



KNOWHOW



BEYOND ENGINEERING

WE **KNOW** WHAT WORKS
WHAT'S SUSTAINABLE
AND **HOW** TO GET IT DONE
ANYWHERE IN THE WORLD

SNC-Lavalin brings unique know-how to developing sustainable solutions that support the widest range of stakeholders. An international leader in engineering and construction, and a major player in operations, maintenance and infrastructure concession investments, our success is founded on our experience and proven technical skills, our global diversity and attentiveness to our clients and the communities we serve.



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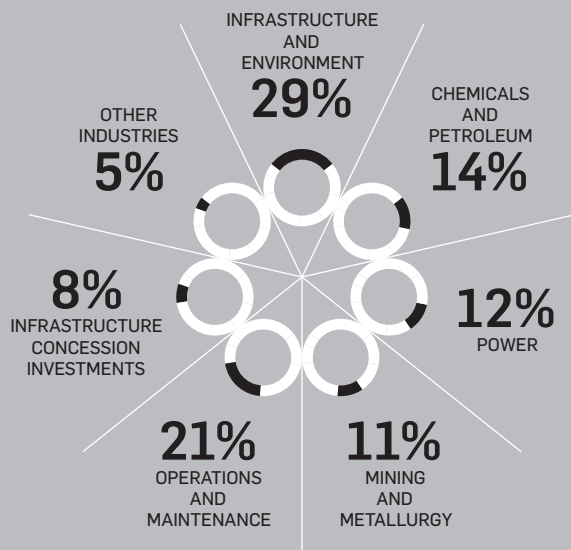
FINANCIAL HIGHLIGHTS

100 years of
excellence

24,000
employees

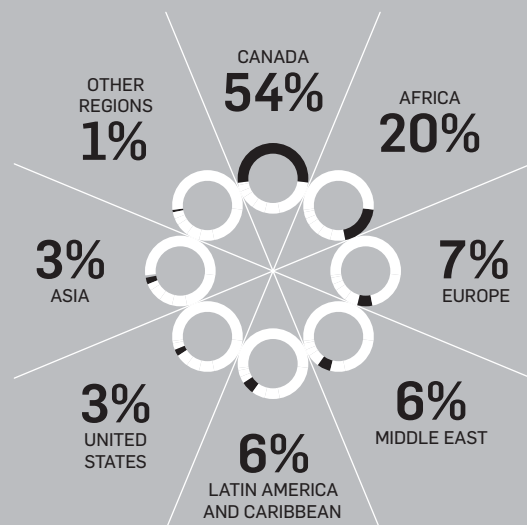
Ongoing
projects in
100
countries

2010 REVENUES

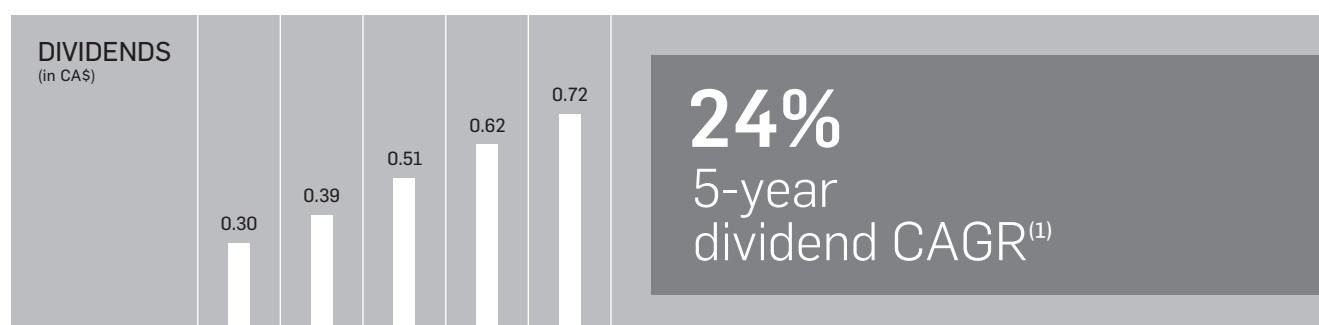
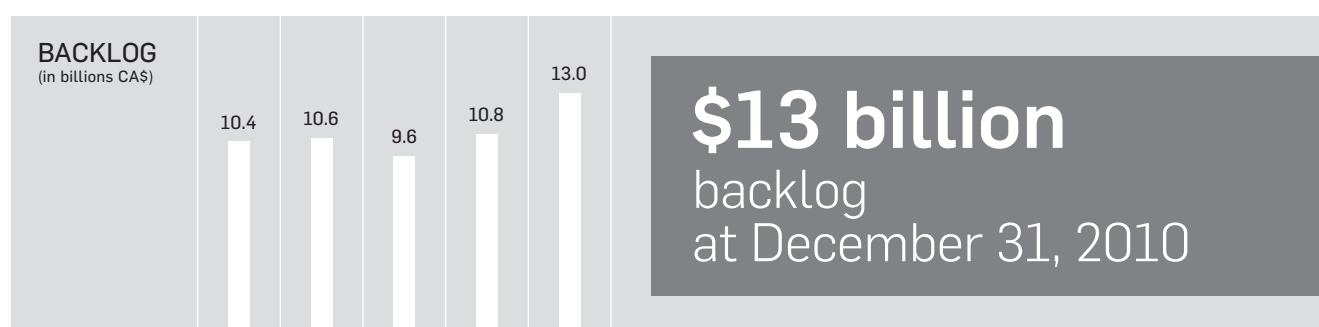
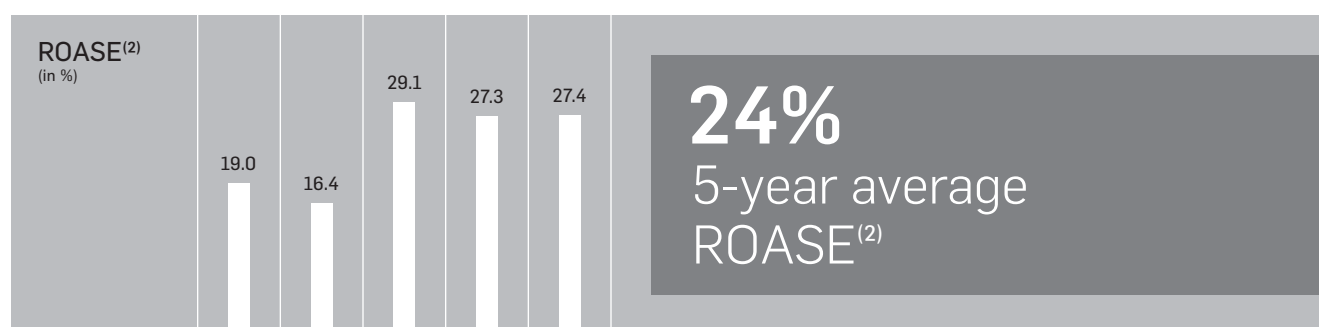
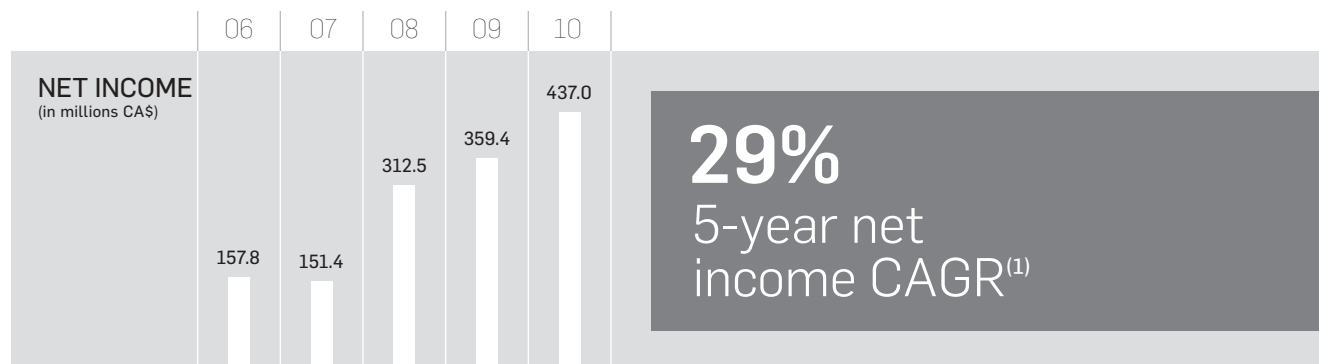


Diversity by
industry segment

2010 REVENUES



Diversity by
geographic area



(1) Compound Annual Growth Rate

(2) Return on average shareholders' equity

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 4, 2011

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.

The forward-looking statements in this document reflect the Company's expectations as at March 4, 2011, when the Company's Board of Directors approved this document, and are subject to change after this date. The Company does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

1 2010 Highlights

22% GROWTH IN
NET INCOME

27% RETURN ON
AVERAGE
SHAREHOLDERS'
EQUITY

\$870 NET CASH
POSITION
million

INCREASE IN 2010 NET INCOME

YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS)

| | 2010 | 2009 | CHANGE (%) |
|------------------------------|----------|----------|------------|
| Net income | \$ 437.0 | \$ 359.4 | 21.6% |
| Earnings per share (diluted) | \$ 2.87 | \$ 2.36 | 21.6% |

- > In 2010, net income increased by 21.6% compared to 2009. This reflects an 8.9% net income increase when we exclude a net gain after taxes of \$26.1 million from the disposal of two infrastructure concession investments ("ICI") and a gain after taxes of \$19.6 million from the disposal of certain technology solution assets.
- > This 8.9% increase was mainly due to higher contributions from Infrastructure & Environment, and from the ICI segment.

HIGHER REVENUES IN 2010

YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS)

| | 2010 | 2009 | CHANGE (%) |
|----------|------------|------------|------------|
| Revenues | \$ 6,315.0 | \$ 6,101.7 | 3.5% |

- > The increase mainly reflects higher revenues from Packages and ICI, partially offset by lower revenues from Services.

STRONG FINANCIAL POSITION

DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS)

| | 2010 | 2009 | CHANGE (%) |
|---------------------------|------------|------------|------------|
| Cash and cash equivalents | \$ 1,288.2 | \$ 1,218.2 | 5.7% |
| Net cash position | \$ 870.1 | \$ 722.9 | 20.4% |

- > The increase of cash and cash equivalents in 2010 mainly reflects cash generated from financing and operating activities, partially offset by cash used for investing activities.
- > Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) remained strong as at December 31, 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

STRONG REVENUE BACKLOG

| DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|--|--------------------|--------------------|
| Services | \$ 1,410.7 | \$ 1,464.9 |
| Packages | 5,912.1 | 4,197.5 |
| Operations & Maintenance ("O&M") | 2,732.8 | 2,596.1 |
| ICI | 2,949.9 | 2,578.7 |
| Total | \$ 13,005.5 | \$ 10,837.2 |

- > The Company's overall revenue backlog increased as at December 31, 2010 compared to December 31, 2009. The backlog at the end of December 2010 does not include any fourth quarter 2010 bookings of Libyan projects, such as the \$450 million Al Kufra Wellfield contract, or the Company's backlog of previously booked Libyan projects which amounted to \$484.0 million at year-end. The Company decided to remove these projects as a precautionary measure that will remain in place until the situation is further clarified.

ADDITIONS TO ICI

- > The following notable additions to ICI took place during 2010:
- Chinook Roads Partnership ("Chinook"), held by SNC-Lavalin and Acciona S.A., entered into a contract with Alberta Transportation to design, build, operate, maintain, and partially finance the southeast section of Calgary's Stoney Trail Ring Road in Canada. Upon signing the contract with Alberta Transportation, Chinook subcontracted the engineering, procurement, and construction ("EPC"), and the O&M work to joint ventures 50% owned by SNC-Lavalin. The construction is expected to be completed in 2013. Once completed, Chinook will operate and maintain this infrastructure until 2043. SNC-Lavalin and its partner committed to invest a total of \$32.3 million in equity and subordinated debt in Chinook.
 - In July 2010, SNC-Lavalin, its partner and the McGill University Health Centre ("MUHC") announced the financial closure and official signing of a partnership agreement between MUHC and Groupe immobilier santé McGill ("MIHG"), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, MIHG will design, build, finance, and maintain MUHC's new Glen Campus, comprised mainly of two hospitals, a cancer centre and a research institute, located in Montreal, Canada. Also in July 2010, MIHG awarded SNC-Lavalin an EPC contract for approximately \$1.6 billion to design and build the facilities. Construction is underway and is expected to be completed in the autumn of 2014. Once completed, MIHG will maintain the campus for the next 30 years. SNC-Lavalin and its partner committed to invest, directly or indirectly, an amount of \$191.8 million in equity and subordinated debt.
 - The Company acquired in 2010 a 36.9% equity interest in Rayalseema Expressway Private Limited ("REPL"), an entity that had previously entered into a contract with the National Highways Authority of India to build and operate the 189-kilometre Cuddapah-Kurnool section of National Highway 18, in the state of Andhra Pradesh, India. Under this 30-year public-private partnership contract, REPL will expand the existing two-lane stretch to four lanes and operate the section of the toll highway. SNC-Lavalin committed to invest an amount of \$36.7 million in equity and subordinated debt.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

DISPOSALS

> The following disposals took place during the year:

- During the third quarter of 2010, SNC-Lavalin disposed of certain Energy Control Systems ("ECS")'s technology solution assets which help manage and optimize the flow of electricity through power grids. The gain of \$22.8 million before taxes (gain of \$19.6 million after taxes), was included in Packages activities, as part of Power.
- In October 2010, SNC-Lavalin announced that it had entered into an agreement with a group of financial institutions to sell all of its approximately 10.07% equity interest in Valener Inc. (TSX:VNR) ("Valener") consisting of 3,516,453 common shares of Valener, on an underwritten block trade basis, for net proceeds of \$58.7 million, resulting in a loss after taxes of \$1.3 million. The transaction was closed in November 2010.
- In November 2010, SNC-Lavalin announced that it had entered into an agreement with Caisse de dépôt et placement du Québec to sell all of its approximately 11.1% interest in Trencap Limited Partnership. The transaction generated net proceeds of \$118.2 million and resulted in a gain after taxes of \$27.4 million.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

| YEAR ENDED DECEMBER 31 | 2010 | 2009 | 2008 |
|------------------------|-------|-------|-------|
| ROASE | 27.4% | 27.3% | 29.1% |

> In 2010, ROASE significantly surpassed the Company's performance objective of 600 basis points above the long-term Canada Bond Yield, which totalled 9.8% for the year.

DIVIDEND INCREASE

> On March 4, 2011, the Company's Board of Directors approved a quarterly dividend of \$0.21 per share, a 23.5% increase over the previous quarterly dividend declared, consistent with the Company's positive outlook.

2011 OUTLOOK

- > Based on the Company's revenue backlog and prospects list, the Company expects its 2011 net income to be lower when compared to 2010, however it is expected to remain in line when we exclude the gains from the disposals of certain assets and investments recognized in 2010.
- > Net income from other activities for 2011 is expected to remain in line with 2010, when we exclude the gain from the disposal of certain technology solution assets.
- > Net income from ICI for 2011 is expected to remain in line with 2010, when we exclude the net gain from the disposal of two ICI.
- > The Company's outlook for 2011 excludes any potential contribution from its projects in Libya, until the situation there is clarified.

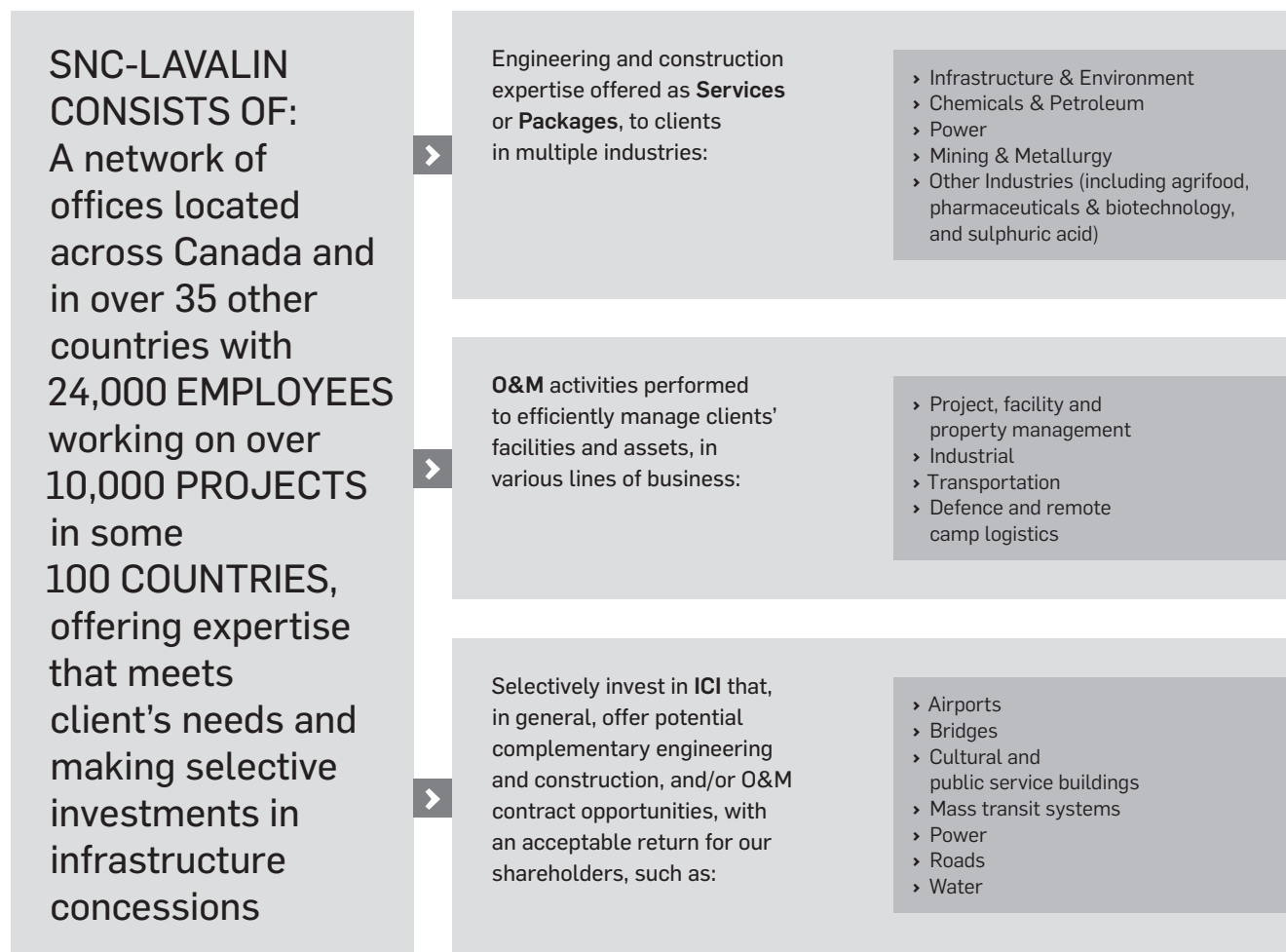
SUBSEQUENT EVENT

- > On February 10, 2011, SNC-Lavalin announced that it will acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million. The offer was presented in response to a binding offer received by MEAP from a third party pursuant to a right of first refusal held by SNC-Lavalin and would bring SNC-Lavalin's ownership in AltaLink to 100%. The transaction is subject to customary closing conditions and regulatory approval, including approval from the Alberta Utilities Commission.

2 Overview of Our Business and Strategy

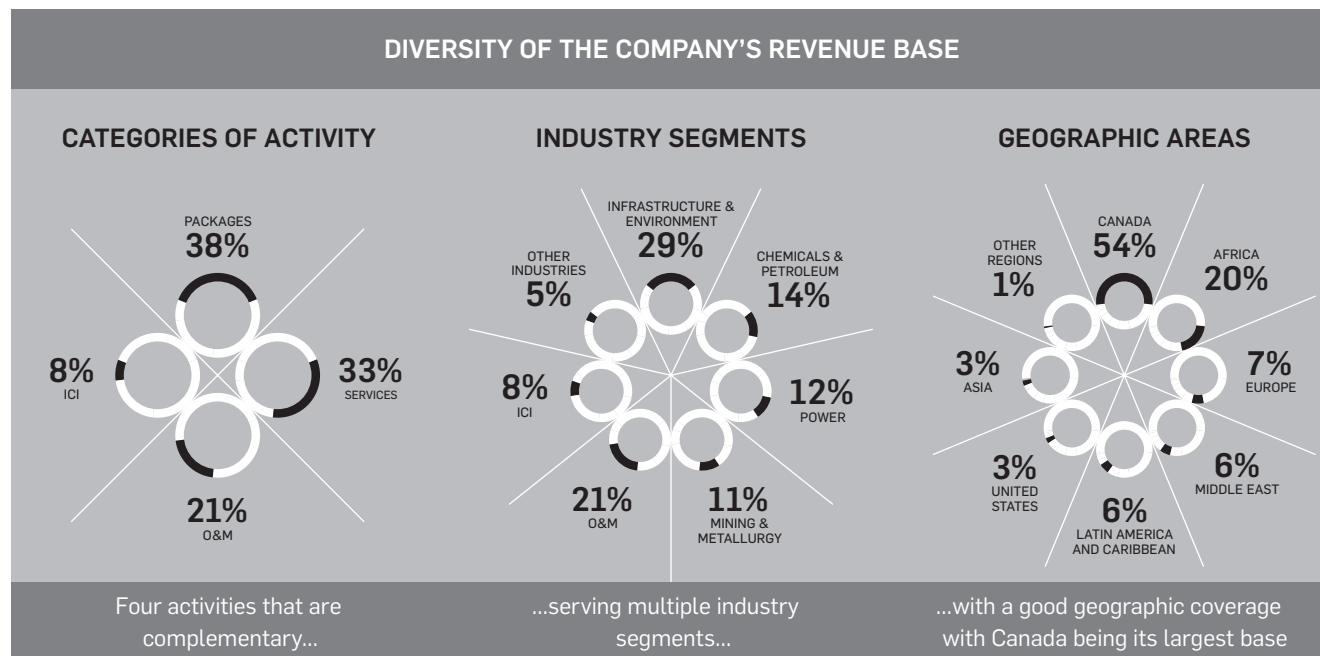
2.1 OUR BUSINESS

SNC-Lavalin is an international leading engineering and construction company, and a leader in O&M in Canada. The Company is also recognized for its select investments in infrastructure concessions.



2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

SNC-Lavalin has more than 10,000 ongoing projects in multiple geographic regions and for multiple industry segments, showing the **diversity of the Company's revenue base**. 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, industry segments and geographic areas are illustrated in the following charts with its 2010 revenues.



2.2 OUR BUSINESS STRATEGY

SNC-Lavalin's business strategy is founded on a **strategic vision**:

BE THE GLOBAL TOP-OF-MIND ENGINEERING AND CONSTRUCTION SOLUTION PROVIDER WITH DEEP LOCAL IMPACT.

A world undergoing constant changes makes it imperative for a business to adapt itself to seize opportunities. At SNC-Lavalin, strategic planning is a dynamic and ongoing process developed to make sure that the Company is quick to respond to market opportunities and the needs of its clients. The Company also believes that the success of any strategy lies in its execution. Thus, the strategic vision has been distilled into a set of strategic priorities by management and the Board of Directors that are reflected in the priorities and targets of every employee.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

The following seven strategic priorities will ensure that SNC-Lavalin continues to grow and be successful by serving the needs of its clients, employees, shareholders and the communities where it is active.

| STRATEGIC PRIORITIES | KEY IMPLICATIONS |
|--|--|
| Operational excellence | Successful project delivery is at the heart of achieving operational excellence which is required for SNC-Lavalin to retain the trust of its clients, existing and new. Successful project delivery includes exceeding targets for health and safety performance, budget, schedule and client satisfaction. |
| Improve competitiveness | A focus on cost-efficiency, supported by strong capabilities and experience, will be key to ensuring that the Company is consistently selected by clients as their partner of choice on major projects. |
| Stronger relationships with clients | Creating strong relationships with clients will ensure that SNC-Lavalin remains top-of-mind and becomes a true partner to its clients. |
| Geographic diversification and growth of markets and offerings | Expansion of geographic, product and sector coverage will be an important component to access growing markets where the Company can continue its successful growth trajectory. The ability to deliver local projects using local resources will be a key component in delivering the geographic growth strategy. |
| Recruit, identify and develop the best talent in the industry | SNC-Lavalin will continue to attract the best talent and offer compelling career opportunities to retain that talent, supported by a strong talent management approach. The Company will use a global approach to finding talent which will enable it to have highly skilled resources across the globe. |
| Financial strength | Maintaining a strong balance sheet and financial performance is important not only for the Company's shareholders and credit providers but also to provide its clients with the knowledge that it is able to maintain stability while delivering projects it undertakes on their behalf. |
| Corporate social responsibility | The Company has deep respect for its social obligations and will act, and be known, as a socially responsible company. This includes engaging itself with the broader community wherever the work is performed. |

3 How We Analyze and Report Our Results

3.1 RESULTS BY CATEGORY OF ACTIVITY

The Company reports its results under **four categories of activity**, which are **Services** and **Packages** (together these regroup activities from engineering and construction), **O&M**, and **ICI**. 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 and include contracts wherein SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning. Services revenues from individual contracts are typically lower than those of Packages activities, which are discussed below, as they only reflect the professional services rendered and not the cost of the materials, equipment and/or construction. Services activities have historically generated a gross margin yield between 25% and 29%. Services contracts that provide for engineering, procurement and construction management are referred to as "EPCM" contracts.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

3.1.2 PACKAGES ACTIVITIES

Packages activities are different from Services activities in that the Company is responsible not only for providing one or more Services activities, but also undertakes the responsibility for providing materials and equipment, and/or construction activities. In particular, Packages contracts that include engineering services, providing materials and equipment, and construction activities are referred to as "EPC" contracts. Packages revenues are derived primarily from fixed-price contracts. As such, **Packages revenues** include the cost of materials, equipment and/or construction. The Company's Packages activities have historically generated a gross margin yield between 7% and 10%.

Below are detailed examples that illustrate the difference between an EPCM contract and an EPC contract.

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

Example 1 assumes that the client has awarded a \$10 million 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 \$2.7 million on revenues of \$10 million. In this example, revenues generated from the EPCM contract, which would be included under the Services revenues category over the period the services are rendered, are assumed to be 10% of the capital cost of the project. The latter percentage could vary from one project to another.

EXAMPLE 1—EPCM SERVICES CONTRACT

(IN MILLIONS OF CANADIAN DOLLARS)

Services:

| | | |
|-------------------------------|----|------|
| Total revenues | \$ | 10.0 |
| Total gross margin | \$ | 2.7 |
| Gross margin-to-revenue ratio | | 27% |

Example 2 assumes that the client has awarded SNC-Lavalin a \$100 million fixed-price EPC contract (i.e., corresponding to the project's capital cost). 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.

EXAMPLE 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 Example 2 (i.e., \$9.0 million) compared to Example 1 (i.e., \$2.7 million) reflects the additional risks assumed by the Company related to fixed-price Packages contracts, which are exposed to cost-overruns and other financial performance responsibilities. This example also illustrates that a variance of 1% in the gross margin-to-revenue ratio would result in a variance in nominal gross margin of \$0.1 million in example 1, compared to a variance of \$1.0 million in example 2 because the revenue-base of a Packages project is much larger than an equivalent project awarded as Services.

3.1.3 O&M ACTIVITIES

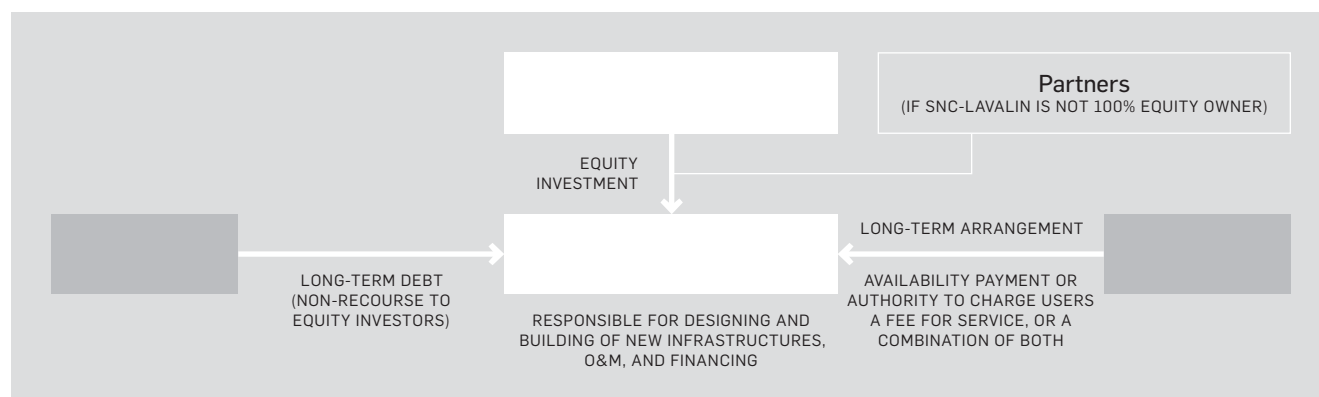
O&M revenues are derived primarily from cost-reimbursable with fixed-fee contracts, and from fixed-price contracts. O&M activities usually involve a high volume of transactions, which are mainly cost-reimbursable by the client, and thereby result in a lower gross margin-to-revenue ratio than Services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

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

3.1.4 ICI ACTIVITIES

The Company's ICI are typically infrastructures including **airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water**. These types of infrastructure are usually provided by government-owned entities, however, many countries are now turning to the private sector to take ownership, to finance, operate and maintain the assets, usually for a defined period of time. This allows for the transfer to the private sector of some of the risks associated with designing, building, operating, maintaining and financing such assets. In return, the government will either: i) commit to making regular payments, usually in the form of availability payments, upon the start of operations of the infrastructure for a defined period of time (typically 20 to 40 years); ii) authorize the infrastructure concession entity to charge users of the infrastructure 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 in investing 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-owned entity;
- > The investment gives SNC-Lavalin the opportunity to provide complementary engineering and construction, and/or O&M 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.

ICI revenues are generated mainly 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 GAAP.

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

For the purposes of the Company's audited annual consolidated financial statements, SNC-Lavalin's ICI are accounted for by one of the following methods, depending on the type of influence that it exercises:

| TYPE OF INFLUENCE | ACCOUNTING METHOD |
|-------------------------|------------------------------------|
| Insignificant influence | Cost method |
| Significant influence | Equity method |
| Joint control | Proportionate consolidation method |
| Control | Full consolidation method |

As a result, the Company's consolidated balance sheet includes the line by line impact of the ICI that are fully consolidated and proportionately consolidated.

Unlike Services, Packages, and O&M activities, ICI 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

In order to provide the reader with a better understanding of the financial position and results of operations of its ICI, the Company provides additional information in its 2010 audited annual consolidated financial statements on its ICI that are controlled or jointly controlled, as follows:

| | |
|-------------------------|---|
| Balance sheet | <ul style="list-style-type: none"> > Property and equipment from ICI; and > Non-recourse long-term debt from ICI |
| Statement of cash flows | <ul style="list-style-type: none"> > Depreciation and amortization from ICI, and acquisition of property and equipment from ICI; and > Repayment and increase of non-recourse long-term debt from ICI |
| Notes | <ul style="list-style-type: none"> > Main balance sheet accounts impacted by ICI are shown on separate lines in Note 4; > The net income from ICI, comprised of its proportionate share of the net income of Highway 407 and the net income of other ICI, is presented in Note 3; and > Certain other notes will provide information regarding ICI separately from other activities |

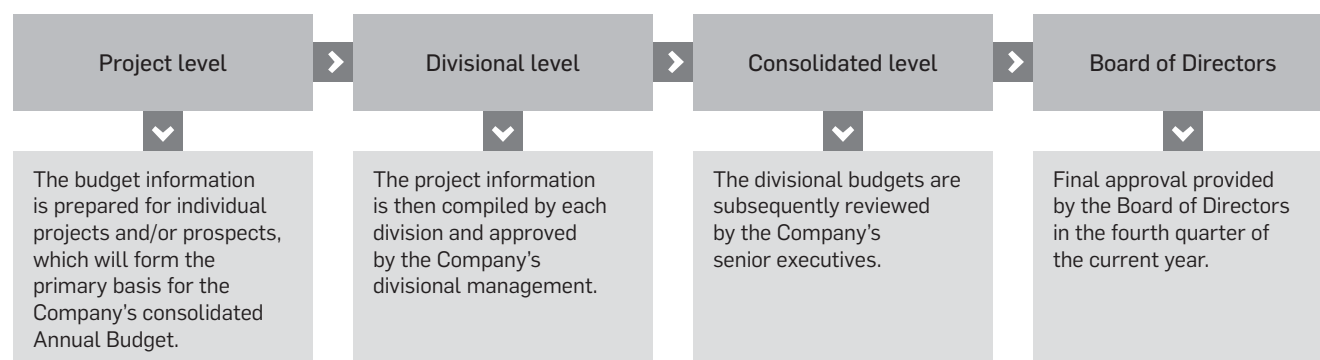
In certain parts of this MD&A, activities from Services, Packages, and O&M are collectively referred to as "from other activities" or "excluding ICI" to distinguish them from ICI activities.

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 manner management's performance is evaluated. Accountability for the Company's performance rests with members of senior management, wherein a portion of their remuneration is based on the profitability of their respective business segments, 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") in the fourth quarter of each year, which is the basis of the Company's financial outlook.



The Annual Budget is a key tool used by management to monitor the Company's performance and progress against key financial objectives. Furthermore, the figures set in the Annual Budget have an impact on management's compensation, as these figures are used in determining part of their performance bonus. The Annual Budget is updated during the year to reflect current information 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 business segment executive vice-president, the Chief Financial Officer ("CFO") and the Chief Executive Officer ("CEO").

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

The key elements taken into account when estimating revenues and gross margin for budget and forecast purposes from **Services**, **Packages**, and **O&M** activities are the following:

| KEY ELEMENTS | IMPACT ON THE ANNUAL BUDGET |
|------------------------------------|--|
| Backlog | Firm contracts used to estimate a portion of future revenues taking into account the execution and expected performance of each individual project. |
| Prospects list | Unsigned contracts that the Company is currently bidding on, and/or future projects for which it intends to bid. For prospects, the Company utilizes what is referred to as a "Go-Get Percentage", which is the 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 before considering its execution and expected performance. |
| Execution and expected performance | 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. |

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

In regards to its **ICI** budget and forecast, the Company uses expected results based on assumptions specific to each investment.

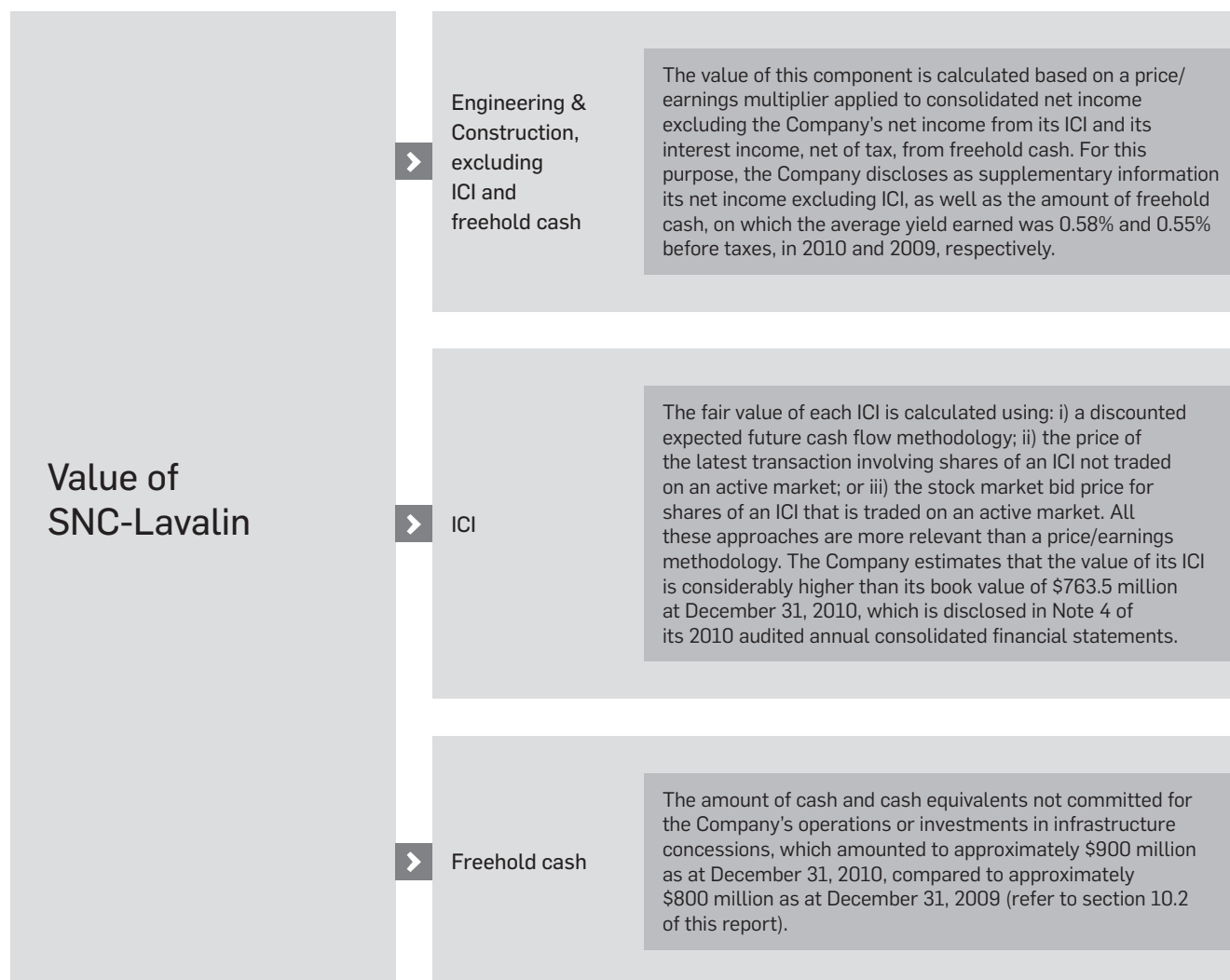
A key management tool to monitor the Company's performance is the monthly evaluation and analysis of actual results compared to the Annual Budget or the Quarterly Forecasts, for revenue, gross margin and profitability. This enables management to analyze its performance and, if necessary, take remedial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

| SOURCE OF VARIATION | EXPLANATION |
|--|--|
| Level of activity for Services, Packages, and O&M | Variation depends 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. The revenue mix between the activities will also affect, among other elements, the gross margin of the Company. |
| Changes in the estimated revenues and/or costs to complete each individual project | Variation of the estimated costs to complete projects for fixed-price contracts result 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. |
| Changes in the results or dividends and distributions of its ICI | Variation in the financial results and the level of dividends and distributions of each ICI will impact the financial results of the Company. |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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:



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 throughout 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 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

These non-GAAP financial measures include the following indicators:

| NON-GAAP FINANCIAL MEASURE | REFERENCE | NON-GAAP FINANCIAL MEASURE | REFERENCE |
|--------------------------------------|--------------|--------------------------------|----------------|
| Performance | | Liquidity | |
| Gross margin by category of activity | Section 6.2 | Net cash position | Section 10.2 |
| Revenue backlog | Section 7 | Freehold cash | Section 10.2 |
| Operating income by segment | Section 9 | Working capital | Section 10.4 |
| ROASE | Section 10.9 | Recourse debt-to-capital ratio | Section 10.5.3 |

Definitions of all non-GAAP financial measures are provided in the referenced sections above 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.

4 Our Key Financial Performance Indicators

To enable the Company to continuously strive to create value for its shareholders it regularly evaluates 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;
- > **ROASE**, which is used as a measure of return on equity; and
- > **Net cash position** 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, 2010, 2009 and 2008, with the Company's corresponding financial objectives.

KEY FINANCIAL INDICATORS

| FINANCIAL INDICATOR | FINANCIAL OBJECTIVE | ACTUAL RESULTS | | |
|---|---|-------------------|------------|------------|
| | | 2010 | 2009 | 2008 |
| Growth in net income | Annual growth between 7% and 12% | ✓ 21.6% | ✓ 15.0% | ✓ 106.4% |
| ROASE | At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 9.8% for 2010, 9.9% for 2009 and 10.1% for 2008) | ✓ 27.4% | ✓ 27.3% | ✓ 29.1% |
| Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) | Maintain a strong balance sheet with a net cash position sufficient to meet expected operating, financing and investing plans | ✓ \$870.1M | ✓ \$722.9M | ✓ \$854.6M |

✓ IN LINE OR ABOVE
FINANCIAL OBJECTIVE

Net income in 2010 increased by 21.6% to \$437.0 million (\$2.87 per share on a diluted basis), compared to \$359.4 million (\$2.36 per share on a diluted basis) in 2009, surpassing the Company's annual long-term net income growth objective of 7% to 12% for the third straight year.

The 2010 ROASE of 27.4% exceeded the Company's objective for the year of 9.8%, reflecting a solid performance. The Company was able to achieve such significant ROASE while having a strong cash position (\$1.3 billion of cash and cash equivalents at December 31, 2010). In 2010, an average yield of 0.58% before taxes was obtained on its cash and cash equivalents, as interest rates remained at historically low levels.

The Company's net cash position of \$870.1 million as at December 31, 2010 is representative of its strong balance sheet, which allows the Company to meet expected operating, investing and financing plans.

5 Outlook for 2011

5.1 ECONOMIC OUTLOOK

Following one of the worst financial and economic crises in modern history, the global economy is currently transitioning from a rapid recovery phase, witnessed until the middle of 2010, to a lower but sustainably growing pace for 2011. In its recently issued economic outlook report, "Global Economic Prospects, Volume 2, January 2011" (the "World Bank Report"), the World Bank states that the world Gross Domestic Product ("GDP") is expected to increase by approximately 3.3% in 2011, heading back toward its pre-crisis growth level. In Canada, the GDP is expected to increase by approximately 2.4% in 2011 according to the Bank of Canada ("Monetary Policy Report, January 2011").

While Canada represents more than 50% of the Company's revenue base, the Company delivers projects to clients in multiple industries around the globe, and those industries may be impacted differently by various financial and economic factors, such as:

- > Infrastructure & Environment, as well as Power activities, are typically driven by industrial activity and local needs. Following the economic recovery in 2010, the world entered into a more stable rebound phase, as the global industrial production regained its pre-crisis level of activity according to the World Bank Report;
- > Chemicals & Petroleum is influenced by the price of oil, among other things, which is expected to be higher in 2011 when compared to 2010, according to the World Bank Report;
- > Mining & Metallurgy is affected by market-driven commodity prices, with higher prices stimulating investments in mines and related processing facilities. Metal prices, which have increased significantly since the financial crisis, are expected to remain at the same level in 2011, while base metal prices are expected to increase by 15% in 2011, supported by continued strong demand from developing countries and supply constraints according to the World Bank Report; and
- > ICI opportunities are expected to increase in 2011 with more public-private partnership contracts tendered, especially in Canada where federal and provincial governments are refurbishing their aging infrastructure and developing new infrastructure.

In 2010, the Company generated revenues of \$418.2 million (6.6% of total revenues) in Libya. With recent events in this country, the Company expects to have lower activities in Libya in 2011, mainly in Packages.

5.2 IFRS IMPACT ON THE COMPANY'S OUTLOOK

The transition from GAAP to IFRS, under which SNC-Lavalin will report starting January 1st, 2011, will have an impact on the financial statements of the Company. As such, the outlook for 2011 presented below, as well as the various specific expectations presented throughout this MD&A, are based on IFRS comparative figures for 2010.

The impact of the transition is mainly on SNC-Lavalin's ICI segment, while IFRS is not expected to significantly affect the accounting of its activities excluding ICI.

Refer to section 13 for a detailed discussion of initial adoption of IFRS.

5.3 COMPANY'S OUTLOOK

To some extent, the Company's outlook is influenced by the overall economic environment, which provides a positive backdrop for 2011 for the industries in which the Company is active. But more importantly, SNC-Lavalin's financial performance depends on its ability to secure revenue-generating projects and to generate profit from its activities.

Based on the Company's revenue backlog and prospects list, the Company expects its 2011 net income to be lower when compared to 2010, however it is expected to remain in line when we exclude the gains from the disposals of certain assets and investments recognized in 2010. Net income from other activities for 2011 is expected to remain in line with 2010, when we exclude the gain from the disposal of certain technology solution assets. Net income from ICI for 2011 is expected to remain in line with 2010, when we exclude the net gain from the disposal of two ICI.

The Company's outlook for 2011 excludes any potential contribution from its projects in Libya, until the situation there is clarified.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

6 Breakdown of Income Statement

\$6,315 million
REVENUES

\$1,332 million
GROSS MARGIN

\$437 million
NET INCOME

FINANCIAL RESULTS

YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS,
EXCEPT EARNINGS PER SHARE)

| | 2010 | 2009 | 2008 |
|---|-------------------------|-------------------------|-------------------------|
| Revenues by activity: | | | |
| Services | \$ 2,051.9 | \$ 2,221.4 | \$ 2,305.4 |
| Packages ⁽¹⁾ | 2,409.0 | 2,202.2 | 3,229.5 |
| O&M | 1,330.5 | 1,297.9 | 1,225.0 |
| ICI ⁽²⁾ | 523.6 | 380.2 | 347.0 |
| | \$ 6,315.0 | \$ 6,101.7 | \$ 7,106.9 |
| Gross margin by activity: | | | |
| Services | \$ 539.2 26.3% | \$ 562.7 25.3% | \$ 678.1 29.4% |
| Packages ⁽¹⁾ | 448.2 18.6% | 357.4 16.2% | 130.0 4.0% |
| O&M | 59.7 4.5% | 50.1 3.9% | 43.6 3.6% |
| ICI ⁽²⁾ | 284.6 54.4% | 180.9 47.6% | 161.2 46.5% |
| | \$ 1,331.7 21.1% | \$ 1,151.1 18.9% | \$ 1,012.9 14.3% |
| Selling, general and administrative expenses | 585.6 | 545.6 | 515.2 |
| Interest (revenues) and capital taxes: | | | |
| From ICI | 151.8 | 112.2 | 108.2 |
| From other activities | 23.1 | 16.0 | (13.7) |
| | 174.9 | 128.2 | 94.5 |
| Income before income taxes and non-controlling interests | 571.2 | 477.3 | 403.2 |
| Income taxes | 123.4 | 108.2 | 85.1 |
| Non-controlling interests | 10.8 | 9.7 | 5.6 |
| Net income | \$ 437.0 | \$ 359.4 | \$ 312.5 |
| Earnings per share (\$) | | | |
| Basic | \$ 2.89 | \$ 2.38 | \$ 2.07 |
| Diluted | \$ 2.87 | \$ 2.36 | \$ 2.05 |
| Supplementary information: | | | |
| SNC-Lavalin's net income from ICI | | | |
| From Highway 407 | \$ 12.9 | \$ 9.8 | \$ 20.0 |
| From other ICI | 70.0 | 27.1 | 17.2 |
| Net income excluding ICI | 354.1 | 322.5 | 275.3 |
| Net income | \$ 437.0 | \$ 359.4 | \$ 312.5 |

(1) Including the gain on disposal of certain technology solution assets of \$22.8 million before taxes in 2010.

(2) Including the net gain before taxes of \$29.6 million from the disposals of Trencap and Valener in 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

6.1 NET INCOME ANALYSIS

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | 2008 |
|---|----------|----------|----------|
| Net income excluding ICI | \$ 354.1 | \$ 322.5 | \$ 275.3 |
| Net income from ICI | 82.9 | 36.9 | 37.2 |
| Net income | \$ 437.0 | \$ 359.4 | \$ 312.5 |

Net income increased in 2010 compared to 2009, due to the growth in net income in both ICI and excluding ICI. The increase in net income in 2009 compared to 2008 was mainly due to the growth in net income excluding ICI.

Net income excluding ICI increased in 2010 compared to the previous year, mainly due to an increase in the gross margin-to-revenue ratio and volume of Packages activities, partially offset by a lower level of Services activity. The Company's gross margin-to-revenue ratio for its Packages activities, which was expected to be toward the upper end of the Company's historical range of 7% to 10%, was 18.6% for 2010, surpassing the historical range for the second consecutive year. This was mainly due to the favourable reforecasts on certain major projects, as well as to the gain of \$22.8 million before taxes on disposal of certain technology solution assets. The increase in net income in 2009, compared to 2008, 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, mainly due to favourable reforecasts on certain major projects nearing completion, or completed in 2009, partially offset by a lower Services gross margin-to-revenue ratio, and the lower level of Packages activity.

Net income from ICI increased in 2010 compared to 2009, reflecting the net gain after taxes of \$26.1 million from the disposals of Trencap and Valener, as well as an increased contribution from Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), reflecting its first full year of operations in 2010 compared to 6 months in 2009. The net income from ICI in 2009 was in line with 2008, as a decrease in net income from Highway 407 was offset by an increase in net income from other ICI, primarily AltaLink.

6.2 REVENUE AND GROSS MARGIN ANALYSIS

As expected, **revenues increased in 2010** compared to 2009, mainly reflecting an increase in Packages and ICI activities, partially offset by a lower level of Services activity. The decrease in 2009 compared to 2008 mainly reflected decreased activities in Packages.

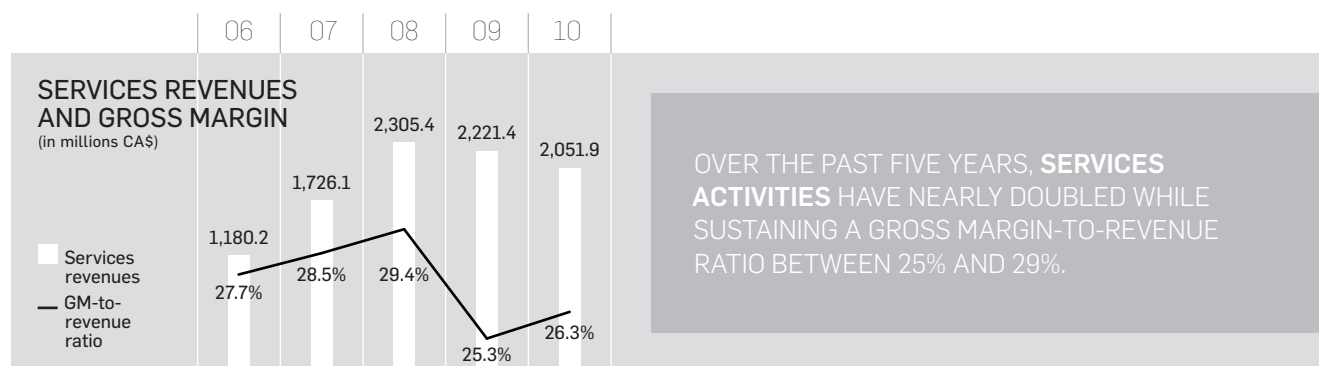
Gross margin increased in 2010 compared to the previous year, mainly reflecting an increase in the gross margin-to-revenue ratio for all categories of activity combined with a higher level of Packages activity, partially offset by a lower level of Services activity. The increase in gross margin in 2009, compared to 2008, mainly reflected an increase in the Packages gross margin-to-revenue ratio, partially offset by a lower Services gross margin-to-revenue ratio, and the decreased level of Packages activity.

In 2011, the Company expects its revenues to increase, reflecting a higher level of activity, with most of the increase being in Packages. **Gross margin is expected to remain in line in 2011** compared to 2010, mainly reflecting higher expected Services and O&M gross margins, offset by an expected lower Packages gross margin.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

6.2.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues, which were expected to remain in line with the previous year, **decreased in 2010** compared to 2009. This decrease was mainly due to decreased activities, primarily in Mining & Metallurgy.

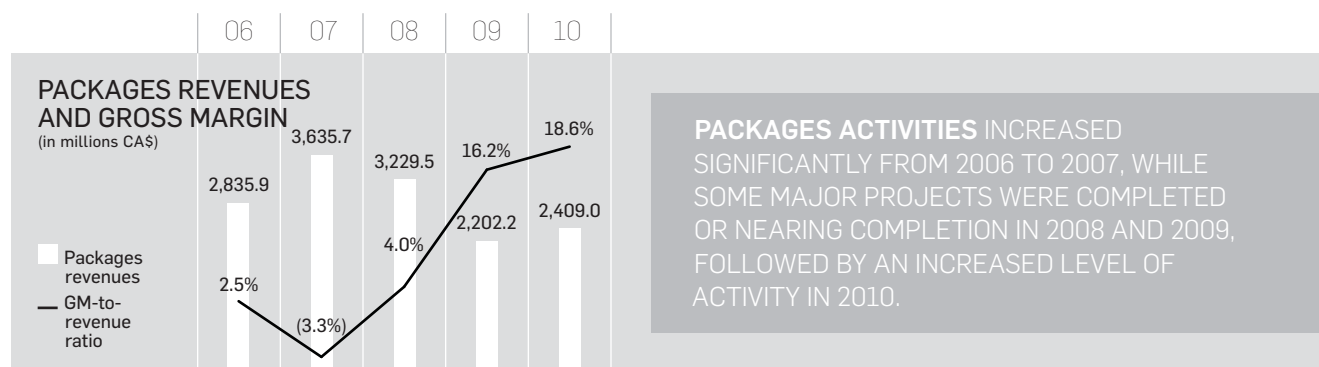


Services gross margin, which was expected to increase in 2010, **decreased** compared to 2009. This decrease was mainly due to a lower level of activity, partially offset by a higher gross margin-to-revenue ratio.

The Company expects **Services revenues to increase in 2011** compared to 2010, mainly from a higher level of activity. **Gross margin from Services is also expected to increase in 2011**, reflecting the anticipated higher level of activity.

6.2.2 PACKAGES REVENUES AND GROSS MARGIN

As expected, **Packages revenues increased in 2010** compared to 2009, with increases primarily from Infrastructure & Environment, and Chemicals & Petroleum, partially offset by a lower level of Power activity, mainly due to certain major projects that were completed or nearing completion in 2010.



The **gross margin for Packages**, which was expected to remain in line, **increased in 2010** compared to 2009. The increase was mainly due to a higher gross margin-to-revenue ratio due to favourable reforecasts on certain major projects, and the \$22.8 million gain before taxes on disposal of certain technology solution assets, as well as an increase in the level of activity.

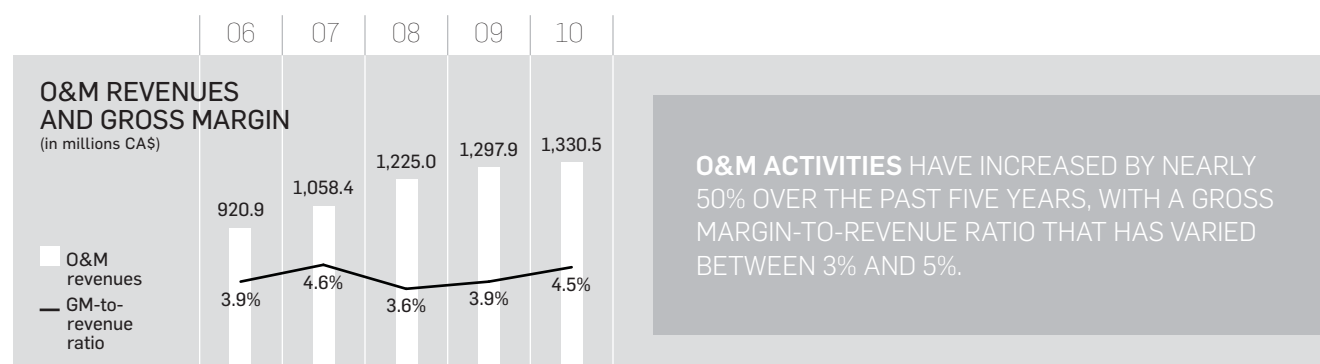
Packages gross margin-to-revenue ratio has historically been between 7% and 10%, however as illustrated in the table above this ratio has been lower than this range from 2006 to 2008, mainly due to a lower gross margin-to-revenue ratio in Power. In 2009 and 2010, the historical range was surpassed, mainly due to the favourable reforecasts on certain major projects.

The Company expects **Packages revenues for 2011 to increase** compared to 2010, reflecting increased activities mainly in Power, and Infrastructure & Environment. **Packages gross margin is expected to decrease in 2011** when compared to 2010, mainly reflecting a lower gross margin-to-revenue ratio, expected to be within the Company's historical range of 7% to 10%, partially offset by an increased level of activity. The Company's outlook for 2011 excludes any potential contribution from its projects in Libya, until the situation there is clarified.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

6.2.3 O&M REVENUES AND GROSS MARGIN

As expected, **O&M revenues remained in line in 2010** compared to 2009.



As expected, **O&M gross margin increased in 2010** compared to the previous year, mainly reflecting a higher gross margin-to-revenue ratio on certain ongoing contracts.

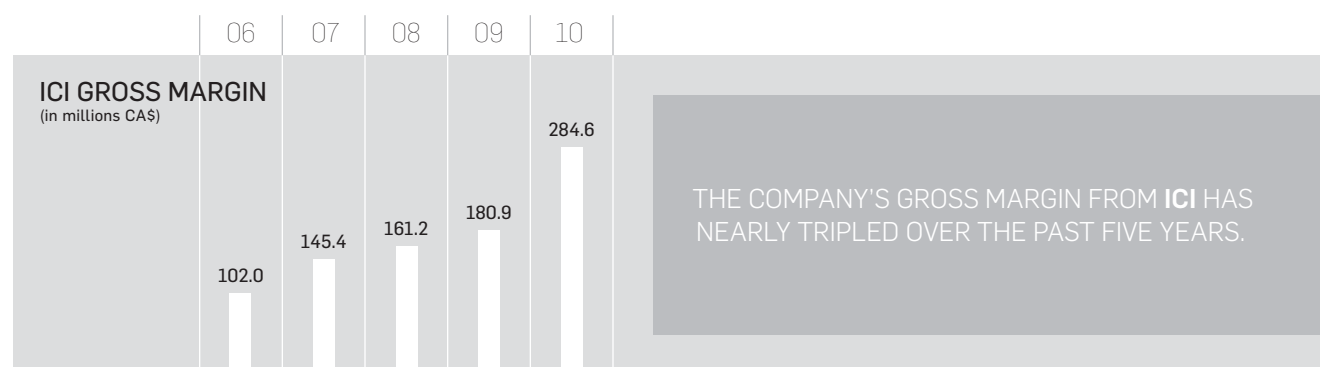
The Company expects **O&M revenues to increase in 2011** compared to 2010, due to an expected increase in activities from certain ongoing contracts. **In 2011, the gross margin is expected to increase** compared to 2010, due to the anticipated higher volume of activity combined with an expected higher gross margin-to-revenue ratio.

6.2.4 ICI REVENUES AND GROSS MARGIN

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

As expected, **ICI revenues increased in 2010** compared to 2009, mainly due to higher revenues of AltaLink. **Gross margin increased in 2010** compared to 2009, mainly due to increased gross margins from AltaLink, Highway 407 and SKH, as well as the net gain before taxes of \$29.6 million from the disposals of Trencap and Valener.

As illustrated in the table below, the Company's gross margin from ICI has nearly tripled over the past five years, reflecting mainly the growth from AltaLink and Highway 407 in the past years coupled with the commencement of operations of Okanagan Lake Concession in 2008 and SKH in 2009, as well as the net gain resulting from the disposals of Trencap and Valener in 2010.



The transition to IFRS will have its most significant impact on ICI; therefore the following outlook for the 2011 contribution of this segment is based on an IFRS comparative basis for 2010. As such, **ICI revenues are expected to remain in line in 2011**. **Gross margin from ICI in 2011 is expected to remain in line** with 2010, as the expected increase mainly from AltaLink and Highway 407 will offset the non-recurring net gain from the disposals of Trencap and Valener recognized in 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

6.3 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | Change (%) |
|--|----------|----------|------------|
| Selling costs | \$ 171.5 | \$ 163.0 | 5.2% |
| General and administrative expenses | 414.1 | 382.6 | 8.2% |
| Selling, general and administrative expenses | \$ 585.6 | \$ 545.6 | 7.3% |

Selling, general and administrative expenses, which were expected to remain in line with the previous year, **increased in 2010** due to the increased level of activity. Selling costs relate mainly to costs for proposals and business development activities, while general and administrative expenses are comprised primarily of occupancy costs and support functions such as accounting, human resources and general management.

The Company expects selling, general and administrative expenses to increase in 2011, mainly reflecting higher proposal costs. However, the Company continues to maintain an appropriate balance between gross margin and selling, general and administrative expenses, as cost management remains a strategic priority, while sustaining the necessary investment in selling activities in order to achieve its growth objective.

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|-------|-------|-------|-------|-------|
| Selling, general and administrative expenses as a percentage of total gross margin | 44.0% | 47.4% | 50.9% | 69.5% | 53.1% |

In 2010, the selling, general and administrative expenses as a percentage of the gross margin was 44%, continuing its decrease over the past three years, mainly due to the higher gross margin.

6.4 INTEREST AND CAPITAL TAXES ANALYSIS

As expected, **interest and capital taxes expenses increased in 2010** compared to 2009, mainly reflecting an increase in interest expense from ICI.

Interest and capital taxes expenses from ICI increased in 2010 compared to 2009, mainly due to higher interest expense from MIHG and AltaLink.

Interest and capital taxes expenses from other activities increased in 2010 compared to the previous year, mainly reflecting an increased interest expense primarily 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, which incurred interest expenses for the full year in 2010, compared to six months in 2009.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | | | 2009 | | |
|-----------------------------------|----------|-----------------------|-----------|-----------|-----------------------|-----------|
| | FROM ICI | FROM OTHER ACTIVITIES | TOTAL | FROM ICI | FROM OTHER ACTIVITIES | TOTAL |
| Interest revenues | \$ (6.1) | \$ (6.7) | \$ (12.8) | \$ (11.6) | \$ (5.0) | \$ (16.6) |
| Interest on long-term debt: | | | | | | |
| Recourse | – | 27.8 | 27.8 | – | 19.0 | 19.0 |
| Non-recourse | | | | | | |
| AltaLink | 68.0 | – | 68.0 | 55.1 | – | 55.1 |
| Highway 407 | 56.2 | – | 56.2 | 62.7 | – | 62.7 |
| MIHG | 14.6 | – | 14.6 | – | – | – |
| Others | 13.5 | – | 13.5 | 9.5 | – | 9.5 |
| Capital taxes and other | 5.6 | 2.0 | 7.6 | (3.5) | 2.0 | (1.5) |
| Interest and capital taxes | \$ 151.8 | \$ 23.1 | \$ 174.9 | \$ 112.2 | \$ 16.0 | \$ 128.2 |

The Company expects interest and capital taxes expenses to remain in line in 2011 when compared to 2010.

Interest expense from ICI is expected to increase in 2011, when compared to 2010, mainly resulting from higher interest expense from AltaLink, mainly due to the additional debt anticipated to be issued to finance its expected capital expenditure program in 2011.

Interest expense from other activities is expected to decrease in 2011, mainly reflecting a lower interest expense from the recourse long-term debt, as a result of the repayment of unsecured debentures totalling \$105 million at maturity in September 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

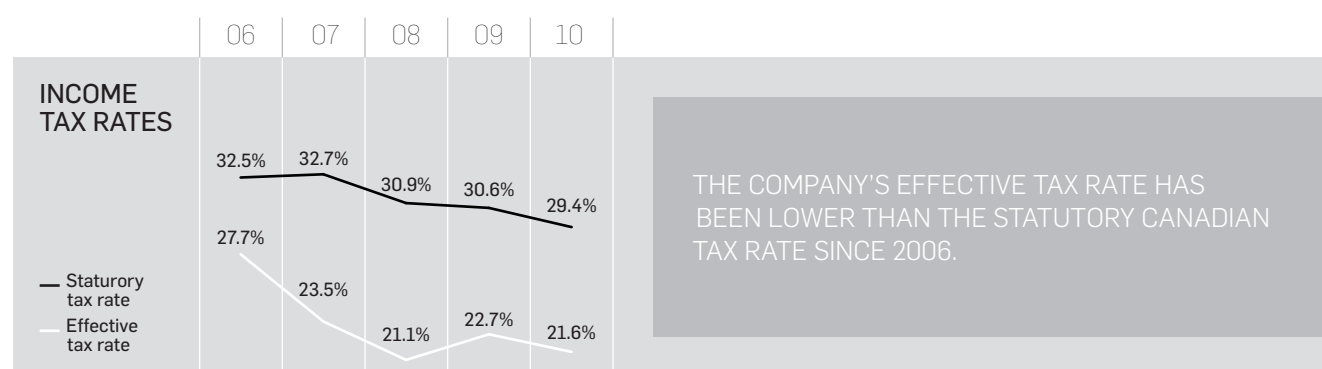
6.5 INCOME TAXES ANALYSIS

While the Company expected the **effective income tax rate** to remain in line in 2010 compared to 2009, it **decreased**. The decrease was mainly due to a lower Canadian statutory tax rate in 2010 compared to 2009, and the impact of the gains from the disposals of certain assets and investments in 2010, partly offset by SNC-Lavalin's proportionate share of the recognition in 2009 of future income tax assets that were previously unrecognized by Highway 407.

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) | 2010 | | | 2009 | | |
|--|----------|-----------------------|----------|----------|-----------------------|----------|
| | FROM ICI | FROM OTHER ACTIVITIES | TOTAL | FROM ICI | FROM OTHER ACTIVITIES | TOTAL |
| Income before income taxes and non-controlling interests | \$ 107.3 | \$ 463.9 | \$ 571.2 | \$ 54.0 | \$ 423.3 | \$ 477.3 |
| Income taxes | \$ 15.1 | \$ 108.3 | \$ 123.4 | \$ 8.4 | \$ 99.8 | \$ 108.2 |
| Effective tax rate (%) | 14.1% | 23.3% | 21.6% | 15.5% | 23.6% | 22.7% |

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 from SNC-Lavalin's proportionate share of the recognition in 2008 and 2009 of future income tax assets that were previously unrecognized by Highway 407.



The Company expects the 2011 overall effective income tax rate to remain in line in 2011 when compared to 2010, mainly reflecting the geographic mix of the Company's activities, and the decrease in the Canadian statutory tax rate in 2011, offset by the lower tax rate applicable to the capital gains from the disposals of certain assets and investments in 2010. The transition to IFRS, as detailed in section 13, will also have an impact on the effective tax rate because Highway 407, a joint venture, will no longer be proportionately consolidated by the Company, but rather accounted for by the equity method, replacing the recognition of the Company's share in Highway 407's taxable income with non-taxable dividends.

7 Revenue Backlog

| | | | | |
|--|------------------------------------|------------------------------------|-------------------------------|-------------------------------|
| \$13,006 million TOTAL REVENUE BACKLOG | \$1,411 million SERVICES | \$5,912 million PACKAGES | \$2,733 million O&M | \$2,950 million ICI |
|--|------------------------------------|------------------------------------|-------------------------------|-------------------------------|

The Company reports revenue backlog, which is a non-GAAP financial measure, for its **categories of activity**: i) **Services**; ii) **Packages**; iii) **O&M**; 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 **O&M** activities, the Company limits the revenue backlog to the earlier of: i) **the contract term awarded**; and ii) **the next five years**.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company reports ICI revenue backlog from fully and proportionately consolidated investments. Revenues backlog 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.

Furthermore, due to the adoption of IFRS that will be in effect in 2011, and notably with the impact on ICI, **the Company will no longer disclose its ICI revenue backlog** starting January 1st, 2011. Refer to section 13 for details.

REVENUE BACKLOG BY SEGMENT, GEOGRAPHY AND CATEGORY OF ACTIVITY

The following table provides a breakdown of revenue backlog by segment, geographic areas and category of activity.

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | | | | |
|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| BY SEGMENT | SERVICES | PACKAGES | O&M | ICI | TOTAL |
| Services and Packages | | | | | |
| Infrastructure & Environment | \$ 665.1 | \$ 2,820.6 | \$ – | \$ – | \$ 3,485.7 |
| Chemicals & Petroleum | 165.8 | 907.4 | – | – | 1,073.2 |
| Power | 219.6 | 1,696.5 | – | – | 1,916.1 |
| Mining & Metallurgy | 273.6 | 167.1 | – | – | 440.7 |
| Other Industries | 86.6 | 320.5 | – | – | 407.1 |
| O&M | – | – | 2,732.8 | – | 2,732.8 |
| ICI | – | – | – | 2,949.9 | 2,949.9 |
| Total | \$ 1,410.7 | \$ 5,912.1 | \$ 2,732.8 | \$ 2,949.9 | \$ 13,005.5 |
| BY CANADA AND OUTSIDE CANADA | | | | | |
| Canada | \$ 467.3 | \$ 4,001.1 | \$ 2,213.7 | \$ 2,949.9 | \$ 9,632.0 |
| Outside Canada | 943.4 | 1,911.0 | 519.1 | – | 3,373.5 |
| Total | \$ 1,410.7 | \$ 5,912.1 | \$ 2,732.8 | \$ 2,949.9 | \$ 13,005.5 |

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2009 | | | | |
|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| BY SEGMENT | SERVICES | PACKAGES | O&M | ICI | TOTAL |
| Services and Packages | | | | | |
| Infrastructure & Environment | \$ 677.9 | \$ 2,034.6 | \$ – | \$ – | \$ 2,712.5 |
| Chemicals & Petroleum | 170.5 | 1,553.5 | – | – | 1,724.0 |
| Power | 253.5 | 436.1 | – | – | 689.6 |
| Mining & Metallurgy | 297.9 | – | – | – | 297.9 |
| Other Industries | 65.1 | 173.3 | – | – | 238.4 |
| O&M | – | – | 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 |

The Company's revenue backlog at December 31, 2010 increased compared to the end of 2009, reflecting an increase in the Packages, ICI, and O&M categories, partly offset by a decrease in the Services category.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

Backlog from Canada increased, primarily due to an increase in Packages, mainly from Infrastructure & Environment, and Power, as well as an increase in ICI.

Backlog from Outside Canada decreased, mainly due to a decrease in Packages, primarily in Chemicals & Petroleum, and Infrastructure & Environment, partially offset by an increase in Power.

7.1 SERVICES BACKLOG

Services backlog decreased at the end of 2010 compared to the end of the previous year, mainly outside Canada.

RECONCILIATION OF SERVICES BACKLOG

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|---|------------|------------|
| Opening backlog | \$ 1,464.9 | \$ 1,545.3 |
| Add: Contract bookings during the year | 1,882.4 | 2,060.6 |
| Backlog from engineering business acquisitions | 115.3 | 80.4 |
| Less: Revenues recognized during the year | 2,051.9 | 2,221.4 |
| Ending backlog | \$ 1,410.7 | \$ 1,464.9 |

Services bookings included notable additions in 2010 such as:

- > **Eiffel Mixed Development Zone** (Infrastructure & Environment/Europe): Mandate to provide detailed design and project management services for the redevelopment of the Eiffel district in Levallois, Ile-de-France. The contract covers work on the district's underground network, design and project management for a shopping mall concourse, office building and 3,000-space underground car park, the latter involving the partial underpinning of existing structures;
- > **El Galeno Project** (Mining & Metallurgy/Latin America): Contract awarded by Lumina Copper SAC to carry out a bankable feasibility study for the El Galeno Project, in Peru. The study targets the potential development and construction of a copper-molybdenum deposit, and is expected to be completed toward the end of 2011;
- > **Hulu Terengganu Hydroelectric Project** (Power/Asia): Contract awarded for tender review, detailed design and construction supervision for Tenaga Nasional Berhad's 250-megawatt ("MW") Hulu Terengganu Hydroelectric Project, located in the state of Terengganu, Malaysia. Detailed design was in progress in 2010, and construction of the main civil works will commence in 2011 and should be completed in 2015;
- > **Mina de Cobre Panama Project** (Mining & Metallurgy/Central America): Contract awarded to provide basic engineering, and then EPCM services, for the development of the Cobre Panama copper mine project in Panama. Basic engineering began in 2010, with construction scheduled to commence late in 2011 or early in 2012. The mine is scheduled to be operational in 2016;
- > **Potassio Rio Colorado Project** (Mining & Metallurgy/Latin America): Mandate to provide the detailed design for a potash plant located in Argentina, for interconnections with the mine and for the airstrip. The starting production capacity of the plant is 2.9 million tonnes per year and a future planned expansion will increase it to 4.3 million tonnes per year;
- > **Sasol Nitro** (Mining & Metallurgy/Africa): Contract to provide EPCM services for a new 400,000 million tonnes per year calcium ammonium nitrate production plant in an existing chemical complex in Secunda, South Africa;
- > **Smoky Falls Hydroelectric Generating Station** (Power/Canada): Contract awarded by the Kiewit-Alary joint venture for the design, engineering and technical support during the construction of a 270 MW hydroelectric power station for Ontario Power Generation. The new station will be located on the same site as the existing Smoky Falls generating station, in Northern Ontario. The existing generating station was built in 1931 and currently generates 50 MW;
- > **Vargem Grande Project** (Mining & Metallurgy/Latin America): Detailed engineering design contract for a new 10 million tonnes per year iron ore processing facility; and
- > **Western Range Iron Ore Project** (Mining & Metallurgy/Africa): The EPCM contract for the iron ore Direct Ore Shipping (DSO) project in Liberia. DSO is high-grade ore that requires only crushing and screening to make it suitable for export. The mandate covers the first phase of a 15 million tonnes per year iron ore production project.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

7.2 PACKAGES BACKLOG

Packages backlog increased at the end of 2010 compared to 2009, resulting primarily from new awards in Power, and Infrastructure & Environment, partially offset by progress on projects in Chemicals & Petroleum. The backlog at the end of December 2010 does not include any fourth quarter 2010 bookings of Libyan projects, such as the \$450 million Al Kufra Wellfield contract, or the Company's backlog of previously booked Libyan projects which amounted to \$484.0 million at year-end. The Company decided to remove these projects as a precautionary measure that will remain in place until the situation is further clarified.

RECONCILIATION OF PACKAGES BACKLOG

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|---|------------|------------|
| Opening backlog | \$ 4,197.5 | \$ 3,508.0 |
| Add: Contract bookings during the year | 4,607.6 | 2,891.7 |
| Less: Revenues recognized during the year | 2,409.0 | 2,202.2 |
| Backlog from projects in Libya | 484.0 | – |
| Ending backlog | \$ 5,912.1 | \$ 4,197.5 |

Packages bookings included notable additions in 2010 such as:

- > **335 MW Waneta Expansion Project** (Power/Canada): Contract to design and build a new powerhouse adjacent to the existing Waneta Dam, comprising a 335 MW hydroelectric power facility in British Columbia. Engineering and construction work is underway and the new facility is expected to go into commercial operation in spring 2015;
- > **Calgary's Southeast Stoney Trail Ring Road** (Infrastructure & Environment/Canada): EPC-related work for the Southeast Stoney Trail Ring Road concession awarded by Alberta Transportation to Chinook Roads Partnership, which is 50% owned by the Company. This contract involves the design and construction of 25 kilometres of a six-lane divided road including nine interchanges, one road and two rail flyovers, and 27 bridge structures in the southeast section of Calgary;
- > **McGill University Health Centre ("MUHC")** (Infrastructure & Environment/Canada): EPC-related work for the new Glen Campus awarded by MUHC to MIHG, in Montreal. The contract for approximately \$1.6 billion involves the design and construction of the facilities, comprised mainly of two hospitals, a cancer centre and a research institute. Construction is underway and is expected to be completed in the autumn of 2014;
- > **New District Cooling Plants in Riyadh** (Infrastructure & Environment/Middle East): Contract to design and build two district cooling plants for Rayadah Investment Company which will serve the King Abdullah Financial District in Riyadh, Kingdom of Saudi Arabia;
- > **New District Cooling Plants in Dharhan** (Infrastructure & Environment/Middle East): Contract awarded by Saudi Tabreed for district cooling facilities in Dhahran, in the Kingdom of Saudi Arabia;
- > **SaskPower's Boundary Dam Integrated Carbon Capture and Sequestration ("CCS") Plant** (Power/Canada): Contract for the CCS Demonstration Project. The project involves transforming an aging unit at the coal-fired Boundary Dam Power Station in Saskatchewan into a source of clean electricity and a producer of CO₂ for enhanced oil recovery;
- > **Southcentral Power Project** (Power/United States): Contract awarded by Chugach Electric Association, Inc., Alaska's largest electric utility. The mandate includes engineering, balance of plant procurement, construction and commissioning for a 200 MW natural gas-fired combined cycle power plant in Anchorage, Alaska. Commercial operation of the thermal power plant is scheduled to begin in the fourth quarter of 2012;
- > **Thermal Power Plant in Tunisia** (Power/Africa): Contract awarded by the Société tunisienne de l'électricité et de gaz to design and construct a 420 MW gas-powered combined cycle thermal power plant at Sousse, Tunisia. SNC-Lavalin is responsible for the engineering and the balance of plant work, which includes construction of the power block, gas and water treatment facilities, compressed air works and installation of the power equipment; and
- > **Winnipeg's Centreport Canada Way** (Infrastructure & Environment/Canada): Contract for the design and construction of a four-lane, four-kilometre section of a divided expressway linking Winnipeg's Centreport Canada, Manitoba's 20,000-acre inland port to the James A. Richardson International Airport and the Perimeter Highway, awarded by Manitoba Infrastructure and Transportation.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

7.3 O&M BACKLOG

O&M backlog at the end of 2010 increased compared to 2009, reflecting the impact of contract bookings and the normal fluctuations in the timing of the long-term contracts, primarily in Canada.

RECONCILIATION OF O&M BACKLOG

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|---|------------|------------|
| Opening backlog | \$ 2,596.1 | \$ 2,196.2 |
| Add: Contract bookings during the year | 1,467.2 | 1,697.8 |
| Less: Revenues recognized during the year | 1,330.5 | 1,297.9 |
| Ending backlog | \$ 2,732.8 | \$ 2,596.1 |

Notable contract bookings in 2010 included additions such as:

- > The agreement to operate and maintain, as well as design, build and install, a 2,600-person camp and facilities in Canada; and
- > Various service operating concession contracts for a network of eight airports in France that covers the following, but not exclusively: airport landing strip operations, infrastructure and site maintenance, as well as commercial development for the airports.

A large number of the Company's O&M 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 O&M 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.

| (IN MILLIONS OF CANADIAN DOLLARS) | INCLUDED IN BACKLOG | | | | | | NOT INCLUDED IN BACKLOG |
|--------------------------------------|---------------------|----------|----------|----------|----------|------------|----------------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | TOTAL | THEREAFTER |
| O&M backlog | \$ 931.4 | \$ 859.4 | \$ 482.6 | \$ 271.2 | \$ 188.2 | \$ 2,732.8 | \$ 1,999.4 |

7.4 ICI BACKLOG

The following table presents the details of the ICI revenue backlog as at December 31, 2010 and 2009:

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|---|------------|------------|
| AltaLink | \$ 2,202.4 | \$ 1,877.4 |
| Highway 407 | 645.0 | 600.7 |
| Other | 102.5 | 100.6 |
| Total backlog | \$ 2,949.9 | \$ 2,578.7 |

The ICI revenue backlog increased mainly due to expected increased revenues from AltaLink.

The revenue backlog presented for AltaLink as at December 31, 2010 and 2009 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, represents SNC-Lavalin's 16.77% proportionate share of the estimated recurring revenues for the next five years.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

8 Geographic Breakdown of Revenues by Category of Activity

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | | 2010 | | | | |
|---|------------|------------|------------|----------|------------|------|
| | SERVICES | PACKAGES | O&M | ICI | TOTAL | |
| Canada | \$ 712.8 | \$ 993.5 | \$ 1,179.8 | \$ 497.2 | \$ 3,383.3 | 54% |
| Outside Canada | | | | | | |
| Africa | 232.2 | 907.9 | 76.8 | 25.5 | 1,242.4 | 20% |
| Europe | 275.0 | 168.0 | 24.9 | 2.2 | 470.1 | 7% |
| Middle East | 258.2 | 138.4 | 2.9 | – | 399.5 | 6% |
| Latin America and Caribbean | 243.5 | 99.6 | 23.6 | – | 366.7 | 6% |
| United States | 154.9 | 66.4 | – | (1.3) | 220.0 | 3% |
| Asia | 149.6 | 9.7 | 22.5 | – | 181.8 | 3% |
| Other Regions | 25.7 | 25.5 | – | – | 51.2 | 1% |
| | 1,339.1 | 1,415.5 | 150.7 | 26.4 | 2,931.7 | 46% |
| Total | \$ 2,051.9 | \$ 2,409.0 | \$ 1,330.5 | \$ 523.6 | \$ 6,315.0 | 100% |

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | | 2009 | | | | |
|---|------------|------------|------------|----------|------------|------|
| | SERVICES | PACKAGES | O&M | 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% |
| Europe | 342.7 | 204.8 | 17.9 | 2.1 | 567.5 | 9% |
| Middle East | 361.4 | 229.1 | 0.8 | – | 591.3 | 10% |
| 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% |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

8.1 REVENUES IN CANADA

As expected, **revenues in Canada increased in 2010** compared to 2009, mainly due to a higher level of ICI and Packages activities.

Services activities in Canada for 2010 remained in line with 2009, as the lower level of activity in Chemicals & Petroleum was offset by increased activities from Infrastructure & Environment, and Power.

Packages activities in Canada increased in 2010 compared to the previous year, reflecting mainly a higher level of activity from Infrastructure & Environment, partially offset by a decreased level of activity from Chemicals & Petroleum, and Power.

O&M activities in Canada in 2010 remained in line with 2009.

The increase in ICI revenues in Canada for 2010 compared to 2009 was mainly from AltaLink.

In 2011, revenues in Canada are expected to increase compared to 2010, mainly due to higher Packages activities, primarily attributable to Infrastructure & Environment, and Power.

8.2 REVENUES FROM OUTSIDE CANADA

While the **Company expected** its revenues from outside Canada **to increase in 2010** compared to 2009, **it remained in line** and is analyzed as follows:

- > **Revenues from Africa increased in 2010** compared to 2009, primarily due to increased Packages activities, mainly from Chemicals & Petroleum, and Infrastructure & Environment, partially offset by a decrease in Power.
- > **Revenues from Europe decreased in 2010** compared to 2009, mainly due to decreased activities in Services, primarily in Other Industries, and a lower level of Packages activity, mainly in Chemicals & Petroleum.
- > **Revenues from the Middle East decreased in 2010** compared to 2009, mainly reflecting a lower level of Services activity, mostly in Mining & Metallurgy, as well as decreased Packages activities, primarily in Chemicals & Petroleum.
- > **Revenues in Latin America and Caribbean increased in 2010** compared to the previous year, mainly reflecting increased Services activities from Mining & Metallurgy, and Power, and a higher level of O&M activity, partially offset by decreased Packages activities, mainly in Infrastructure & Environment.
- > **United States revenues decreased in 2010** compared to 2009, mainly due to a lower level of Services activity, primarily in Chemicals & Petroleum, partially offset by increased Packages activities, mainly in Power.
- > **In Asia, revenues decreased in 2010** compared to the previous year, primarily reflecting decreased Services activity, mainly in Mining & Metallurgy.
- > **Revenues from Other Regions remained in line in 2010** compared to 2009.

In 2010, the Company generated revenues of \$418.2 million (6.6% of total revenues) in Libya. With recent events in this country, the Company expects to have lower activities in Libya in 2011, mainly in Packages.

The Company expects revenues from outside Canada to increase in 2011 compared to 2010, mainly due to a higher level of Packages activity, mainly in Power.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9 Operating Results by Segment

\$591 million
TOTAL OPERATING INCOME

\$469 million
SERVICES AND PACKAGES

\$39 million
O&M

\$83 million
ICI

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. The Company presents the information in the way management performance is evaluated, and regroups its projects within the industries they are executed for.

The following discussion reviews the Company's revenues and operating income by segment. Refer to Note 3 to the 2010 audited annual consolidated financial statements to obtain information on the way the Company determines operating income.

| YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | | | 2009 | | |
|---|-------------------|------------------|--------------------------------|-------------------|------------------|--------------------------------|
| | REVENUES | OPERATING INCOME | OPERATING INCOME OVER REVENUES | REVENUES | OPERATING INCOME | OPERATING INCOME OVER REVENUES |
| Services and Packages | | | | | | |
| Infrastructure & Environment | \$ 1,796.7 | \$ 236.7 | 13.2% | \$ 1,602.6 | \$ 212.9 | 13.3% |
| Chemicals & Petroleum | 905.1 | 18.1 | 2.0% | 829.4 | 21.0 | 2.5% |
| Power | 760.2 | 116.3 | 15.3% | 921.9 | 88.0 | 9.5% |
| Mining & Metallurgy | 683.8 | 59.5 | 8.7% | 764.7 | 72.2 | 9.4% |
| Other Industries | 315.1 | 38.6 | 12.2% | 305.0 | 40.6 | 13.3% |
| O&M | 1,330.5 | 39.4 | 3.0% | 1,297.9 | 32.5 | 2.5% |
| ICI | 523.6 | 82.9 | 15.8% | 380.2 | 36.9 | 9.7% |
| Total | \$ 6,315.0 | \$ 591.5 | 9.4% | \$ 6,101.7 | \$ 504.1 | 8.3% |

The summary table below compares the actual contribution of each segment in 2010, in terms of operating income, to the initial expectations expressed in the 2009 annual MD&A, and presents the Company's expectations for 2011.

| | 2010 | | | 2011 |
|-------------------------------|--------------|--------|-------------------------|-----------------------------|
| | EXPECTATIONS | ACTUAL | ACTUAL VS. EXPECTATIONS | EXPECTATIONS ⁽¹⁾ |
| Services and Packages | | | | |
| Infrastructure & Environment | ↓ | ↑ | ✓ | ↓ |
| Chemicals & Petroleum | ↑ | ↓ | × | ↑ |
| Power | ↓ | ↑ | ✓ | ↑ |
| Mining & Metallurgy | — | ↓ | × | ↑ |
| Other Industries | — | — | ✓ | — |
| O&M | ↑ | ↑ | ✓ | ↑ |
| 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

(1) The expectations for 2011 provided above are based on IFRS comparative figures for 2010.

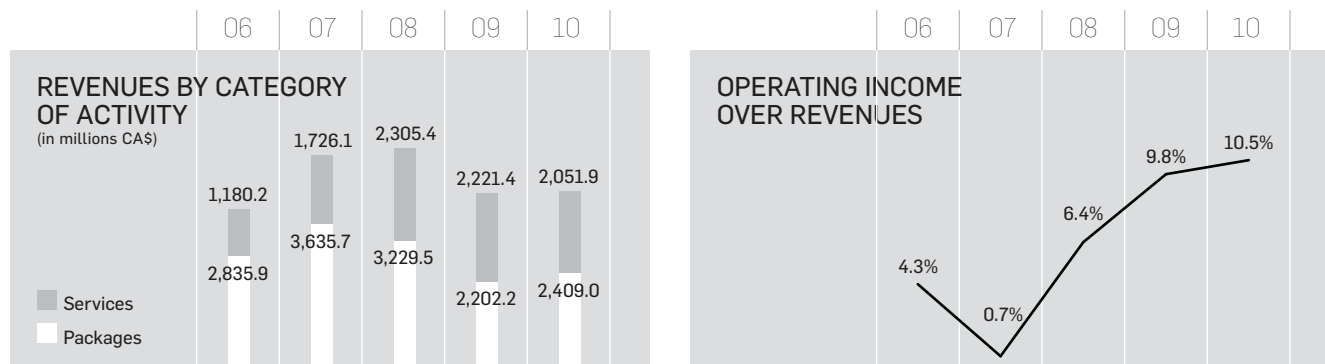
In 2010, the Company's operating income by segment was either in line with or above expectations, except for Chemicals & Petroleum, and Mining & Metallurgy.

The Company's outlook for 2011 excludes any potential contribution from its projects in Libya, until the situation there is clarified.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1 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 (refer to section 3.1.2, "Understanding the difference between an EPCM contract and an EPC contract"); and ii) the gross margin-to-revenue ratio generated from Packages projects.

The proportion of Services activities in the mix between Services and Packages has increased, from 29.4% in 2006 to 46.0% in 2010. This trend, combined with favourable reforecasts on certain major Packages projects, supports the increase in the operating income-to-revenue ratio from 2008 to 2010 above the historical average. The lower operating income-to-revenue ratio in 2006 and 2007 was mainly due to losses in Power, in Packages activities.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1.1 INFRASTRUCTURE & ENVIRONMENT

Infrastructure & 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.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|--|-------------------|-------------------|--------------|
| Revenues from Infrastructure & Environment | | | |
| Services | \$ 643.2 | \$ 634.3 | 1.4% |
| Packages | 1,153.5 | 968.3 | 19.1% |
| Total | \$ 1,796.7 | \$ 1,602.6 | 12.1% |
| Operating income from Infrastructure & Environment | \$ 236.7 | \$ 212.9 | 11.2% |
| Operating income over revenues from Infrastructure & Environment (%) | 13.2% | 13.3% | N/A |
| Revenue backlog at year end | \$ 3,485.7 | \$ 2,712.5 | 28.5% |

As expected, **revenues from Infrastructure & Environment increased in 2010** compared to 2009, mainly reflecting a higher level of Packages activity.

The major revenue contributors in 2010 were as follows:

- > **Benina International Airport** (Packages/Africa): EPC contract for the procurement and construction of a greenfield airport at Benghazi, Libya. The mandate included construction of a new international terminal, runway and apron;
- > **Calgary's Southeast Stoney Trail Ring Road** (Packages/Canada): EPC-related work for the Southeast Stoney Trail Ring Road concession awarded in 2010 by Alberta Transportation to Chinook Roads Partnership;
- > **Calgary West Light Rail Transit ("LRT")** (Packages/Canada): A contract awarded by the city of Calgary in 2009 to design, procure and build an eight-kilometre extension to the LRT system consisting primarily of six passenger stations, nine traction power substations, a major highway interchange, and two park-and-ride facilities in Calgary;
- > **Koudiat Acedoune** (Packages/Africa): Construction work was nearly completed in 2010 for this EPC contract, which consists of a water treatment plant, reservoirs, pumping stations and a water conveyance system in Algeria;
- > **McGill University Health Centre ("MUHC")** (Packages/Canada): EPC-related work for the new Glen Campus concession awarded in 2010 by MUHC to MIHG, in Montreal;
- > **New Acoustic Concert Hall of Montreal** (Packages/Canada): The EPC portion of an agreement with the Government of Quebec to design and build a new 2,100-seat concert hall located in downtown Montreal;
- > **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 GMMRA in Libya began in 2008; 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.

While the **Company expected** its operating income from Infrastructure & Environment to decrease in 2010 compared to 2009, **it increased**. The increase mainly reflected a higher level of Packages activity and favourable reforecasts on certain major Packages projects.

The Company expects the 2011 contribution from Infrastructure & Environment to decrease, mainly due to a lower gross margin-to-revenue ratio, partially offset by an expected higher level of Packages activity. The Company's outlook for 2011 excludes any potential contribution from its projects in Libya, until the situation there is clarified.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1.2 CHEMICALS & PETROLEUM

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

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|---|-----------------|-----------------|-------------|
| Revenues from Chemicals & Petroleum | | | |
| Services | \$ 331.8 | \$ 363.5 | (8.7%) |
| Packages | 573.3 | 465.9 | 23.1% |
| Total | \$ 905.1 | \$ 829.4 | 9.1% |
| Operating income from Chemicals & Petroleum | \$ 18.1 | \$ 21.0 | (13.9%) |
| Operating income over revenues from Chemicals & Petroleum (%) | 2.0% | 2.5% | N/A |
| Revenue backlog at year end | \$ 1,073.2 | \$ 1,724.0 | (37.8%) |

As expected, **Chemicals & Petroleum revenues increased in 2010** compared to the previous year, mainly reflecting a higher level of Packages activity, partially offset by a decrease in Services activities.

The major revenue contributors in 2010 were as follows:

- > **Baytown Refining and Chemical Plant** (Services/United States): Agreement to provide front-end engineering, project management, detailed engineering and procurement services for a refinery and chemical complex located in Baytown, Texas;
- > **Fluxys, Loenhout** (Packages/Europe): Agreement made on a consortium basis that includes the basic and detailed design, procurement, construction, commissioning and start-up of a project aiming to increase the capacity of a natural gas storage facility owned by Fluxys, in Loenhout, Belgium. The project is expected to be completed in 2011;
- > **North Atlantic Refinery Debottleneck Project** (Services/Canada): This Services project aims to optimize the current refinery from 112,900 barrels per day ("bpd") to 120,000 bpd by optimizing 21 process units and clean product yield within existing major equipment constraints, reduce greenhouse gas emissions, and provide for steady crude feed blending and storage at the Come by Chance refinery in Newfoundland and Labrador. Completion is expected in 2013;
- > **Oscar II** (Packages/Europe): The turnkey EPC and commissioning contract for GRTgaz, a subsidiary of GDF Suez, of two new natural gas compressor and interconnection stations near the towns of Fontenay-Mauvoisin and Saint-Avit, France;
- > **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 m³ of natural gas per year in Algeria was awarded in 2009; and
- > **Wasit Gas Development Program** (Services/Middle East): The front-end engineering and project management services contract awarded in 2009 for the Wasit gas development program that will provide for the production and processing of up to 2.5 billion standard cubic feet of gas per day in Saudi Arabia.

Operating income derived from Chemicals & Petroleum, **which was expected to increase in 2010, decreased** compared to 2009, as the higher level of activity was more than offset by a lower gross margin-to-revenue ratio. The operating income for both 2010 and 2009 reflected unfavourable cost reforecasts on certain major Packages projects.

The Company expects the 2011 contribution from Chemicals & Petroleum to increase compared to 2010, mainly reflecting a higher gross margin-to-revenue ratio, as such ratio reflected unfavourable costs reforecasts in 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1.3 POWER

Power includes projects in hydro, nuclear and thermal power generation, energy from waste, green energy solutions, and transmission and distribution.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|---|-----------------|-----------------|----------------|
| Revenues from Power | | | |
| Services | \$ 309.3 | \$ 291.9 | 6.0% |
| Packages | 450.9 | 630.0 | (28.4%) |
| Total | \$ 760.2 | \$ 921.9 | (17.5%) |
| Operating income from Power | \$ 116.3 | \$ 88.0 | 32.2% |
| Operating income over revenues from Power (%) | 15.3% | 9.5% | N/A |
| Revenue backlog at year end | \$ 1,916.1 | \$ 689.6 | 177.9% |

As expected, **Power revenues decreased in 2010** compared to 2009, mainly reflecting a decreased level of activity from certain major Packages projects that were completed or nearing completion.

The major revenue contributors in 2010 were as follows:

- > **335 MW Waneta Expansion Project** (Packages/Canada): Contract awarded in 2010 to design and build a new powerhouse adjacent to the existing Waneta Dam;
- > **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, awarded in 2009. Commercial operation is scheduled for the second quarter of 2011;
- > **Emirates Aluminum Smelter Complex** (Services/Middle East): The EPCM services contract was awarded in 2007 to design and build a new aluminum smelter in Abu Dhabi with a total capacity of 0.7 million tonnes per year, and includes a 2,000 MW combined cycle thermal power plant. Services activities relating to the construction of the thermal power plant were nearly completed in 2010. Activities relating to the aluminum smelter are presented in Mining & Metallurgy;
- > **Kepphills 3 System** (Packages/Canada): EPC project in transmission and distribution relating to new facilities and modification of existing facilities which purpose are to interconnect the Kepphills 3 generating unit with the Alberta Transmission System. The work started in 2008;
- > **SaskPower's Boundary Dam Integrated Carbon Capture and Sequestration ("CCS")** (Packages/Canada): Contract awarded in 2010 for the CCS Demonstration Project;
- > **SaskPower Yellowhead** (Packages/Canada): EPCM contract for the installation of three General Electric, natural gas-fired LM6000 Aeroderivative gas turbine generator sets and the completion of a 140MW natural gas-fired thermal power plant in Saskatchewan, which was awarded in December 2008 and reached commercial operation, within schedule, in the fourth quarter of 2010; 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 and 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 2011.

While the **Company expected the contribution from Power to decrease in 2010, it increased** compared to the previous year. This is mainly due to the \$22.8 million gain before taxes recognized in 2010 from the disposal of certain technology solution assets, as well as higher gross margin-to-revenue ratio in Services and Packages.

In 2011, the Company expects the contribution from Power to increase, primarily due to a higher level of activity from Packages projects as the revenue backlog increased in 2010 compared to 2009, as well as activities expected from Packages prospects. This increase will be partially offset by the non-recurrence of the \$22.8 million gain before taxes recognized in 2010 mentioned above.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1.4 MINING & METALLURGY

Mining & 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 fertilizer plants.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|---|-----------------|-----------------|----------------|
| Revenues from Mining & Metallurgy | | | |
| Services | \$ 643.4 | \$ 762.8 | (15.7%) |
| Packages | 40.4 | 1.9 | 2,078.4% |
| Total | \$ 683.8 | \$ 764.7 | (10.6%) |
| Operating income from Mining & Metallurgy | \$ 59.5 | \$ 72.2 | (17.6%) |
| Operating income over revenues from Mining & Metallurgy (%) | 8.7% | 9.4% | N/A |
| Revenue backlog at year end | \$ 440.7 | \$ 297.9 | 47.9% |

Mining & Metallurgy revenues decreased in 2010 compared to 2009, primarily due to a lower level of Services activity, mainly outside Canada.

The major revenue contributors in 2010 were as follows:

- > **Agrium (Packages/Canada):** EPC cost-plus reimbursable contract awarded in 2009 by Agrium for the expansion of its existing Vanscoy underground potash mine, production hoist, concentrator and infrastructure to increase the production capacity to 2.8 million tonnes per year. The infrastructure includes 138 kV power supply systems, a tailings management area, and rail loadout facilities;
- > **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, as mentioned in section 9.3;
- > **Barro Alto Ferro-Nickel Project (Services/Latin America):** 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;
- > **CBF rebuild (Services/Australia):** Contract to provide EPCM services for a major sustaining project for Rio Tinto Alcan's 550,000 tonnes per year Boyne Smelter in Gladstone, Queensland. The scope includes the replacement of Carbon Baking Furnaces, as well as the replacement of cranes and associated runways on reduction lines. Work is expected to be complete in 2012;
- > **Emirates Aluminium Smelter Complex (Services/Middle East):** The EPCM contract was awarded in 2007 to design and build a new aluminum smelter in Abu Dhabi with a total capacity of 0.7 million tonnes per year was nearly completed in 2010;
- > **Guelb II Enrichment Plant (Services/Africa):** Cost-plus EPCM contract for the construction of an iron ore enrichment plant with a capacity of 4 million tonnes per year in Mauritania; and
- > **Qatalum (Services/Middle East):** Contract with Qatar Petroleum and Hydro Aluminium AS for the service areas and potroom building of a greenfield aluminum smelter (Qatalum) in Qatar.

While the **Company expected the contribution** from Mining & Metallurgy to remain in line in 2010 when compared to 2009, it decreased, mainly due to a lower level of Services activity.

The Company expects the 2011 contribution from Mining & Metallurgy to increase, mainly due to an increased level of activity.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

9.1.5 OTHER INDUSTRIES

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 preceding segments.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|--|-----------------|-----------------|-------------|
| Revenues from Other Industries | | | |
| Services | \$ 124.2 | \$ 168.9 | (26.5%) |
| Packages | 190.9 | 136.1 | 40.3% |
| Total | \$ 315.1 | \$ 305.0 | 3.3% |
| Operating income from Other Industries | \$ 38.6 | \$ 40.6 | (5.1%) |
| Operating income over revenues from Other Industries (%) | 12.2% | 13.3% | N/A |
| Revenue backlog at year end | \$ 407.1 | \$ 238.4 | 70.8% |

Other Industries revenues remained in line in 2010 compared to 2009. As expected, **2010 operating income remained in line** with 2009, as the level of activity was comparable in 2010 and 2009.

The Company expects the 2011 contribution from Other Industries to remain in line with 2010.

9.2 O&M

O&M activities are provided by the Company's employees to clients in the following lines of business:

- > **Project, facility, & property 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 O&M of assets such as turbines, steam generators, boilers, water supply and treatment systems, 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 public transit systems, highways, bridges and tunnels; and
- > **Defence & 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.

The Company currently manages more than 8,000 facilities that include buildings, workforce lodges, Canada's only air-rail link—the Canada Line, bridges, power plants, ships, highways and airports, spread across 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.

SNC-Lavalin's expertise in O&M activities, in addition to obtaining stand-alone O&M contracts, allows the Company to expand on its Services, Packages, and ICI activities by offering all-inclusive expertise that meets clients' needs, and complements its ICI.

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|---|-------------------|-------------------|-------------|
| Revenues from O&M | | | |
| Project, facility and property management | \$ 977.9 | \$ 1,038.4 | (5.8%) |
| Industrial | 137.4 | 108.0 | 27.2% |
| Transportation | 104.2 | 76.9 | 35.6% |
| Defence and remote camp logistics | 111.0 | 74.6 | 48.9% |
| Total | \$ 1,330.5 | \$ 1,297.9 | 2.5% |
| Operating income from O&M | \$ 39.4 | \$ 32.5 | 21.5% |
| Operating income over revenues from O&M (%) | 3.0% | 2.5% | N/A |
| Revenue backlog at year end | \$ 2,732.8 | \$ 2,596.1 | 5.3% |

As expected, **O&M revenues remained in line in 2010** compared to 2009.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

As expected, **operating income increased in 2010** compared to 2009, mainly reflecting a higher gross margin-to-revenue ratio on certain ongoing contracts.

The Company expects the 2011 contribution from the O&M segment to increase compared to 2010, mainly due to an anticipated higher volume of activity, combined with an increase in the gross margin-to-revenue ratio.

9.3 INFRASTRUCTURE CONCESSION INVESTMENTS ("ICI")

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

9.3.1 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 2010 audited annual consolidated financial statements regarding the net book value of its ICI in accordance with the method accounted for on SNC-Lavalin's consolidated balance sheet. As at December 31, 2010, the Company estimates the fair value of its ICI to be significantly greater than their net book value in 2010 and 2009, with the Company's investment in Highway 407 and AltaLink having the highest estimated fair values of its ICI portfolio, as reflected by the following events:

- > In the fourth quarter of 2010, Cintra Infraestructuras S.A. (Cintra), one of SNC-Lavalin's co-shareholders in Highway 407, sold its ownership interest of 10% of the total issued and outstanding shares of Highway 407 to a subsidiary of Canada Pension Plan Investment Board ("CPPIB") for \$894.3 million. The value of the transaction between Cintra and CPPIB for Cintra's shares in Highway 407, when applied to the 16.77% share owned by the Company, would represent approximately \$1.5 billion, while the net book value of the Company's investment resulted in a negative balance of \$97.4 million as at December 31, 2010.
- > On February 10, 2011, SNC-Lavalin announced that it will acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million. The offer was presented in response to a binding offer received by MEAP from a third party pursuant to a right of first refusal held by SNC-Lavalin and would bring SNC-Lavalin's ownership in AltaLink to 100%. The transaction is subject to customary closing conditions and regulatory approval, including approval from the Alberta Utilities Commission. The value of the offer for the 23.08% ownership interest in AltaLink, when applied to the 76.92% share owned as at December 31, 2010 by SNC-Lavalin, would represent approximately \$710 million, while its net book value of the Company's investment was \$328.0 million as at December 31, 2010.

The net book value of the ICI includes the investment in Highway 407, which is accounted for by the proportionate consolidation method. Under GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture's 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 \$97.4 million as at December 31, 2010, compared to a negative balance of \$60.1 million as at December 31, 2009, 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 \$50.3 million in 2010, compared to \$31.9 million in 2009.

NET BOOK VALUE OF ICI

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 |
|--|----------|----------|
| Investments accounted for by the full or proportionate consolidation methods | \$ 376.8 | \$ 250.9 |
| Investments accounted for by the equity method | 207.5 | 194.6 |
| Investments accounted for by the cost method | 179.2 | 274.8 |
| Net book value of ICI | \$ 763.5 | \$ 720.3 |

In 2010, SNC-Lavalin added Chinook, MIHG and REPL to its ICI portfolio, while disposing of Trencap and Valener.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

The ICI segment includes SNC-Lavalin's ownership interest in the following main investments as at December 31, 2010 (refer to Note 4C to the 2010 audited annual consolidated financial statements for additional disclosure on the impact of these investments on the balance sheet):

| NAME | OWNERSHIP INTEREST | ACCOUNTING METHOD | | | | HELD SINCE | MATURITY OF CONCESSION AGREEMENT | DESCRIPTION OF ACTIVITIES |
|--|--------------------|-------------------|----------------|--------|------|------------|----------------------------------|--|
| | | CONSOLIDATION | | EQUITY | COST | | | |
| | | FULL | PROPOR-TIONATE | | | | | |
| 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. |
| 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. |
| 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. |
| 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"). |
| 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. |
| Chinook Roads Partnership ("Chinook") | 50% | | ✓ | | | 2010 | 2043 | Upon completion of the construction, expected in 2013, it will operate and maintain the southeast Stoney Trail, being the southeast leg of the Ring Road for the City of Calgary. |
| Groupe immobilier santé McGill ("MIHG") | 60% | | ✓ | | | 2010 | 2044 | Once construction is completed, expected in 2014, it will operate and maintain the McGill University Health Centre's new Glen Campus. |
| 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. |
| Malta International Airport p.l.c. | 15.5% | | | ✓ | | 2002 | 2067 | Has the right to own and manage the Malta International Airport under a 65-year concession agreement. |
| Myah Tipaza S.p.A. ("Myah Tipaza") | 25.5% | | | ✓ | | 2008 | N/A | Once construction is completed, expected in 2011, Myah Tipaza will own, operate and maintain a 120,000 m³pd 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. |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| NAME | OWNERSHIP INTEREST | ACCOUNTING METHOD | | | | HELD SINCE | MATURITY OF CONCESSION AGREEMENT | DESCRIPTION OF ACTIVITIES |
|--|--------------------|-------------------|----------------|--------|------|------------|----------------------------------|--|
| | | CONSOLIDATION | | EQUITY | COST | | | |
| | | FULL | PROPOR-TIONATE | | | | | |
| 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. |
| Ovation Real Estate Group ("Ovation") | 100% | ✓ | | | | 2009 | 2038 | Once construction is completed, expected in 2011, will operate and maintain a 2,100-seat concert hall in downtown Montreal, under a 29-year concession agreement. |
| Rayalseema Expressway Private Limited ("REPL") | 36.9% | | | ✓ | | 2010 | 2040 | Build and will operate a 189-kilometre section of a toll highway in India, under a 30-year concession agreement. |
| Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH") | 26% | | | ✓ | | 2006 | N/A | 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. |
| 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. In 2008, SNC-Lavalin increased its ownership percentage from 33.4% to 51.1%. |
| TC Dôme S.A.S. ("TC Dôme") | 51% | | ✓ | | | 2008 | 2043 | Will operate a 5.3 km electric cog railway in France once construction is completed, expected in 2012. In 2009, SNC-Lavalin decreased its ownership percentage from 100% to 51%. |

N/A: not applicable

9.3.2 REVENUES AND OPERATING INCOME OF THE ICI SEGMENT

| (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | CHANGE (%) |
|-----------------------------------|----------|----------|------------|
| Revenues from ICI | \$ 523.6 | \$ 380.2 | 37.7% |
| Operating income from ICI | \$ 82.9 | \$ 36.9 | 124.7% |

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 (refer to section 3.1.4 for details). In evaluating the performance of the segment, the relationship between revenues and operating income, which equals net income for ICI, is not 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 individual ICI's financial results.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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 proportionate share of revenues that are recognized 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 |

As expected, **operating income for the ICI segment increased in 2010** compared to 2009, reflecting the net gain after taxes of \$26.1 million from the disposals of Trencap and Valener, as well as an increased contribution from SKH, reflecting its first full year of operations in 2010 compared to 6 months in 2009.

The transition to IFRS will have its most significant impact on ICI, therefore the following outlook for the 2011 contribution of this segment is based on an IFRS comparative basis for 2010. Refer to section 13 for a detailed discussion on initial adoption of IFRS.

While the gross margin from ICI is expected to remain in line in 2011, as mentioned in section 6.2.4, **the operating income**, which is net of interest, selling, general and administrative expense, and income tax, **is expected to decrease in 2011** compared to 2010, however it is expected to remain in line when we exclude the net gain after taxes of \$26.1 million from the disposals of Trencap and Valener.

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) | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net income from ICI: | | | | | |
| From Highway 407 | \$ 12.9 | \$ 9.8 | \$ 20.0 | \$ 10.1 | \$ 8.1 |
| From other ICI | 70.0 | 27.1 | 17.2 | 13.2 | 6.8 |
| Total | \$ 82.9 | \$ 36.9 | \$ 37.2 | \$ 23.3 | \$ 14.9 |
| Dividends and distributions received by SNC-Lavalin: | | | | | |
| From Highway 407 | \$ 50.3 | \$ 31.9 | \$ 22.6 | \$ 20.1 | \$ 24.3 |
| From other ICI ⁽¹⁾ | 7.3 | 41.4 | 12.8 | 10.4 | 12.4 |
| Total | \$ 57.6 | \$ 73.3 | \$ 35.4 | \$ 30.5 | \$ 36.7 |
| Net book value on SNC-Lavalin's balance sheet at December 31: | | | | | |
| From Highway 407 | \$ (97.4) | \$ (60.1) | \$ (37.9) | \$ (35.1) | \$ (28.2) |
| From other ICI | 860.9 | 780.4 | 585.5 | 561.1 | 499.9 |
| Total | \$ 763.5 | \$ 720.3 | \$ 547.6 | \$ 526.0 | \$ 471.7 |

(1) In 2009, there was a \$24.6 million special distribution from Astoria II.

9.3.3 SERVICES, PACKAGES, AND O&M 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 invest, in general, in concessions that can offer potential complementary engineering and construction, and/or O&M contract opportunities, with an acceptable internal rate of return. Refer to Note 25 to the 2010 audited annual consolidated financial statements for additional information on related party transactions.

10 Liquidity and Capital Resources

27%
ROASE

\$870 million
NET CASH POSITION

\$900 million
FREEHOLD CASH

16:84
RECOURSE DEBT-TO-
CAPITAL RATIO

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 2010 and 2009;
- > 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 Company's financial strength;
- > 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, business growth, and 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 equity.

10.1 BALANCE SHEET ANALYSIS

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | 2008 |
|--|-------------------|------------|------------|
| Current assets | \$ 4,171.3 | \$ 3,393.0 | \$ 3,552.4 |
| Non-current assets | 4,431.9 | 3,813.3 | 3,219.1 |
| Total assets | 8,603.2 | 7,206.3 | 6,771.5 |
| Current liabilities | 2,924.9 | 2,849.0 | 3,276.0 |
| Non-current liabilities | 3,867.3 | 2,842.6 | 2,338.6 |
| Total liabilities | 6,792.2 | 5,691.6 | 5,614.6 |
| Non-controlling interests | 102.6 | 80.0 | 67.7 |
| Shareholders' equity | 1,708.4 | 1,434.7 | 1,089.2 |
| Total liabilities, non-controlling interests and shareholders' equity | \$ 8,603.2 | \$ 7,206.3 | \$ 6,771.5 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

10.1.1 TOTAL CURRENT ASSETS

Current assets increased by \$778.3 million between December 31, 2009 and **December 31, 2010**, reflecting primarily:

- > An increase of **\$408.3 million** in current assets **from ICI**, mainly reflecting:
 - An increase of \$261.3 million in restricted cash, primarily reflecting cash received from the lenders of the MIHG concession; and
 - An increase of \$133.2 million in contracts in progress from concession arrangements.
- > An increase of **\$370.0 million** in current assets **from other activities**, including mainly:
 - An increase of \$193.4 million in trade and other receivables; and
 - An increase of \$144.9 million in contracts in progress.

Total current assets decreased by \$159.4 million from December 31, 2008 to December 31, 2009, reflecting primarily:

- > A decrease of \$228.7 million in current assets from other activities, including mainly:
 - A decrease of \$198.5 million in trade and other receivables; and
 - A decrease of \$228.4 million in contracts in progress; partially offset by
 - 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.
- > An increase of \$69.3 million in current assets from ICI.

10.1.2 TOTAL NON-CURRENT ASSETS

Total non-current assets increased by \$618.6 million from December 31, 2009 to **December 31, 2010**, primarily from ICI, mainly due to:

- > An increase of \$371.6 million in property and equipment, mainly from AltaLink; and
- > An increase of \$305.7 million in restricted cash, primarily reflecting cash received from the lenders of the MIHG concession; partially offset by
- > A decrease of \$82.7 million in investments accounted for by the equity or cost methods, mainly due to the disposals of investments in Valener and Trencap, partially offset by an increase related to Ambatovy and REPL.

Total non-current assets increased by \$594.2 million from December 31, 2008 to December 31, 2009, 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.

10.1.3 TOTAL CURRENT LIABILITIES

Current liabilities increased by \$75.9 million between December 31, 2009 and **December 31, 2010**, reflecting the following items:

- > An increase of **\$95.2 million** in current liabilities **from other activities**, mainly reflecting:
 - An increase of \$194.7 million in deferred revenues;
 - An increase of \$154.5 million in downpayments on contracts; partly offset by
 - A decrease in the current portion of recourse long-term debt following the repayment of unsecured debentures totalling \$105 million at maturity in September 2010.
- > A decrease of **\$19.3 million** in current liabilities **from ICI**, including mainly:
 - A decrease of \$132.5 million in the current portion of non-recourse long-term debt; partly offset by
 - An increase of \$113.3 million in trade and other payables.

The decrease of \$427.0 million from December 31, 2008 to December 31, 2009 was mainly due to the following:

- > A decrease of \$649.3 million in trade and other payables from other activities; and
- > A decrease of \$75.9 million in downpayments on contracts; partly offset by
- > An increase of \$133.4 million in the current portion of non-recourse long-term debt from ICI; and
- > An increase of \$104.9 million in the current portion of recourse long-term debt from other activities following the reclassification to current liabilities of unsecured debentures totalling \$105 million repaid at maturity in September 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

10.1.4 TOTAL NON-CURRENT LIABILITIES

Total non-current liabilities increased by \$1,024.7 million from December 31, 2009 to December 31, 2010, mainly reflecting:

- > An increase of \$976.0 million in the non-recourse long-term debt from ICI, primarily relating to MIHG and AltaLink, as well as Highway 407 and Chinook.

Total non-current liabilities increased by \$504.0 million as at December 31, 2009 compared to December 31, 2008, mainly reflecting:

- > The issuance of the debentures totalling \$350 million in 2009; and
- > An increase of \$245.5 million in other non-current liabilities from ICI, mainly due to AltaLink for an increase of \$145.4 million on January 1, 2009 pursuant to a change in accounting standards for rate-regulated operations, and an increase of \$114.4 million in 2009 pursuant to changes in estimates related to asset retirement obligations; partly offset by
- > The reclassification to current liabilities of unsecured debentures totalling \$105 million repaid at maturity in September 2010.

10.1.5 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 20A to the 2010 audited annual consolidated financial statements, were \$5.5 billion as at December 31, 2010, compared to \$4.6 billion and \$4.7 billion as at December 31, 2009 and 2008, respectively.

10.1.6 NON-CONTROLLING INTERESTS

Non-controlling interests totalled \$102.6 million as at December 31, 2010, compared to \$80.0 million as at the end of the previous year, mainly due to AltaLink.

10.1.7 SHAREHOLDERS' EQUITY

Shareholders' equity increased by \$273.7 million as at December 31, 2010, compared to December 31, 2009, mainly reflecting the net income for 2010, partially offset by dividends paid to Company shareholders.

The increase from December 31, 2008 to December 31, 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 dividends paid to Company shareholders, as well as 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 its cash and cash equivalents, cash and cash equivalents from ICI and its recourse debt, and was as follows:

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS) | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------------|------------|----------|------------|------------|
| Cash and cash equivalents | \$ 1,288.2 | \$ 1,218.2 | \$ 988.2 | \$ 1,088.6 | \$ 1,106.3 |
| Less: | | | | | |
| Cash and cash equivalents of ICI accounted for by the full or proportionate consolidation methods | 69.9 | 42.4 | 28.9 | 20.1 | 21.9 |
| Recourse debt | 348.2 | 452.9 | 104.7 | 104.6 | 104.5 |
| Net cash position | \$ 870.1 | \$ 722.9 | \$ 854.6 | \$ 963.9 | \$ 979.9 |
| Freehold cash | \$ 900.0 | \$ 800.0 | \$ 600.0 | \$ 600.0 | \$ 500.0 |

The net cash position as at December 31, 2010 was higher than as at December 31, 2009, mainly due to an increase in cash and cash equivalents. The impact of the repayment from the Company's cash and cash equivalents, in September 2010, of unsecured debentures totalling \$105 million included in recourse debt was neutral from a net cash position stand point.

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, investments in ICI and balance of payment for past business acquisitions. 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 past business acquisitions. The freehold cash was approximately \$900 million as at December 31, 2010, compared to approximately \$800 million as at December 31, 2009.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

10.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

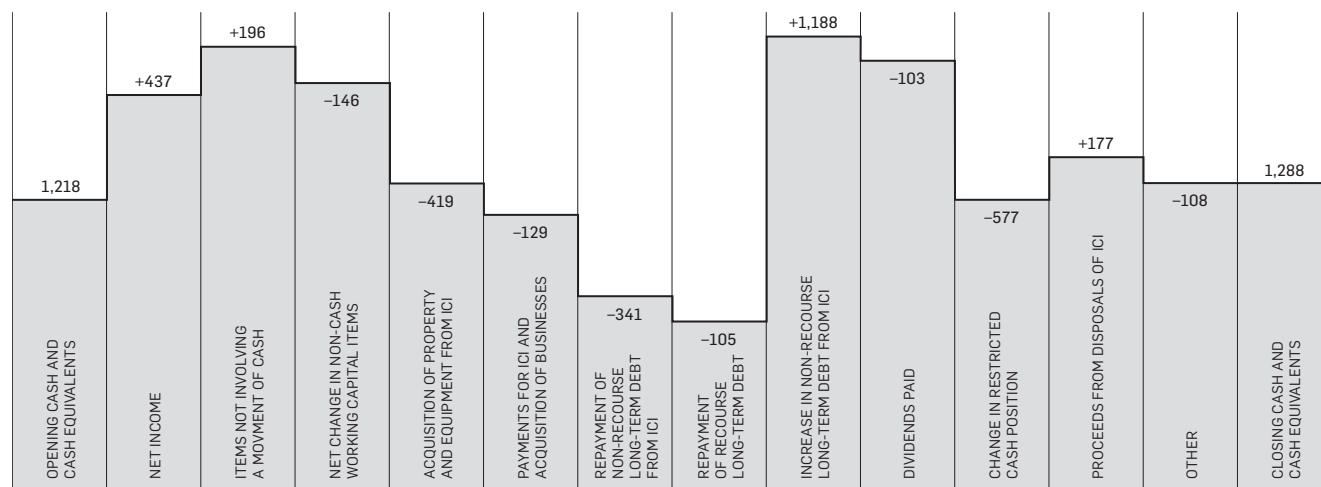
YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS)

| | 2010 | 2009 |
|--|------------|------------|
| Cash flows generated from (used for): | | |
| Operating activities | \$ 488.8 | \$ 398.5 |
| Investing activities | (1,025.8) | (512.5) |
| Financing activities | 619.4 | 356.2 |
| Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations | (12.4) | (12.2) |
| Net increase in cash and cash equivalents | 70.0 | 230.0 |
| Cash and cash equivalents at beginning of year | 1,218.2 | 988.2 |
| Cash and cash equivalents at end of year | \$ 1,288.2 | \$ 1,218.2 |

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, 2010. These items are explained in additional details further below.

2010 VARIATION OF CASH AND CASH EQUIVALENTS

(in millions CA\$)



10.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities increased by \$90.3 million in 2010, compared to 2009, mainly reflecting:

- > An increase of \$77.6 million in net income;
- > A decrease in the level of items not involving a movement of cash, which totalled \$196.1 million in 2010 compared to \$261.8 million in 2009; and
- > A decrease in the cash used by the net change in non-cash working capital items, which totalled \$145.9 million in 2010 compared to \$247.6 million in 2009, primarily reflecting lower working capital requirements in 2010.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

10.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities increased by \$513.3 million in 2010, compared to 2009. The major 2010 investing activities were as follows:

- > Restricted cash increased by \$577.5 million in 2010, primarily reflecting cash received from the lenders of the MIHG and Chinook concessions. The MIHG and Chinook proceeds are in separate trust accounts that will serve to finance part of the construction of MUHC's new Glen Campus and the southeast Stoney Trail Ring Road, respectively. As such, these funds have been classified as restricted cash in the Company's consolidated balance sheet;
- > The acquisition of property and equipment from fully consolidated and proportionally consolidated ICI used a total cash outflow of \$418.7 million in 2010, in large part due to AltaLink, mainly relating to capital expenditures for transmission projects;
- > The cash outflow of \$89.1 million relating to payments for ICI, reflecting payments for Astoria II, Ambatovy and REPL;
- > The acquisition of property and equipment from other activities used a total cash outflow of \$46.0 million. Approximately 54% of the acquisitions of property and equipment from these activities were related to information technology;
- > The acquisition of businesses for a total cash outflow of \$40.0 million; and
- > Proceeds from disposals of two ICI, Valener and Trencap, for a total cash inflow of \$176.9 million.

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;
- > The cash outflow of \$130.9 million relating to payments for ICI, mainly reflecting payments in 2009 for Ambatovy, and InTransit BC L.P.;
- > 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;
- > The acquisition of businesses for a total cash outflow of \$18.4 million; and
- > The amount loaned to the Project Operator of Ambatovy totalling \$39.6 million in 2009.

10.3.3 CASH GENERATED FROM FINANCING ACTIVITIES

Cash generated from financing activities increased by \$263.2 million in 2010, compared to 2009. The major financing activities were as follows:

- > An increase in non-recourse long-term debt from ICI totalling \$1,187.7 million in 2010, mainly relating to MIHG, AltaLink, Highway 407, and Chinook, compared to \$388.1 million in 2009, mainly due to AltaLink and Highway 407;
- > The repayment of non-recourse long-term debt from ICI totalled \$340.6 million in 2010, compared to \$272.5 million in 2009;
- > The repayment at maturity of the \$105 million recourse debt in September 2010;
- > Dividends paid to the Company shareholders amounted to \$102.7 million in 2010, compared to \$90.6 million in 2009, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of \$0.68 per share in 2010, compared to \$0.60 per share for the same period last year;
- > Under its normal course issuer bid, the Company repurchased shares for a total amount of \$47.9 million in 2010 (901,600 shares at an average redemption price of \$53.18), compared to \$24.1 million in 2009 (538,800 shares at an average redemption price of \$44.74). The Company expects to be as active in repurchasing its shares in 2011. 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 option programs;
- > The issuance of shares pursuant to the exercise of stock options generated \$24.3 million of cash in 2010 (902,465 stock options at an average price of \$26.98), compared to \$10.9 million in 2009 (538,393 stock options at an average price of \$20.28). As at February 23, 2011, there were 5,011,427 stock options outstanding with exercise prices varying from \$24.27 to \$57.07 per common share. At that same date there were 150,937,708 common shares issued and outstanding.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

10.4 WORKING CAPITAL

WORKING CAPITAL

| AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO) | 2010 | 2009 |
|---|------------|------------|
| Current assets | \$ 4,171.3 | \$ 3,393.0 |
| Current liabilities | 2,924.9 | 2,848.9 |
| Working Capital | \$ 1,246.4 | \$ 544.1 |
| Current Ratio | 1.43 | 1.19 |

The working capital and current ratio improved as at December 31, 2010 compared to the previous year, mainly due to: i) cash generated from net income, ii) an increase in the current portion of restricted cash, primarily reflecting the current portion of cash received from the lenders of the MIHG concession; and iii) proceeds from disposals of two ICI, Valener and Trencap; partly offset by iv) cash used for dividends paid to the Company's 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 \$710.0 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 0.2%. As at December 31, 2010, \$275.0 million of these lines of credit remained unused, while the balance of \$435.0 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 November 5, 2010, Standard & Poor's reconfirmed SNC-Lavalin's debenture's rating of **BBB+ with a stable outlook**. On July 29, 2010, 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, 2010 and 2009, the Company's recourse debt-to-capital ratio was 16:84 and 24:76, respectively, below the Company's objective, which is not to surpass a ratio of 30:70. The ratio as at December 31, 2010 includes the recourse debt being 10-year unsecured debentures totalling \$350 million issued by the Company on July 3, 2009.

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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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, commitments to invest in ICI, and rental obligations:

| (IN MILLIONS OF CANADIAN DOLLARS) | 2011 | 2012-2013 | 2014-2015 | THEREAFTER | TOTAL |
|---|----------|-----------|-----------|------------|------------|
| Long-term debt repayments: | | | | | |
| Recourse | \$ – | \$ – | \$ – | \$ 350.0 | \$ 350.0 |
| Non-recourse from ICI | 6.8 | 623.4 | 262.0 | 2,141.7 | 3,033.9 |
| Commitments to invest in ICI | 85.6 | – | – | – | 85.6 |
| Rental obligations under long-term operating leases | 71.3 | 99.3 | 69.3 | 64.3 | 304.2 |
| Total | \$ 163.7 | \$ 722.7 | \$ 331.3 | \$ 2,556.0 | \$ 3,773.7 |

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 2010 audited annual consolidated financial statements. The commitments to invest in ICI result from SNC-Lavalin not being required to make its contribution immediately when making an investment, but instead committing to make its contribution over time, as detailed in Note 4D to its 2010 audited annual consolidated financial statements. The commitments to invest in ICI are recognized for investments accounted for by the equity or cost methods and relate to Astoria II, Ambatovy and REPL. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 24 to its 2010 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 to its 2010 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"), Deferred Share Unit ("DSU"), and Restricted Share Unit ("RSU") plans caused by fluctuations in its share price (refer to Note 15C to the 2010 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

The Board of Directors has decided to **increase the quarterly cash dividend payable to shareholders from \$0.17 per share to \$0.21 per share for the fourth quarter of 2010, resulting in total cash dividends declared of \$0.72 per share relating to 2010**. The table below summarizes the dividends declared for each of the past five years:

| YEAR ENDED DECEMBER 31 (IN CANADIAN DOLLARS) | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|---------|---------|---------|---------|---------|
| Dividends per share declared to Company shareholders ⁽¹⁾ | \$ 0.72 | \$ 0.62 | \$ 0.51 | \$ 0.39 | \$ 0.30 |
| Dividend increase in% | 16% | 22% | 31% | 30% | 30% |

(1) The dividends declared are classified in the period for which the financial results are publicly announced, notwithstanding the declaration or payment date.

Total cash dividends paid in 2010 were \$102.7 million, compared to \$90.6 million in 2009. The Company has paid quarterly dividends for 21 consecutive years and has increased its yearly dividend paid per share for each of the past 10 years.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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:

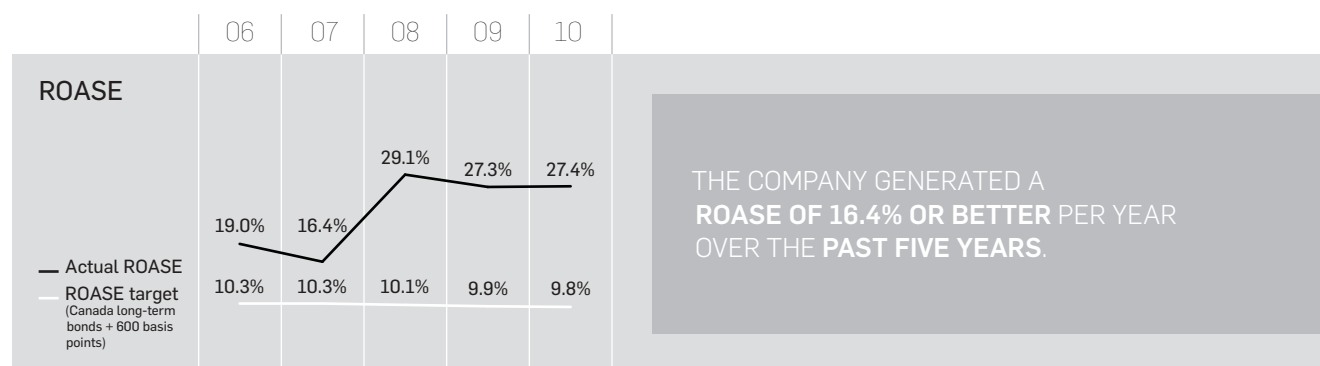
- > The **S&P/TSX 60 Index**, which is comprised of 60 large Canadian publicly-traded companies with a view to matching the sector balance of the S&P/TSX Composite Index.
- > The **S&P/TSX Canadian Dividend Aristocrats Index**, an index designed to measure the performance of S&P Canada Broad Market Index ("BMI") constituents, which have consistently increased dividends annually for at least five years. The index consists of approximately 40 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.

For 2010 and 2009, ROASE was significantly higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points. The graph below illustrates that the Company generated a ROASE of 16.4% or better per year over the past five years, surpassing its target mentioned above 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.



2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

11 Shareholders and Employee Shareholdings

The Company's shares are held by a variety of different shareholders, including its employees. The majority of the Company's shares are held by institutional investors, and based on the most recent publicly available information at February 23, 2011, 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 multiple programs, detailed in the table below:

| PLAN | DESCRIPTION | ELIGIBLE PARTICIPANTS |
|---|---|---|
| Stock Option Plan | Stock options are granted to selected employees based on recommendations of the executive management and approved by the Board of Directors. Stock options issued since 2009 have a five-year term and are vesting in three equal tranches two years, three years and four years, respectively, after grant date. | Selected key employees |
| Employee Share Ownership Program ("ESOP") | The Company's voluntary common share purchase plan, provides for a matching contribution by the Company of 35% of the participants contribution, up to 10% of his base salary. SNC-Lavalin's contributions are paid in the second and third year following the employee's contribution of a given year. | All regular employees in Canada |
| Management Share Ownership Program ("MSOP") | Plan under which the selected participants can elect to contribute 25% of their gross bonus toward the purchase of the Company's common shares, with the Company matching the participant's contributions in equal installments over a period of five years, which is also the vesting period. | Selected key employees, based on their responsibilities and performance |

The Company also provides incentive compensation plans based on the value of its share price, such as:

| PLAN | DESCRIPTION | ELIGIBLE PARTICIPANTS |
|-------------------------------------|---|-----------------------|
| Deferred Share Unit Plan ("DSU") | Plan under which participants are granted units based on salary and the share price at time of grant. Units vest over a period of five years, at the rate of 20% per year. Vested units are redeemable in cash within 30 days, one year following the participant's last day of employment. The redemption price is based on an average of the share price one year following the participant's last day of employment, using a 12-week average. In the event of death or eligibility for retirement, units vest immediately. | Key executives |
| Performance Share Unit Plan ("PSU") | Plan under which participants are granted units based on salary and the share price at time of grant. Units fully vest at the end of the third calendar year following the date of grant. At that time, the number of units initially granted is adjusted by a multiplier based on the three-year cumulative growth in earnings per share. The redemption price is based on the share price at the time of vesting. Units are redeemable in cash or convertible to DSUs. In the event of death or eligibility for retirement, units vest immediately. | Key executives |
| Restricted Share Unit Plan ("RSU") | Plan under which selected participants are granted units which vest at the end of a three-year period. Vested units are redeemable in cash based on the share price at that time. In the event of death or eligibility for retirement, the units vest on a <i>pro-rata</i> basis with no payment made until the end of the vesting period. | Selected employees |

At December 31, 2010, the holdings from the ESOP and MSOP plans coupled with private holdings of the reporting insiders, as defined under Canadian securities regulations as individuals who 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 compared to 3.4% as at December 31, 2009.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

12 Critical Accounting Estimates and Judgment Applied

The preparation of the Company's consolidated financial statements in conformity with 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, O&M**, and **ICI** activities. Services revenues are derived primarily from cost-plus reimbursable contracts. Packages revenues are derived primarily from fixed-price contracts. Revenues from O&M activities are derived primarily from cost reimbursable with fixed-fee contracts and from fixed-price contracts.

SERVICES, PACKAGES, AND O&M ACTIVITIES

| TYPES OF CONTRACTS | ACTIVITIES | REVENUE RECOGNITION |
|--|-----------------------|---|
| Cost-plus reimbursable contracts | Services and Packages | 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. |
| Cost reimbursable with a fixed-fee contracts | O&M | Fixed-fee revenues are recognized on a straight-line basis over the term of the contract and do not usually involve significant estimates. |
| Fixed-price contracts | Services and Packages | 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. |
| | O&M | Revenues 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. |

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, productivity, as well as possible claims from subcontractors.

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 to 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010 and 2009, 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 2010 and 2009.

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 sheets and statements 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 2C and 20 to the 2010 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 2010 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13 Accounting Changes

13.1 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN CANADA

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the changeover to IFRS for Canadian publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. In October 2009, the AcSB reconfirmed January 1, 2011 as the date of changeover 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 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 GAAP to IFRS, as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*.

Regarding the progress made during 2010 on its IFRS implementation plan, SNC-Lavalin substantially completed all the following: i) assessment of the impact of the accounting differences on the consolidated financial statements; ii) training provided to key finance personnel; and iii) review of the potential impact on the Company's business activities, its disclosure controls and internal controls over financial reporting, and its financial reporting systems. Additionally, the preparation of the Company's consolidated financial statements and note disclosures in compliance with IFRS is progressing well as at December 31, 2010.

The current section has been prepared to explain to the reader the impact of the Company's transition from GAAP to IFRS, and is structured as follows:

| SECTION | TITLE | OBJECTIVE |
|---------|--|---|
| 13.1.1 | Executive summary | Provides an overview of the main impacts from the adoption of IFRS, the Company's main choices under IFRS, and the quantitative impact on the Company's opening equity as at the Date of Transition |
| 13.1.2 | Summary of main accounting differences | Provides a description of the main accounting differences on the Company's accounting policies resulting from the adoption of IFRS |
| 13.1.3 | Effect of IFRS adoption on the Company's consolidated balance sheets | Provides a quantitative reconciliation between GAAP and IFRS for the Company's consolidated balance sheets as at the Date of Transition and as at March 31, 2010, with detailed explanations on the reconciling items |
| 13.1.4 | Effect of IFRS adoption on the Company's consolidated statement of income | Provides a quantitative reconciliation between GAAP and IFRS for the Company's consolidated statement of income for the three-month period ended March 31, 2010 with detailed explanations of the reconciling items |
| 13.1.5 | Effect of IFRS adoption on the key performance indicators | Explains the impact of the transition to IFRS on the key performance indicators of the Company |
| 13.1.6 | Potential impact on business activities, disclosure controls and internal controls over financial reporting, and financial reporting systems | Explains the impact of IFRS on business activities, disclosure controls and internal controls over financial reporting, and financial reporting systems |
| 13.1.7 | Training sessions | Provides information on the training sessions regarding IFRS and its implementation |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.1 EXECUTIVE SUMMARY

In order to provide the reader with a better understanding of the impact from the adoption of IFRS, the Company provides, in the following section, unaudited qualitative and quantitative information as at the Date of Transition and March 31, 2010, as well as for the first quarter of 2010. Additional information is currently being finalized and will be provided in 2011, along with the reporting of quarterly results under IFRS.

It should be noted that the numbers provided in this section are for indicative purposes only and might be adjusted, pending further work, analysis and audit. Numbers are also subject to changes in the event that the Company early adopts any newly issued international financial reporting standard prior to the end of 2011.

It should also be outlined that the changes resulting from the transition to IFRS do not affect the business activities or strategy, but relate to accounting differences only. None of the adjustments, transitional elections, or policy choices made by the Company as part of the transition process are unique to SNC-Lavalin, as these elections and policy choices will be adopted by many other Canadian companies.

MAIN IMPACTS OF IFRS ON SNC-LAVALIN'S ACCOUNTING

The most significant impacts of adopting IFRS, other than the reclassification of non-controlling interests within equity, relate to accounting for the Company's ICI, accounted for under IFRIC Interpretation 12 ("IFRIC 12"), *Service Concession Arrangements*, and for its jointly controlled entities, accounted for under IAS 31, *Interests in Joint Ventures*, and will have a limited impact on the Company's other activities.

| ACCOUNTING STANDARD OR INTERPRETATION | MAIN IMPACT ON SNC-LAVALIN |
|---------------------------------------|--|
| IFRIC 12 | Certain public-private partnership arrangements will be accounted for under the financial asset model, further explained in section 13.1.3 A |
| IAS 31 | Jointly controlled entities will be accounted for by the equity method. Highway 407, which had a negative carrying amount under GAAP, will be accounted for by the equity method and will have a carrying value of \$nil as at the Date of Transition. Until the carrying value of Highway 407 becomes positive, the Company will recognize dividends from Highway 407 in its statement of income, under the ICI revenues line, as further explained in section 13.1.3 B |

Considering the impact of the aforementioned accounting standard and interpretation on its ICI, the Company decided it will no longer disclose its revenue backlog for ICI activities when reporting its financial results under IFRS.

SNC-LAVALIN'S MAIN CHOICES UNDER IFRS

As it was the case under GAAP, certain accounting standards in IFRS allow for choices between different available accounting methods. The following table presents a summary of SNC-Lavalin's main choices under IFRS:

| TOPIC | CHOICES UNDER IFRS | SNC-LAVALIN'S CHOICES |
|---|---|-------------------------------|
| Jointly controlled entities (excluding jointly controlled operations) | <ul style="list-style-type: none"> > Equity method; or > Proportionate consolidation method | Equity method |
| Property and equipment | <ul style="list-style-type: none"> > Cost model; or > Revaluation model (i.e. the revalued amount represents the fair value) | Cost model |
| Employee benefits | Actuarial gains and losses from defined benefit and post-retirement benefit plans included in: <ul style="list-style-type: none"> > Net income; or > Other comprehensive income | In other comprehensive income |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

QUANTITATIVE IMPACT ON OPENING EQUITY

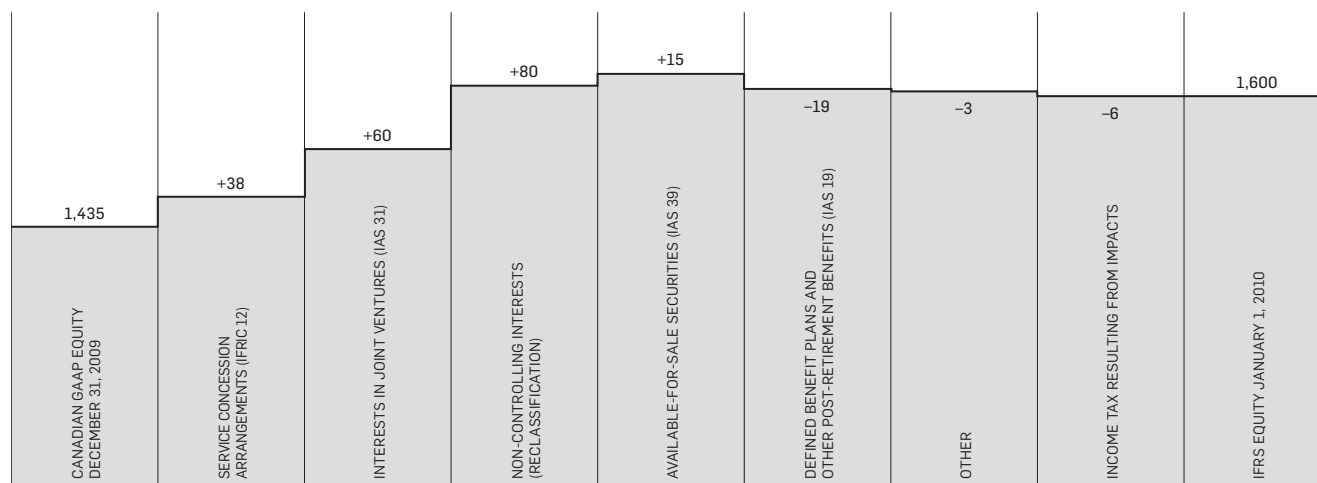
As required by IFRS, the Company will apply IFRS 1 in preparing its first IFRS consolidated financial statements. The general principle underlying IFRS 1 is that the first IFRS financial statements are to be prepared as if IFRS were the framework for the Company's accounting since its inception (i.e., retrospective application). While IFRS 1 does not require the restatement of all historical financial statements previous to the Date of Transition (January 1, 2010), the cumulative differences on net income between GAAP and IFRS resulting from transactions prior to that date are to be accounted for as adjustments to the opening balance of retained earnings as at January 1, 2010.

As the burden of issuers adopting IFRS for the first time could be significant, IFRS 1 provides a limited number of mandatory exceptions and of optional exemptions to the general principle of retrospective application. All issuers adopting IFRS for the first time are required to apply the mandatory exceptions, but they have a choice whether or not to apply the optional exemptions. The Company intends to apply all mandatory exceptions and certain optional exemptions that are detailed in the current section, resulting in the prospective application of IFRS for these exceptions and exemptions.

The following chart presents the quantitative impact on SNC-Lavalin's equity as at the Date of Transition:

TOTAL IMPACT ON SNC-LAVALIN'S EQUITY UPON TRANSITION TO IFRS ON JANUARY 1, 2010

(in millions CAS)



2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.2 SUMMARY OF MAIN ACCOUNTING DIFFERENCES

The following table summarizes the main differences between IFRS and GAAP that will impact the Company's consolidated financial statements:

| IFRS | GAAP | Impact on the Company at the Date of Transition | Future impact on the Company | Retrospective application |
|--|---|---|--|---------------------------|
| Service Concession Arrangements (IFRIC 12) [note A in section 13.1.3] | | | | |
| IFRIC 12 provides guidance on the accounting for certain qualifying public-private partnership arrangements. Under such arrangements, the concessionaire accounts for the infrastructure asset by applying the intangible asset model, the financial asset model, or a combination of both. | No equivalent standard. The accounting treatment is derived from other relevant standards based on the arrangement's facts and circumstances. | The adjustments relating to the retrospective application of IFRIC 12 were recorded in the Company's opening retained earnings at the Date of Transition to IFRS. | The Company will follow the guidance of IFRIC 12 to account for its qualifying public-private partnership agreements. | Yes |
| Interests in Joint Ventures (IAS 31) [note B in section 13.1.3] | | | | |
| IFRS currently allows accounting for jointly controlled entities using either the equity method or the proportionate consolidation method. IFRS requires a venturer to account for its share of the assets, liabilities, revenues and expenses for jointly controlled operations and jointly controlled assets. | GAAP requires the use of the proportionate consolidation method for all types of joint ventures. | Upon transition to IFRS, the Company elected to account for its jointly controlled entities, mainly ICI, using the equity method. At the Date of Transition, the adjustment relating to this change in accounting policy was recorded in the opening retained earnings of the Company. This adjustment is related to investments that had a negative carrying amount. | The Company continues to account for its share of the assets, liabilities, revenues and expenses from its jointly controlled operations and jointly controlled assets while the equity method applies to its jointly controlled entities (mainly ICI). | Yes |
| Business Combinations (IFRS 3) | | | | |
| IFRS requires all business combinations to be accounted for using the acquisition method. As per the acquisition method, identifiable net assets acquired in a business combination are recorded at "full fair value", with components of non-controlling interests in the acquiree recorded at either: i) fair value; or ii) non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All acquisition-related costs are recognized as period expenses, unless they constitute the costs associated with issuing debt or equity securities. | Under GAAP, business acquisitions were accounted for using the purchase method. As per the purchase method, identifiable net assets and goodwill acquired in a business combination were recorded at the acquirer's share of the fair value of the net assets acquired. Any non-controlling interest in the acquiree was recorded at the non-controlling interest's proportionate share in the net book value of the acquiree's identifiable net assets. All acquisition-related costs were capitalized in goodwill, unless they constituted the costs associated with issuing debt or equity securities. | As per the optional exemption in IFRS 1, an entity may elect not to apply IFRS 3 retrospectively to business combinations undertaken prior to the Date of Transition. The Company has elected not to restate business combinations undertaken prior to January 1, 2010. However, the Company applied all of the requirements prescribed by IFRS 1 to business combinations that the Company recognized before the Date of Transition, with no adjustment relating to business combinations recorded by the Company on the Date of Transition to IFRS. | All business combinations undertaken on or after January 1, 2010 are accounted for using the acquisition method. | No |
| Employee Benefits (IAS 19) [note D.2 in section 13.1.3] | | | | |
| IFRS allows accounting for actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans in net income or in other comprehensive income. | GAAP requires to account for recognized actuarial gains or losses arising from defined benefit plans and post-retirement benefit plans in net income. | The optional exemption in IFRS 1 provides for the recognition of all cumulative unrecognized actuarial gains and losses through an adjustment to the opening balance of retained earnings at the Date of Transition to IFRS. The Company elected to apply this exemption and recorded an adjustment in the amount of the GAAP balance of its cumulative unrecognized net actuarial losses in its opening retained earnings at the Date of Transition. | The effect of actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans will no longer affect net income under the Company's accounting policy choice. The effects of actuarial gains and losses will be recognized immediately in equity, rather than being recognized over a period of time in net income. | No |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| IFRS | GAAP | Impact on the Company at the Date of Transition | Future impact on the Company | Retrospective application |
|---|---|--|---|---|
| The Effects of Changes in Foreign Exchange Rates (IAS 21) [note D.3 in section 13.1.3] | | | | |
| 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 with a functional currency different from the functional currency of the reporting entity are translated in the presentation currency, so that the foreign operations can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method by using a method equivalent to the current rate method. | GAAP requires self-sustaining foreign operations to be translated using the current rate method and integrated foreign operations to be translated using the temporal method. | The optional exemption in IFRS 1 allows an entity to reset its cumulative translation differences for all foreign operations to \$nil by transferring the balance of its cumulative translation differences account, included in the statement of changes in equity, to its retained earnings at the Date of Transition to IFRS. The Company elected to apply this exemption and transferred to retained earnings the GAAP balance included in accumulated comprehensive income (loss), under "exchange differences on translating foreign operations" account, at the Date of Transition to IFRS. | Starting January 1, 2010, the Company applies the IFRS guidance on foreign currency on a prospective basis, with no significant impact expected on net income. | No |
| Rate-regulated Activities [note C.5 in section 13.1.3] | | | | |
| No specific standard for rate-regulated activities | GAAP provides guidance for entities subject to rate regulation on the recognition of their regulatory assets and regulatory liabilities. | The carrying amount of items of property and equipment or intangible assets subject to rate regulation might include amounts, under GAAP, that do not qualify for capitalisation under IFRS. As per the optional exemption in IFRS 1, an entity may elect to use the GAAP carrying amount of such items as its opening IFRS balance at the Date of Transition to IFRS. The Company elected to apply this exemption to the qualifying items of property and equipment and intangible assets of AltaLink, its subsidiary involved with rate-regulated transmission lines and substations in Alberta, Canada. AltaLink's qualifying items of property and equipment and intangible assets subject to rate regulation are therefore carried at their GAAP balance in the Company's consolidated balance sheet at the Date of Transition to IFRS and thereafter. All other assets and liabilities of AltaLink were subject to the IFRS 1 requirement of retrospective application, except for those subject to the mandatory exceptions and optional exemptions. | Property and equipment and intangible assets of AltaLink used in operations subject to rate regulation constructed or acquired on or after January 1, 2010 are accounted for under applicable relevant standards of IFRS. No material impact on AltaLink's net income is expected following the transition to IFRS. | No for property and equipment and intangible assets subject to rate regulation. Yes for all other assets and liabilities. |
| Financial Instruments: Recognition and Measurement (IAS 39) [note D.1 in section 13.1.3] | | | | |
| IFRS requires all available-for-sale financial assets to be measured at fair value, unless fair value is not reliably determinable. | Under GAAP, unlisted securities are measured at cost, even if their fair value could be reliably determined. | The Company measured its unlisted securities at fair value on January 1, 2010, unless fair value was not reliably measurable, and recorded a corresponding adjustment in its accumulated other comprehensive income at January 1, 2010. | Subsequent to January 1, 2010, revaluation gains (losses) on these securities are recognized in the statement of comprehensive income. | Yes |

Other optional exemptions available under IFRS 1 as well as other accounting standards under which the Company has to elect a method from available accounting methods are not discussed here as their impact is not material to the Company.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.3 EFFECT OF IFRS ADOPTION ON THE COMPANY'S JANUARY 1, 2010 ("OPENING BALANCE SHEET") AND MARCH 31, 2010 CONSOLIDATED BALANCE SHEETS

| (IN THOUSANDS OF CANADIAN DOLLARS) | | January 1, 2010 | | | | | |
|---|---------------------|------------------------------|---------------------------|---|--------------------------|-------------------|---------------------|
| | GAAP | EFFECT OF TRANSITION TO IFRS | | | | | IFRS |
| | | IFRIC 12 (NOTE 13.1.3 A) | IAS 31 (NOTE 13.1.3 B) | RECLASSI- FICATIONS (NOTE 13.1.3 C) | OTHER (NOTE 13.1.3 D) | TAX EFFECT | |
| ASSETS | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | \$ 1,218,225 | \$ – | \$ (26,827) | \$ – | \$ – | \$ – | \$ 1,191,398 |
| Restricted cash | 68,185 | – | (36,808) | – | – | – | 31,377 |
| Trade and other receivables | 1,480,478 | (16,537) | (6,588) | (414,932) | – | – | 1,042,421 |
| Other current financial assets | – | – | (3,824) | 281,935 | – | – | 278,111 |
| Contracts in progress | 479,637 | – | – | – | – | – | 479,637 |
| Contracts in progress from concession arrangements | 33,941 | (33,941) | – | – | – | – | – |
| Deferred tax asset | 112,557 | – | – | (112,557) | – | – | – |
| Other current assets | – | – | (56) | 132,997 | – | – | 132,941 |
| | 3,393,023 | (50,478) | (74,103) | (112,557) | – | – | 3,155,885 |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | 2,217,047 | (144,309) | (384,747) | 37,215 | – | – | 1,725,206 |
| From other activities | 113,952 | – | – | – | (2,280) | – | 111,672 |
| ICI accounted for by the equity or cost method | 469,402 | 40,547 | 9,976 | – | 12,800 | – | 532,725 |
| Goodwill | 520,862 | – | – | – | – | – | 520,862 |
| Deferred tax asset | – | – | (8,555) | 112,557 | 38,775 | (3,512) | 139,265 |
| Receivables under service concession arrangements | – | 192,293 | – | – | – | – | 192,293 |
| Non-current financial assets | – | – | (52,585) | 188,670 | 2,632 | – | 138,717 |
| Other non-current assets | 491,997 | – | (271,438) | (146,585) | – | – | 73,974 |
| Total assets | \$ 7,206,283 | \$ 38,053 | \$ (781,452) | \$ 79,300 | \$ 51,927 | \$ (3,512) | \$ 6,590,599 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| (IN THOUSANDS OF CANADIAN DOLLARS) | | January 1, 2010 | | | | | |
|---|--------------|------------------------------|---------------------------|---|--------------------------|------------|--------------|
| | GAAP | EFFECT OF TRANSITION TO IFRS | | | | | IFRS |
| | | IFRIC 12 (NOTE 13.1.3 A) | IAS 31 (NOTE 13.1.3 B) | RECLASSI- FICATIONS (NOTE 13.1.3 C) | OTHER (NOTE 13.1.3 D) | TAX EFFECT | |
| EQUITY AND LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | \$ 1,702,034 | \$ – | \$ (16,975) | \$ (390,307) | \$ – | \$ – | \$ 1,294,752 |
| Other current financial liabilities | – | – | 4,094 | 235,989 | – | – | 240,083 |
| Downpayments on contracts | 397,329 | – | – | – | – | – | 397,329 |
| Deferred revenues | 505,531 | (328) | (620) | 5,606 | – | – | 510,189 |
| Other current liabilities | – | – | – | 121,757 | – | – | 121,757 |
| Current portion of long-term debt: | | | | | | | |
| Recourse | 104,874 | – | – | – | – | – | 104,874 |
| Non-recourse from ICI | 139,183 | – | (135,193) | – | – | – | 3,990 |
| | 2,848,951 | (328) | (148,694) | (26,955) | – | – | 2,672,974 |
| Non-current liabilities | | | | | | | |
| Long-term debt: | | | | | | | |
| Recourse | 348,048 | – | – | – | – | – | 348,048 |
| Non-recourse from ICI | 2,005,485 | – | (699,477) | – | – | – | 1,306,008 |
| Other non-current financial liabilities | – | – | – | 256,510 | (1,528) | – | 254,982 |
| Provisions | – | – | – | 109,529 | 21,882 | – | 131,411 |
| Deferred tax liability | 24,408 | – | – | (24,408) | – | – | – |
| Deferred revenues | – | – | – | 195,069 | – | – | 195,069 |
| Other non-current liabilities | 464,666 | – | 6,654 | (430,445) | 38,775 | 2,295 | 81,945 |
| Total liabilities | 5,691,558 | (328) | (841,517) | 79,300 | 59,129 | 2,295 | 4,990,437 |
| Non-controlling interests | 80,033 | – | – | (80,033) | – | – | – |
| Equity | | | | | | | |
| Share capital | 397,735 | – | – | – | – | – | 397,735 |
| Contributed surplus | 33,473 | – | – | – | (1,308) | – | 32,165 |
| Accumulated other comprehensive (loss) income | (23,306) | – | (3,131) | – | 24,724 | (2,322) | (4,035) |
| Retained earnings | 1,026,790 | 36,963 | 63,196 | – | (30,652) | (3,485) | 1,092,812 |
| Equity attributable to the Company's shareholders | 1,434,692 | 36,963 | 60,065 | – | (7,236) | (5,807) | 1,518,677 |
| Non-controlling interests | – | 1,418 | – | 80,033 | 34 | – | 81,485 |
| Total equity | 1,434,692 | 38,381 | 60,065 | 80,033 | (7,202) | (5,807) | 1,600,162 |
| Total liabilities and equity | \$ 7,206,283 | \$ 38,053 | \$ (781,452) | \$ 79,300 | \$ 51,927 | \$ (3,512) | \$ 6,590,599 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| (IN THOUSANDS OF CANADIAN DOLLARS) | March 31, 2010 | | | | | | |
|---|----------------|------------------------------|-----------------|------------------------|-----------------|------------|--------------|
| | GAAP | EFFECT OF TRANSITION TO IFRS | | | | | IFRS |
| | | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | TAX EFFECT | |
| ASSETS | | (NOTE 13.1.3 A) | (NOTE 13.1.3 B) | (NOTE 13.1.3 C) | (NOTE 13.1.3 D) | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | \$ 1,230,916 | \$ – | \$ (22,532) | \$ – | \$ – | \$ – | \$ 1,208,384 |
| Restricted cash | 73,858 | – | (38,984) | – | – | – | 34,874 |
| Trade and other receivables | 1,411,398 | (16,537) | (6,050) | (448,286) | – | – | 940,525 |
| Other current financial assets | – | – | (4,954) | 327,749 | 61 | – | 322,856 |
| Contracts in progress | 481,925 | – | (2,708) | – | – | – | 479,217 |
| Contracts in progress from concession arrangements | 38,893 | (38,893) | – | – | – | – | – |
| Deferred tax asset | 101,943 | – | – | (101,943) | – | – | – |
| Other current assets | – | – | (111) | 120,537 | – | – | 120,426 |
| | 3,338,933 | (55,430) | (75,339) | (101,943) | 61 | – | 3,106,282 |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | 2,306,522 | (143,168) | (383,648) | 21,706 | (2,495) | – | 1,798,917 |
| From other activities | 108,932 | – | – | – | (2,290) | – | 106,642 |
| ICI accounted for by the equity or cost method | 453,348 | 45,364 | 24,567 | – | 18,375 | – | 541,654 |
| Goodwill | 512,103 | – | – | – | (220) | – | 511,883 |
| Deferred tax asset | – | – | (9,729) | 101,943 | 77,719 | (3,759) | 166,174 |
| Receivables under service concession arrangements | – | 196,950 | – | – | – | – | 196,950 |
| Non-current financial assets | – | – | (126,517) | 262,465 | 5,377 | – | 141,325 |
| Other non-current assets | 566,238 | – | (271,283) | (198,393) | – | – | 96,562 |
| Total assets | \$ 7,286,076 | \$ 43,716 | \$ (841,949) | \$ 85,778 | \$ 96,527 | \$ (3,759) | \$ 6,666,389 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| (IN THOUSANDS OF CANADIAN DOLLARS) | March 31, 2010 | | | | | | |
|---|----------------|------------------------------|-----------------|------------------------|-----------------|------------|--------------|
| | GAAP | EFFECT OF TRANSITION TO IFRS | | | | | IFRS |
| | | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | TAX EFFECT | |
| | | (NOTE 13.1.3 A) | (NOTE 13.1.3 B) | (NOTE 13.1.3 C) | (NOTE 13.1.3 D) | | |
| EQUITY AND LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | \$ 1,615,232 | \$ – | \$ (19,338) | \$ (291,603) | \$ – | \$ – | \$ 1,304,291 |
| Other current financial liabilities | – | – | 19,891 | 176,407 | 13 | – | 196,311 |
| Downpayments on contracts | 353,788 | – | – | – | – | – | 353,788 |
| Deferred revenues | 527,886 | (355) | (1,679) | 5,718 | – | – | 531,570 |
| Other current liabilities | – | – | (9) | 82,149 | – | – | 82,140 |
| Current portion of long-term debt: | | | | | | | |
| Recourse | 104,917 | – | – | – | – | – | 104,917 |
| Non-recourse from ICI | 231,321 | – | (227,291) | – | – | – | 4,030 |
| | 2,833,144 | (355) | (228,426) | (27,329) | 13 | – | 2,577,047 |
| Non-current liabilities | | | | | | | |
| Long-term debt: | | | | | | | |
| Recourse | 348,086 | – | – | – | – | – | 348,086 |
| Non-recourse from ICI | 2,067,218 | – | (685,202) | – | – | – | 1,382,016 |
| Other non-current financial liabilities | – | – | – | 262,247 | (1,187) | – | 261,060 |
| Provisions | – | – | – | 110,811 | 21,455 | – | 132,266 |
| Deferred tax liability | 24,637 | – | – | (24,637) | – | – | – |
| Deferred revenues | – | – | – | 197,731 | – | – | 197,731 |
| Other non-current liabilities | 466,615 | – | 4,493 | (433,045) | 77,719 | 3,881 | 119,663 |
| Total liabilities | 5,739,700 | (355) | (909,135) | 85,778 | 98,000 | 3,881 | 5,017,869 |
| Non-controlling interests | 82,751 | – | – | (82,751) | – | – | – |
| Equity | | | | | | | |
| Share capital | 400,550 | – | – | – | – | – | 400,550 |
| Contributed surplus | 40,130 | – | – | – | (1,517) | – | 38,613 |
| Accumulated other comprehensive (loss) income | (42,068) | – | (3,107) | – | 30,256 | (3,018) | (17,937) |
| Retained earnings | 1,065,013 | 42,627 | 70,293 | – | (30,246) | (4,622) | 1,143,065 |
| Equity attributable to the Company's shareholders | 1,463,625 | 42,627 | 67,186 | – | (1,507) | (7,640) | 1,564,291 |
| Non-controlling interests | – | 1,444 | – | 82,751 | 34 | – | 84,229 |
| Total equity | 1,463,625 | 44,071 | 67,186 | 82,751 | (1,473) | (7,640) | 1,648,520 |
| Total liabilities and equity | \$ 7,286,076 | \$ 43,716 | \$ (841,949) | \$ 85,778 | \$ 96,527 | \$ (3,759) | \$ 6,666,389 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

RECONCILIATION OF EQUITY

| (IN THOUSANDS OF CANADIAN DOLLARS) | | EFFECT OF TRANSITION TO IFRS | |
|--|------------|------------------------------|----------------|
| | NOTE | January 1, 2010 | March 31, 2010 |
| Total shareholders' equity under GAAP | | \$ 1,434,692 | \$ 1,463,625 |
| Service concession arrangements | 13.1.3 A | 38,381 | 44,071 |
| Jointly controlled entities | 13.1.3 B | 60,065 | 67,186 |
| Reclassification of non-controlling interests to equity | 13.1.3 C.1 | 80,033 | 82,751 |
| Measurement of available-for-sale securities | 13.1.3 D.1 | 15,432 | 20,964 |
| Defined benefit plans and other post-retirement benefits | 13.1.3 D.2 | (19,366) | (19,083) |
| Other | | (3,268) | (3,354) |
| Total adjustment to equity, before income taxes | | 171,277 | 192,535 |
| Income tax effect of the above | | (5,807) | (7,640) |
| Total adjustment to equity | | 165,470 | 184,895 |
| Total equity under IFRS | | \$ 1,600,162 | \$ 1,648,520 |

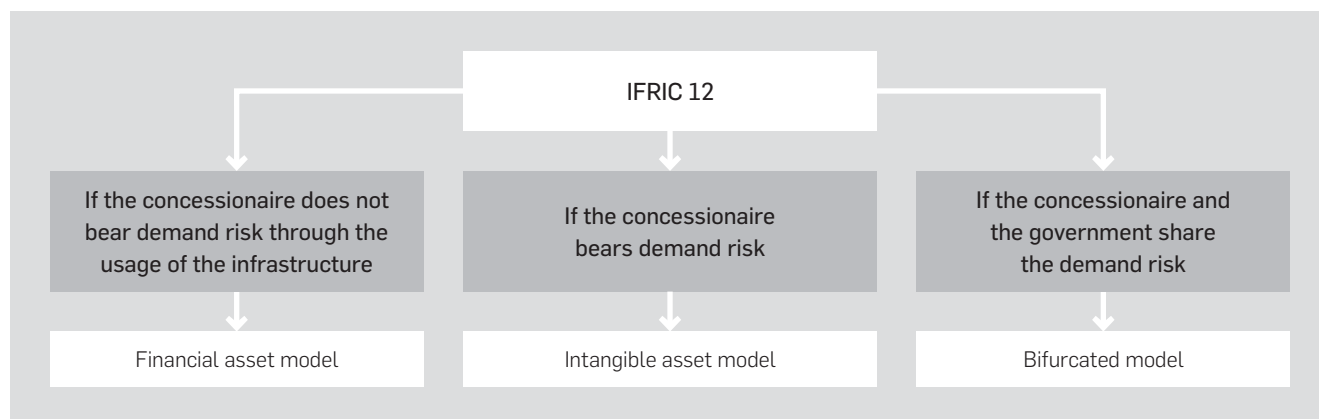
13.1.3 A. SERVICE CONCESSION ARRANGEMENTS (IFRIC 12)

Upon transition to IFRS, the Company will retrospectively adopt IFRIC 12, which provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually the government):

- > controls or regulates what services the operator (the "concessionaire") must provide with the infrastructure, to whom it must provide them, and at what price, and
- > controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Typically, in a public-private service concession arrangement within the scope of IFRIC 12, the underlying infrastructure is used to deliver public services (e.g., roads, bridges, hospitals, electricity supply plants, etc.) to users of those services. The contractual arrangement between the government and the concessionaire is referred to as a "concession agreement", under which the government specifies the responsibilities of the concessionaire and governs the basis upon which the concessionaire will be remunerated. The concessionaire is usually responsible for the construction of the infrastructure, its operation and maintenance and its rehabilitation and is usually either paid by the government, the users, or both. In certain cases, the concessionaire can receive payments from the government during the initial construction phase. At the end of the term of a concession agreement, the infrastructure is returned to the government, often for no additional consideration. These arrangements vary greatly in duration, but terms of 20 to 40 years are usual.

Under such concession arrangements, the concessionaire accounts for the infrastructure asset depending on the allocation of the demand risk between the government and the concessionaire, as follows:



2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Company's ICI were identified as being within the scope of IFRIC 12 and will all be accounted for under the financial asset model:

| NAME | EXISTING AS AT DATE OF TRANSITION | ENTERED INTO AFTER DATE OF TRANSITION | OWNERSHIP INTEREST | INFRASTRUCTURE | DURATION (YEARS) |
|--------------------------|--------------------------------------|--|-----------------------|----------------|---------------------|
| Chinook | | ✓ | 50.0% | Road | 33 |
| Ovation | ✓ | | 100.0% | Concert hall | 29 |
| InTransit BC | ✓ | | 33.3% | Transit line | 35 |
| MIHG | | ✓ | 60.0% | Hospital | 34 |
| Okanagan Lake Concession | ✓ | | 100.0% | Bridge | 30 |
| TC Dôme | ✓ | | 51.0% | Railway | 35 |

In these concession arrangements, the concessionaire usually subcontracts the EPC and O&M contracts to the Company's subsidiaries or joint ventures.

The table below highlights the main characteristics of the financial asset model being applied to the Company's concession arrangements within the scope of IFRIC 12:

| | |
|--|---|
| Demand risk | The government bears demand risk as the government pays the Company a fixed monetary amount, usually conditional on availability and performance conditions, regardless of the usage of the infrastructure. |
| Impact on the Company's consolidated statements of income | General principle: The Company accounts for the total consideration as revenue, based on the fair value of each deliverable activity. Consistent with IFRS, intercompany profits generated by the Company's subsidiaries or joint ventures acting as a contractor or operator for the concessionaire are not eliminated, resulting in the Company recognizing revenues and profit (loss) from all activities provided through the concession arrangement. |
| | Construction revenues: The Company recognizes revenues and costs relating to construction of an infrastructure in accordance with IAS 11, <i>Construction Contracts</i> , ("IAS 11") under the same methodology as any other construction contract and classifies these revenues as "Packages" activities. |
| | Operations and maintenance revenues: The Company recognizes revenues and costs relating to operations and maintenance of an infrastructure as any other operations and maintenance contract and classifies these revenues as "O&M" activities. |
| | Rehabilitation revenues: When rehabilitation activities are considered revenue-generating activities, revenues are recognized in accordance with IAS 11 under the same methodology as any other similar contract and classifies these revenues as "O&M" activities. |
| | Finance income: Finance income generated on financial assets is recognized using the effective interest method and is classified as revenue from "ICI" activities. |
| Impact on the Company's consolidated balance sheets | Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements" on the Company's consolidated balance sheets. The balance of this "Receivables under service concession arrangements" is reduced by the payments received from the government. |

13.1.3 B. INTERESTS IN JOINT VENTURES (IAS 31)

The Company carries out certain of its activities through joint ventures, which are mainly jointly controlled operations for its Services, Packages and O&M activities, and jointly controlled entities for its ICI activities.

JOINTLY CONTROLLED OPERATIONS

Under GAAP, jointly controlled operations were accounted for by the proportionate consolidation method. Under IFRS, the Company will recognize the assets that it controls, the liabilities and expenses that it incurs, and its share of the revenues of the jointly controlled operations. Therefore, the Company does not expect any significant impact on its consolidated financial statements at the Date of Transition to IFRS or thereafter relating to the accounting of its jointly controlled operations.

JOINTLY CONTROLLED ENTITIES

Under IFRS, interests in jointly controlled entities are to be accounted for using either the equity method or the proportionate consolidation method. Under GAAP, such interests were accounted for using the proportionate consolidation method.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

To better reflect the Company's view of the nature of its jointly controlled entities, which are mainly ICI, the Company elected to use the equity method upon its transition to IFRS. The use of the equity method for jointly controlled entities provides the reader with a greater understanding of the Company's underlying assets, earning base and financial resources as opposed to the proportionate consolidation method which recognizes the Company's proportionate share of assets and liabilities that it does not control or for which it has no obligation, including debt that is non-recourse to the Company.

IMPACT ON THE COMPANY'S CONSOLIDATED BALANCE SHEETS

At the Date of Transition and at March 31, 2010, the Company will eliminate its share of proportionately consolidated assets and liabilities of its interests in jointly controlled entities and recognize its net investment in these entities as "ICI accounted for by the equity or cost method" for its jointly controlled entities from ICI.

Under GAAP, the proportionate consolidation method of accounting required the Company to recognize its proportionate share of the jointly controlled entities' losses irrespective of the carrying amount of its investment in such jointly controlled entities. As a result, the balance of interests in jointly controlled entities was negative \$60.1 million at January 1, 2010 (March 31, 2010: \$67.2 million), mainly due to Highway 407.

Under IFRS, the equity method requires the Company to stop recognizing its share of the losses of a jointly controlled entity when the recognition of such losses results in a negative balance for its investment, unless the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. Since the Company did not incur any legal or constructive obligations or did not make payments on behalf of these jointly controlled entities, the carrying amount of the Company's investments in these jointly controlled entities is not negative under IFRS, but is recorded at \$nil.

Therefore, the change in accounting policy from the proportionate consolidation method used to account for the Company's jointly controlled entities under GAAP to the equity method which is used to account for the Company's jointly controlled entities under IFRS will be accounted for on a retrospective basis and will result in an increase of the Company's equity of \$60.1 million at the Date of Transition (an increase of \$63.2 million in retained earnings and a decrease of \$3.1 million in accumulated other comprehensive income) and of \$67.2 million at March 31, 2010 (an increase of \$70.3 million in retained earnings and a decrease of \$3.1 million in accumulated other comprehensive income), mainly from the Company's investment in Highway 407.

IMPACT ON THE COMPANY'S CONSOLIDATED STATEMENT OF INCOME

In regards to the statement of income, under GAAP, the proportionate consolidation method required the Company to consolidate its proportionate share of the jointly controlled entities' revenues and expenses on a line-by-line basis.

Under IFRS, the equity method requires the Company to recognize in its statement of income its share of net income (loss) of its jointly controlled entities for the period. Also, under the equity method, distributions receivable from a jointly controlled entity reduce the carrying amount of the investment recorded by the Company. Where dividends receivable from the jointly controlled entity are in excess of the carrying amount of the investment, the carrying value is reduced to \$nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. Such excess amount of dividends receivable from a jointly controlled entity is recognized in net income of the Company.

Accordingly, the adjustments to the Company's consolidated statement of income for the three-month period ended March 31, 2010 include: i) an elimination of revenues and expenses previously recognized by the Company under the proportionate consolidation method; ii) a recognition by the Company of its share of net income (loss) for the period of its jointly controlled entities which investment account shows a positive carrying amount as at March 31, 2010; and iii) a recognition by the Company of dividends from its jointly controlled entities where dividends are in excess of the carrying amount of the investment.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.3 C. RECLASSIFICATIONS

The following reclassifications will be made to the Company's consolidated balance sheets as at January 1, 2010 and as at March 31, 2010, with the total impact presented under the "Reclassifications" column of the "Effect of IFRS adoption on the Company's January 1, 2010 ("opening balance sheet") and March 31, 2010 consolidated balance sheets" tables:

| (IN THOUSANDS OF CANADIAN DOLLARS) | January 1, 2010 | | | | | | |
|---|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| | RECLASSIFICATIONS | | | | | | |
| | NOTE 13.1.3 C.1 | NOTE 13.1.3 C.2 | NOTE 13.1.3 C.3 | NOTE 13.1.3 C.4 | NOTE 13.1.3 C.5 | NOTE 13.1.3 C.6 | TOTAL |
| BALANCE SHEET LINE ITEMS | | | | | | | |
| Current assets | | | | | | | |
| Trade and other receivables | \$ - | \$ (414,932) | \$ - | \$ - | \$ - | \$ - | \$ (414,932) |
| Other current financial assets | - | 281,935 | - | - | - | - | 281,935 |
| Deferred tax asset | - | - | (112,557) | - | - | - | (112,557) |
| Other current assets | - | 132,997 | - | - | - | - | 132,997 |
| Net impact on current assets | - | - | (112,557) | - | - | - | (112,557) |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | - | - | - | 200,675 | (163,460) | - | 37,215 |
| Deferred tax asset | - | - | 112,557 | - | - | - | 112,557 |
| Non-current financial assets | - | 188,670 | - | - | - | - | 188,670 |
| Other non-current assets | - | (188,670) | - | - | 42,085 | - | (146,585) |
| Net impact on non-current assets | - | - | 112,557 | 200,675 | (121,375) | - | 191,857 |
| Total impact on assets | - | - | - | 200,675 | (121,375) | - | 79,300 |
| Current liabilities | | | | | | | |
| Trade and other payables | - | (359,438) | - | - | - | (30,869) | (390,307) |
| Other current financial liabilities | - | 235,989 | - | - | - | - | 235,989 |
| Deferred revenues | - | - | - | 5,606 | - | - | 5,606 |
| Other current liabilities | - | 121,757 | - | - | - | - | 121,757 |
| Net impact on current liabilities | - | (1,692) | - | 5,606 | - | (30,869) | (26,955) |
| Non-current liabilities | | | | | | | |
| Other non-current financial liabilities | - | 191,580 | - | - | 64,930 | - | 256,510 |
| Provisions | - | - | - | - | - | 109,529 | 109,529 |
| Deferred tax liability | - | (24,408) | - | - | - | - | (24,408) |
| Deferred revenues | - | - | - | 195,069 | - | - | 195,069 |
| Other non-current liabilities | - | (165,480) | - | - | (186,305) | (78,660) | (430,445) |
| Net impact on non-current liabilities | - | 1,692 | - | 195,069 | (121,375) | 30,869 | 106,255 |
| Non-controlling interests | (80,033) | - | - | - | - | - | (80,033) |
| Equity | | | | | | | |
| Non-controlling interests | 80,033 | - | - | - | - | - | 80,033 |
| | 80,033 | - | - | - | - | - | 80,033 |
| Total impact on liabilities and equity | \$ - | \$ - | \$ - | \$ 200,675 | \$ (121,375) | \$ - | \$ 79,300 |

Only line items of the Company's consolidated balance sheet affected by the reclassifications at January 1, 2010 are shown in the table above.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| (IN THOUSANDS OF CANADIAN DOLLARS) | | March 31, 2010 | | | | | |
|---|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| BALANCE SHEET LINE ITEMS | RECLASSIFICATIONS | | | | | | TOTAL |
| | NOTE 13.1.3 C.1 | NOTE 13.1.3 C.2 | NOTE 13.1.3 C.3 | NOTE 13.1.3 C.4 | NOTE 13.1.3 C.5 | NOTE 13.1.3 C.6 | |
| Current assets | | | | | | | |
| Trade and other receivables | \$ - | \$ (448,286) | \$ - | \$ - | \$ - | \$ - | \$ (448,286) |
| Other current financial assets | - | 327,749 | - | - | - | - | 327,749 |
| Deferred tax asset | - | - | (101,943) | - | - | - | (101,943) |
| Other current assets | - | 120,537 | - | - | - | - | 120,537 |
| Net impact on current assets | - | - | (101,943) | - | - | - | (101,943) |
| Non-current assets | | | | | | | |
| Property and equipment: | | | | | | | |
| From ICI | - | - | - | 203,449 | (181,743) | - | 21,706 |
| Deferred tax asset | - | - | 101,943 | - | - | - | 101,943 |
| Non-current financial assets | - | 262,465 | - | - | - | - | 262,465 |
| Other non-current assets | - | (262,465) | - | - | 64,072 | - | (198,393) |
| Net impact on non-current assets | - | - | 101,943 | 203,449 | (117,671) | - | 187,721 |
| Total impact on assets | - | - | - | 203,449 | (117,671) | - | 85,778 |
| Current liabilities | | | | | | | |
| Trade and other payables | - | (259,786) | - | - | - | (31,817) | (291,603) |
| Other current financial liabilities | - | 176,407 | - | - | - | - | 176,407 |
| Deferred revenues | - | - | - | 5,718 | - | - | 5,718 |
| Other current liabilities | - | 82,149 | - | - | - | - | 82,149 |
| Net impact on current liabilities | - | (1,230) | - | 5,718 | - | (31,817) | (27,329) |
| Non-current liabilities | | | | | | | |
| Other non-current financial liabilities | - | 191,461 | - | - | 70,786 | - | 262,247 |
| Provisions | - | - | - | - | - | 110,811 | 110,811 |
| Deferred tax liability | - | (24,637) | - | - | - | - | (24,637) |
| Deferred revenues | - | - | - | 197,731 | - | - | 197,731 |
| Other non-current liabilities | - | (165,594) | - | - | (188,457) | (78,994) | (433,045) |
| Net impact on non-current liabilities | - | 1,230 | - | 197,731 | (117,671) | 31,817 | 113,107 |
| Non-controlling interests | (82,751) | - | - | - | - | - | (82,751) |
| Equity | | | | | | | |
| Non-controlling interests | 82,751 | - | - | - | - | - | 82,751 |
| | 82,751 | - | - | - | - | - | 82,751 |
| Total impact on liabilities and equity | \$ - | \$ - | \$ - | \$ 203,449 | \$ (117,671) | \$ - | \$ 85,778 |

Only line items of the Company's consolidated balance sheet affected by the reclassifications at March 31, 2010 are shown in the table above.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.3 C.1 RECLASSIFICATION OF NON-CONTROLLING INTERESTS

Under IFRS, non-controlling interests are presented within equity as the non-controlling interests represent the residual interest in the net assets of the subsidiaries and therefore meet the definition of equity as per the *Framework for the Preparation and Presentation of Financial Statements*. Under GAAP, non-controlling interests were presented outside shareholders' equity. The effect of the change is an increase in equity of \$80.0 million at January 1, 2010 and of \$82.8 million at March 31, 2010.

13.1.3 C.2 RECLASSIFICATION OF FINANCIAL AND NON-FINANCIAL INSTRUMENTS

Certain figures relating to financial and non-financial instruments have been reclassified to conform to the presentation adopted by the Company upon transition to IFRS as required by IAS 1, *Presentation of Financial Statements*, with no impact on the Company's total assets, total liabilities or equity.

13.1.3 C.3 RECLASSIFICATION OF DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

Under GAAP, when an enterprise segregated its assets and liabilities between current and non-current assets and liabilities, the current and non-current portions of deferred tax liabilities and deferred tax assets were also segregated.

Under IFRS, when an entity classifies its balance sheet by presenting current assets and current liabilities separately from non-current assets and non-current liabilities, it needs to classify deferred tax assets and deferred tax liabilities as non-current assets and non-current liabilities. Therefore, a deferred tax asset of \$112.6 million included in current assets will be reclassified to non-current assets on the Date of Transition (\$101.9 million at March 31, 2010).

13.1.3 C.4 TRANSFERS OF ASSETS FROM CUSTOMERS (IFRIC 18)

AltaLink, a 76.92%-owned subsidiary of the Company, enters into certain transactions whereby it receives cash from customers dedicated to the construction of transmission lines and substations, which provide these customers with ongoing access to a supply of electricity. Under GAAP, there is no specific guidance applicable to such agreements and the amount of such cash received by AltaLink was presented as a reduction of the carrying value of the related items of property and equipment on the balance sheet.

Upon transition to IFRS, the Company will retrospectively adopt IFRIC Interpretation 18, *Transfers of Assets from Customers*, ("IFRIC 18"). IFRIC 18 applies to transactions described above. As per IFRIC 18, when an entity receives a transfer of cash from a customer, it shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset. If the definition of an asset is met, the entity recognizes the item of property, plant and equipment at its cost and recognizes revenue or deferred revenue, as applicable, for the same amount based on the appropriate revenue recognition policy.

The effect of this change will result in an increase in property and equipment of \$200.7 million at January 1, 2010 (\$203.4 million at March 31, 2010), with an equivalent increase to deferred revenues, of which \$5.6 million is in current liabilities and \$195.1 million is in non-current liabilities (\$5.7 million and \$197.7 million at March 31, 2010). This change will not have any impact on the Company's retained earnings at January 1, 2010.

The effect of this change will also result in an increase of revenue and of the depreciation expense by \$1.4 million for the three-month period ended March 31, 2010, with no impact on net income.

13.1.3 C.5 ASSET RETIREMENT OBLIGATION AND RATE-REGULATED ACTIVITIES

Under IFRS, AltaLink's asset retirement obligation at January 1, 2010 will be reduced from \$186.3 million (March 31, 2010: \$188.5 million) to \$nil, combined with a decrease of \$121.4 million (March 31, 2010: \$117.7 million) in property and equipment and an increase of \$64.9 million (March 31, 2010: \$70.8 million) in other non-current financial liabilities.

AltaLink is an entity whose operations are subject to rate regulation. Under GAAP, it is subject to accounting for entities subject to rate regulation. Consequently, AltaLink presented certain of its intangible assets, such as land rights, together with property and equipment. Under IFRS, such intangible assets are to be presented as a separate line item on the balance sheet. Therefore, the effect of this reclassification will be a decrease of property and equipment of \$42.1 million at January 1, 2010 (\$64.1 million at March 31, 2010) and an increase in other non-current assets of the same amount.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.3 C.6 PROVISIONS

Under GAAP, the short-term portion of provisions was included in "trade and other payables" and the long-term portion of provisions was presented within "other non-current liabilities" on the balance sheet. Under IFRS, provisions have to be included in the balance sheet as a separate line item. Therefore, the effect of this reclassification will be a decrease of trade and other payables of \$30.9 million and of other non-current liabilities of 78.7 million at January 1, 2010 (\$31.8 million and \$79.0 million at March 31, 2010) and an increase in provisions of the same amount.

13.1.3 D. OTHER ADJUSTMENTS

The following other adjustments will be made to the Company's consolidated balance sheets at January 1, 2010 and March 31, 2010, with the total impact presented under the "Other" column of the "Effect of IFRS adoption on the Company's January 1, 2010 ("opening balance sheet") and March 31, 2010 consolidated balance sheets" tables:

| (IN THOUSANDS OF CANADIAN DOLLARS) | January 1, 2010 | | | | |
|--|-------------------|-----------------|-----------------|------------|------------|
| | OTHER ADJUSTMENTS | | | | |
| | NOTE 13.1.3 D.1 | NOTE 13.1.3 D.2 | NOTE 13.1.3 D.3 | OTHER | TOTAL |
| BALANCE SHEET LINE ITEMS | | | | | |
| Non-current assets | | | | | |
| Property and equipment: | | | | | |
| From other activities | \$ – | \$ – | \$ – | \$ (2,280) | \$ (2,280) |
| ICI accounted for by the equity or cost method | 12,800 | – | – | – | 12,800 |
| Deferred tax asset | – | – | – | 38,775 | 38,775 |
| Non-current financial assets | 2,632 | – | – | – | 2,632 |
| Total impact on assets | 15,432 | – | – | 36,495 | 51,927 |
| Non-current liabilities | | | | | |
| Other non-current financial liabilities | – | (1,528) | – | – | (1,528) |
| Provisions | – | 20,894 | – | 988 | 21,882 |
| Other non-current liabilities | – | – | – | 38,775 | 38,775 |
| Net impact on non-current liabilities | – | 19,366 | – | 39,763 | 59,129 |
| Equity | | | | | |
| Contributed surplus | – | – | – | (1,308) | (1,308) |
| Accumulated other comprehensive income (loss) | 15,432 | – | 9,292 | – | 24,724 |
| Retained earnings | – | (19,400) | (9,292) | (1,960) | (30,652) |
| Non-controlling interests | – | 34 | – | – | 34 |
| Net impact on equity | 15,432 | (19,366) | – | (3,268) | (7 202) |
| Total impact on liabilities and equity | \$ 15,432 | \$ – | \$ – | \$ 36,495 | \$ 51,927 |

Only line items of the Company's consolidated balance sheet affected by the adjustments at January 1, 2010 are shown in the table above.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

| (IN THOUSANDS OF CANADIAN DOLLARS) | March 31, 2010 | | | | |
|--|-------------------|-----------------|-----------------|-----------|-----------|
| | OTHER ADJUSTMENTS | | | | |
| | NOTE 13.1.3 D.1 | NOTE 13.1.3 D.2 | NOTE 13.1.3 D.3 | OTHER | TOTAL |
| BALANCE SHEET LINE ITEMS | | | | | |
| Current assets | | | | | |
| Other current financial assets | \$ – | \$ – | \$ – | \$ 61 | \$ 61 |
| Net impact on current assets | – | – | – | 61 | 61 |
| Non-current assets | | | | | |
| Property and equipment: | | | | | |
| From infrastructure concession investments | – | – | – | (2,495) | (2,495) |
| From other activities | – | – | – | (2,290) | (2,290) |
| ICI accounted for by the equity or cost method | 18,375 | – | – | – | 18,375 |
| Goodwill | – | – | – | (220) | (220) |
| Deferred tax asset | – | – | – | 77,719 | 77,719 |
| Non-current financial assets | 2,589 | – | – | 2,788 | 5,377 |
| Net impact on non-current assets | 20,964 | – | – | 75,502 | 96,466 |
| Total impact on assets | 20,964 | – | – | 75,563 | 96,527 |
| Current liabilities | | | | | |
| Other current financial liabilities | – | – | – | 13 | 13 |
| Net impact on current liabilities | – | – | – | 13 | 13 |
| Non-current liabilities | | | | | |
| Other non-current financial liabilities | – | (1,528) | – | 341 | (1,187) |
| Provisions | – | 20,611 | – | 844 | 21,455 |
| Other non-current liabilities | – | – | – | 77,719 | 77,719 |
| Net impact on non-current liabilities | – | 19,083 | – | 78,904 | 97,987 |
| Equity | | | | | |
| Contributed surplus | – | – | – | (1,517) | (1,517) |
| Accumulated other comprehensive income (loss) | 20,964 | – | 9,292 | – | 30,256 |
| Retained earnings | – | (19,117) | (9,292) | (1,837) | (30,246) |
| Non-controlling interests | – | 34 | – | – | 34 |
| Net impact on equity | 20,964 | (19,083) | – | (3,354) | (1,473) |
| Total impact on liabilities and equity | \$ 20,964 | \$ – | \$ – | \$ 75,563 | \$ 96,527 |

Only line items of the Company's consolidated balance sheet affected by the adjustments at March 31, 2010 are shown in the table above.

13.1.3 D.1 MEASUREMENT OF UNLISTED SECURITIES

Under GAAP, available-for-sale equity securities that are not traded on an active market were measured at cost. Under IFRS, all available-for-sale financial assets are measured at fair value, unless fair value is not reliably determinable. Upon transition to IFRS, the effect of the change will be an increase in equity of \$15.4 million (March 31, 2010: \$21.0 million), with an increase to ICI accounted for by the equity or cost method of \$12.8 million (\$18.4 million at March 31, 2010) and to non-current financial assets of \$2.6 million (\$2.6 million at March 31, 2010).

After the Date of Transition, revaluation gains (losses) on these available-for-sale financial assets that are not traded on an active market are to be recognized in the statement of comprehensive income. When these available-for-sale financial assets are disposed of or are determined to be impaired, the cumulative amount of gains (losses) recognized in the statement of comprehensive income is reclassified from the "other components of equity" to the statement of net income and presented as a reclassification adjustment within the statement of comprehensive income.

For the three-month period ended March 31, 2010, the revaluation gain on these equity securities amounted to \$5.5 million.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.3 D.2 DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFITS

The Company has elected to apply the optional exemption in IFRS 1 and to recognize unamortized net actuarial losses for all its defined benefit plans in the consolidated balance sheet, i.e., the full net pension liability is recognized at January 1, 2010. The Company also applied IFRIC Interpretation 14 ("IFRIC 14"), *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*. The total effect of IFRS 1 and IFRIC 14 will be a decrease to equity at the Date of Transition of \$19.4 million.

13.1.3 D.3 CUMULATIVE TRANSLATION DIFFERENCE FROM FOREIGN OPERATIONS

The Company has elected to reclassify cumulative translation losses included in accumulated other comprehensive income (loss), under "exchange differences on translating foreign operations" account, to retained earnings. The gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the Date of Transition.

Upon transition to IFRS, the effect of the change will be a decrease to retained earnings and an increase to accumulated other comprehensive income of \$9.3 million at January 1, 2010.

13.1.4 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED STATEMENT OF INCOME FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2010

| THREE-MONTH PERIOD ENDED MARCH 31, 2010 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS) | | EFFECT OF TRANSITION TO IFRS | | | | |
|---|------------|------------------------------|----------------|------------------------|----------|------------|
| | GAAP | IFRIC 12 | IAS 31 | RECLASSI- FICATIONS | OTHER | IFRS |
| | | (NOTE 13.1.3A) | (NOTE 13.1.3B) | (NOTE 13.1.4A) | | |
| Revenues by activity: | | | | | | |
| Services | \$ 457,256 | \$ – | \$ – | \$ – | \$ – | \$ 457,256 |
| Packages | 447,438 | 2,167 | – | – | – | 449,605 |
| O&M | 383,212 | (140) | – | – | – | 383,072 |
| ICI | 98,284 | 4,049 | (14,846) | 1,413 | 108 | 89,008 |
| | 1,386,190 | 6,076 | (14,846) | 1,413 | 108 | 1,378,941 |
| Direct cost of activities | 1,120,336 | (108) | (6,197) | 1,413 | (209) | 1,115,235 |
| Gross margin | 265,854 | 6,184 | (8,649) | – | 317 | 263,706 |
| Selling, general and administrative expenses | 133,116 | (32) | (2,187) | 904 | (788) | 131,013 |
| Net financial expenses | – | 534 | (12,564) | 36,675 | 462 | 25,107 |
| Interest and capital taxes | 36,658 | – | – | (36,658) | – | – |
| Income before income taxes | 96,080 | 5,682 | 6,102 | (921) | 643 | 107,586 |
| Income tax expense | 21,576 | – | (995) | (921) | 1,198 | 20,858 |
| Non-controlling interests | 2,584 | – | – | (2,584) | – | – |
| Net income for the period | 71,920 | 5,682 | 7,097 | 2,584 | (555) | 86,728 |
| Net income attributable to: | | | | | | |
| The Company's shareholders | 71,920 | 5,656 | 7,097 | – | (547) | 84,126 |
| Non-controlling interests | – | 26 | – | 2,584 | (8) | 2,602 |
| Net income for the period | \$ 71,920 | \$ 5,682 | \$ 7,097 | \$ 2,584 | \$ (555) | \$ 86,728 |
| Net income per share attributable to the Company's shareholders (in \$) | | | | | | |
| Basic | \$ 0.48 | | | | | \$ 0.56 |
| Diluted | \$ 0.47 | | | | | \$ 0.55 |

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

13.1.4 A. RECLASSIFICATIONS

Certain figures have been reclassified to conform to the presentation adopted by the Company upon transition to IFRS as required by IAS 1, *Presentation of Financial Statements*, with no impact on net income attributable to the Company's shareholders.

13.1.5 EFFECT OF IFRS ADOPTION ON KEY PERFORMANCE INDICATORS

Following the initial adoption of IFRS, net income will now comprise the non-controlling interests' portion of net income, while it does not under GAAP. Since the non-controlling interests do not significantly impact the net income of the Company and considering the potential impact on net income from the transition to IFRS, the Company's annual long-term net income growth objective of 7% to 12% will remain unchanged under IFRS.

As for the other key performance indicators mentioned in section 4 of this document, the ROASE and the net cash position objectives will also remain unchanged.

13.1.6 POTENTIAL IMPACT ON BUSINESS ACTIVITIES, DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING, AND FINANCIAL REPORTING SYSTEMS

As at December 31, 2010, the Company does not foresee any significant impact on clauses referring to GAAP contained in contractual agreements.

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

As at December 31, 2010, the assessment of the impact on information systems regarding IFRS requirements for capturing data is substantially completed and no significant impact is expected.

13.1.7 TRAINING SESSIONS

In 2010, a number of additional IFRS internal training sessions were offered by the IFRS implementation team to management, audit committee members, members of the Board of Directors, as well as key finance personnel, such as divisional business controllers and other finance staff. Additional training sessions are planned to be provided as needed.

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.

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 know-how who are responsible for recommending a course of action to both the proposal team as well as senior management for 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 include 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 ICI.

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 developments directly to the attention of the proposal team for its consideration and action.

In addition to the REC and BIAC, there are committees in charge of analyzing, among other factors, project proposals and performances at the divisional level, as well as peer reviews scheduled throughout the duration of certain selected projects.

SERVICES, PACKAGES, AND O&M

SNC-Lavalin's continued commitment to sound risk management practices when undertaking Services, Packages, and O&M type contracts, includes technical risk assessments, rigorous drafting and legal review of contracts, applying stringent cost and schedule control to 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 companies.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

ICI

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

Such investments give rise to risks and uncertainties, detailed below, that are mitigated by sound risk management practices applied when investing in infrastructure concessions, such as:

- > Independence of the Investment group from the engineering, construction, and O&M 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.

Despite all efforts deployed to mitigate risks and uncertainties, there is no guarantee that there will be no impact on the Company's financial results and position if such risks or uncertainties materialized.

Below is the **list of risks and uncertainties** facing the Company, for which it applies, in addition to the measures mentioned above, specific mitigating measures.

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, based 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 may 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

LABOUR FACTORS

The success of SNC-Lavalin ultimately depends on its workforce and the ability to attract and retain qualified personnel in a competitive work environment. The inability to attract and retain qualified personnel could result in, among other factors, lost opportunities, cost overruns, failure to perform on projects and inability to mitigate risks and uncertainties. This risk is mitigated by providing diversified and compelling career opportunities, a safe and healthy work environment, as well as competitive compensation and benefits.

Also, a portion of the Company's workforce is unionized, mainly in its O&M activities, and unionized employees are working for various subcontractors. The Company's or its subcontractors' inability to reach satisfactory labour agreements, or a failure in a negotiation process with a union, could result in a strike, partial work stoppages, or other labour actions, potentially affecting the performance and execution of one or more projects.

JOINT VENTURE PARTNERS

SNC-Lavalin undertakes certain contracts with joint venture partners. The success of its joint ventures depends 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 wherein 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.

CONCESSIONAIRE RISK

When SNC-Lavalin holds an ownership interest in an infrastructure concession, it assumes a degree of risk associated with the financial performance of the ICI during the concession period. Erosion of the Company's investment value in such concessions is dependent on the ability of the concession to attain its revenue and cost projections as well as the ability to secure financing, both of which can be influenced by numerous factors, some partially beyond the concessionaire's control, such as, but not limited to, political or legislative changes, lifecycle maintenance, traffic demand, when applicable, operating revenues, collection success and cost management. While ICI often have measures in place to mitigate their own risks, the value of the investments in these infrastructure concessions can be impaired. However, 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, which mitigates the potential impact on its financial results and position.

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 and 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.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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, while a client may represent a material portion of trade and other receivables, and contracts in progress at any given time, 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 enhancing and standardizing 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 to improve 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 so they will have the best tools and software to better manage projects.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC AND POLITICAL CONDITIONS

A significant portion of SNC-Lavalin's revenues are attributable to projects in international markets, which exposes SNC-Lavalin to a number of risks such as uncertain economic and political conditions in the countries in which SNC-Lavalin does business, restrictions on the right to convert and repatriate currency, political risks, 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 over 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 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 O&M 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, among 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.

BUSINESS ACQUISITIONS

The integration of a business acquisition can be a challenging task that includes, but is not limited to, realization of synergies, cost management to avoid duplication, information systems integration, staff reorganization, establishment of controls, procedures, and policies, as well as cultural alignment. The inability to adequately integrate an acquired business in a timely manner might result in departures of qualified personnel, lost business opportunities and/or higher than expected integration costs. SNC-Lavalin manages this risk by selectively acquiring businesses with strong management and compatible culture and values, performing extensive due diligence procedures prior to completing any business acquisition and using its extensive experience from previous business integrations.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

REGULATORY AND LEGAL RISK

Given the nature of its operations and its global geographic presence, the Company is subject to various rules, regulations, laws, and other legal requirements, enforced by governments or other authorities. Non-compliance to these, and further regulatory developments, namely abrupt changes in foreign government policies and regulations, could have a significant impact on the Company's results. Although it is not possible to predict the changes that may arise, SNC-Lavalin ensures it has in-depth knowledge of the actual rules and regulations of the industries and countries in which it performs activities.

ANTI-BRIBERY LAWS

As part of the regulatory and legal environments in which it operates, the Company is subject to anti-bribery laws that prohibit improper payments directly or indirectly to government officials, authorities or persons defined in those anti bribery laws in order to obtain or retain business or other improper advantages in the conduct of business. Failure to comply with such laws by the Company, could impact the Company in various ways that include, but are not limited to, criminal, civil and administrative legal sanctions. The Company's controls, policies and practices are designed to ensure internal and external compliance with these laws.

LITIGATION AND LEGAL MATTERS

In the normal course of business, the Company is involved in various litigation, claims, and legal actions and proceedings, which arise from time to time, and that can implicate, although not exclusively, subcontractors, suppliers, employees and clients. Litigation and legal matters are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. SNC-Lavalin mitigates this risk by rigorous drafting and legal review of contracts and agreements, relying on the expertise of both internal and external legal resources, as well as maintaining proper insurance coverage.

15 Fourth Quarter Results

For the fourth quarter of 2010, net income increased to \$139.2 million (\$0.91 per share on a diluted basis), compared to \$98.7 million (\$0.65 per share on a diluted basis) for the comparable quarter in 2009. The increase mainly reflects higher contributions from Infrastructure & Environment, Mining & Metallurgy, and Other Industries, partially offset by a lower contribution from Chemicals & Petroleum. The increase also reflects a net income increase from ICI, which included a net gain after taxes of \$26.1 million from the disposals of Valener and Trencap in the fourth quarter of 2010.

Revenues for the fourth quarter of 2010 totalled \$1,895.4 million, compared to \$1,583.2 million for the fourth quarter of 2009, due to higher volumes in all categories, mainly in Packages.

The Company's backlog totalled \$13.0 billion as at December 31, 2010, compared to \$12.7 billion as at the end of the third quarter of 2010, mainly reflecting an increase in Packages, primarily in Power.

At the end of December 2010, the Company's cash and cash equivalents were \$1,288.2 million, compared to \$1,049.3 million at the end of September 2010, mainly reflecting cash generated from operating activities, primarily from net income, and proceeds from disposals of two ICI, Valener and Trencap.

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.snc-lavalin.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

SNC-Lavalin's CEO and the CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as well as the internal control over financial reporting.

17.1 DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- > Material information related to the Company is made known to them; and
- > Information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Based on an evaluation carried out to assess the effectiveness of the Company's disclosure controls and procedures, the CEO and the CFO have concluded that the disclosure controls and procedures were designed and operated effectively as of December 31, 2010.

17.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and the CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Based on an evaluation carried out to assess the effectiveness of the Company's internal control over financial reporting, the CEO and the CFO have concluded that the internal control over financial reporting were designed and operated effectively as of December 31, 2010, using the framework set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

17.3 CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim period and year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

18 Subsequent Event

On February 10, 2011, SNC-Lavalin announced that it will acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million. The offer was presented in response to a binding offer received by MEAP from a third party pursuant to a right of first refusal held by SNC-Lavalin and would bring SNC-Lavalin's ownership in AltaLink to 100%. The transaction is subject to customary closing conditions and regulatory approval, including approval from the Alberta Utilities Commission.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

19 Quarterly Information

YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS,
EXCEPT PER SHARE AMOUNTS)

| | 2010 | | | | | 2009 | | | | |
|---|------------------|-------------------|------------------|-------------------|---------|------------------|-------------------|------------------|-------------------|---------|
| | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | TOTAL | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | TOTAL |
| Revenues by activity: | | | | | | | | | | |
| Services | 457.3 | 501.5 | 491.8 | 601.3 | 2,051.9 | 559.8 | 568.8 | 535.7 | 557.1 | 2,221.4 |
| Packages | 447.4 | 537.8 | 666.1 | 757.7 | 2,409.0 | 566.8 | 575.5 | 472.5 | 587.4 | 2,202.2 |
| O&M | 383.2 | 255.9 | 308.2 | 383.2 | 1,330.5 | 409.4 | 241.3 | 311.9 | 335.3 | 1,297.9 |
| ICI | 98.3 | 130.9 | 141.2 | 153.2 | 523.6 | 89.7 | 84.8 | 102.3 | 103.4 | 380.2 |
| | 1,386.2 | 1,426.1 | 1,607.3 | 1,895.4 | 6,315.0 | 1,625.7 | 1,470.4 | 1,422.4 | 1,583.2 | 6,101.7 |
| Gross margin | 265.9 | 320.7 | 347.6 | 397.5 | 1,331.7 | 267.8 | 260.8 | 306.0 | 316.5 | 1,151.1 |
| Selling, general and administrative expenses | 133.1 | 147.6 | 133.9 | 171.0 | 585.6 | 137.0 | 131.7 | 128.8 | 148.1 | 545.6 |
| Interest and capital taxes: | | | | | | | | | | |
| From ICI | 29.8 | 33.9 | 43.7 | 44.4 | 151.8 | 26.3 | 21.1 | 32.6 | 32.2 | 112.2 |
| From other activities | 6.9 | 8.6 | 4.1 | 3.5 | 23.1 | 0.3 | 1.2 | 7.2 | 7.3 | 16.0 |
| | 36.7 | 42.5 | 47.8 | 47.9 | 174.9 | 26.6 | 22.3 | 39.8 | 39.5 | 128.2 |
| Income before income taxes and non-controlling interests | 96.1 | 130.6 | 165.9 | 178.6 | 571.2 | 104.2 | 106.8 | 137.4 | 128.9 | 477.3 |
| Income taxes: | | | | | | | | | | |
| From ICI | 1.0 | 7.0 | 4.5 | 2.6 | 15.1 | 1.6 | 5.6 | 1.1 | 0.1 | 8.4 |
| From other activities | 20.6 | 22.1 | 31.6 | 34.0 | 108.3 | 23.1 | 19.1 | 31.7 | 25.9 | 99.8 |
| | 21.6 | 29.1 | 36.1 | 36.6 | 123.4 | 24.7 | 24.7 | 32.8 | 26.0 | 108.2 |
| Non-controlling interests | 2.6 | 3.8 | 1.6 | 2.8 | 10.8 | 2.0 | 2.1 | 1.4 | 4.2 | 9.7 |
| Net income | 71.9 | 97.7 | 128.2 | 139.2 | 437.0 | 77.5 | 80.0 | 103.2 | 98.7 | 359.4 |
| Basic earnings per share \$(⁽¹⁾) | 0.48 | 0.65 | 0.85 | 0.92 | 2.89 | 0.51 | 0.53 | 0.68 | 0.65 | 2.38 |
| Diluted earnings per share \$(⁽¹⁾) | 0.47 | 0.64 | 0.84 | 0.91 | 2.87 | 0.51 | 0.53 | 0.68 | 0.65 | 2.36 |
| Dividend declared per share (\$) | 0.17 | 0.17 | 0.17 | 0.21 | 0.72 | 0.15 | 0.15 | 0.15 | 0.17 | 0.62 |
| Depreciation of property and equipment and amortization of other assets: | | | | | | | | | | |
| From ICI | 22.1 | 22.4 | 23.9 | 25.4 | 93.8 | 22.7 | 19.9 | 20.8 | 23.2 | 86.6 |
| From other activities | 10.2 | 9.7 | 9.5 | 10.2 | 39.6 | 10.0 | 10.9 | 11.6 | 11.0 | 43.5 |
| | 32.3 | 32.1 | 33.4 | 35.6 | 133.4 | 32.7 | 30.8 | 32.4 | 34.2 | 130.1 |
| SNC-Lavalin's net income (loss) from ICI: | | | | | | | | | | |
| From Highway 407 | 2.1 | 5.6 | 4.8 | 0.4 | 12.9 | 1.4 | 1.3 | 2.2 | 4.9 | 9.8 |
| From other ICI | 6.6 | 19.1 | 12.5 | 31.8 | 70.0 | 3.0 | (1.0) | 7.3 | 17.8 | 27.1 |
| SNC-Lavalin's net income excluding ICI | 63.2 | 73.0 | 110.9 | 107.0 | 354.1 | 73.1 | 79.7 | 93.7 | 76.0 | 322.5 |
| Net income | 71.9 | 97.7 | 128.2 | 139.2 | 437.0 | 77.5 | 80.0 | 103.2 | 98.7 | 359.4 |
| Revenue backlog (at end of quarter) | | | | | | | | | | |
| Services | 1,412.7 | 1,485.4 | 1,429.1 | 1,410.7 | | 1,520.4 | 1,612.1 | 1,570.2 | 1,464.9 | |
| Packages | 4,477.1 | 4,348.3 | 5,764.3 | 5,912.1 | | 3,154.5 | 3,809.9 | 3,495.2 | 4,197.5 | |
| O&M | 2,914.5 | 2,808.8 | 2,621.3 | 2,732.8 | | 1,893.5 | 2,004.9 | 2,587.0 | 2,596.1 | |
| ICI | 2,637.0 | 2,740.5 | 2,846.4 | 2,949.9 | | 2,412.3 | 2,487.3 | 2,543.7 | 2,578.7 | |
| | 11,441.3 | 11,383.0 | 12,661.1 | 13,005.5 | | 8,980.7 | 9,914.2 | 10,196.1 | 10,837.2 | |

(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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying audited consolidated financial statements ("financial statements") of SNC-Lavalin Group Inc. and all the information in this financial report are the responsibility of management and are approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate for the circumstances.

The significant accounting policies used are described in Note 2 to the financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the financial report and has ensured that it is consistent with that in the financial statements.

The Company's Chief Executive Officer and Chief Financial Officer are responsible for having established and maintaining disclosure controls and procedures and internal controls over financial reporting. They have evaluated disclosure controls and procedures and internal controls over financial reporting at the financial year end and have concluded that such controls and procedures are effective.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit Committee meets periodically with management, as well as with the internal and independent auditors, to discuss disclosure controls and procedures, internal controls over financial reporting, management information systems, accounting policies, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements, the Management's Discussion and Analysis and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditor, and reviews and approves the terms of its engagement as well as the fee, scope and timing of its services.

The financial statements have been audited, on behalf of the shareholders, by Deloitte & Touche LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards. The independent auditor has full and free access to the Audit Committee and may meet with or without the presence of management.



PIERRE DUHAIME
PRESIDENT AND
CHIEF EXECUTIVE OFFICER



GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
MARCH 4, 2011

INDEPENDENT AUDITOR'S REPORT

To the shareholders of SNC-Lavalin Group Inc.

We have audited the accompanying consolidated financial statements of SNC-Lavalin Group Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, of shareholders' equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SNC-Lavalin Group Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP⁽¹⁾

CHARTERED ACCOUNTANTS

MONTREAL, CANADA
MARCH 4, 2011

(1) Chartered accountant auditor permit No. 18190

CONSOLIDATED FINANCIAL STATEMENTS

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND SHARES)

| | NOTE | 2010 | 2009 |
|--|------|-------------------|--------------|
| Revenues by activity: | | | |
| Services | | \$ 2,051,894 | \$ 2,221,410 |
| Packages | | 2,409,000 | 2,202,162 |
| Operations and Maintenance ("O&M") | | 1,330,501 | 1,297,905 |
| Infrastructure Concession Investments ("ICI") | | 523,595 | 380,260 |
| | | 6,314,990 | 6,101,737 |
| Direct costs of activities | | 4,983,264 | 4,950,642 |
| Gross margin | | 1,331,726 | 1,151,095 |
| Selling, general and administrative expenses | | 585,629 | 545,604 |
| Interest and capital taxes | 17 | 174,903 | 128,238 |
| Income before income taxes and non-controlling interests | | 571,194 | 477,253 |
| Income taxes | 19 | 123,422 | 108,141 |
| Non-controlling interests | | 10,758 | 9,718 |
| Net income | | \$ 437,014 | \$ 359,394 |
| Earnings per share (\$) | | | |
| Basic | | \$ 2.89 | \$ 2.38 |
| Diluted | | \$ 2.87 | \$ 2.36 |
| Weighted average number of outstanding shares (in thousands) | 15E | | |
| Basic | | 151,020 | 151,042 |
| Diluted | | 152,221 | 151,992 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES)

| | SHARE CAPITAL | | CONTRIBUTED SURPLUS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 16) ⁽¹⁾ | RETAINED EARNINGS ⁽¹⁾ | TOTAL SHAREHOLDERS' EQUITY |
|---|------------------------------------|-------------------|------------------------|--|-------------------------------------|----------------------------------|
| | COMMON SHARES (IN THOUSANDS) | AMOUNT | | | | |
| Balance at beginning of year | 151,033 | \$ 397,735 | \$ 33,473 | \$ (23,306) | \$ 1,026,790 | \$ 1,434,692 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | — | 437,014 | 437,014 |
| Exchange differences on translating self-sustaining foreign operations | — | — | — | (21,077) | — | (21,077) |
| Net unrealized gain on available-for-sale financial assets ⁽²⁾ | — | — | — | 2,010 | — | 2,010 |
| Net unrealized loss on cash flow hedges ⁽³⁾ | — | — | — | (32,570) | — | (32,570) |
| Total comprehensive income | | | | | | 385,377 |
| Dividends paid to Company shareholders | — | — | — | — | (102,706) | (102,706) |
| Stock option compensation (Note 15B) | — | — | 14,661 | — | — | 14,661 |
| Shares issued under stock option plans (Note 15B) | 903 | 29,737 | (5,392) | — | — | 24,345 |
| Shares redeemed and cancelled (Note 15D) | (902) | (2,537) | — | — | (45,406) | (47,943) |
| Balance at end of year | 151,034 | \$ 424,935 | \$ 42,742 | \$ (74,943) | \$ 1,315,692 | \$ 1,708,426 |

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES)

| | SHARE CAPITAL | | CONTRIBUTED SURPLUS | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 16) ⁽¹⁾ | RETAINED EARNINGS ⁽¹⁾ | TOTAL SHAREHOLDERS' EQUITY |
|---|------------------------------------|-------------------|------------------------|--|-------------------------------------|----------------------------------|
| | COMMON SHARES (IN THOUSANDS) | AMOUNT | | | | |
| Balance at beginning of year | 151,033 | \$ 385,651 | \$ 24,247 | \$ (101,467) | \$ 780,722 | \$ 1,089,153 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | — | 359,394 | 359,394 |
| Exchange differences on translating self-sustaining foreign operations | — | — | — | (19,990) | — | (19,990) |
| Net unrealized gain on available-for-sale financial assets ⁽²⁾ | — | — | — | 11,756 | — | 11,756 |
| Net unrealized gain on cash flow hedges ⁽³⁾ | — | — | — | 86,395 | — | 86,395 |
| Total comprehensive income | | | | | | 437,555 |
| Dividends paid to Company shareholders | — | — | — | — | (90,637) | (90,637) |
| Stock option compensation (Note 15B) | — | — | 11,809 | — | — | 11,809 |
| Shares issued under stock option plans (Note 15B) | 539 | 13,503 | (2,583) | — | — | 10,920 |
| Shares redeemed and cancelled (Note 15D) | (539) | (1,419) | — | — | (22,689) | (24,108) |
| Balance at end of year | 151,033 | \$ 397,735 | \$ 33,473 | \$ (23,306) | \$ 1,026,790 | \$ 1,434,692 |

(1) Total of accumulated other comprehensive income (loss) and retained earnings was \$1,240.7 million at December 31, 2010 (December 31, 2009: \$1,003.5 million).

(2) Net of income tax expense of \$0.3 million in 2010 (2009: income tax benefit of \$0.3 million).

(3) Net of income tax benefit of \$11.2 million in 2010 (2009: income tax expense of \$25.1 million).

See accompanying notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

SNC-Lavalin Group Inc.

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | NOTE | 2010 | 2009 |
|--|--------|---------------------|---------------------|
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 7A | \$ 1,288,232 | \$ 1,218,225 |
| Restricted cash | 7B | 340,063 | 68,185 |
| Trade and other receivables | 8 | 1,673,082 | 1,480,478 |
| Contracts in progress | 2F | 624,547 | 479,637 |
| Contracts in progress from concession arrangements | 2G, 4E | 167,097 | 33,941 |
| Future income tax asset | 19 | 78,306 | 112,557 |
| Total current assets | | 4,171,327 | 3,393,023 |
| Property and equipment: | | | |
| From ICI | 4, 9 | 2,588,649 | 2,217,047 |
| From other activities | 9 | 117,510 | 113,952 |
| Goodwill | 10 | 543,642 | 520,862 |
| ICI accounted for by the equity or cost methods | 4 | 386,696 | 469,402 |
| Other non-current assets | 11 | 795,399 | 491,997 |
| Total assets | | \$ 8,603,223 | \$ 7,206,283 |
| Liabilities | | | |
| Current | | | |
| Trade and other payables | 12 | \$ 1,666,117 | \$ 1,702,034 |
| Downpayments on contracts | 2M | 551,862 | 397,329 |
| Deferred revenues | 2N | 700,279 | 505,531 |
| Current portion of long-term debt: | | | |
| Recourse | 13 | — | 104,874 |
| Non-recourse from ICI | 4, 13 | 6,651 | 139,183 |
| Total current liabilities | | 2,924,909 | 2,848,951 |
| Long-term debt: | | | |
| Recourse | 13 | 348,204 | 348,048 |
| Non-recourse from ICI | 4, 13 | 2,981,448 | 2,005,485 |
| Future income tax liability | 19 | 56,493 | 24,408 |
| Other non-current liabilities | 14 | 481,148 | 464,666 |
| Total liabilities | | 6,792,202 | 5,691,558 |
| Non-controlling interests | 1B | 102,595 | 80,033 |
| Shareholders' equity | | 1,708,426 | 1,434,692 |
| Total liabilities, non-controlling interests and shareholders' equity | | \$ 8,603,223 | \$ 7,206,283 |

See accompanying notes to consolidated financial statements.

Approved, on behalf of the Board of Directors, by:



PIERRE DUHAIME
DIRECTOR



DAVID GOLDMAN
DIRECTOR

CONSOLIDATED FINANCIAL STATEMENTS

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS)

| | NOTE | 2010 | 2009 |
|--|------|---------------------|---------------------|
| Operating activities | | | |
| Net income | | \$ 437,014 | \$ 359,394 |
| Items not involving a movement of cash: | | | |
| Depreciation of property and equipment and amortization of other non-current assets: | | | |
| From ICI | | 93,772 | 86,626 |
| From other activities | | 39,624 | 43,452 |
| Future income tax expense | 19 | 70,342 | 89,136 |
| Accrued interest expense and fair value adjustment on non-recourse long-term debt from ICI | | 8,866 | 20,287 |
| Stock option compensation | 15B | 14,661 | 11,809 |
| Income from ICI accounted for by the equity method | | (15,112) | (2,222) |
| Non-controlling interests | | 10,758 | 9,718 |
| Net gain on disposals of ICI, before taxes | 4B | (29,567) | – |
| Other | | 2,793 | 3,012 |
| Dividends and distributions received from ICI accounted for by the equity method | 4C | 1,581 | 24,836 |
| | | 634,732 | 646,048 |
| Net change in non-cash working capital items | 18 | (145,946) | (247,558) |
| | | 488,786 | 398,490 |
| Investing activities | | | |
| Acquisition of property and equipment: | | | |
| From ICI | | (418,651) | (274,085) |
| From other activities | | (46,032) | (32,445) |
| Payments for ICI | 4D | (89,094) | (130,924) |
| Increase in loan to Project Operator of Ambatovy project | 4D | (13,744) | (39,585) |
| Acquisition of businesses | 5 | (39,970) | (18,392) |
| Change in restricted cash position | | (577,471) | (4,098) |
| Proceeds from disposals of ICI | | 176,934 | – |
| Other | | (17,778) | (12,918) |
| | | (1,025,806) | (512,447) |
| Financing activities | | | |
| Repayment of long-term debt: | | | |
| Non-recourse from ICI | | (340,617) | (272,487) |
| Recourse from other activities | | (105,000) | – |
| Increase in long-term debt: | | | |
| Recourse | | – | 348,600 |
| Non-recourse from ICI | | 1,187,702 | 388,059 |
| Proceeds from exercise of stock options | | 24,345 | 10,920 |
| Redemption of shares | 15D | (47,943) | (24,108) |
| Dividends paid to Company shareholders | | (102,706) | (90,637) |
| Other | | 3,616 | (4,176) |
| | | 619,397 | 356,171 |
| Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations | | (12,370) | (12,225) |
| Net increase in cash and cash equivalents | | 70,007 | 229,989 |
| Cash and cash equivalents at beginning of year | | 1,218,225 | 988,236 |
| Cash and cash equivalents at end of year | | \$ 1,288,232 | \$ 1,218,225 |

Supplementary cash flow information

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See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1 Description of Business and Basis of Presentation

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. Reference 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.

A) DESCRIPTION OF BUSINESS

The Company provides engineering and construction, and operations and maintenance expertise through its network of offices located across Canada and in over 35 other countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments in infrastructure concessions that are complementary to its other activities.

The Company reports its revenues under **four categories of activity**, which are as follows:

- > **Services:** includes contracts in which SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management and commissioning.

Services revenues are derived primarily from cost-plus reimbursable contracts.

- > **Packages:** includes contracts in which SNC-Lavalin is responsible 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.

Packages revenues are derived primarily from fixed-price contracts.

- > **Operations and Maintenance ("O&M"):** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, military and construction camps, and ships.

O&M revenues are derived primarily from cost reimbursable with fixed-fee contracts, and from fixed-price contracts.

- > **Infrastructure Concession Investments ("ICI"):** regroups SNC-Lavalin's investments in infrastructure concessions in certain industry sectors, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

In these audited consolidated financial statements ("financial statements"), activities from Services, Packages, and O&M are collectively referred to as "from other activities" or "excluding ICI" to distinguish them from ICI.

B) BASIS OF PRESENTATION

The Company's financial statements are prepared in **Canadian dollars** and are in accordance with **Canadian generally accepted accounting principles ("GAAP")**.

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of the Company, its subsidiaries and its pro-rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. An entity that is fully consolidated but not wholly-owned by SNC-Lavalin results in non-controlling interests which are presented separately on the consolidated balance sheet, while the portion of net income attributable to such non-controlling interests is also shown separately on the consolidated statement of income. Investments in entities in which SNC-Lavalin has significant influence, but does not exercise control or joint control, are accounted for by the equity method. Investments in entities in which SNC-Lavalin does not have significant influence are accounted for by the cost method.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT APPLIED

The preparation of the Company's 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 these 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 Company's critical accounting estimates include, among others, estimates related to revenue recognition, mainly on the determination of appropriate anticipated costs and revenues on fixed-price contracts and on items such as claims and change orders, as well as estimates related to measurement of financial instruments, long-lived assets, goodwill impairment, pension plans, stock option compensation and income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of Significant Accounting Policies

A) FOREIGN CURRENCY TRANSLATION

Self-sustaining foreign operations are accounted for using the current rate method. Under this method, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and expenses are translated at the average rates for the year. Foreign exchange gains or losses on translation of SNC-Lavalin's net equity investment in these operations are included as part of shareholders' equity, under "Accumulated other comprehensive income (loss)", which has no impact on the consolidated statements of income until the Company reduces its net equity investments in these foreign operations.

Integrated foreign operations and foreign currency transactions of Canadian operations are accounted for by translating i) monetary items into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date; ii) non-monetary items using the historical exchange rate; and iii) revenues and expenses using the average monthly exchange rates for the year. Any resulting gains or losses are charged to income and, if hedged, offsetting losses or gains from the hedging items are also charged to income.

B) REVENUE RECOGNITION

REVENUES FROM SERVICES, PACKAGES, AND O&M ACTIVITIES

Revenues from **Services, Packages, and O&M** activities are recognized based on the nature of the contract, which are mainly as follows:

- > **Services and Packages: Cost-plus reimbursable contract** revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. **Fixed-price contract** 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.
- > **O&M:** The fixed-fee revenue portion from **cost reimbursable with fixed-fee contracts** is 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. Revenues 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.

For fixed-price contracts in all of the above-mentioned activities, the cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract are recognized in the period in which the revisions are identified. In the event that the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Anticipated revenues on contracts may include 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. Such additional revenues are limited to the costs related to the claims or unapproved change orders. Revenues from performance incentives are recognized when specific indicators have been met and collection is reasonably assured.

In all cases, the value of construction activities, material and equipment purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

REVENUES FROM ICI

Revenues from **ICI** regroup the following:

| ACCOUNTING METHOD FOR ICI | REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED STATEMENT OF INCOME |
|-----------------------------|--|
| Full consolidation | Revenues that are recognized and reported by the ICI |
| Proportionate consolidation | SNC-Lavalin's proportionate share of revenues that are recognized 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 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of Significant Accounting Policies (continued)

MULTIPLE REVENUE CATEGORY CONTRACTUAL ARRANGEMENTS

SNC-Lavalin may enter into contractual arrangements with a client to deliver activities on one project which span more than one of the following categories: Services or Packages, and/or O&M, and/or ICI. When entering into such arrangements, the Company assesses each activity based on its fair value or on the best estimate of selling price. Accordingly, when such arrangements exist on the same project, the value of each revenue category is based on the fair value of each related activity and recognized according to the respective revenue recognition methods described above.

C) FINANCIAL INSTRUMENTS

FINANCIAL ASSETS AND LIABILITIES

Financial instruments are contracts that give rise to a financial asset or a financial liability. Unless specifically covered by another accounting policy, the measurement of financial assets and financial liabilities is based on their classification, which, under Canadian GAAP, are one of the following for SNC-Lavalin:

| CATEGORY | APPLICABLE TO | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT | RECOGNITION OF INCOME/ EXPENSE AND GAINS/LOSSES ON REMEASUREMENT, IF ANY |
|-----------------------------|--|---|---|---|
| Held for trading | Financial assets and financial liabilities | Transaction price | Fair value | All recognized in net income |
| Available-for-sale | Financial assets | Transaction price including transaction costs | Cost for equity instruments that do not have a quoted market price in an active market, otherwise fair value derived from published bid price quotations for identical assets | Investment income, which includes interest, dividends or distributions, is recognized in net income. Gains/losses from revaluation are recognized in other comprehensive income until assets are disposed of or impaired, at which time the gains/losses are recognized in net income |
| Loans and receivables | Financial assets | Transaction price | Amortized cost using the effective interest method | All recognized in net income |
| Other financial liabilities | Financial liabilities | Transaction price including transaction costs | | |

DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGE ACCOUNTING

SNC-Lavalin enters into derivative financial instruments, namely i) forward 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. SNC-Lavalin formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking these hedge transactions, and regularly assesses the effectiveness of these hedges. As such, all the derivative financial instruments described above qualify for hedge accounting, are accounted for as cash flow hedges and are measured at fair value. The Company does not enter into derivative financial instruments for speculative purposes.

Derivative financial instruments designated as cash flow hedges are measured at fair value established by using valuation techniques based on observable market data and taking into account the credit quality of the instruments. The effective portion of the change in fair value of the derivative financial instruments is recorded in other comprehensive income, while the ineffective portion, if any, of such change is recognized in net income. Gains or losses from cash flow hedges included in accumulated other comprehensive income (loss) are reclassified to net income as an offset to the losses or gains recognized on the underlying hedged items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of Significant Accounting Policies (continued)

D) CASH EQUIVALENTS

Cash equivalents include short-term liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are designated as held for trading and accounted for at fair value.

E) RESTRICTED CASH

Restricted cash includes cash and cash equivalents, primarily from ICI that are fully consolidated or proportionately consolidated, for which the use is restricted for specific purposes under certain arrangements, mainly from financing agreements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Other non-current assets" (Note 11). Restricted cash is designated as held for trading and accounted for at fair value.

F) CONTRACTS IN PROGRESS

Contracts in progress consist of revenues recognized by the Company as work is performed, in accordance with the revenue recognition method applied, in excess of amounts billed to clients and are recorded at their estimated realizable value.

G) CONTRACTS IN PROGRESS FROM CONCESSION ARRANGEMENTS

Contracts in progress from concession arrangements relate to fully consolidated or proportionately consolidated concessions for which revenue is deemed to be realized with a third party. The contracts in progress from concession arrangements amount consists of revenues recognized by these concessions in excess of amounts billed to the client and are recorded at their estimated realizable value. The amount of contracts in progress from concession arrangements expected to be collected upon the completion of the construction of the concession's infrastructure is presented in current assets. Upon completion of the construction of the infrastructure, the non-current portion of the contracts in progress generated from concession arrangements is reclassified to a non-current receivable, to be recovered through the payments received from the client.

H) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets over their estimated useful lives.

FROM ICI

Property and equipment from ICI that are accounted for by the full or proportionate consolidation methods are primarily:

| ICI | CATEGORY | DEPRECIATION METHOD | DEPRECIATION PERIOD |
|--------------------------|---------------------------|--|--|
| AltaLink | Transmission assets | Straight-line | 30 to 40 years |
| Highway 407 | Toll highway | On a usage basis using actual Vehicle Kilometres Travelled (VKT) compared to projected VKT for each significant component part | Corresponds to a weighted average period of 90 years |
| | Toll equipment | Straight-line | 10 years |
| Okanagan Lake Concession | William R. Bennett Bridge | Straight-line | 27 years |

FROM OTHER ACTIVITIES

Property and equipment used for Services, Packages, and O&M activities are primarily:

| CATEGORY | DEPRECIATION METHOD | DEPRECIATION PERIOD |
|--------------------|---------------------|---------------------|
| Buildings | Straight-line | 25 to 40 years |
| Computer equipment | Straight-line | 2 years |
| Office furniture | Diminishing balance | 20% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of Significant Accounting Policies (continued)

I) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, mainly property and equipment from ICI, are tested for recoverability whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. An impairment loss, if any, is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value.

J) GOODWILL

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair value assigned to assets acquired and liabilities assumed. Goodwill is assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The assessment of impairment is based on fair values 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. The Company has designated October 31 as the date for the annual impairment test. As at October 31, 2010, date of the last impairment test, goodwill was not considered to be impaired.

K) CONCESSION RIGHT

Concession right relates to SNC-Lavalin's proportionate share of its investment in the Highway 407 concession. The concession right is included in "Other non-current assets" (Note 11) and amortized under the usage method based on projected revenues over 99 years to reflect the duration of the Highway 407 Concession and Ground Lease Agreement with the Province of Ontario.

L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally recognized conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are amortized when commercial production begins, using the straight-line method over a period not exceeding three years. An impairment loss, if any, is recognized in the period it occurs.

M) DOWNPAYMENTS ON CONTRACTS

Downpayments on contracts are contractually agreed advance payments made by clients that are deducted from future billings to such clients as work is performed.

N) DEFERRED REVENUES

Deferred revenues consist of amounts billed to clients in excess of revenue recognized according to the corresponding revenue recognition method. A given project may present an amount in either deferred revenues, as described above, or in contracts in progress, which consist of revenue recognized in excess of amounts billed to clients and therefore represents the opposite of deferred revenues, but not both.

O) ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations relate to SNC-Lavalin's investment in AltaLink. The fair value of liabilities for asset retirement obligations is recognized by AltaLink in the period they are incurred, with a corresponding increase to the carrying amount of the related asset. The amount of the liability is subject to re-measurement at each reporting period and is accreted over the estimated time period until settlement of the obligation.

P) 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.

Future income tax assets and liabilities are measured based upon substantively enacted tax rates that are expected to be in effect for the years in which the temporary differences are expected to reverse and the tax losses are projected to be used. In all cases, future income tax assets are recognized only to the extent that it is more likely than not that they will be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of Significant Accounting Policies (continued)

Q) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Defined benefit pension plans and other post-retirement benefits obligations are included in "Other non-current liabilities" (Note 14) and have been determined using the projected benefit method. In valuing the defined benefit pension cost as well as other post-retirement benefits, assumptions are based on management's best estimates, except for the discount rate where the Company uses the market interest rate at the measurement date based on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Current service costs are expensed in the year. In accordance with Canadian GAAP, past service costs and net actuarial gains or losses related to defined benefit pension plans and post-retirement benefit plans are amortized by individual pension plans using the straight-line method over periods ranging from one to five years, not exceeding the expected average remaining service period of active employees for each plan. For the purpose of calculating the expected return on plans' assets, such assets are valued at fair value.

R) SELLING EXPENSES

All costs related to contract proposals are expensed as incurred.

S) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the year by the basic and diluted weighted average number of shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or grant date, using the treasury stock method, with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

T) STOCK OPTION COMPENSATION

Stock option compensation is expensed using the fair value method. The estimated fair value of the options is determined using the Black-Scholes option pricing model. The Company determines the fair value of stock options on their grant date and charges this amount to income as a compensation cost over the shorter of the vesting period of the stock options or the term over which an employee becomes eligible to retire, with an equivalent increase to contributed surplus.

U) FUTURE CHANGES TO ACCOUNTING STANDARDS

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*.

As part of its transition to IFRS, the Company identified the expected impact of adopting IFRS on its financial statements. Section 13 of the Company's annual Management's Discussion and Analysis for the year ended December 31, 2010 provides further details of the impact of IFRS on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Segment Disclosures

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** 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 & 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.
 - > **Chemicals & Petroleum** includes projects in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas ("LNG") re-gasification terminals, coal to liquid gas, carbon capture, transportation and sequestration, pipelines, terminals and pump stations, refining and upgrading, bitumen production, biofuels, petrochemicals and chemicals.
 - > **Power** includes projects in hydro, nuclear and thermal power generation, energy from waste, green energy solutions, and transmission and distribution.
 - > **Mining & 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 fertilizer plants.
 - > **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.
- ii) **O&M** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, military and construction camps, and ships.
- iii) **ICI** regroups SNC-Lavalin's investments in infrastructure concessions, for which further details are provided in Note 4.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (Note 2) except for imputed interest calculated on non-cash working capital position. The Company evaluates segment performance, except for the ICI segment, using **operating income**, which consists of gross margin less directly related selling, general and administrative expenses, imputed interest and corporate selling, general and administrative expenses. Imputed interest is allocated monthly to these segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, while corporate selling, general and administrative expenses are allocated based on the gross margin of each of these segments. Corporate income taxes are not allocated to these segments.

The Company evaluates the ICI segment performance using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net income of its investments accounted for by the equity method; iii) SNC-Lavalin's proportionate share of the net income of its investments accounted for by the proportionate consolidation method; and iv) net income from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interests. In the case of ICI for which income taxes are payable by the investor, such as investments in limited partnerships in Canada, corporate income taxes are allocated based on SNC-Lavalin's tax rate for such investments. Accordingly, the **operating income from ICI** is reported net of income taxes and represents SNC-Lavalin's net income from its ICI.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Segment Disclosures (continued)

The following table presents revenues and operating income according to the Company's segments:

| YEAR ENDED DECEMBER 31 | 2010 | | 2009 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | REVENUES | OPERATING INCOME | REVENUES | OPERATING INCOME |
| Services and Packages | | | | |
| Infrastructure & Environment | \$ 1,796,730 | \$ 236,678 | \$ 1,602,629 | \$ 212,893 |
| Chemicals & Petroleum | 905,065 | 18,122 | 829,442 | 21,040 |
| Power ⁽¹⁾ | 760,228 | 116,306 | 921,851 | 88,008 |
| Mining & Metallurgy | 683,821 | 59,483 | 764,652 | 72,194 |
| Other Industries | 315,050 | 38,584 | 304,998 | 40,649 |
| O&M | 1,330,501 | 39,431 | 1,297,905 | 32,458 |
| ICI ⁽²⁾ | 523,595 | 82,882 | 380,260 | 36,884 |
| | \$ 6,314,990 | 591,486 | \$ 6,101,737 | 504,126 |
| Reversal of items included above: | | | | |
| Imputed interest benefit | | (22,969) | | (29,175) |
| Net interest expense and capital taxes from ICI | | 151,774 | | 112,257 |
| Income taxes from ICI | | 15,082 | | 8,400 |
| Non-controlling interests before income taxes | | 10,724 | | 9,883 |
| Income before interest, taxes and non-controlling interests | | 746,097 | | 605,491 |
| Interest and capital taxes (Note 17) | | 174,903 | | 128,238 |
| Income before income taxes and non-controlling interests | | 571,194 | | 477,253 |
| Income taxes (Note 19) | | 123,422 | | 108,141 |
| Non-controlling interests | | 10,758 | | 9,718 |
| Net income | | \$ 437,014 | | \$ 359,394 |

(1) On August 2, 2010, SNC-Lavalin announced that it had concluded an agreement with a third-party to dispose of certain technology solution assets that help manage and optimize the flow of electricity through power grids. The transaction generated a gain before taxes of \$22.8 million included in Packages activities, under "Power", resulting in a gain after taxes of \$19.6 million included in "Net income excluding ICI" in 2010. The disposal of these assets will not have a significant impact on the Company's future revenues.

(2) During the fourth quarter 2010, SNC-Lavalin sold all of its interests in Valener Inc. and Trencap Limited Partnership (see Note 4B). The transactions resulted in a net gain after taxes of \$26.1 million included in "ICI" in 2010. The dispositions of these ICI will not have a significant impact on the Company's future revenues.

The Company also discloses in the table below under "Supplementary Information" its 16.77% proportionate share of Highway 407's net income, as well as its net income from other ICI, as this information is useful in assessing the value of the Company's share price.

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|-----------------------------------|-------------------|-------------------|
| Supplementary information: | | |
| SNC-Lavalin's net income from ICI | | |
| From Highway 407 | \$ 12,908 | \$ 9,760 |
| From other ICI | 69,974 | 27,124 |
| Net income excluding ICI | 354,132 | 322,510 |
| Net income | \$ 437,014 | \$ 359,394 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Segment Disclosures (continued)

As previously stated, the segment performance, except for the ICI segment, takes into account imputed interest calculated on non-cash working capital position. As such, the table below reconciles the Company's consolidated total assets to the sum of i) total assets from ICI; ii) the non-cash working capital of segments from other activities; and iii) other assets from other activities:

| AT DECEMBER 31 | 2010 | 2009 |
|---|---------------------|---------------------|
| Total assets from ICI (Note 4): | | |
| ICI accounted for by the full or proportionate consolidation methods | \$ 4,138,157 | \$ 3,017,126 |
| ICI accounted for by the equity method | 207,468 | 194,559 |
| ICI accounted for by the cost method | 179,228 | 274,843 |
| Total assets from ICI | 4,524,853 | 3,486,528 |
| Segment non-cash working capital (deficit) from other activities | | |
| Services and Packages | | |
| Infrastructure & Environment | (6,079) | (64,353) |
| Chemicals & Petroleum | 114,065 | (81,337) |
| Power | (204,390) | (34,591) |
| Mining & Metallurgy | 22,756 | 23,383 |
| Other Industries | (85,728) | (75,187) |
| O&M | (64,250) | (92,659) |
| Total segment non-cash working capital (deficit) from other activities | (223,626) | (324,744) |
| Reversal of current liabilities included in the non-cash working capital above | 2,540,161 | 2,335,017 |
| Current assets from other activities, excluding cash and cash equivalents and restricted cash | 2,316,535 | 2,010,273 |
| Other assets from other activities: | | |
| Cash and cash equivalents and restricted cash from other activities | 1,249,463 | 1,196,360 |
| Property and equipment, goodwill and other non-current assets from other activities | 512,372 | 513,122 |
| Total assets from other activities | 4,078,370 | 3,719,755 |
| Total assets | \$ 8,603,223 | \$ 7,206,283 |

The following table presents property, equipment and goodwill inside and outside Canada reflected on the Company's consolidated balance sheet:

| AT DECEMBER 31 | 2010 | 2009 |
|---|--------------|--------------|
| Property, equipment and goodwill | | |
| Canada: | | |
| From ICI | \$ 2,792,435 | \$ 2,420,833 |
| From other activities | 200,426 | 199,661 |
| | 2,992,861 | 2,620,494 |
| Outside Canada: | | |
| From ICI | — | — |
| From other activities | 256,940 | 231,367 |
| | 256,940 | 231,367 |
| | \$ 3,249,801 | \$ 2,851,861 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 Segment Disclosures (continued)

The following table presents revenues by geographic area according to project location:

| YEAR ENDED DECEMBER 31 | 2010 | | | |
|------------------------------------|--------------------------|---------------------|-------------------|---------------------|
| | SERVICES AND PACKAGES | O&M | ICI | TOTAL |
| Revenues by geographic area | | | | |
| Canada | \$ 1,706,326 | \$ 1,179,772 | \$ 497,162 | \$ 3,383,260 |
| Africa ⁽¹⁾ | 1,140,122 | 76,777 | 25,510 | 1,242,409 |
| Europe | 442,972 | 24,911 | 2,202 | 470,085 |
| Middle East | 396,616 | 2,906 | – | 399,522 |
| Latin America and Caribbean | 343,069 | 23,644 | – | 366,713 |
| United States | 221,243 | – | (1,279) | 219,964 |
| Asia | 159,324 | 22,491 | – | 181,815 |
| Other Regions | 51,222 | – | – | 51,222 |
| | \$ 4,460,894 | \$ 1,330,501 | \$ 523,595 | \$ 6,314,990 |

| YEAR ENDED DECEMBER 31 | 2009 | | | |
|------------------------------------|--------------------------|---------------------|-------------------|---------------------|
| | SERVICES AND PACKAGES | O&M | ICI | TOTAL |
| Revenues by geographic area | | | | |
| Canada | \$ 1,642,305 | \$ 1,196,042 | \$ 380,324 | \$ 3,218,671 |
| Africa ⁽¹⁾ | 832,034 | 56,716 | (1,190) | 887,560 |
| Europe | 547,531 | 17,883 | 2,071 | 567,485 |
| Middle East | 590,483 | 796 | – | 591,279 |
| Latin America and Caribbean | 289,247 | – | – | 289,247 |
| United States | 272,962 | – | (945) | 272,017 |
| Asia | 191,304 | 21,010 | – | 212,314 |
| Other Regions | 57,706 | 5,458 | – | 63,164 |
| | \$ 4,423,572 | \$ 1,297,905 | \$ 380,260 | \$ 6,101,737 |

(1) Revenues for the year ended December 31, 2010 include \$418.2 million of revenues from Libya (2009: \$278.8 million). Due to recent events in Libya, the Company expects to have lower revenues in 2011 from this country compared to 2010.

4 Infrastructure Concession Investments ("ICI")

SNC-Lavalin makes investments in infrastructure concessions in certain industry sectors, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water. In accordance with Canadian GAAP, SNC-Lavalin'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.

Unlike Services, Packages and O&M activities, ICI are often capital intensive. This is 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, the main impact on the Company's balance sheet when fully consolidating or proportionately consolidating such investments is on property and equipment, contracts in progress from concession arrangements and non-recourse long-term debt accounts. Furthermore, most of the Company's depreciation, amortization and interest expense is from the full consolidation or proportionate consolidation of these investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

In order to provide the reader of the financial statements with a better understanding of the financial position and results of operations of its ICI, the Company presents certain distinct financial information related specifically to its ICI throughout its financial statements, as well as certain additional information below.

A) ADDITIONS OF ICI

I) ADDITIONS IN 2010

CHINOOK ROADS PARTNERSHIP

At the end of March 2010, Chinook Roads Partnership ("Chinook"), an entity accounted for by the proportionate consolidation method in which SNC-Lavalin holds a 50% equity interest, entered into a contract with Alberta Transportation to design, build, operate, maintain and partially finance the southeast section of Calgary's Stoney Trail Ring Road, in Canada.

Under this public-private partnership contract, Chinook will design and build 25 kilometres of a six-lane road including nine interchanges, one road and two rail flyovers and 27 bridge structures. Once completed, Chinook will operate and maintain the road and other existing infrastructure until 2043.

Upon signing the contract with Alberta Transportation, Chinook subcontracted the engineering, procurement and construction ("EPC") and the O&M work to joint ventures 50% owned by SNC-Lavalin.

Chinook's project financing for which SNC-Lavalin's proportionate share represents \$74.1 million as at December 31, 2010, is presented as non-recourse long-term debt from ICI. SNC-Lavalin and its partner committed to invest a total of \$32.3 million in equity and subordinated debt in Chinook.

As at December 31, 2010, the Company's share of the contracts in progress from concession arrangements relating to this project amounted to \$29.5 million.

MCGILL UNIVERSITY HEALTH CENTRE PROJECT

In July 2010, SNC-Lavalin, its partner and the McGill University Health Centre ("MUHC") announced the financial closure and official signing of a partnership agreement between MUHC and Groupe immobilier santé McGill ("MIHG"), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, MIHG will design, build, finance and maintain MUHC's new Glen Campus, comprised mainly of two hospitals, a cancer centre and a research institute, located in Montreal, Canada.

Also in July 2010, MIHG awarded to SNC-Lavalin an EPC contract for approximately \$1.6 billion to design and build the facilities. Construction is underway and is expected to be completed in the autumn of 2014. Once completed, MIHG will maintain the campus for the next 30 years.

MIHG raised \$764 million through the sale of Senior Secured Bonds, while SNC-Lavalin and its partner committed to invest, directly or indirectly, an amount of \$191.8 million in equity and subordinated debt.

SNC-Lavalin's investment in MIHG is accounted for by the proportionate consolidation method. As at December 31, 2010, the Company's share of the contracts in progress from concession arrangements relating to this project amounted to \$55.4 million.

RAYALSEEMA EXPRESSWAY PRIVATE LIMITED

The Company acquired in 2010 a 36.9% equity interest in Rayalseema Expressway Private Limited ("REPL"), an entity that had previously entered into a contract with the National Highways Authority of India to build and operate the 189-kilometre Cuddapah-Kurnool section of National Highway 18, in the state of Andhra Pradesh, India. Under this 30-year public-private partnership contract, REPL will expand the existing two-lane stretch to four lanes and operate the section of the toll highway. SNC-Lavalin committed to invest an amount of \$36.7 million in equity and subordinated debt, of which \$24.9 million was paid prior to December 31, 2010. SNC-Lavalin's investment in REPL is accounted for by the equity method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

II) ADDITIONS IN 2009

NEW ACOUSTIC CONCERT HALL OF MONTREAL

In May 2009, SNC-Lavalin announced that Ovation Real Estate Group (Quebec) Inc. ("Ovation"), its wholly-owned subsidiary, had entered into a 29-year agreement with the Government of Quebec (the "Client") to design, build, operate, maintain and finance a new acoustic concert hall, located in downtown Montreal, Canada.

Also in May 2009, Ovation subcontracted the EPC and O&M work to subsidiaries wholly-owned by SNC-Lavalin. While SNC-Lavalin will finance the costs related to this project with its cash and cash equivalents, it expects to refinance these costs with non-recourse long-term debt in the future.

As at December 31, 2010, the contracts in progress from concession arrangements relating to this project amounted to approximately \$82.2 million (December 31, 2009: \$33.9 million).

B) DISPOSALS OF ICI

I) DISPOSALS IN 2010

VALENER INC. (PREVIOUSLY GAZ MÉTRO LIMITED PARTERSHIP)

In October 2010, SNC-Lavalin announced that it had entered into an agreement with a group of financial institutions to sell all of its approximately 10.07% equity interest in Valener Inc. (TSX:VNR) ("Valener") consisting of 3,516,453 common shares of Valener, on an underwritten block trade basis, for net proceeds of \$58.7 million, resulting in a loss after taxes of \$1.3 million. The transaction was closed in November 2010.

TRENCAP LIMITED PARTNERSHIP

In November 2010, SNC-Lavalin announced that it had entered into an agreement with Caisse de dépôt et placement du Québec to sell all of its approximately 11.1% interest in Trenchap Limited Partnership. The transaction generated net proceeds of \$118.2 million and resulted in a gain after taxes of \$27.4 million.

C) NET BOOK VALUE AND DESCRIPTIONS OF ICI

The net book value of the Company's investments in infrastructure concessions was as follows:

| AT DECEMBER 31 | 2010 | 2009 |
|---|------------|------------|
| Net book value of ICI accounted for by the full or proportionate consolidation methods | \$ 376,835 | \$ 250,864 |
| Net book value of ICI accounted for by the equity or cost methods: | | |
| Net book value of ICI accounted for by the equity method | 207,468 | 194,559 |
| Net book value of ICI accounted for by the cost method | 179,228 | 274,843 |
| Net book value of ICI accounted for by the equity or cost methods as shown on balance sheet | 386,696 | 469,402 |
| Net book value of ICI | \$ 763,531 | \$ 720,266 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

I) ICI ACCOUNTED FOR BY THE FULL OR PROPORTIONATE CONSOLIDATION METHODS

SNC-Lavalin's main ICI accounted for by the full or proportionate consolidation methods are detailed below:

| NAME OF ICI | PRINCIPAL ACTIVITY | MATURITY OF CONCESSION AGREEMENT | LOCATION | OWNERSHIP INTEREST | |
|---|--|--|----------|--------------------|--------|
| | | | | 2010 | 2009 |
| 407 International Inc. ("Highway 407") | 108-km toll highway under a 99-year concession agreement | 2098 | Canada | 16.77% | 16.77% |
| AltaLink L.P. ("AltaLink") | Rate-regulated transmission lines and substations | N/A | Canada | 76.92% | 76.92% |
| Chinook Roads Partnership ("Chinook") | 25-km ring-road highway under a 33-year concession agreement (under construction) | 2043 | Canada | 50.0% | – |
| Ovation Real Estate Group (Quebec) Inc. ("Ovation") | 2,100-seat acoustic concert hall under 29-year concession agreement (under construction) | 2038 | Canada | 100.0% | 100.0% |
| Groupe Immobilier Santé McGill ("MIHG") | McGill University Health Centre – Glen Campus under a 34-year concession agreement (under construction) | 2044 | Canada | 60.0% | – |
| Okanagan Lake Concession L.P. ("Okanagan Lake Concession") | 1.1-km William R. Bennett Bridge under a 30-year concession agreement | 2035 | Canada | 100.0% | 100.0% |
| TC Dôme S.A.S. | 5.3-km electric cog railway (under construction) | 2043 | France | 51.0% | 51.0% |

N/A: not applicable

The Company's consolidated statement of income includes the following revenues and net income from these investments:

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|---|-------------------|------------|
| Revenues and net income included in the Company's consolidated statement of income: | | |
| Revenues | \$ 471,792 | \$ 368,914 |
| Net income from ICI accounted for by the full consolidation method, less the portion attributable to non-controlling interests, and from ICI accounted for by the proportionate consolidation method | \$ 33,355 | \$ 27,473 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

The Company's consolidated balance sheet includes the following assets, liabilities and non-controlling interests from these investments:

| AT DECEMBER 31 | 2010 | 2009 |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 69,904 | \$ 42,434 |
| Restricted cash | 308,928 | 47,616 |
| Trade and other receivables and current future income tax asset | 59,400 | 73,026 |
| Contracts in progress from concession arrangements | 167,097 | 33,941 |
| Property and equipment | 2,588,649 | 2,217,047 |
| Goodwill | 203,786 | 203,786 |
| Other non-current assets | 740,393 | 399,276 |
| Total assets | 4,138,157 | 3,017,126 |
| Trade and other payables | 279,500 | 166,182 |
| Current portion of non-recourse long-term debt | 6,651 | 139,183 |
| Non-recourse long-term debt | 2,981,448 | 2,005,485 |
| Other non-current liabilities and non-current future income tax liability | 395,610 | 378,560 |
| Non-controlling interests | 98,113 | 76,852 |
| Total liabilities and non-controlling interests | 3,761,322 | 2,766,262 |
| Net book value of ICI accounted for by the full or proportionate consolidation methods | \$ 376,835 | \$ 250,864 |

II) ICI ACCOUNTED FOR BY THE EQUITY METHOD

SNC-Lavalin's main ICI accounted for by the equity method are listed below:

| | | | | OWNERSHIP INTEREST | |
|--|--|----------------------------------|---------------|--------------------|-------|
| NAME OF ICI | PRINCIPAL ACTIVITY | MATURITY OF CONCESSION AGREEMENT | LOCATION | 2010 | 2009 |
| Astoria Project Partners LLC | 500 MW natural gas power plant | N/A | United States | 21.0% | 21.0% |
| Astoria Project Partners II LLC ("Astoria II") | 550 MW natural gas power plant (under construction) | N/A | United States | 18.5% | 18.5% |
| InTransit BC L.P. | 19-km rapid transit line | 2040 | Canada | 33.3% | 33.3% |
| Malta International Airport p.l.c. | 65-year concession agreement to operate the Malta airport | 2067 | Malta | 15.5% | 15.5% |
| Myah Tipaza S.p.A. | Seawater desalination plant to supply treated water under a 25-year take-or-pay agreement (under construction) | N/A | Algeria | 25.5% | 25.5% |
| Rayalseema Expressway Private Limited ("REPL") | 30-year concession agreement to build and operate a 189-km toll highway section (under construction) | 2040 | India | 36.9% | – |
| Société d'exploitation de Vatry-Europort | 20-year concession agreement to operate the Vatry airport | 2020 | France | 51.1% | 51.1% |
| Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH") | 1,227 MW gas-fired thermal power plant supplying electricity under a 20-year take-or-pay agreement | N/A | Algeria | 26.0% | 26.0% |

N/A: not applicable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

The summary table below provides supplementary information by presenting the Company's share in net income, share in net assets, and dividends and distributions from ICI accounted for by the equity method:

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|---|------------|------------|
| Share of net income of ICI accounted for by the equity method, as included in the Company's consolidated statements of income reflecting its share, net of income taxes and allocated taxes | \$ 16,278 | \$ 287 |
| Share of net assets of ICI accounted for by the equity method, as included in the Company's consolidated balance sheets reflecting its share | \$ 207,468 | \$ 194,559 |
| Dividends and distributions from ICI accounted for by the equity method included in the Company's financial statements | \$ 1,581 | \$ 24,836 |

III) ICI ACCOUNTED FOR BY THE COST METHOD

SNC-Lavalin's main ICI accounted for by the cost method are listed below and had the following net book value:

| NAME OF ICI | PRINCIPAL ACTIVITY | MATURITY OF CONCESSION AGREEMENT | LOCATION | OWNERSHIP INTEREST | |
|--------------------------------------|---|----------------------------------|------------|--------------------|-------|
| | | | | 2010 | 2009 |
| Ambatovy Nickel Project ("Ambatovy") | Open-pit mine and hydro-metallurgical processing plant (under construction) | N/A | Madagascar | 5.0% | 5.0% |
| Valener Inc. ⁽¹⁾ | Publicly traded entity involved mainly in natural gas distribution | N/A | Canada | – | 2.42% |
| Trencap Limited Partnership | Holds an indirect interest in Gaz Métro | N/A | Canada | – | 11.1% |

(1) Previously Gaz Métro Limited Partnership ("Gaz Métro"). SNC-Lavalin's ownership interest of 2.42% represents its ownership before the corporate reorganization of Gaz Métro which created Valener Inc. in October 2010. After such corporate reorganization, SNC-Lavalin's ownership interest resulted in 10.07% participation.

N/A: not applicable

| AT DECEMBER 31 | 2010 | 2009 |
|--|------------|------------|
| Net book value of ICI accounted for by the cost method | \$ 179,228 | \$ 274,843 |
| Dividends and distributions from ICI accounted for by the cost method included in the Company's consolidated statements of income | \$ 7,124 | \$ 9,124 |
| Net gain on disposals of ICI accounted for by the cost method included in the Company's consolidated statements of income, net of income taxes | \$ 26,125 | \$ – |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Infrastructure Concession Investments ("ICI") (continued)

D) PAYMENTS AND REMAINING COMMITMENTS TO INVEST IN ICI

When making investments in infrastructure concessions, SNC-Lavalin may not be required to make its contribution immediately but instead may commit to make its contribution over time.

The following table summarizes SNC-Lavalin's payments and outstanding commitments to invest in ICI accounted for by the equity or cost methods as at December 31, 2010 and 2009:

| AT DECEMBER 31 | 2010 | 2009 |
|--|------------------|-------------------|
| Commitments to invest in ICI at beginning of year | \$ 101,506 | \$ 106,649 |
| Increase in commitments to invest in ICI | 73,186 | 125,781 |
| Payments for ICI during the year: | | |
| Astoria II | (33,310) | – |
| REPL | (24,863) | – |
| Ambatovy | (30,921) | (61,370) |
| InTransit BC L.P. | – | (40,071) |
| Myah Tipaza S.p.A. | – | (5,951) |
| Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH") | – | (23,532) |
| Total payments for ICI during the year | (89,094) | (130,924) |
| Commitments to invest in ICI at end of year | \$ 85,598 | \$ 101,506 |

At December 31, 2010 and 2009, the commitments to invest in ICI were related to contributions for Ambatovy, Astoria II and REPL and were presented as "Trade and other payables" since they are either expected to be paid in the following year or are callable on demand.

In addition to the commitments presented above, SNC-Lavalin provides a US\$105 million financial guarantee (December 31, 2009: US\$105 million) and a US\$70 million cross-guarantee (December 31, 2009: US\$70 million) to the Ambatovy project's lenders. The amount of US\$175 million represents the maximum that could be paid if both the financial guarantee and cross-guarantee were called upon once the project debt financing is fully drawn. Both guarantees will remain outstanding until certain legal, financial and operating conditions are satisfied upon completion of construction and commissioning of the project.

In addition, SNC-Lavalin is committed to finance a portion of the equity contribution of one of Ambatovy's shareholders, which is also the project operator ("Project Operator"), for up to US\$57.3 million (CA\$57.4 million) (December 31, 2009: US\$57.3 million [CA\$60.3 million]). At December 31, 2010, SNC-Lavalin had loaned US\$53.5 million (CA\$53.5 million) (December 31, 2009: US\$40.0 million [CA\$42.1 million]) presented in "Other non-current assets", while the remaining US\$3.8 million of funding will be recorded on SNC-Lavalin's balance sheet once the loan is made.

E) CONTRACTS IN PROGRESS FROM CONCESSION ARRANGEMENTS

Contracts in progress from concession arrangements are detailed as follows:

| AT DECEMBER 31 | 2010 | 2009 |
|----------------|-------------------|------------------|
| Chinook | \$ 29,489 | \$ – |
| MIHG | 55,359 | – |
| Ovation | 82,249 | 33,941 |
| | \$ 167,097 | \$ 33,941 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Acquisition of Businesses

A) BUSINESSES ACQUIRED

In 2010, SNC-Lavalin completed the following business acquisitions, which added approximately 1,200 people to its workforce:

In April 2010, a South African firm, B E Morgan Associates (Proprietary) Limited, specializing in engineering and construction of various industrial facilities and that also provides project management and contracting services primarily to various South African corporations, employing approximately 50 people.

In December 2010, Itansuca Proyectos de Ingenieria S.A., an engineering firm in the chemicals and petroleum sector based in Bogota, Colombia, that employs approximately 1,000 people. Since 1989, Itansuca Proyectos de Ingenieria S.A. has been offering consulting, electromechanical installation, design and supervision services from its Bogota head office and 21 other locations around the country to clients in Colombia and in a number of other countries around the world.

During 2010, five engineering firms in France, namely EBI Conseil, Groupe Teco, Pénicaud Architecture Environnement EURL, ETF Ingénierie—Société d'ingénieurs conseils and Groupe Setor, that employ a total of approximately 160 people.

During 2010, two engineering firms in Montreal, Canada, namely Nucleonex Inc. and Hydrosult, that employ a total of approximately 20 people.

In 2009, SNC-Lavalin completed the following business acquisitions, which added approximately 1,200 people to its workforce:

In January 2009, BV2 BVBA, a Belgian firm specialized in pharmaceutical and biotechnology engineering employing approximately 60 people.

In April 2009, 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.

In April 2009, two French firms, Antis Conseils and 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.

In May 2009, Spectrol Energy Services Inc., a Canadian engineering and technical services firm in St. John's, Newfoundland and Labrador, employing approximately 75 people with expertise that includes inspection, quality, asset integrity, maintenance and reliability engineering for the oil and gas industry and other natural resource sectors.

In December 2009, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 Acquisition of Businesses (continued)

B) COST OF ACQUISITIONS AND ALLOCATION OF PURCHASE PRICE

These acquisitions have been accounted for using the purchase method and consolidated from the effective date of acquisition.

The purchase price for these business acquisitions, subject to final adjustments, was \$40.8 million (2009: \$38.2 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of \$9.9 million (2009: \$5.9 million). The allocation of the purchase price to acquire these businesses and the total cash consideration paid were as follows:

| | 2010 | 2009 |
|--|-----------|-----------|
| Cash and cash equivalents | \$ 9,896 | \$ 5,917 |
| Trade and other receivables | 27,230 | 17,891 |
| Contracts in progress | 171 | 2,204 |
| Property and equipment | 1,767 | 5,702 |
| Other non-current assets | 1,188 | 496 |
| Trade and other payables | (16,389) | (14,370) |
| Other liabilities assumed | (3,402) | (1,793) |
| Net identifiable assets of businesses acquired | 20,461 | 16,047 |
| Goodwill | 30,190 | 28,078 |
| Total purchase price | 50,651 | 44,125 |
| Less: Cash and cash equivalents at acquisition | 9,896 | 5,917 |
| Total purchase price, net of cash and cash equivalents at acquisition | 40,755 | 38,208 |
| Less: Balance of purchase price payable in future years | 20,003 | 22,078 |
| Cash consideration paid for businesses acquired in the year | 20,752 | 16,130 |
| Plus: Balance of purchase price from previous year paid in current year | 19,218 | 2,262 |
| Cash consideration paid for acquisition of businesses presented on consolidated statements of cash flows | \$ 39,970 | \$ 18,392 |

C) IMPACT OF BUSINESS ACQUISITIONS ON THE RESULTS OF SNC-LAVALIN PROVIDED AS SUPPLEMENTARY INFORMATION

SNC-Lavalin's consolidated revenues and net income in 2010 included approximately \$19.5 million and \$1.8 million, respectively, from business acquisitions completed in 2010 (2009: \$29.3 million of revenues and \$0.9 million of net income from business acquisitions completed in 2009). Had these 2010 business acquisitions all occurred on January 1, 2010, SNC-Lavalin's pro-forma consolidated revenues and net income would have been approximately \$6,383.5 million and \$443.9 million, respectively (2009: pro-forma revenues of \$6,165.2 million and net income of \$362.0 million assuming all transactions in 2009 had been completed on January 1, 2009). These unaudited pro-forma figures have been estimated based on the results of the acquired businesses prior to being purchased by SNC-Lavalin, adjusted to reflect the Company's accounting policies when significant differences existed, and are provided as supplementary information only and should not be viewed as indicative of SNC-Lavalin's future results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 Joint Venture Activities

SNC-Lavalin carries out part of its activities through joint ventures. SNC-Lavalin's pro rata share of the assets, liabilities, net income and cash flows of such joint ventures is summarized below:

| AT DECEMBER 31 | 2010 | 2009 |
|--|---------------------|---------------------|
| Balance sheets | | |
| Cash and cash equivalents | \$ 184,541 | \$ 136,134 |
| Other current assets | 554,111 | 276,513 |
| Property and equipment: | | |
| From ICI | 380,800 | 384,748 |
| From other activities | 280 | 332 |
| Other non-current assets | 630,389 | 330,284 |
| | \$ 1,750,121 | \$ 1,128,011 |
| Current liabilities | \$ 389,821 | \$ 417,082 |
| Non-recourse long-term debt from ICI | 1,415,957 | 699,477 |
| Non-current liabilities from ICI | 2,849 | – |
| Pro rata share of net assets (net liabilities) of joint ventures | (58,506) | 11,452 |
| | \$ 1,750,121 | \$ 1,128,011 |

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|--|------------|-------------|
| Statements of income | | |
| Revenues | \$ 717,502 | \$ 649,357 |
| Expenses | 666,770 | 619,786 |
| Pro rata share of net income of joint ventures | \$ 50,732 | \$ 29,571 |
| Cash and cash equivalents generated by (used in): | | |
| Operating activities | \$ 167,886 | \$ 44,359 |
| Investing activities | (583,170) | (14,447) |
| Financing activities | 465,942 | (67,333) |
| Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations | (2,251) | (2,938) |
| Pro rata share of changes in cash and cash equivalents of joint ventures | \$ 48,407 | \$ (40,359) |

7 Cash and Cash Equivalents and Restricted Cash

A) CASH AND CASH EQUIVALENTS

| AT DECEMBER 31 | 2010 | 2009 |
|--|---------------------|---------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 1,288,232 | \$ 1,217,605 |
| Government treasury bills and treasury notes | – | 620 |
| Cash and cash equivalents | \$ 1,288,232 | \$ 1,218,225 |

B) RESTRICTED CASH

| AT DECEMBER 31 | 2010 | 2009 |
|--|-------------------|-------------------|
| Bank balances, bank term deposits and bankers' acceptances | \$ 634,946 | \$ 48,219 |
| Government treasury bills and treasury notes | 49,844 | 58,975 |
| Restricted cash—current and non-current | \$ 684,790 | \$ 107,194 |
| Presented on the balance sheet as follows: | | |
| Current assets—"Restricted cash" | \$ 340,063 | \$ 68,185 |
| Non-current assets—included in "Other non-current assets" (Note 11) | \$ 344,727 | \$ 39,009 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Trade and Other Receivables

A) DETAILS OF TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried on the balance sheet net of allowance for doubtful accounts, which relates exclusively to trade receivables. Trade and other receivables are detailed in the following table:

| AT DECEMBER 31 | 2010 | 2009 |
|--|---------------------|--------------|
| Trade receivables, net of allowance for doubtful accounts | \$ 1,296,006 | \$ 1,065,546 |
| Other receivables: | | |
| Retentions on client contracts | 61,720 | 71,362 |
| Income taxes and other taxes receivable | 95,402 | 108,761 |
| Performance Share Unit, Deferred Share Unit and Restricted Share Unit arrangement asset (Note 15C) | 34,544 | 47,766 |
| Prepaid expenses | 26,197 | 24,236 |
| Derivative financial instruments used for cash flow hedges—favourable fair value | 37,793 | 26,448 |
| Other | 121,420 | 136,359 |
| Trade and other receivables | \$ 1,673,082 | \$ 1,480,478 |

B) TRADE RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following table presents the Company's trade receivables that are within normal terms of payment separately from those that are past due, with reconciliation to the net carrying amount:

| AT DECEMBER 31 | 2010 | 2009 |
|---|---------------------|--------------|
| Trade receivables: | | |
| Within normal terms of payment | \$ 981,918 | \$ 846,419 |
| Past due | 419,836 | 305,237 |
| Total trade receivables | 1,401,754 | 1,151,656 |
| Allowance for doubtful accounts | (105,748) | (86,110) |
| Trade receivables, net of allowance for doubtful accounts | \$ 1,296,006 | \$ 1,065,546 |

The allowance for doubtful accounts is established based on SNC-Lavalin's best estimates on the recovery of balances for which collection may be uncertain. Uncertainty of collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client or delay in collection when the aging of invoices exceeds the normal payment terms. Management regularly reviews trade receivables and assesses the appropriateness of the allowance for doubtful accounts.

The change in the allowance for doubtful accounts is detailed below:

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|---|-------------------|-----------|
| Balance at beginning of year | \$ 86,110 | \$ 88,073 |
| Change in allowance, other than write-offs and recoveries | 43,220 | 22,221 |
| Write-offs of trade receivables | (8,975) | (10,393) |
| Recoveries | (14,607) | (13,791) |
| Balance at end of year | \$ 105,748 | \$ 86,110 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 Property and Equipment

| AT DECEMBER 31 | 2010 | | 2009 | |
|---|---------------------|-----------------------------|---------------------|-----------------------------|
| | COST | ACCUMULATED DEPRECIATION | COST | ACCUMULATED DEPRECIATION |
| From ICI | | | | |
| Transmission assets | \$ 2,465,005 | \$ 398,445 | \$ 1,989,321 | \$ 301,331 |
| Toll highway | 391,962 | 29,599 | 382,693 | 25,849 |
| Toll equipment | 51,058 | 41,303 | 48,940 | 38,187 |
| William R. Bennett Bridge | 155,980 | 14,690 | 153,225 | 8,916 |
| Other | 21,063 | 12,382 | 37,784 | 20,633 |
| | 3,085,068 | \$ 496,419 | 2,611,963 | \$ 394,916 |
| Accumulated depreciation | 496,419 | | 394,916 | |
| Net book value of property and equipment—From ICI | 2,588,649 | | 2,217,047 | |
| From other activities | | | | |
| Buildings | 67,263 | \$ 24,373 | 65,579 | \$ 22,279 |
| Computer equipment | 253,138 | 226,435 | 237,226 | 211,608 |
| Office furniture | 108,007 | 81,479 | 105,382 | 80,248 |
| Other | 58,419 | 37,030 | 55,717 | 35,817 |
| | 486,827 | \$ 369,317 | 463,904 | \$ 349,952 |
| Accumulated depreciation | 369,317 | | 349,952 | |
| Net book value of property and equipment—From other activities | 117,510 | | 113,952 | |
| Total net book value of property and equipment | \$ 2,706,159 | | \$ 2,330,999 | |

Total depreciation expense on property and equipment from ICI was \$92.8 million in 2010 (2009: \$85.9 million), while total depreciation expense on property and equipment from other activities was \$38.6 million in 2010 (2009: \$42.5 million).

An amount of \$295.6 million as at December 31, 2010 (December 31, 2009: \$273.6 million) of property and equipment from ICI was not being depreciated as the corresponding assets are all under construction and represent either transmission assets, toll highway or toll equipment.

10 Goodwill

The following table details a reconciliation of the carrying amount of the Company's goodwill:

| | ICI | FROM OTHER ACTIVITIES | | TOTAL |
|---|-------------------|--------------------------|------------------|-------------------|
| | | SERVICES AND PACKAGES | O&M | |
| Balance at December 31, 2008 | \$ 203,786 | \$ 270,479 | \$ 21,882 | \$ 496,147 |
| Goodwill arising from acquisitions completed in the year | — | 28,078 | — | 28,078 |
| Exchange differences on translating goodwill of self-sustaining foreign operations and other | — | (2,356) | (1,007) | (3,363) |
| Balance at December 31, 2009 | 203,786 | 296,201 | 20,875 | 520,862 |
| Goodwill arising from acquisitions completed in the year | — | 30,190 | — | 30,190 |
| Exchange differences on translating goodwill of self-sustaining foreign operations and other | — | (7,410) | — | (7,410) |
| Balance at December 31, 2010 | \$ 203,786 | \$ 318,981 | \$ 20,875 | \$ 543,642 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 Other Non-current Assets

| AT DECEMBER 31 | 2010 | 2009 |
|--|-------------------|------------|
| From ICI | | |
| Concession right from Highway 407 ⁽¹⁾ | \$ 270,282 | \$ 270,954 |
| Restricted cash (Note 7B) | 344,727 | 39,009 |
| Other | 125,384 | 89,313 |
| | 740,393 | 399,276 |
| From other activities | 55,006 | 92,721 |
| | \$ 795,399 | \$ 491,997 |

(1) The Company's proportionate share of the original cost of the concession right from Highway 407 was \$281.2 million, while accumulated depreciation totalled \$10.9 million as at December 31, 2010 (December 31, 2009: \$10.2 million). Amortization of the concession right was \$0.7 million in 2010 (2009: \$0.6 million).

12 Trade and Other Payables

Trade and other payables were detailed as follows:

| AT DECEMBER 31 | 2010 | 2009 |
|--|---------------------|--------------|
| Trade and accrued liabilities | \$ 1,399,974 | \$ 1,363,817 |
| Other payables: | | |
| Retentions on supplier contracts | 77,322 | 104,482 |
| Derivative financial instruments used for cash flow hedges—unfavourable fair value | 7,593 | 10,472 |
| Commitments to invest in ICI (Note 4D) | 85,598 | 101,506 |
| Income taxes and other taxes payable | 61,400 | 73,991 |
| Performance Share Unit, Deferred Share Unit and Restricted Share Unit liabilities (Note 15C) | 34,230 | 47,766 |
| Trade and other payables | \$ 1,666,117 | \$ 1,702,034 |

13 Long-term Debt

A) RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling \$710.0 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 0.20%. As at December 31, 2010, \$275.0 million of these lines of credit remained unused, while the balance of \$435.0 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.

B) RECOURSE LONG-TERM DEBT

| AT DECEMBER 31 | 2010 | 2009 |
|--|-------------------|------------|
| Recourse (to the general credit of the Company) | | |
| Debentures, 7.70%, fully repaid at face value of \$105.0 million in 2010 | \$ — | \$ 104,874 |
| Debentures, 6.19%, due in July 2019 with a face value of \$350.0 million repayable in full at maturity | 348,204 | 348,048 |
| Both the 2010 and 2019 debentures described are unsecured and subject to negative pledge clauses. | | |
| Total recourse long-term debt | 348,204 | 452,922 |
| Less: current portion | — | 104,874 |
| Recourse long-term debt | \$ 348,204 | \$ 348,048 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Long-term Debt (continued)

C) NON-RECOURSE LONG-TERM DEBT FROM ICI (UNSECURED OR SECURED ONLY BY ICI'S SPECIFIC ASSETS)

| AT DECEMBER 31 | 2010 | 2009 |
|--|---------------------|---------------------|
| AltaLink (76.92% ownership with the following debt reflected at 100% at full consolidation method) | | |
| Senior Debt, 4.87% to 5.43%, due from 2013 to 2040, secured by a first floating charge security interest on AltaLink L.P.'s assets. | \$ 945,211 | \$ 671,543 |
| Unsecured Debt, 5.02%, due in 2012, 10.50%, due in 2015, and 5.21%, due in 2016 | 437,200 | 436,469 |
| Unsecured credit facilities of \$150 million (December 31, 2009: \$10 million), maturing in 2012 | 34,964 | – |
| Unsecured Commercial Paper and bank credit facility | – | 47,982 |
| The unsecured commercial paper is supported by a \$550 million (December 31, 2009: \$400 million) bank credit facility under which AltaLink may also borrow at prime rate and bankers' acceptances, maturing in 2012 and ranking equally with the Senior Debt. At December 31, 2010, drawdowns under the bank credit facility were \$nil (December 31, 2009: \$nil). | | |
| Other | 707 | 983 |
| Chinook (50% ownership with the following debt reflected at such percentage per proportionate consolidation method) | | |
| Senior Bonds, 7.134%, due in 2043, secured by all assets of Chinook and an assignment of the concession's future revenues, and by a pledge by SNC-Lavalin of its interest in Chinook. | 74,138 | – |
| MIHG (60% ownership with the following debt reflected at such percentage per proportionate consolidation method) | | |
| Senior Secured Sinking Bonds, 6.632%, maturing in 2044 | 440,046 | – |
| Senior Construction Facility, CDOR 1 month plus 220 basis points, due in 2014 | 21,104 | – |
| The amounts under Senior Secured Bonds and Senior Construction Facility are secured by full security charges over all of the respective property and assets of MIHG, including a pledge by SNC-Lavalin of its interest in MIHG as well as an assignment of the concession's future revenues. | | |
| Highway 407 (16.77% ownership with the following debt reflected at such percentage per proportionate consolidation method) | | |
| Senior Bonds, 3.88% to 6.75%, due from 2012 to 2039 | 452,761 | 399,471 |
| Inflation-linked Senior Bonds, 3.28% to 5.33%, plus inflation component, due from 2016 to 2039 | 273,261 | 265,262 |
| Junior Bonds, ranking after the Senior Bonds, 7.125%, due in 2040 | 27,562 | 27,554 |
| Subordinated Bonds, ranking after the Junior Bonds, 3.87% and 5.75%, due in 2017 and 2036 | 130,053 | 130,201 |
| Other | 1,388 | 993 |
| Highway 407's bonds are secured by substantially all the assets of 407 International Inc. and its wholly-owned subsidiaries, which primarily include 407 ETR Concession Company Limited, including an assignment of future revenues. | | |
| Okanagan Lake Concession (100% ownership with the following debt reflected at full consolidation method) | | |
| 5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession, including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession as well as an assignment of the concession's future revenues. | 149,704 | 153,021 |
| Other | – | 11,189 |
| Total non-recourse long-term debt from ICI | 2,988,099 | 2,144,668 |
| Less: current portion | 6,651 | 139,183 |
| Non-recourse long-term debt from ICI | \$ 2,981,448 | \$ 2,005,485 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Long-term Debt (continued)

D) REPAYMENT OF PRINCIPAL OF LONG-TERM DEBT

The future principal payments of SNC-Lavalin's recourse and non-recourse long-term debt are summarized below and reconciled to their net carrying amount:

| AT DECEMBER 31, 2010 | RECOURSE | NON-RECOURSE FROM ICI | TOTAL |
|--|------------|--------------------------|--------------|
| 2011 | \$ – | \$ 6,753 | \$ 6,753 |
| 2012 | – | 291,546 | 291,546 |
| 2013 | – | 331,821 | 331,821 |
| 2014 | – | 70,328 | 70,328 |
| 2015 | – | 191,687 | 191,687 |
| Thereafter | 350,000 | 2,141,772 | 2,491,772 |
| Total | \$ 350,000 | \$ 3,033,907 | \$ 3,383,907 |
| Net unamortized deferred financing costs and unamortized discounts | (1,796) | (45,808) | (47,604) |
| Net carrying amount of long-term debt | \$ 348,204 | \$ 2,988,099 | \$ 3,336,303 |

14 Other Non-current Liabilities

| AT DECEMBER 31 | 2010 | 2009 |
|--|------------|------------|
| Asset retirement obligations ("ARO") from an ICI | \$ 239,343 | \$ 186,305 |
| Pension and other post-retirement benefits (Note 22) | 29,883 | 33,872 |
| Non-current regulatory liabilities of AltaLink | 104,555 | 124,445 |
| Other | 107,367 | 120,044 |
| | \$ 481,148 | \$ 464,666 |

The ARO from an ICI relate to the AltaLink infrastructure concession and are expected from the interim retirement of the component parts of transmission lines, estimated to occur between 2011 and 2051.

As at December 31, 2010, the estimated total undiscounted amount of ARO was approximately \$607.3 million (December 31, 2009: \$453.1 million). In determining the fair value of the asset retirement obligations, the estimated cash flows of new obligations incurred during the year have been discounted, using a discount rate adjusted for credit risks and inflation factors, at 4.30% (2009: 4.96%). ARO have varied as follows in 2010 and 2009:

| AT DECEMBER 31 | 2010 | 2009 |
|---|------------|------------|
| ARO from an ICI at beginning of year | \$ 186,305 | \$ 60,181 |
| Net change in liability for the year ⁽¹⁾ | 49,465 | 118,455 |
| Liabilities settled in the year | (8,211) | (1,236) |
| Accretion expense | 11,784 | 8,905 |
| ARO from an ICI at end of year | \$ 239,343 | \$ 186,305 |

(1) The net change in liability for the year ended December 31, 2010 includes an increase of \$44.1 million (2009: \$114.4 million) pursuant to changes in estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Share Capital

A) AUTHORIZED

The Company is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

B) STOCK OPTION PLANS

The main features of the stock option plans under which stock options were outstanding at December 31, 2010 are summarized below:

| | 2009 AND 2007 STOCK OPTION PLANS | 2004 STOCK OPTION PLAN |
|---------------------------------|---|--|
| GRANT DATE | Sixth trading day following the approval by the Company's Board of Directors | Corresponds to the date of approval by the Company's Board of Directors |
| EXERCISE PRICE OF STOCK OPTIONS | The greater of: i) the average closing price for the five trading days preceding the grant date and ii) the closing price on the first trading day immediately preceding the grant date | Closing price on the first trading day immediately preceding the grant date |
| VESTING OF STOCK OPTIONS | Graded vesting in three equal tranches: two years, three years and four years, respectively, after the grant date | Full vesting two years after the grant date |
| EXPIRY OF STOCK OPTIONS | Five years after the grant date | Six years after the grant date |
| OTHER PROVISIONS | In the event of cessation of employment, except in the event of death or if the optionee is eligible to retire, unvested options are cancelled immediately and vested options remain exercisable for a specified period not exceeding 30 days. In the event of death or if the optionee is eligible to retire, both vested and unvested options continue to run their normal course | In the event of death or if the optionee is eligible to retire, the vesting of the options continues in accordance with the plan, but the life of the option is limited to a period of two years following such event. All options are cancelled immediately upon other cessations of employment |

The table below presents the changes in the number of options outstanding in 2010 and 2009:

| | 2010 | | 2009 | |
|--|-------------------|--|-------------------|--|
| | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) |
| Options outstanding at beginning of year | 5,073,954 | \$ 35.57 | 4,319,100 | \$ 34.48 |
| Granted ⁽¹⁾⁽²⁾ | 1,110,500 | \$ 52.45 | 1,426,795 | \$ 33.15 |
| Exercised ⁽³⁾ | (902,465) | \$ 26.98 | (538,393) | \$ 20.28 |
| Cancelled | (155,872) | \$ 39.84 | (133,548) | \$ 35.94 |
| Options outstanding at end of year | 5,126,117 | \$ 40.61 | 5,073,954 | \$ 35.57 |

(1) The weighted average fair value of stock options granted was \$15.50 in 2010 (\$9.21 in 2009).

(2) The exercise price of options granted under the 2009 stock option plan in the years 2010 and 2009 was lower than the market price of the Company's common share at the grant date. The exercise price of options granted under the 2007 stock option plan in the year 2009 was higher than the market price of the Company's share at the grant date.

(3) The weighted average market price of the Company's common shares upon the exercise of stock options was \$52.63 in 2010 (\$45.18 in 2009).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Share Capital (continued)

The table below summarizes information regarding the stock options outstanding and exercisable as at December 31, 2010.

| RANGE OF EXERCISE PRICES | OPTIONS OUTSTANDING | | | | | OPTIONS EXERCISABLE | |
|-----------------------------|----------------------|------------------|-----------------------|---|---|-----------------------|---|
| | STOCK OPTION PLAN | YEAR OF GRANT | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING OPTIONS' TERM (MONTHS) | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS) |
| \$24.27 to \$24.33 | 2004 | 2005 | 91,100 | 4 | \$ 24.27 | 91,100 | \$ 24.27 |
| \$29.20 to \$32.50 | 2004 | 2006 | 489,880 | 14 | \$ 29.59 | 489,880 | \$ 29.59 |
| \$37.64 to \$42.36 | 2007 | 2007 | 911,523 | 17 | \$ 37.73 | 634,625 | \$ 37.73 |
| \$37.17 to \$55.10 | 2007 | 2008 | 1,186,364 | 27 | \$ 46.22 | 366,096 | \$ 46.30 |
| \$31.59 | 2007 | 2009 | 995,766 | 38 | \$ 31.59 | – | \$ – |
| \$37.53 | 2009 | 2009 | 357,234 | 40 | \$ 37.53 | – | \$ – |
| \$52.40 to \$57.07 | 2009 | 2010 | 1,094,250 | 51 | \$ 52.45 | – | \$ – |
| | | | 5,126,117 | 32 | \$ 40.61 | 1,581,701 | \$ 36.42 |

As at December 31, 2010, 548,516 stock options remained available for future grants under the 2009 stock option plan (December 31, 2009: 1,629,891 stock options remained available under the 2009 stock option plan), while no stock options remain available for future grants under the 2007 and the 2004 stock option plans.

The following table presents the weighted average assumptions used to determine the stock option compensation cost, using the Black-Scholes option pricing model, for the year ended December 31:

| | 2010 | 2009 |
|---------------------------------|----------------|---------|
| Risk-free interest rate | 2.47% | 1.86% |
| Expected stock price volatility | 36.64% | 35.21% |
| Expected option life | 4 years | 4 years |
| Expected dividend yield | 1.00% | 1.00% |

C) PERFORMANCE SHARE UNIT ("PSU") PLAN, DEFERRED SHARE UNIT ("DSU") PLAN AND RESTRICTED SHARE UNIT ("RSU") PLAN

In 2010, to complement its offering of share-based compensation plans, the Company introduced a Restricted Share Unit ("RSU") plan for selected employees (the plan "participants"), which are not awarded stock options or any other share-based units.

In December 2009, the Board of Directors approved two new remuneration plans for selected key executives (the plan "participants"). As such, the 2009 Performance Share Unit plan ("2009 PSU plan") and the 2009 Deferred Share Unit plan for Executive Employees (the "2009 DSU plan") replaced the previous PSU plan (the "Previous PSU plan") and any units granted after December 2009 will be under the two new plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Share Capital (continued)

The terms and conditions of the above-mentioned plans are summarized below:

| | 2009 PSU PLAN | 2009 DSU PLAN | RSU PLAN |
|-----------------------|---|--|--|
| GRANT DATE | Date of approval by the Company's Board of Directors | Date of approval by the Company's Board of Directors | Date of approval by the Company's Board of Directors |
| NUMBER OF UNITS | Subject to performance conditions, the number of units granted shall be adjusted depending on the three-year cumulative annualized growth of earnings per share, to determine the number of units to which all participants receiving the award will be entitled to, if any | Determined at grant date, without any further changes | Determined at grant date, without any further changes |
| VESTING OF UNITS | Units vest in full at the end of the third calendar year following the grant date | Units vest at a rate of 20% per year following the grant date | Units vest in full three years following their grant date |
| PAYMENT OR CONVERSION | At the option of the participant, upon vesting, units are redeemable for cash by the Company within ninety days following the completion of the vesting period or are converted as vested DSU | Units are redeemable for cash by the Company within thirty days following the first year anniversary of a participant's cessation of employment | Units are redeemable for cash by the Company within ninety business days following the completion of the vesting period |
| REDEMPTION PRICE | Average closing price per share on the Toronto Stock Exchange at the vesting date and the four trading days preceding such date | Average closing price per share on the Toronto Stock Exchange on the first year anniversary of cessation of employment and the last trading day on the Toronto Stock Exchange of each of the 12 weeks preceding that date | Average closing price per share on the Toronto Stock Exchange on the five trading days preceding the vesting date |
| FORFEITURE | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made | If a participant terminates his employment voluntarily for reasons other than death or retirement or if a participant is terminated for cause before the end of the vesting period, the units expire immediately on the date of termination with no payment being made |
| OTHER PROVISIONS | The units vest immediately in the event of death or if a participant is eligible to retire, with payment being made within ninety business days following the end of the third calendar year from the grant date | The units vest immediately in the event of death or if a participant is retiring, with payment being made on the date of the first year anniversary following the participant's last day of employment | In the event of death or retirement of a participant before the end of the vesting period, the units vest on a pro rata basis, with payment being made within ninety business days following the end of the original vesting period |

In 2010, the Company awarded 31,322 PSU (average fair value of \$52.40 per unit) under the 2009 PSU plan, 34,027 DSU (average fair value of \$52.40 per unit) under the 2009 DSU plan, 84,507 RSU (average fair value of \$52.86 per unit) under the RSU plan. No units were awarded in 2009 under the 2009 PSU plan and the 2009 DSU plan. The Company awarded 99,942 PSU (average fair value of \$32.08 per unit) in 2009 under the Previous PSU plan.

The Previous PSU plan has the same terms and conditions as the 2009 DSU plan, except that vesting could be immediate under certain conditions and the participant may receive 50% of the current year's grant as a cash payment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Share Capital (continued)

The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of the units caused by fluctuations in its share price. This financial arrangement includes a financial instrument, which fluctuates in accordance with the movement in the Company's share price, and is required to be classified as held for trading. As such, it is measured at fair value on the consolidated balance sheet under "Trade and other receivables", while the PSU, DSU and RSU liabilities are recorded in "Trade and other payables". Gains and losses from the remeasurement of the financial instrument offset most of the related losses and gains from the fair value remeasurement of the PSU, DSU and RSU liabilities. The financing arrangement is adjusted as needed to reflect new awards and/or settlements of units. The compensation expense, net of the gain of \$3.7 million from the remeasurement of the PSU, DSU and RSU arrangement asset which offsets the loss of \$3.7 million from the remeasurement of the PSU, DSU and RSU liabilities in 2010 (2009: gain of \$12.2 million from the remeasurement of the PSU arrangement asset which offsets the loss of \$12.2 million from the remeasurement of the PSU liability), was \$5.5 million for the year ended December 31, 2010 (2009: \$1.7 million).

D) REDEMPTION OF SHARES

In May 2010, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 3.0 million (2009: 3.0 million) common shares within a one-year period. The renewal of the Company's normal course issuer bid requires annual approval by the Board of Directors and the Toronto Stock Exchange. The redemption of shares in 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|-----------|-----------|
| Redeemed and cancelled: | | |
| Portion allocated to share capital | \$ 2,537 | \$ 1,419 |
| Portion allocated to retained earnings | 45,406 | 22,689 |
| | \$ 47,943 | \$ 24,108 |
| Number of shares redeemed and cancelled | 901,600 | 538,800 |
| Average redemption price per share (\$) | \$ 53.18 | \$ 44.74 |

E) WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES—BASIC AND DILUTED

The weighted average number of outstanding shares in 2010 and 2009 used to calculate the basic and diluted earnings per share were as follows:

| AT DECEMBER 31 (IN THOUSANDS) | 2010 | 2009 |
|---|---------|---------|
| Weighted average number of outstanding shares—basic | 151,020 | 151,042 |
| Dilutive effect of stock options | 1,201 | 950 |
| Weighted average number of outstanding shares—diluted | 152,221 | 151,992 |

In 2010, 1,095,250 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive (2009: 1,287,917 outstanding stock options).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16 Accumulated Other Comprehensive Income (Loss)

The following table provides the balances of the components of accumulated other comprehensive income (loss) at December 31:

| | 2010 | 2009 |
|--|-------------|-------------|
| Accumulated exchange differences on translating self-sustaining foreign operations | \$ (30,369) | \$ (9,292) |
| Accumulated net unrealized gain (loss) on available-for-sale financial assets | 115 | (1,895) |
| Accumulated net unrealized loss on cash flow hedges | (44,689) | (12,119) |
| Accumulated other comprehensive loss | \$ (74,943) | \$ (23,306) |

In 2010 and 2009, no amounts were reclassified to net income for accumulated exchange differences on translating self-sustaining foreign operations. In 2010, \$1.3 million was reclassified to net income from accumulated net unrealized loss on available-for-sale financial assets (2009: \$nil). For cash flow hedges, any amount of the accumulated other comprehensive income (loss) that is reclassified to net income offsets the gain or loss recognized in net income on the underlying hedged items, since the Company's cash flow hedges are highly effective. The Company expects that approximately \$12.9 million of the accumulated net unrealized loss on cash flow hedges balance at December 31, 2010 will be reclassified in net income in the next 12 months, offsetting unrealized gains on the corresponding underlying hedged items.

The reconciliation of the accumulated net unrealized loss on cash flow hedges is as follows:

| | 2010 | 2009 |
|--|-------------|-------------|
| Balance at the beginning of year | \$ (12,119) | \$ (98,514) |
| Net increase (decrease) in fair value of derivative financial instruments designated as cash flow hedges | (3,143) | 50,408 |
| Reclassification of gain (loss) to net income to offset the impact of the underlying hedged items | (29,427) | 35,987 |
| Balance at end of year | \$ (44,689) | \$ (12,119) |

17 Interest and Capital Taxes

| YEAR ENDED DECEMBER 31 | 2010 | | | 2009 | | |
|-----------------------------|------------|-----------------------|-------------|-------------|-----------------------|-------------|
| | FROM ICI | FROM OTHER ACTIVITIES | TOTAL | FROM ICI | FROM OTHER ACTIVITIES | TOTAL |
| Interest revenues | \$ (6,131) | \$ (6,646) | \$ (12,777) | \$ (11,574) | \$ (5,011) | \$ (16,585) |
| Interest on long-term debt: | | | | | | |
| Recourse | — | 27,754 | 27,754 | — | 18,979 | 18,979 |
| Non-recourse | 152,274 | — | 152,274 | 127,342 | — | 127,342 |
| Capital taxes and other | 5,631 | 2,021 | 7,652 | (3,511) | 2,013 | (1,498) |
| Interest and capital taxes | \$ 151,774 | \$ 23,129 | \$ 174,903 | \$ 112,257 | \$ 15,981 | \$ 128,238 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18 Supplementary Cash Flow Information

A) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows, for the year ended December 31:

| | 2010 | 2009 |
|--|--------------|--------------|
| Decrease (increase) in trade and other receivables | \$ (201,840) | \$ 185,266 |
| Decrease (increase) in contracts in progress | (152,160) | 220,287 |
| Increase in contracts in progress from concession arrangements | (133,156) | (33,941) |
| Decrease in trade and other payables | (21,692) | (526,251) |
| Increase (decrease) in downpayments on contracts | 158,622 | (72,119) |
| Increase (decrease) in deferred revenues | 204,280 | (20,800) |
| Net change in non-cash working capital items | \$ (145,946) | \$ (247,558) |

B) INTEREST PAID AND INCOME TAXES PAID

The following table presents the interest paid and income taxes paid for the year ended December 31:

| | 2010 | 2009 |
|-----------------------|------------|------------|
| Interest paid: | | |
| From ICI | \$ 146,464 | \$ 109,551 |
| From other activities | 32,784 | 10,033 |
| | \$ 179,248 | \$ 119,584 |
| Income taxes paid | \$ 2,397 | \$ 30,285 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19 Income Taxes

SNC-Lavalin's income tax expense was comprised of the following:

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|----------------------------|-------------------|-------------------|
| Current income tax expense | \$ 53,080 | \$ 19,005 |
| Future income tax expense | 70,342 | 89,136 |
| Income tax expense | \$ 123,422 | \$ 108,141 |

The following table presents the reconciliation between the income tax expense calculated using statutory Canadian rates to the effective income tax expense in SNC-Lavalin's consolidated statements of income:

| YEAR ENDED DECEMBER 31 | 2010 | | 2009 | |
|---|-------------------|-------------|-------------------|-------------|
| | AMOUNT | % | AMOUNT | % |
| Income tax expense at statutory Canadian rates | \$ 168,099 | 29.4 | \$ 145,796 | 30.6 |
| Increase (decrease) resulting from: | | | | |
| Effect of differences of foreign tax rates compared to Canadian rates | (44,380) | (7.8) | (32,760) | (6.9) |
| Non-deductible expenses for tax purposes | 6,443 | 1.1 | 7,642 | 1.6 |
| Proportionate share of future income tax benefit recognized by Highway 407 | — | — | (4,260) | (0.9) |
| Non-taxable income from certain ICI accounted for by the equity or cost methods | (12,082) | (2.1) | (2,183) | (0.4) |
| Non-taxable portion of capital gain from disposal of assets and ICI | (6,646) | (1.1) | — | — |
| Other | 11,988 | 2.1 | (6,094) | (1.3) |
| Income tax expense at effective tax rate | \$ 123,422 | 21.6 | \$ 108,141 | 22.7 |

The following table presents i) the temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the financial statements, and ii) tax loss carry forwards, which give rise to future income tax assets presented on the Company's consolidated balance sheets:

| AT DECEMBER 31 | 2010 | 2009 |
|---|------------------|-------------------|
| Temporary differences arising from: | | |
| Retentions on client contracts | \$ (9,479) | \$ (1,410) |
| Contracts in progress | (14,639) | (12,056) |
| Property and equipment, and goodwill | (58,506) | (30,297) |
| ICI accounted for by the equity or cost methods | (2,113) | (12,854) |
| Accrued employees compensation | 4,528 | 7,612 |
| Pension plans and other post-retirement benefits | 6,382 | 7,529 |
| Other liabilities | 5,556 | 30,429 |
| Accumulated other comprehensive loss | 15,121 | 4,279 |
| Other | 670 | 3,288 |
| Tax loss carry-forwards | 74,293 | 91,629 |
| Future income tax asset, net | \$ 21,813 | \$ 88,149 |
| Presented on the balance sheet as follows: | | |
| Future income tax asset—current | \$ 78,306 | \$ 112,557 |
| Future income tax liability—non-current | \$ 56,493 | \$ 24,408 |

At December 31, 2010, SNC-Lavalin had \$246.3 million of non-capital tax loss carry-forwards that expire in varying amounts from 2011 to 2030. A future income tax asset of \$74.3 million has been recognized on \$222.0 million of these losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Financial Instruments

A) CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying value of financial assets held by SNC-Lavalin at December 31, by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31 | 2010 | | | | | |
|---------------------------------------|--|------------------------|--------------------------|---|--------------|--------------------|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | |
| | HELD FOR TRADING | AVAILABLE- FOR-SALE | LOANS AND RECEIVABLES | DERIVATIVES USED FOR CASH FLOW HEDGES | TOTAL | FAIR VALUE |
| Cash and cash equivalents | \$ 1,288,232 | \$ – | \$ – | \$ – | \$ 1,288,232 | \$ 1,288,232 |
| Restricted cash | 340,063 | – | – | – | 340,063 | 340,063 |
| Trade and other receivables: | | | | | | |
| PSU, DSU and RSU arrangement asset | 34,544 | – | – | – | 34,544 | 34,544 |
| Derivative financial instruments | – | – | – | 37,793 | 37,793 | 37,793 |
| Other financial assets | – | – | 1,479,146 | – | 1,479,146 | 1,479,146 |
| ICI accounted for by the cost method: | | | | | | |
| At cost ⁽¹⁾ | – | 179,228 | – | – | 179,228 | See ⁽¹⁾ |
| Other non-current assets: | | | | | | |
| Restricted cash | 344,727 | – | – | – | 344,727 | 344,727 |
| Other: | | | | | | |
| At fair value | 16,749 | 9,687 | – | – | 26,436 | 26,436 |
| At cost/amortized cost ⁽¹⁾ | – | 3,469 | 57,602 | – | 61,071 | See ⁽¹⁾ |
| Total | \$ 2,024,315 | \$ 192,384 | \$ 1,536,748 | \$ 37,793 | \$ 3,791,240 | |

| AT DECEMBER 31 | 2009 | | | | | |
|---------------------------------------|--|------------------------|--------------------------|---|--------------|--------------------|
| | CARRYING VALUE OF FINANCIAL ASSETS BY CATEGORY | | | | | |
| | HELD FOR TRADING | AVAILABLE- FOR-SALE | LOANS AND RECEIVABLES | DERIVATIVES USED FOR CASH FLOW HEDGES | TOTAL | FAIR VALUE |
| Cash and cash equivalents | \$ 1,218,225 | \$ – | \$ – | \$ – | \$ 1,218,225 | \$ 1,218,225 |
| Restricted cash | 68,185 | – | – | – | 68,185 | 68,185 |
| Trade and other receivables: | | | | | | |
| PSU arrangement asset | 47,766 | – | – | – | 47,766 | 47,766 |
| Derivative financial instruments | – | – | – | 26,448 | 26,448 | 26,448 |
| Other financial assets | – | – | 1,273,267 | – | 1,273,267 | 1,273,267 |
| ICI accounted for by the cost method: | | | | | | |
| At fair value | – | 47,786 | – | – | 47,786 | 47,786 |
| At cost ⁽¹⁾ | – | 227,057 | – | – | 227,057 | See ⁽¹⁾ |
| Other non-current assets: | | | | | | |
| Restricted cash | 39,009 | – | – | – | 39,009 | 39,009 |
| Other: | | | | | | |
| At fair value | 17,066 | 9,892 | – | 3,759 | 30,717 | 30,717 |
| At cost/amortized cost ⁽¹⁾ | – | 3,923 | 46,285 | – | 50,208 | See ⁽¹⁾ |
| Total | \$ 1,390,251 | \$ 288,658 | \$ 1,319,552 | \$ 30,207 | \$ 3,028,668 | |

(1) The available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market, while the \$57.6 million presented in loans and receivables (December 31, 2009: \$46.3 million) is a reasonable estimate of their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Financial Instruments (continued)

The following tables present the carrying value of SNC-Lavalin's financial liabilities at December 31, by category and classification, with the corresponding fair value, when available:

| AT DECEMBER 31 | 2010 | | | | |
|----------------------------------|---|---------------------------------------|-----------------------------|--------------|------------|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | | FAIR VALUE |
| | HELD FOR TRADING | DERIVATIVES USED FOR CASH FLOW HEDGES | OTHER FINANCIAL LIABILITIES | TOTAL | |
| Trade and other payables: | | | | | |
| Derivative financial instruments | \$ — | \$ 7,593 | \$ — | \$ 7,593 | \$ 7,593 |
| Other financial liabilities | — | — | 1,562,894 | 1,562,894 | 1,562,894 |
| Downpayments on contracts | — | — | 551,862 | 551,862 | 551,862 |
| Long-term debt ⁽¹⁾ : | | | | | |
| Recourse | — | — | 348,204 | 348,204 | 387,730 |
| Non-recourse from ICI | 33,207 | — | 2,954,892 | 2,988,099 | 3,314,096 |
| Other non-current liabilities | — | — | 1,555 | 1,555 | 1,555 |
| Total | \$ 33,207 | \$ 7,593 | \$ 5,419,407 | \$ 5,460,207 | |

| AT DECEMBER 31 | 2009 | | | | |
|----------------------------------|---|---------------------------------------|-----------------------------|--------------|------------|
| | CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY | | | | FAIR VALUE |
| | HELD FOR TRADING | DERIVATIVES USED FOR CASH FLOW HEDGES | OTHER FINANCIAL LIABILITIES | TOTAL | |
| Trade and other payables: | | | | | |
| Derivative financial instruments | \$ — | \$ 10,472 | \$ — | \$ 10,472 | \$ 10,472 |
| Other financial liabilities | — | — | 1,569,805 | 1,569,805 | 1,569,805 |
| Downpayments on contracts | — | — | 397,329 | 397,329 | 397,329 |
| Long-term debt ⁽¹⁾ : | | | | | |
| Recourse | — | — | 452,922 | 452,922 | 481,005 |
| Non-recourse from ICI | 30,000 | — | 2,114,668 | 2,144,668 | 2,279,647 |
| Other non-current liabilities | — | — | 1,742 | 1,742 | 1,742 |
| Total | \$ 30,000 | \$ 10,472 | \$ 4,536,466 | \$ 4,576,938 | |

(1) The fair value of long-term debt classified in the "other financial liabilities" category was determined using public quotations or the discounted cash flows method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin or to the ICI, depending on which entity has issued the debt instrument, for debt with the same terms and conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Financial Instruments (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The methodology used to measure the Company's financial instruments accounted for at fair value is determined based on the following hierarchy:

| LEVEL | BASIS FOR DETERMINATION OF FAIR VALUE | FINANCIAL INSTRUMENTS |
|---------|---|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities | Available-for-sale equity investments accounted for at fair value |
| Level 2 | Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability | Cash and cash equivalents, restricted cash, derivatives used for cash flow hedges, as well as PSU, DSU and RSU arrangements asset (included in trade and other receivables) and non-recourse long-term debt from ICI which had to be classified as held for trading |
| Level 3 | Inputs for the asset or liability that are not based on observable market data | \$16.7 million proportionate share of long-term notes held by Highway 407 (December 31, 2009: \$17.1 million) included in other non-current assets |

B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

| NATURE OF RISK | DESCRIPTION |
|----------------|---|
| Credit risk | Risk that SNC-Lavalin will incur a financial loss if the other party to a financial instrument fails to discharge an obligation. The maximum exposure to credit risk for SNC-Lavalin at the end of a given period usually corresponds to the carrying amount of its financial assets exposed to such risk |
| Liquidity risk | Possibility that SNC-Lavalin will encounter difficulties in meeting the obligations associated with its financial liabilities |
| Market risk | Variability in the fair value or future cash flows of a financial instrument caused by a change in market prices in items such as currency rates, interest rates and equity prices |

CREDIT RISK

For SNC-Lavalin, credit risk arises from:

- i) Cash and cash equivalents, and restricted cash, which are invested in liquid and high-grade financial instruments, based on SNC-Lavalin's investment policy.
- ii) Derivative financial instruments used for hedging purposes with a favourable fair value and the PSU, DSU and RSU arrangement asset, which contain an inherent credit risk relating to default on obligations by the counterparty. This credit risk is reduced by entering into such contracts with sound financial institutions, which are expected to satisfy their obligations under the contracts.
- iii) Trade and other receivables, as detailed in Note 8. A given client may represent a material portion of SNC-Lavalin's consolidated revenues in any given year due to the size of a particular project and the progress accomplished on such project; however, the exposure to credit risk is generally limited due to the large number of clients comprising SNC-Lavalin's revenue base, and their dispersion across different industry segments and geographic areas. Furthermore, SNC-Lavalin endeavours to structure positive cash flow arrangements on its projects to reduce the underlying credit risk.

The Company's objective is to reduce credit risk by ensuring collection of its trade and other receivables on a timely basis. The Company 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 the project, which is used to determine a manager's compensation, and of the associated operating segment.

- iv) The financial assets classified as "Loans and Receivables" included in "Other non-current assets", which consist mainly of a loan to the Ambatovy's Project Operator (Note 4D).
- v) The financial guarantees on the Ambatovy project disclosed in Note 4D.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Financial Instruments (continued)

LIQUIDITY RISK

SNC-Lavalin monitors its liquidity risk arising from financial instruments on an ongoing basis by ensuring that it has access to sufficient resources to meet its obligations.

As part of its liquidity analysis, the Company calculates what it refers to as freehold cash, which represents the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in ICI. Furthermore, if needed, SNC-Lavalin has access to committed lines of credit with banks.

As presented in Note 4, SNC-Lavalin's consolidated balance sheet included approximately \$3,663.2 million at December 31, 2010 (December 31, 2009: \$2,689.4 million) of liabilities from ICI that are accounted for by the full or proportionate consolidation methods. These liabilities, which are non-recourse to the Company, are to be repaid by the ICI and are secured by the respective concession's assets, including \$799.7 million of financial assets at December 31, 2010 (December 31, 2009: \$203.7 million), and by SNC-Lavalin's shares or units in such concession investments. As such, the actual book value at risk for SNC-Lavalin, assuming its ICI accounted for by the full or proportionate consolidation methods were unable to meet their obligations, corresponds to the carrying amount invested in these entities, which totalled \$376.8 million at December 31, 2010 (December 31, 2009: \$250.9 million).

SNC-Lavalin's future principal payments on its long-term debt are presented in Note 13.

MARKET RISK

I) CURRENCY RISK

SNC-Lavalin's foreign currency risk arises from arrangements in currencies other than its reporting currency and from the net assets of its foreign operations.

Foreign currency risk is managed by the Company by matching, when possible, the cash receipts in a foreign currency and the cash disbursements in the same foreign currency, for each revenue-generating project in which foreign currencies are involved. Derivative financial instruments with banks (i.e., forward foreign exchange contracts) are also used to hedge the cash flows in foreign currencies.

The following table summarizes the major forward foreign exchange contracts that were outstanding, for which SNC-Lavalin has committed to buy or sell foreign currencies:

| AT DECEMBER 31, 2010 | | | AT DECEMBER 31, 2009 | | |
|----------------------|--------------|-----------|----------------------|--------------|-----------|
| BUY | SELL | MATURITY | BUY | SELL | MATURITY |
| CA\$ 181,642 | US\$ 172,856 | 2011-2015 | CA\$ 290,643 | US\$ 264,634 | 2010-2013 |
| CA\$ 530,946 | € 375,608 | 2011-2015 | CA\$ 368,559 | € 241,171 | 2010-2013 |
| US\$ 27,961 | CA\$ 28,756 | 2011-2012 | US\$ 27,787 | CA\$ 29,499 | 2010-2011 |
| US\$ 37,098 | € 28,689 | 2011 | US\$ 50,924 | € 37,474 | 2010 |
| € 9,756 | US\$ 13,368 | 2011 | € 23,639 | US\$ 32,777 | 2010 |
| € 20,487 | CA\$ 30,454 | 2011-2013 | € 19,304 | CA\$ 29,112 | 2010-2012 |

As at December 31, 2010, the forward foreign exchange contracts used for hedging purposes by the Company had a net favourable fair value of \$30.2 million (December 31, 2009: net favourable fair value of \$16.0 million). The major forward foreign exchange contracts that were outstanding at that date were to either buy or sell foreign currencies against the Canadian dollar, or to either buy or sell the US dollar against the Euro.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Financial Instruments (continued)

SENSITIVITY ANALYSIS

| CHANGE IN FOREIGN EXCHANGES RATES ⁽¹⁾ | ESTIMATED IMPACT ON ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ⁽²⁾ |
|---|--|
| 10% increase in the Canadian dollar for all forward foreign exchange contracts involving Canadian dollars combined with a 10% increase in the US dollar for all forward foreign exchange contracts involving the US dollar against the Euro | "Accumulated other comprehensive income (loss)" would have been a cumulative loss of \$51.9 million, compared to a cumulative loss of \$74.9 million reported at December 31, 2010 |
| 10% decrease in the Canadian dollar for all forward foreign exchange contracts involving Canadian dollars combined with a 10% decrease in the US dollar for all forward foreign exchange contracts involving the US dollar against the Euro | "Accumulated other comprehensive income (loss)" would have been a cumulative loss of \$97.9 million, compared to a cumulative loss of \$74.9 million reported at December 31, 2010 |

(1) Assuming all other variables remain the same.

(2) No material impact on the Company's net income as all forward foreign exchange contracts entered into by the Company are used for hedging purposes and the hedging relationships are highly effective.

Investments made in self-sustaining foreign operations are usually not hedged against foreign currency fluctuations. The exchange gains or losses on the net equity investment of these operations are reflected in the "Accumulated other comprehensive income (loss)" account in the shareholders' equity, as part of the accumulated exchange differences on translating self-sustaining foreign operations.

II) INTEREST RATE RISK

Cash and cash equivalents, and restricted cash, usually involve limited interest rate risk due to their short-term nature.

NON-RECOURSE LONG-TERM DEBT FROM ICI

Unlike Services, Packages and O&M activities, ICI 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. These investments 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.

RECOURSE LONG-TERM DEBT FROM OTHER ACTIVITIES

SNC-Lavalin'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.

III) EQUITY RISK

SNC-Lavalin limits its exposure arising from the PSU, DSU and RSU, caused by fluctuations in its share price, through a financing arrangement with an investment grade financial institution described in Note 15C.

C) LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides bank letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual retentions and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2010, SNC-Lavalin had outstanding letters of credit of \$2,005.6 million (December 31, 2009: \$1,652.1 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21 Capital Management

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between i) having 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, ii) optimizing return on average shareholders' equity.

Maintaining sufficient capital and access to satisfactory bank lines of credit is key to the Company's activities, as it demonstrates the Company's financial strength and its ability to meet its performance guarantees on multiple projects, and allows the Company to provide letters of credit as collateral for the fulfillment of its contractual obligations. Maintaining sufficient capital is also a key financial indicator that allows the Company to maintain its investment grade credit rating, which results in, among other things, having access to financing arrangements at a competitive cost.

The Company defines its capital as its shareholders' equity excluding accumulated other comprehensive income (loss) plus its recourse debt. The Company excludes accumulated other comprehensive income (loss) from its definition of capital because this component of shareholders' equity results mainly from the accounting treatment of cash flow hedges and is not representative of the way the Company evaluates the management of its foreign currency risk. Accordingly, the accumulated other comprehensive income (loss) is not representative of the Company's financial position.

The Company 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 investment in its ICI may, however, be at risk if such investments were unable to repay their non-recourse long-term debt.

The Company's objective remains to maintain a recourse debt-to-capital ratio that would not exceed a ratio of 30:70. The recourse debt-to-capital ratio, as calculated by the Company, was as follows:

| AT DECEMBER 31 | 2010 | 2009 |
|--|--------------|--------------|
| Recourse debt | \$ 348,204 | \$ 452,922 |
| Shareholders' equity | \$ 1,708,426 | \$ 1,434,692 |
| Plus: Accumulated other comprehensive loss | 74,943 | 23,306 |
| Plus: Recourse debt | 348,204 | 452,922 |
| Capital | \$ 2,131,573 | \$ 1,910,920 |
| Recourse debt-to-capital ratio | 16:84 | 24:76 |

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 option programs. The Company has paid quarterly dividends for 21 consecutive years and strives to increase its yearly dividend paid per share, which it has done over the past 10 years.

In 2010, the Company complied with all of the covenants related to its debentures and bank credit facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Pension Plans and Other Post-Retirement Benefits

A) PENSION PLANS

SNC-Lavalin has defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred, totalling \$57.6 million in 2010 (2009: \$53.7 million).

SNC-Lavalin also has a number of defined benefit pension plans, which are closed to new entrants and provide pension benefits based on length of service and final pensionable earnings. An individual actuarial valuation is performed at least every three years for each plan. For the two principal pension plans, the latest actuarial valuations were performed on December 31, 2007 and December 31, 2009. The measurement date used for the above benefit obligation and plans' assets is December 31 of each year.

The total cash amount paid by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans, was \$68.0 million in 2010 (2009: \$63.6 million).

The following table sets forth the change in pension benefit obligation and pension plans' assets, as well as the funded status of SNC-Lavalin's defined benefit pension plans:

| AT DECEMBER 31 | 2010 | 2009 |
|--|-------------|-------------|
| Change in pension benefit obligation: | | |
| Pension benefit obligation at beginning of year | \$ 150,626 | \$ 174,920 |
| Current service cost | 756 | 1,486 |
| Interest cost | 6,562 | 7,951 |
| Benefits paid | (10,297) | (9,604) |
| Actuarial losses | 5,703 | 105 |
| Settlement ⁽¹⁾ | (33,125) | (27,738) |
| Other | – | 3,506 |
| Pension benefit obligation at end of year | \$ 120,225 | \$ 150,626 |
| Change in pension plans' assets: | | |
| Fair value of pension plans' assets at beginning of year | \$ 115,038 | \$ 130,419 |
| Actual return on plans' assets | 6,331 | 12,276 |
| Benefits paid | (10,297) | (9,604) |
| Employer contributions | 10,361 | 9,971 |
| Settlement ⁽¹⁾ | (36,189) | (28,153) |
| Other | – | 129 |
| Fair value of pension plans' assets at end of year | \$ 85,244 | \$ 115,038 |
| Funded status: | | |
| Pension plans' deficit at end of year | \$ (34,981) | \$ (35,588) |
| Unamortized net actuarial losses | 17,521 | 15,643 |
| Net accrued pension benefit liability | \$ (17,460) | \$ (19,945) |

(1) The settlement related to two plans that were wound-up over a period of two years ending in 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Pension Plans and Other Post-Retirement Benefits (continued)

SNC-Lavalin's funded status of its defined benefit pension plans is further detailed below:

| AT DECEMBER 31 | 2010 | | | 2009 | | |
|--|----------------------------------|-----------------------------|---------------------------|----------------------------------|-----------------------------|--|
| | PENSION BENEFIT OBLIGATION | PENSION PLANS' ASSETS | PENSION PLANS' DEFICIT | PENSION BENEFIT OBLIGATION | PENSION PLANS' ASSETS | PENSION PLANS' SURPLUS (DEFICIT) |
| Pension plans for which the plan's assets exceed the benefit obligation | \$ – | \$ – | \$ – | \$ 33,922 | \$ 34,512 | \$ 590 |
| Pension plans for which the benefit obligation exceeds the plan's assets | 120,225 | 85,244 | (34,981) | 116,704 | 80,526 | (36,178) |
| Total | \$ 120,225 | \$ 85,244 | \$ (34,981) | \$ 150,626 | \$ 115,038 | \$ (35,588) |

The following table presents the asset allocation of SNC-Lavalin's defined benefit pension plans:

| AT DECEMBER 31 | 2010 | 2009 |
|--------------------|------|------|
| Asset class | | |
| Equity securities | 56% | 43% |
| Debt securities | 44% | 57% |
| Total | 100% | 100% |

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued pension benefit obligation and net benefit pension costs:

| AT DECEMBER 31 | 2010 | 2009 |
|---|-------|-------|
| Accrued pension benefit obligation | | |
| Discount rate | 4.75% | 4.96% |
| Rate of compensation increase | 4.58% | 4.56% |

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|--|-------|-------|
| Net benefit pension costs | | |
| Discount rate | 4.96% | 5.02% |
| Expected long-term rate of return on plans' assets | 5.56% | 5.37% |
| Rate of compensation increase | 4.56% | 4.18% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22 Pension Plans and Other Post-Retirement Benefits (continued)

SNC-Lavalin's net defined benefit pension cost recognized in net income was comprised of:

| YEAR ENDED DECEMBER 31 | 2010 | 2009 |
|---|-----------------|------------------|
| Current service cost | \$ 756 | \$ 1,486 |
| Interest cost on benefit obligation | 6,562 | 7,951 |
| Actual return on plans' assets | (6,331) | (12,276) |
| Actuarial losses on benefit obligation | 5,703 | 105 |
| Settlement loss (gain) | 3,064 | (640) |
| Other | — | 1,988 |
| Cost (recovery of cost) arising in the period | 9,754 | (1,386) |
| Adjustments to cost arising in the period to recognize the long-term nature of defined benefit pension costs: | | |
| Deferral of excess of actual return on plans' assets over expected return | 633 | 5,913 |
| Deferral of actuarial losses on benefit obligation | (5,703) | (105) |
| Amortization of previously deferred actuarial losses | 3,192 | 8,847 |
| | (1,878) | 14,655 |
| Net defined benefit pension cost recognized in the period | \$ 7,876 | \$ 13,269 |

B) OTHER POST-RETIREMENT BENEFITS

As at December 31, 2010, the obligation for other post-retirement benefits amounted to \$12.4 million (December 31, 2009: \$13.9 million) and is reflected in the consolidated balance sheet under "Other non-current liabilities".

23 Contingencies

In the normal conduct of operations, there are pending claims by and against SNC-Lavalin. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these litigations will not materially affect the Company's consolidated financial position or results of operations.

24 Commitments

SNC-Lavalin's minimum lease payments for annual basic rent under long-term operating leases, mainly for office space, amounted to \$304.2 million in 2010. The annual minimum lease payments are as follows: 2011—\$71.3 million; 2012—\$56.0 million; 2013—\$43.3 million; 2014—\$35.7 million; 2015—\$33.6 million and thereafter—\$64.3 million.

Other commitments relating to ICI are disclosed under Note 4D.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25 Related Party Transactions

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its ICI to perform Services, Packages and/or O&M activities. These transactions reflect the Company's strategy to invest in ICI that complement its other activities.

Consistent with Canadian GAAP, intercompany profits generated from revenues with ICI accounted for by the full consolidation method are eliminated in the period they occur, except when such profits are deemed to have been realized by the ICI with a third party. The accounting treatment of intercompany profits upon consolidation is summarized below:

| ICI | ACCOUNTING TREATMENT OF INTERCOMPANY PROFITS UPON CONSOLIDATION |
|------------------------|--|
| AltaLink | Not eliminated upon consolidation in the period they occur, as transactions are considered realized by AltaLink with a third party through the approval of rates, as required by Canadian GAAP |
| Chinook, MIHG, Ovation | Not eliminated upon consolidation in the period they occur, as transactions are considered realized by the ICI through the contractual agreement with its client, in accordance with Canadian GAAP |
| Others | Eliminated in the period they occur, as a reduction of the asset and subsequently recognized over the depreciation period of the corresponding asset |

In regards to proportionately consolidated ICI and ICI accounted for by the equity method, SNC-Lavalin applies the same principles as under the full consolidation method by eliminating its portion of intercompany profit based on its ownership interests in the ICI. Profits generated from transactions with ICI accounted for by the cost method are not eliminated, in accordance with Canadian GAAP.

SNC-Lavalin's financial statements include revenues of \$167.6 million in 2010 (2009: \$416.6 million) from contracts with ICI accounted for by the equity method.

SNC-Lavalin's trade and other receivables from these ICI accounted for by the equity method amounted to \$8.6 million as at December 31, 2010 (December 31, 2009: \$102.7 million) while SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was \$49.5 million at December 31, 2010 (December 31, 2009: \$74.2 million).

All these related party transactions are measured at the exchange amount agreed upon by the related parties, which corresponds to fair value.

26 Comparative Figures

Certain 2009 figures have been reclassified to conform to the presentation adopted in 2010.

27 Subsequent Event

On February 10, 2011, SNC-Lavalin announced that it will acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million. The offer was presented in response to a binding offer received by MEAP from a third party pursuant to a right of first refusal held by SNC-Lavalin and would bring SNC-Lavalin's ownership in AltaLink to 100%. The transaction is subject to customary closing conditions and regulatory approval, including approval from the Alberta Utilities Commission.

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FEROZ ASHRAF

Executive Vice-President
Mining and Metallurgy

JEAN BEAUDOIN

Executive Vice-President
Chemicals and Petroleum

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and Laboratories, Construction and
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Ports and Marine and Environment

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Global Information Technologies,
Global Procurement, Health,
Safety and Environment, and
SNC-Lavalin International

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Executive Vice-President
Agrifood, Biofuels, Fertilizers,
Pharmaceuticals, Glass and
Construction Materials, and
Airport Operations, Infrastructure,
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CHARLIE RATE

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Operations and Maintenance

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Canada
Member of the Audit Committee
Member of the Health, Safety
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Chairman of the Audit Committee
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Toronto, Ontario
Canada
Member of the Human
Resources Committee
Member of the Health, Safety
and Environment Committee

CLAUDE MONGEAU

President and Chief Executive Officer
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Montreal, Quebec
Canada
Member of the Audit Committee

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Chairman of the Board
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada
Chairman of the
Governance Committee

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Member of the Audit Committee
Member of the Health, Safety
and Environment Committee

THE HON. HUGH D. SEGAL

Senator
Senate of Canada
Ottawa, Ontario
Canada
Member of the Human
Resources Committee
Member of the Health, Safety
and Environment Committee

LAWRENCE N. STEVENSON

Managing Director
Callisto Capital LP
Toronto, Ontario
Canada
Chairman of the Human
Resources Committee
Member of the Governance Committee

GLOSSARY OF TERMS

The following section defines some abbreviations and terms used throughout the financial report.

CHEMICALS & PETROLEUM

Part of Services and Packages activities, it includes projects in gas processing, heavy and conventional oil production, onshore and offshore oil and gas, liquefied natural gas ("LNG"), re-gasification terminals, coal to liquid gas, carbon capture, transportation and sequestration, pipelines, terminals and pump stations, refining and upgrading, bitumen production, biofuels, petrochemicals and chemicals.

EPC

Type of agreement classified as part of Packages activity whereby the Company provides Engineering, Procurement, and Construction.

EPCM

Type of agreement classified as part of Services activity whereby the Company provides services related to Engineering, Procurement, and Construction Management activities. 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.

COST-PLUS REIMBURSABLE CONTRACT

Contract in virtue of which the Company charges the client its actual costs as they are incurred plus a profit margin.

COST REIMBURSABLE WITH A FIXED-FEE CONTRACT

Contract in virtue of which the Company charges the client its actual costs as they are incurred, plus a fixed fee amount over the term of the agreement.

FIXED-PRICE CONTRACT

Contract in virtue of which the amount to be charged by the Company is fixed, regardless of the actual costs to be incurred by the Company. Also referred to as lumpsum contracts.

FREEHOLD CASH

Non-GAAP financial measure defined by the Company as its cash and cash equivalents, excluding cash and cash equivalents from fully and proportionately consolidated ICI, not committed for its operations, investments in ICI and balance of payment for past business acquisitions.

GAAP

Canadian generally accepted accounting principles.

IFRS

International financial reporting standards.

INFRASTRUCTURE & ENVIRONMENT

Part of Services and Packages activities, it 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.

INFRASTRUCTURE CONCESSION INVESTMENT ("ICI")

The Company's equity investments in infrastructure concessions such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

LUMP SUM CONTRACTS

Contract in virtue of which the amount to be charged by the Company is fixed, regardless of the actual costs to be incurred by the Company. Also referred to as fixed-price contracts.

MINING & METALLURGY

Part of Services and Packages activities, it 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 plants.

NET CASH POSITION

Cash and cash equivalents less cash and cash equivalents from ICI and recourse debt.

O&M

Category of activity that includes contracts under which the company provides Operations and Maintenance in the following lines of businesses: i) project, facility, and property management, ii) industrial, iii) transportation, and iv) defence and remote camp logistics. O&M revenues are derived primarily from cost-reimbursable with fixed-fee contracts and from fixed-price contracts.

OPERATING INCOME

Gross margin less directly related selling, general and administrative expenses, imputed interest and corporate selling, general and administrative expenses. Imputed interest is allocated monthly to the Company's segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, while corporate selling, general and administrative expenses are allocated based on the gross margin of each of the Company's segments.

OTHER INDUSTRIES

Services and Packages 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.

PACKAGES

Category of activity that includes contracts in which SNC-Lavalin is responsible not only for providing one or more Services activities, but also undertakes the responsibility for providing materials/equipment and/or construction activities. As such, Packages revenues include the cost of materials, equipment and/or construction.

POWER

Part of Services and Packages activities, it includes projects in hydro, nuclear and thermal power generation, energy from waste, green energy solutions, and power transmission and distribution.

REVENUE BACKLOG

Forward-looking indicator of anticipated revenues that will be recognized by the Company, determined based on contract awards that are considered firm or based on a five-year rolling basis for recurring revenues from ICI activities accounted for under the full or proportionate consolidation methods. In the case of O&M activities, the Company limits the revenue backlog to the earlier of: i) the contract term awarded; and ii) the next five years.

ROASE

Return on Average Shareholders' Equity, corresponding to the Company's trailing 12-month net income less non-controlling interests divided by its trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)".

SERVICES

Category of activity that includes contracts wherein SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning.

TEN-YEAR STATISTICAL SUMMARY

YEAR ENDED DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS,
UNLESS OTHERWISE INDICATED)

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues by activity | | | | | | | | | | |
| Services | 2,051.9 | 2,221.4 | 2,305.4 | 1,726.1 | 1,180.2 | 958.5 | 923.6 | 888.8 | 777.2 | 583.2 |
| Packages | 2,409.0 | 2,202.2 | 3,229.5 | 3,635.7 | 2,835.9 | 1,704.1 | 1,502.7 | 1,463.7 | 1,769.3 | 863.2 |
| Operations and Maintenance | 1,330.5 | 1,297.9 | 1,225.0 | 1,058.4 | 920.9 | 695.9 | 646.1 | 569.7 | 553.2 | 618.4 |
| Infrastructure Concession | | | | | | | | | | |
| Investments (ICI) | 523.6 | 380.2 | 347.0 | 309.4 | 212.2 | 88.7 | 85.0 | 76.1 | 64.6 | 55.8 |
| | 6,315.0 | 6,101.7 | 7,106.9 | 6,729.6 | 5,149.2 | 3,447.2 | 3,157.4 | 2,998.3 | 3,164.3 | 2,120.6 |
| Gross margin | 1,331.7 | 1,151.1 | 1,012.9 | 565.3 | 536.8 | 457.1 | 446.3 | 433.6 | 404.5 | 326.4 |
| Selling, general and administrative expenses | 585.6 | 545.6 | 515.2 | 392.8 | 285.2 | 257.0 | 254.8 | 270.3 | 259.1 | 206.3 |
| Interest (revenues) and capital taxes | | | | | | | | | | |
| From ICI | 151.8 | 112.2 | 108.2 | 104.6 | 74.3 | 47.6 | 52.9 | 44.7 | 47.9 | 67.8 |
| From other activities | 23.1 | 16.0 | (13.7) | (32.1) | (21.0) | (3.5) | 5.2 | 4.6 | 8.3 | (0.9) |
| Income before gains, income taxes, non-controlling interests and amortization of goodwill | 571.2 | 477.3 | 403.2 | 100.0 | 198.3 | 156.0 | 133.4 | 114.0 | 89.2 | 53.2 |
| Gain on disposal of a portion of the investment in 407 International Inc. and dilution gain | — | — | — | — | — | — | — | — | 164.0 | — |
| Income before income taxes, non-controlling interests and amortization of goodwill | 571.2 | 477.3 | 403.2 | 100.0 | 198.3 | 156.0 | 133.4 | 114.0 | 253.2 | 53.2 |
| Income taxes | 123.4 | 108.2 | 85.1 | 23.5 | 55.0 | 50.6 | 46.1 | 43.2 | 65.2 | 24.7 |
| Non-controlling interests | 10.8 | 9.7 | 5.6 | 9.2 | 7.3 | 2.2 | — | — | — | — |
| Income before amortization of goodwill | 437.0 | 359.4 | 312.5 | 67.3 | 136.0 | 103.2 | 87.3 | 70.8 | 188.0 | 28.5 |
| Amortization of goodwill (net of income taxes) | — | — | — | — | — | — | — | — | — | 14.6 |
| Net income from continuing operations | 437.0 | 359.4 | 312.5 | 67.3 | 136.0 | 103.2 | 87.3 | 70.8 | 188.0 | 13.9 |
| Net income from discontinued operations | — | — | — | 84.1 | 21.8 | 24.3 | 15.7 | 15.7 | 14.5 | 12.5 |
| Net income | 437.0 | 359.4 | 312.5 | 151.4 | 157.8 | 127.5 | 103.0 | 86.5 | 202.5 | 26.4 |
| Return on average shareholders' equity ⁽¹⁾ | 27.4% | 27.3% | 29.1% | 16.4% | 19.0% | 17.0% | 15.1% | 13.8% | 36.0% | 6.6% |
| Acquisition of property and equipment | | | | | | | | | | |
| From ICI | 418.7 | 274.1 | 193.5 | 308.6 | 182.5 | 22.3 | 9.1 | 75.0 | 13.1 | 70.8 |
| From other activities | 46.0 | 32.4 | 46.3 | 41.2 | 37.7 | 25.5 | 19.6 | 14.8 | 32.8 | 20.6 |
| | 464.7 | 306.5 | 239.8 | 349.8 | 220.2 | 47.8 | 28.7 | 89.8 | 45.9 | 91.4 |
| Depreciation of property and equipment and amortization of other assets | | | | | | | | | | |
| From ICI | 93.8 | 86.6 | 88.1 | 76.9 | 52.4 | 13.7 | 13.5 | 11.0 | 10.4 | 14.1 |
| From other activities | 39.6 | 43.5 | 41.9 | 35.2 | 28.2 | 24.6 | 31.4 | 32.6 | 31.2 | 28.6 |
| | 133.4 | 130.1 | 130.0 | 112.1 | 80.6 | 38.3 | 44.9 | 43.6 | 41.6 | 42.7 |
| Earnings before interest, taxes, depreciation and amortization, and non-controlling interests | | | | | | | | | | |
| From ICI | 352.8 | 252.9 | 238.8 | 214.5 | 146.4 | 65.5 | 62.8 | 49.9 | 208.1 | 48.9 |
| From other activities | 526.7 | 482.7 | 388.9 | 70.1 | 185.8 | 172.9 | 173.6 | 157.0 | 142.9 | 99.3 |
| | 879.5 | 735.6 | 627.7 | 284.6 | 332.2 | 238.4 | 236.4 | 206.9 | 351.0 | 148.2 |
| Supplementary Information: | | | | | | | | | | |
| SNC-Lavalin's net income (loss) from ICI | | | | | | | | | | |
| From Highway 407 | 12.9 | 9.8 | 20.0 | 10.1 | 8.1 | (4.7) | (14.5) | (12.7) | 113.0 | (32.8) |
| From other ICI | 70.0 | 27.1 | 17.2 | 13.2 | 6.8 | 6.1 | 7.2 | 4.1 | 5.2 | 1.2 |
| SNC-Lavalin's net income excluding ICI | 354.1 | 322.5 | 275.3 | 128.1 | 142.9 | 126.1 | 110.3 | 95.1 | 84.3 | 58.0 |
| Net income | 437.0 | 359.4 | 312.5 | 151.4 | 157.8 | 127.5 | 103.0 | 86.5 | 202.5 | 26.4 |

(1) Excluding accumulated other comprehensive income (loss).

Note: Certain figures from 2004 to 2008 have been restated, reflecting the adoption of new accounting standards for goodwill and intangible assets in 2009, on a retrospective basis.

| YEAR ENDED DECEMBER 31 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Earnings per share (\$) | | | | | | | | | | |
| Basic | 2.89 | 2.38 | 2.07 | 1.00 | 1.05 | 0.84 | 0.68 | 0.57 | 1.35 | 0.18 |
| Diluted | 2.87 | 2.36 | 2.05 | 0.99 | 1.03 | 0.83 | 0.67 | 0.56 | 1.32 | 0.18 |
| Weighted average number of shares (in thousands) | | | | | | | | | | |
| Basic | 151,020 | 151,042 | 150,925 | 151,172 | 151,034 | 151,499 | 151,816 | 151,130 | 150,416 | 143,742 |
| Diluted | 152,221 | 151,992 | 152,265 | 152,697 | 152,685 | 153,143 | 153,449 | 153,639 | 153,888 | 146,556 |
| Annual dividends declared per share (\$) | 0.72 | 0.62 | 0.51 | 0.39 | 0.30 | 0.23 | 0.18 | 0.14 | 0.12 | 0.10 |

AT DECEMBER 31
(IN MILLIONS OF CANADIAN DOLLARS,
UNLESS OTHERWISE INDICATED)

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|-----------------|----------|---------|----------|----------|---------|---------|---------|---------|---------|
| Number of employees | 23,923 | 21,948 | 21,260 | 18,691 | 13,297 | 11,187 | 9,545 | 9,047 | 13,284 | 7,553 |
| Revenue backlog by activity | | | | | | | | | | |
| Services | 1,410.7 | 1,464.9 | 1,545.3 | 1,556.5 | 819.8 | 604.2 | 564.9 | 567.7 | 416.2 | 389.7 |
| Packages | 5,912.1 | 4,197.5 | 3,508.0 | 4,457.0 | 6,082.6 | 4,308.1 | 2,483.2 | 1,749.5 | 1,715.4 | 885.0 |
| Operations and Maintenance | 2,732.8 | 2,596.1 | 2,196.2 | 2,513.9 | 1,570.2 | 2,112.4 | 2,213.5 | 764.3 | 1,135.9 | 1,151.9 |
| Infrastructure Concession Investments (ICI) | 2,949.9 | 2,578.7 | 2,342.7 | 2,095.4 | 1,942.0 | 468.9 | 394.9 | 370.9 | 342.8 | 511.8 |
| | 13,005.5 | 10,837.2 | 9,592.2 | 10,622.8 | 10,414.6 | 7,493.6 | 5,656.5 | 3,452.4 | 3,610.3 | 2,938.4 |
| Cash and cash equivalents | 1,288.2 | 1,218.2 | 988.2 | 1,088.6 | 1,106.3 | 1,153.5 | 676.3 | 471.9 | 467.4 | 290.7 |
| Working capital | 1,246.4 | 544.1 | 276.4 | 270.2 | 300.3 | 411.4 | 334.8 | 395.6 | 277.3 | 290.1 |
| Property and equipment | | | | | | | | | | |
| From ICI | 2,588.7 | 2,217.0 | 1,750.7 | 1,640.7 | 1,439.3 | 452.5 | 450.8 | 456.8 | 451.0 | 601.8 |
| From other activities | 117.5 | 114.0 | 123.4 | 112.0 | 94.3 | 81.0 | 77.4 | 87.0 | 107.4 | 91.4 |
| | 2,706.2 | 2,331.0 | 1,874.1 | 1,752.7 | 1,533.6 | 533.5 | 528.2 | 543.8 | 558.4 | 693.2 |
| Recourse long-term debt | 348.2 | 452.9 | 104.7 | 104.6 | 104.5 | 104.4 | 104.3 | 104.2 | 104.0 | 103.9 |
| Non-recourse long-term debt | | | | | | | | | | |
| From ICI | 2,981.4 | 2,005.5 | 2,003.3 | 1,971.0 | 1,650.5 | 785.9 | 728.5 | 673.1 | 612.1 | 1,036.8 |
| From other activities | — | — | — | — | 26.2 | 28.2 | 30.5 | 32.1 | 34.8 | 34.9 |
| | 2,981.4 | 2,005.5 | 2,003.3 | 1,971.0 | 1,676.7 | 814.1 | 759.0 | 705.2 | 646.9 | 1,071.7 |
| Shareholders' equity | 1,708.4 | 1,434.7 | 1,089.2 | 922.4 | 901.9 | 786.2 | 716.7 | 658.3 | 597.1 | 443.0 |
| Book value per share (\$) | 11.31 | 9.50 | 7.21 | 6.11 | 5.97 | 5.20 | 4.73 | 4.33 | 3.97 | 2.96 |
| Number of outstanding common shares (in thousands) | 151,034 | 151,033 | 151,033 | 151,038 | 151,032 | 151,282 | 151,525 | 152,005 | 150,472 | 149,440 |
| Closing market price per share (\$) | 59.77 | 53.99 | 39.69 | 48.14 | 31.47 | 25.43 | 19.33 | 17.00 | 11.35 | 9.63 |
| Market capitalization | 9,027.3 | 8,154.3 | 5,994.5 | 7,271.0 | 4,753.0 | 3,847.6 | 2,929.5 | 2,584.1 | 1,707.9 | 1,439.6 |

Note: Certain figures from 2004 to 2008 have been restated, reflecting the adoption of new accounting standards for goodwill and intangible assets in 2009, on a retrospective basis.

INFORMATION FOR SHAREHOLDERS

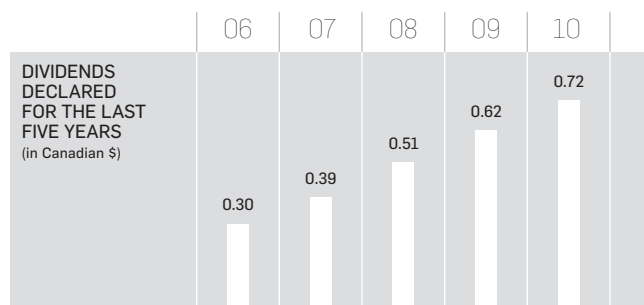
Common Share Information

Listed: Toronto Stock Exchange
 Symbol: SNC
 Shares outstanding: 151.0 million (December 31, 2010)
 Market capitalization: \$9,027 million (December 31, 2010)

Trading Activity and Market Capitalization

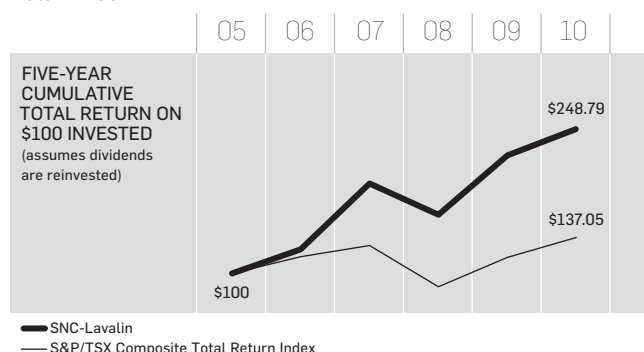
| | Volume (M) | High (\$) | Low (\$) | Close (\$) | Market Capitalization at Dec. 31 (M\$) |
|------|------------|-----------|----------|------------|--|
| 2010 | 98.7 | 60.00 | 41.59 | 59.77 | 9,027 |
| 2009 | 103.6 | 54.00 | 26.35 | 53.99 | 8,154 |
| 2008 | 147.3 | 61.95 | 26.00 | 39.69 | 5,995 |
| 2007 | 102.7 | 51.04 | 30.00 | 48.14 | 7,271 |
| 2006 | 72.8 | 33.50 | 25.15 | 31.47 | 4,753 |

Dividends



Performance Graph

The following performance graph illustrates the five-year cumulative total return assuming \$100 was invested on December 31, 2005 in common shares of SNC-Lavalin and in the S&P/TSX Composite Total Return Index.



Debt Instrument

\$350 million principal amount of debentures, 6.19%, due July 2019

Credit Ratings

| | |
|------------------------------------|-------------------|
| Standard & Poor's Ratings Services | BBB+/stable |
| DBRS | BBB (high)/stable |

Annual Meeting

The Annual Shareholders' Meeting will be held at 11:00 a.m. Eastern Daylight Time on Thursday, May 5th, 2011 at the Hilton Montreal Bonaventure Hotel, 900 de la Gauchetière Street West, Montreal, Quebec.

Key Dates for 2011

| | Earnings Announcement | Dividend Record | Dividend Payment |
|----|-----------------------|-----------------|------------------|
| Q1 | May 5 | May 19 | June 2 |
| Q2 | August 5 | August 19 | September 2 |
| Q3 | November 3 | November 17 | December 1 |
| Q4 | March 2, 2012 | March 16, 2012 | March 30, 2012 |

Note: Dividends are subject to approval by the Board of Directors. These dates may change without prior notice.

Registrar and Transfer Agent

If you would like to modify your address, eliminate multiple mailings, transfer SNC-Lavalin shares or for other information on your shareholder account such as dividends and registration, please contact:

Computershare Investor Services Inc.
 100 University Ave, 9th Floor, North Tower, Toronto ON, M5J 2Y1
 Telephone: 1-800-564-6253
 Web: www.computershare.com

Independent Auditor

Deloitte & Touche LLP
 Chartered Accountants
 Montreal QC

Investor Relations

Denis Jasmin, Vice-President, Investor Relations
denis.jasmin@snclavalin.com
 514-393-1000

Corporate Governance

Information about our corporate governance is available on our website in the Investors section which includes our code of ethics and the mandates for the Board of Directors and the Board Committees as well as various position descriptions.

Proxy Circular

The proxy circular contains information about our directors, board committee reports and further details of our corporate governance practices. This document is available online in the Investors section.

Have Your Say

If you would like to ask a question at our annual meeting of shareholders, you can submit it in person. You can also send your question by writing to the Vice-President and Corporate Secretary at:

Vice-President and Corporate Secretary
455 René-Lévesque Blvd. West, Montreal QC, H2Z 1Z3, Canada

Head Office

SNC-Lavalin Group Inc.
455 René-Lévesque Blvd West, Montreal QC, H2Z 1Z3, Canada

www.snclavalin.com

We invite you to visit our website at www.snclavalin.com to learn more about SNC-Lavalin, our governance practices, our continuous disclosure materials and to obtain electronic copies of this and other reports.

Additional Copies

To receive additional copies of this report, or to receive the 2010 Annual Report, in English or French, or to be placed on our corporate mailing list, please call us at: 514-393-1000 ext. 2121.

Exemplaires français

Pour recevoir ce rapport en français, s'adresser au :

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Groupe SNC-Lavalin inc.
455, boul. René-Lévesque Ouest, Montréal QC, H2Z 1Z3, Canada
514-393-1000, poste 2121



SNC • LAVALIN

ABOUT THE PRODUCTION OF OUR FINANCIAL REPORT

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49

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0.6 t

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solid waste



85.5 m³

Recuperated
wastewater



10 kg

Reduction
in suspended
particles in water
(or the equivalent of
wastewater from a
single household
over 1 month)



2.13 t CO₂

Reduction
in atmospheric
emissions
(or the emissions
of 1 car over
5 months)



4,689 kWh

Clear energy saved
(or the energy
used to light and
heat one house
for nearly
2 months)

Source: Environmental impact estimates were made using the Environmental Defense Fund Paper Calculator. www.papercalculator.org

LEARN ABOUT OUR KNOW-HOW IN THREE REPORTS

In addition to this **Financial Report**, SNC-Lavalin has produced a separate **2010 Annual Report**, as well as a Sustainability Report that will be published in Spring 2011. All documents will be available on our website or can be ordered through the Company.

We invite you to visit our website at www.snclavalin.com to learn more about SNC-Lavalin.

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