually agreed payment terms. SNC-Lavalin's capability to structure positive cash flow arrangements on projects significantly reduces the credit risk on certain projects. Furthermore, the concentration of credit risk is limited due to the large number of clients comprising SNC-Lavalin's revenue base, and their dispersion across different industry segments and geographic areas.

SNC-Lavalin's objective is to reduce credit risk by ensuring collection of its trade and other receivables on a timely basis. SNC-Lavalin internally allocates imputed interest to provide an incentive to project managers to collect trade and other receivables, as uncollected balances result in an internal cost for the related project, and as such, impacts the profitability of projects and of the associated operating segment, which is used to determine managers' compensation.

INFORMATION MANAGEMENT

Information is critical to SNC-Lavalin's success. The integrity, reliability and security of information in all forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, delayed reaction times to the resolution of problems, privacy breaches and/or inappropriate disclosure or leaking of sensitive information. The development of policies and procedures pertaining to security access, system development and change management is implemented with a view to enhance and standardize the controls to manage the information management risk. Recognizing the value of information, the Company is committed to managing and protecting it wisely, responsibly and cost effectively. SNC-Lavalin maintains accounting systems and internal controls over financial reporting which, in the opinion of management, provides reasonable assurance regarding the accuracy, relevance and reliability of financial information. The Company strives on improving upon its procedures and software in the control of project budgets and schedules, as well as the overall process of risk management. Important focus is put on continuous training of the Company's employees in order for them to have the best tools and software to better manage projects.

ECONOMIC AND POLITICAL CONDITIONS

A significant portion of SNC-Lavalin's revenues is attributable to projects in international markets, which exposes SNC-Lavalin to a number of risks such as uncertain economic conditions in the countries in which SNC-Lavalin does business, abrupt changes in foreign government policies and regulations, restrictions on the right to convert and repatriate currency, political risks due to international hostilities, and the lack of well-developed legal systems in some countries, which could make it difficult to enforce SNC-Lavalin's contractual rights. SNC-Lavalin has about 40 years of involvement in international markets, which provides a valuable source of experience in assessing risks related to the international economic and political conditions.

HEALTH AND SAFETY RISK

SNC-Lavalin's activities encompass a responsibility for health and safety. A lack of strong safety practices by SNC-Lavalin or its subcontractors may expose SNC-Lavalin to lost time on projects, penalties, lawsuits, and may impact future project awards as certain clients will take into account health and safety records when selecting suppliers. SNC-Lavalin has programs in place and policies and procedures that must be followed to ensure all of its employees and subcontractors are fully committed to recognizing and understanding the hazards of their work site, assessing the risks with competence and mitigating the potentially harmful outcomes. Furthermore, the Company's Board of Directors has established a Board committee to oversee all aspects of health and safety and environment.

ENVIRONMENTAL RISK

SNC-Lavalin, in providing engineering and construction, and operations and maintenance expertise and investing in infrastructure concession entities, is exposed to various environmental risks and is subject to complying with environmental laws and regulations which vary from country to country and are subject to change. The Company's inability to comply with environmental laws and regulations could result in penalties, lawsuits and potential harm to its reputation. While mitigating its environmental risk through its monitoring of environmental laws and regulations and the expertise of its professionals in the environmental sector, SNC-Lavalin is committed to helping its clients continuously improve the integration of environmental protection issues into all their activities, both in Canada and abroad. Furthermore, the Company's Board of Directors has established a Board committee to oversee all aspects of health and safety and environment.

REPUTATIONAL RISK

The consequence of reputational risk is a negative impact to the Company's public image, which may influence its ability to obtain future projects. Reputational risk may arise under many situations including, amongst others, quality or performance issues on the Company's projects, a poor health and safety record, non-compliance with laws or regulations, or creation of pollution and contamination. Prior to accepting work on a particular project, the Company mitigates reputational risk by performing due diligence, which includes a review of the client, the country, the scope of the project and local laws and culture. Once the decision to participate in a project has been taken, the corporate risk management process continues to mitigate reputational risk during both the proposal and execution stages through regular reviews including the Company's Risk Evaluation Committee, and Bid and Investment Approval Committee process, and Audit Committee reviews, peer reviews and internal audits.

15 Fourth Quarter Results

For the fourth quarter of 2009, net income increased by 31.7% to $98.7 million ($0.65 per share on a diluted basis), compared to $75.0 million ($0.49 per share on a diluted basis) for the corresponding period last year. The increase reflects higher contributions from Power, Chemicals and Petroleum, and ICI, partially offset by lower contributions mainly from Mining and Metallurgy, and Infrastructure and Environment.

Revenues for the fourth quarter of 2009 totalled $1,583.2 million, compared to $1,943.9 million for the fourth quarter of 2008, primarily due to a decrease in Packages activities, primarily from Infrastructure and Environment, and Chemicals and Petroleum, as well as decreased Services activities, mainly from Mining and Metallurgy, and Chemicals and Petroleum.

The Company's backlog totalled $10.8 billion as at December 31, 2009, compared to $10.2 billion as at the end of the third quarter of 2009, reflecting increased Packages, mainly from Infrastructure and Environment, and Power, partially offset by decreased Services.

At the end of December 2009, the Company's cash and cash equivalents were $1,218.2 million, in line with the end of September 2009, mainly reflecting i) cash generated from operating activities, primarily from increased net income and a higher level of items not involving cash, partly offset by the fluctuation in non-cash working capital items, offset by ii) cash used for investing activities.

16 Additional Information

The Company's quarterly and annual financial information, its Annual Information Form and other financial documents are available on the Company's website (www.snclavalin.com) as well as on SEDAR (www.sedar.com), the system used for electronically filing most securities-related information with the Canadian securities regulatory authorities.

17 Controls and Procedures

17.1 DISCLOSURE CONTROLS AND PROCEDURES

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) to provide reasonable assurance that i) material information related to the Company is made known to them, and ii) information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. They have also evaluated the effectiveness of SNC-Lavalin's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and have concluded that such disclosure controls and procedures are effective.

17.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

SNC-Lavalin's management, with the participation of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. They have also evaluated the effectiveness of SNC-Lavalin's internal control over financial reporting and have concluded that such controls are effective. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

18 Quarterly Information

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)	2009					2008				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues by activity:										
Services	**559.8**	**568.8**	**535.7**	**557.1**	**2,221.4**	477.5	567.2	548.7	712.0	2,305.4
Packages	**566.8**	**575.5**	**472.5**	**587.4**	**2,202.2**	863.7	795.9	791.4	778.5	3,229.5
Operations and Maintenance	**409.4**	**241.3**	**311.9**	**335.3**	**1,297.9**	355.5	250.3	249.6	369.6	1,225.0
ICI	**89.7**	**84.8**	**102.3**	**103.4**	**380.2**	78.4	89.1	95.7	83.8	347.0
	1,625.7	**1,470.4**	**1,422.4**	**1,583.2**	**6,101.7**	1,775.1	1,702.5	1,685.4	1,943.9	7,106.9
Gross margin	**267.8**	**260.8**	**306.0**	**316.5**	**1,151.1**	240.7	245.9	259.5	266.8	1,012.9
Selling, general and administrative expenses	**137.0**	**131.7**	**128.8**	**148.1**	**545.6**	120.3	117.7	120.1	157.1	515.2
Interest (revenues) and capital taxes:										
From ICI	**26.3**	**21.1**	**32.6**	**32.2**	**112.2**	29.3	32.2	24.2	22.5	108.2
From other activities	**0.3**	**1.2**	**7.2**	**7.3**	**16.0**	(4.1)	(5.3)	(3.4)	(0.9)	(13.7)
	26.6	**22.3**	**39.8**	**39.5**	**128.2**	25.2	26.9	20.8	21.6	94.5
Income before income taxes and non-controlling interest	**104.2**	**106.8**	**137.4**	**128.9**	**477.3**	95.2	101.3	118.6	88.1	403.2
Income taxes (benefits):										
From ICI	**1.6**	**5.6**	**1.1**	**0.1**	**8.4**	1.1	1.3	1.8	(3.7)	0.5
From other activities	**23.1**	**19.1**	**31.7**	**25.9**	**99.8**	21.9	23.1	23.9	15.7	84.6
	24.7	**24.7**	**32.8**	**26.0**	**108.2**	23.0	24.4	25.7	12.0	85.1
Non-controlling interest	**2.0**	**2.1**	**1.4**	**4.2**	**9.7**	1.4	1.5	1.6	1.1	5.6
Net income	**77.5**	**80.0**	**103.2**	**98.7**	**359.4**	70.8	75.4	91.3	75.0	312.5
Basic earnings per share ($)(1)	**0.51**	**0.53**	**0.68**	**0.65**	**2.38**	0.47	0.50	0.61	0.50	2.07
Diluted earnings per share ($)(1)	**0.51**	**0.53**	**0.68**	**0.65**	**2.36**	0.47	0.49	0.60	0.49	2.05
Dividend declared per share ($)	**0.15**	**0.15**	**0.15**	**0.17**	**0.62**	0.12	0.12	0.12	0.15	0.51
Depreciation of property and equipment and amortization of other assets:										
From ICI	**22.7**	**19.9**	**20.8**	**23.2**	**86.6**	19.0	20.8	22.5	25.8	88.1
From other activities	**10.0**	**10.9**	**11.6**	**11.0**	**43.5**	10.6	9.5	10.6	11.2	41.9
	32.7	**30.8**	**32.4**	**34.2**	**130.1**	29.6	30.3	33.1	37.0	130.0
SNC-Lavalin's net income (loss) from ICI:										
From Highway 407	**1.4**	**1.3**	**2.2**	**4.9**	**9.8**	(2.0)	(1.5)	10.1	13.4	20.0
From other ICI	**3.0**	**(1.0)**	**7.3**	**17.8**	**27.1**	2.4	5.4	9.1	0.3	17.2
SNC-Lavalin's net income excluding ICI	**73.1**	**79.7**	**93.7**	**76.0**	**322.5**	70.4	71.5	72.1	61.3	275.3
Net income	**77.5**	**80.0**	**103.2**	**98.7**	**359.4**	70.8	75.4	91.3	75.0	312.5
Revenue backlog (at end of quarter)										
Services	**1,520.4**	**1,612.1**	**1,570.2**	**1,464.9**		1,557.7	1,604.0	1,630.0	1,545.3	
Packages	**3,154.5**	**3,809.9**	**3,495.2**	**4,197.5**		3,901.4	3,353.0	3,813.0	3,508.0	
Operations and Maintenance	**1,893.5**	**2,004.9**	**2,587.0**	**2,596.1**		2,393.7	2,223.5	2,027.2	2,196.2	
ICI	**2,412.3**	**2,487.3**	**2,543.7**	**2,578.7**		2,157.6	2,213.9	2,265.8	2,342.7	
	8,980.7	**9,914.2**	**10,196.1**	**10,837.2**		10,010.4	9,394.4	9,736.0	9,592.2	

(1) Quarterly basic and diluted earnings per share are calculated using the weighted average number of shares outstanding for the quarter, while annual basic and diluted earnings per share are calculated using the weighted average number of shares for the full year.