
SNC·LAVALIN

DISCOVER SNC-LAVALIN

SAINT LOUIS SUCRE
France

We invite you to meet our people to truly understand why SNC-Lavalin projects succeed. We're an international leader in engineering and construction, and one of the foremost players in operations, maintenance and infrastructure concession investments. We mobilize our people's experience, technical skills and global diversity to best serve our clients, developing sustainable solutions that support the widest range of stakeholders. We now invite you to also discover SNC-Lavalin.

KAREBBE HYDRO PROJECT
Indonesia

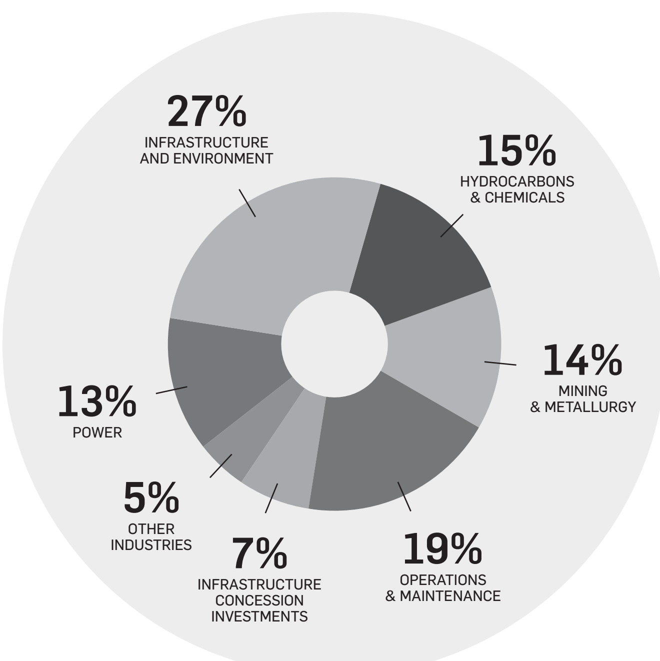
Financial Highlights

28,000 EMPLOYEES

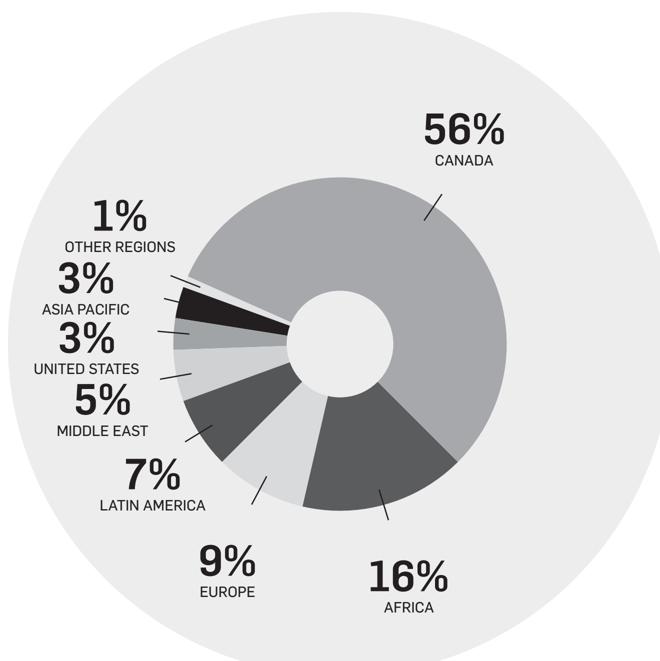
ONGOING PROJECTS IN **100** COUNTRIES

OVER **$1 billion** IN CASH

2011 REVENUES

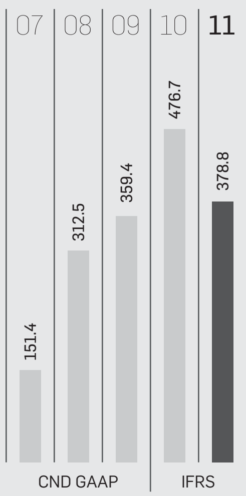


Diversity by industry segment



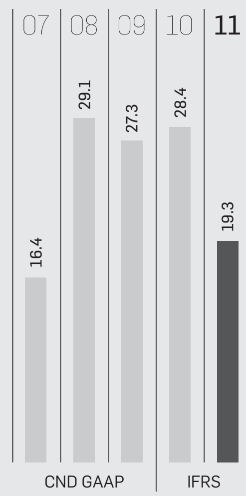
Diversity by geographic area

NET INCOME
(in millions CA$)



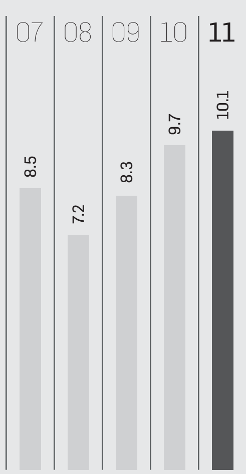
$379
million
net income
in 2011

ROASE(1)
(in %)



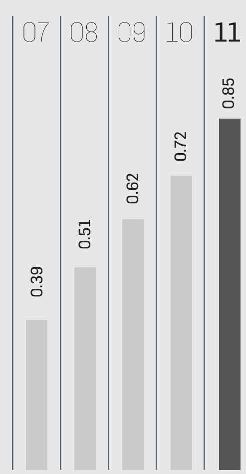
19%
ROASE(1)
for 2011

BACKLOG
(in billions CA$)



$10
billion
backlog at
December 31, 2011

DIVIDENDS
(in CA$)



21%
5-year
dividend CAGR(2)

(1) Return on average shareholders' equity
(2) Compound annual growth rate

2011 Management's Discussion and Analysis

March 25, 2012[1]

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, business strategy and performance, as well as how it 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.

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

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards ("IFRS").

The year 2011 is the first year for which the Company's consolidated financial statements have been prepared in accordance with IFRS. The 2010 comparative figures and the January 1, 2010 ("Date of Transition") opening statement of financial position have been restated as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, ("IFRS 1"). See Note 35 to the Company's 2011 audited annual consolidated financial statements for quantitative reconciliations between Canadian generally accepted accounting principles ("GAAP") and IFRS. The most significant impacts for the Company of adopting IFRS related to: i) the presentation of the net income attributable to SNC-Lavalin shareholders separately from the net income attributable to non-controlling interests; ii) the accounting for its jointly controlled entities for Infrastructure Concession Investments ("ICI"), accounted for under IAS 31, *Interests in Joint Ventures*, ("IAS 31"); and iii) the accounting for the Company's ICI that are accounted for under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"). The transition to IFRS had an impact on the Company's ICI, but only a limited impact on the Company's other activities.

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, non-compliance with laws or regulations by the Company's employees, agents, suppliers, and/or partners, and other factors that are beyond its control. Additional risks and uncertainties exist by reason of the identified material weaknesses in the Company's internal control over financial reporting and the matters investigated in connection with the Independent Review (as defined below), which are described in detail in this MD&A. 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 "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and the section "Risks and Uncertainties" in this report.

The forward-looking statements in this document reflect the Company's expectations as at March 25, 2012, 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.

(1) This Management's Discussion and Analysis is dated March 25, 2012 except with respect to certain announcements made by the Company on March 26, 2012 which are described herein.

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1 RECENT DEVELOPMENTS

1.1 INDEPENDENT REVIEW

On February 28, 2012, the Company announced that its 2011 net income was expected to be approximately 18% below its previously announced 2011 outlook. Moreover, the Company announced that its Board of Directors had initiated an independent investigation (the "Independent Review"), led by its Audit Committee, of the facts and circumstances surrounding period expenses of $35 million relating to certain payments made in the fourth quarter of 2011 that were documented to construction projects to which they did not relate, and certain other contracts, and that independent legal counsel was retained in this connection.

On March 26, 2012, the Company announced the results of the Independent Review and the related findings and recommendations of the Audit Committee to the Company's Board of Directors. The Board of Directors has adopted all of such recommendations, which are directed primarily at reinforcing standards of conduct, strengthening and improving internal controls and processes and reviewing the compliance environment, and has directed management to develop a detailed plan and timetable for their implementation.

The Company intends to separately report these matters to the appropriate authorities and to cooperate fully with such authorities with respect to these and any other matters.

The executive summary of the results of the Independent Review and the related findings and recommendations of the Audit Committee is reproduced below (the "Independent Review Summary").

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**EXECUTIVE SUMMARY OF INDEPENDENT REVIEW,
FINDINGS AND RECOMMENDATIONS DELIVERED ON MARCH 23, 2012**

BACKGROUND OF THE INDEPENDENT REVIEW

During December 2011 and January 2012, information was received as part of an accounting review and numerous internal meetings, held amongst certain members of senior management, with respect to two agency agreements documented to construction projects to which they did not appear to relate. The Chairman of the Board of Directors was briefed on January 19, 2012, requested additional information, and was further briefed on February 3, 2012, at which time Stikeman Elliott LLP was mandated as independent counsel. The investigation commenced of payments aggregating US$33.5 million made by the Company in the fourth quarter of 2011 under presumed agency agreements (the "**A Agreements**") documented in respect of Project [Intentionally omitted][1] ("**Project 1**") and Project [Intentionally omitted] ("**Project 2**"), but believed in fact to relate to Project [Intentionally omitted] ("**Project A**"). Independent counsel retained investigative advisors to provide business intelligence and related services.

In February 2012, documents were received by the Company's Chief Financial Officer (the "**CFO**")[2], and related information was detected as part of year-end accounting processes, with respect to two other contracts. On February 16, 2012, the Chairman of the Board of Directors and the Chairman of the Audit Committee were briefed and the scope of the investigation was widened to include: (a) payments aggregating approximately US$22.5 million made by the Company in 2010 and 2011 under a presumed agency agreement (the "**B Agreement**" and together with the A Agreements, the "**Agreements**") documented in respect of Project [Intentionally omitted] ("**Project 3**"), but believed in fact to relate to Project [Intentionally omitted] ("**Project B**"); and (b) a presumed collection agreement (the "**Collection Agreement**") and related 2009 invoice (the "**Invoice**") purporting to relate to the settlement of a dispute relating to Project [Intentionally omitted] ("**Project 4**"), as to which there was no information at the time.

On January 23, 2012 and on February 16, 2012, the Company informed its external auditor, Deloitte & Touche LLP ("**D&T**"), of the subject matters of the Independent Review, and has since regularly kept them informed as it has progressed.

1 Because of the private or commercially sensitive nature of such information, neither the projects nor outside parties involved are named in this executive summary.

2 See note 8 below.

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Independent counsel has reported periodically to the Audit Committee or the outside members of the Board of Directors on the progress of the Independent Review. Outside Board members were invited to attend Audit Committee meetings. The Chairs of the Audit Committee and of the Board of Directors were briefed regularly to update them on the progress of the Independent Review, as well as to seek instructions on matters arising therefrom.

On February 27, 2012, based upon the analysis to date regarding the A Agreements, the Audit Committee was informed by management that they had concluded, with the concurrence of D&T in the context of their audit of the 2011 financial statements, that the payments thereunder would need to be recorded as period expenses (i.e. not generating any revenues).

On February 28, 2012, before the opening of markets, the Company publicly announced that its 2011 net income is expected to be approximately 18% (or approximately $80 million) below its previously announced 2011 outlook, including because of period expenses of approximately $35 million relating to certain payments referred to above made in the fourth quarter of 2011 that were documented to projects to which they did not relate and, consequently, had to be recorded as expenses in the quarter.

SCOPE OF THE INDEPENDENT REVIEW

The scope of the Independent Review and the processes undertaken were approved by the outside members of the Board of Directors or the Audit Committee, as the case may be. From the outset, the cooperation and support of current senior executive officers was sought and obtained in the Independent Review, including assistance in helping to coordinate requests and to obtain information.

At the direction of independent counsel, electronic and paper documents were collected from Company corporate headquarters in Montreal, Company servers and members of senior management and key employees. The electronic documents were searched using relevant keywords, and documents flagged as a result of the searches performed were reviewed. Independent counsel interviewed members of senior management and other employees identified as possibly having knowledge about the subject matter of the Independent Review or who were otherwise relevant to it, in some cases more than once. In addition, at the direction of independent counsel, background intelligence and other information was sought about various companies and individuals.

Background intelligence work was carried out in respect of the named counterparties to the Agreements and Collection Agreement and other entities where some form of connection was observed to such named counterparties. This consisted primarily of searches of publicly available information, such as company records in the relevant jurisdictions.

The Independent Review has been subject to certain practical limitations, including that: (a) Mr. Riadh Ben Aïssa (the **"Former EVP Construction"**), a former senior executive of the Company, is believed to have direct and significant knowledge about most of the investigated transactions, but has not been met despite a request to his counsel; (b) Mr. Stéphane Roy (the **"Former Controller Construction"**), a former executive of the Company who may have knowledge about some of the investigated transactions, was met prior to his dismissal on February 9, 2012, but has not been met since; (c) the information reviewed is limited to that within the Company's control and information that is publicly available; (d) the relevant counterparties to the Agreements and Collection Agreement are constituted in multiple jurisdictions and public records in certain of these contain limited information which may not be complete, current or accurate; (e) third parties have been unresponsive or reluctant to provide information regarding their operations or their clients' affairs; (f) some former employees have conducted Company affairs using non-corporate email addresses or had password protected devices to which the Company does not have access; (g) the conclusions drawn are limited to the information obtained to date; and (h) the interpretation of improper documentation cannot be definitive, including because it is known to be inaccurate, at least in some respects, and the true arrangement and terms thereof will be inferred from contradicting or supplementing oral or circumstantial evidence.

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RESULTS OF THE INDEPENDENT REVIEW

PRELIMINARY MATTERS

The Agreements are based upon the form of representative agreement contemplated in the Company's Policy on Commercial Agents/Representatives (the "Agents Policy"). The Agents Policy sets out the rules governing the hiring and remuneration of commercial agents or representatives by the Company in various markets around the world. One key feature of the Agents Policy is that all of the hiring and remuneration of agents is the responsibility of SNC-Lavalin International Inc. ("SLII"), a subsidiary of the Company. There are different authorized signatories depending on whether the contract with the agent respects certain limits, but no provision in the Agents Policy allows any person to override the Agents Policy.[3]

FINDINGS DERIVED FROM INFORMATION OBTAINED

Based upon the information obtained as part of the Independent Review, and although there is no documentary evidence linking the Agreements to Project A or Project B: (a) a presumed agent, representative or consultant[4] appears to have been retained for each of Project A and Project B; (b) the Agreements were respectively documented in respect of Projects 1 and 2 (instead of Project A) and Project 3 (instead of Project B); (c) all or part of the US$33.5 million paid in 2011 under the A Agreements is more likely than not to relate to Project A; and (d) all or part of the approximately US$22.5 million paid in 2010 and 2011 under the B Agreement is more likely than not to relate to Project B. No agency agreement other than the Agreements came to light in the context of the Independent Review as being improperly documented in respect of a project to which it did not effectively relate.

3 The Agents Policy also provides among others for the existence of a written agreement with any agent, the use of an approved master agreement, a progressive payment schedule for commercial fees, percentage or ratio limits on commercial fees, a procedure for approval and signature of agreements and payments thereunder, standard distribution of the agreements once signed, diligence and certification requirements, and an approval process in case an agreement departs from the specified limits

4 Given it is not known precisely what services were rendered, reference is made, for convenience purposes, to a presumed agency or agent throughout this executive summary.

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The following table summarizes these findings:

	A Agreements	B Agreement
Presumed agents hired	In 2011, the Former EVP Construction said that he had hired an agent to help secure work in respect of Project A. The Independent Review has found no direct and conclusive evidence establishing the nature of the services or actions undertaken by, or the true identity of, any presumed agent. The counterparties named in the A Agreements appear to be without substance, and any individual named on the public registers in relation to the corporate counterparties does not appear to be a true principal.[5]	In 2009, the Former EVP Construction said that he had hired an agent to help secure work in respect of Project B. The Independent Review has found no direct and conclusive evidence establishing the nature of the services or actions undertaken by, or the true identity of, any presumed agent. The counterparty named in the B Agreement appears to be without substance, and any individual named on the public registers in relation to the corporate counterparties does not appear to be a true principal.
Decisions to attribute to other projects	At the same time, a decision was made not to charge the presumed agents' fees to Project A, and not to otherwise associate the presumed agents with Project A	At the same time, a decision was made not to charge the presumed agent's fees to Project B, and not to otherwise associate the presumed agent with Project B.
Execution of improper documents	The Former EVP Construction co-signed and instructed a senior officer of SLII to co-sign the A Agreements on behalf of SLII. The A Agreements were improperly documented in respect of Projects 1 and 2.	The Former EVP Construction instructed a senior officer of SLII to sign the B Agreement on behalf of SLII. The B Agreement was improperly documented in respect of Project 3.
Agents Policy	The Agents Policy was not complied with in various respects in connection with the A Agreements, including the authorized signatories and the aggregate corporate limits on fees attributable to the attributed projects.	The Agents Policy was not complied with in various respects in connection with the B Agreement, including the authorized signatories and the aggregate corporate limits on fees attributable to the attributed project.
Payments	The A Agreements contemplated fees of US$33.5 million in the aggregate. In December 2011, payments of US$33.5 million under the A Agreements were requested of SLII by the Former EVP Construction. The required signatories (the Chairman of SLII and the CFO) refused to approve the payments. The requests were brought to the Company's Chief Executive Officer (the "CEO"), who authorized or permitted the Former EVP Construction to make the payments through his division.	The B Agreement contemplated fees of $30 million. Payments aggregating approximately US$22.5 million[6] were made in 2010 and 2011 through SLII (Tunisia), but were improperly approved on its behalf by the Former EVP Construction and someone within his division.
Use of payments, etc.	The Independent Review has found no direct and conclusive evidence establishing the exact use, purpose or beneficiaries of payments made under the A Agreements. However, as noted above, the decision to hire presumed agents was based on the understanding at the time that it would help secure work in respect of Project A.	The Independent Review has found no direct and conclusive evidence establishing the exact use, purpose or beneficiaries of payments made under the B Agreement. However, as noted above, the decision to hire a presumed agent was based on the understanding at the time it would help secure work in respect of Project B.
Accounting	Payments were to be accounted for in respect of Projects 1 and 2 in accordance with the improper documentation. Accounting entries were not made or were made and reversed in short order in relation to Projects 1 and 2.	Payments were accounted for in respect of Project 3 in accordance with the improper documentation. Accounting entries were made in relation to Project 3 in 2010 and 2011. The entries were subsequently detected in February 2012 as an anomaly and reported to the Senior Vice-President and Controller of the Company.
Disclosure	The agencies on Project A were neither properly disclosed within the Company, nor were they disclosed to its internal or external auditors until shortly before the Independent Review began.[7] In late 2011, the CFO was told at a meeting with the CEO and the Former EVP Construction that agents had been hired on Project A. The CFO objected to any involvement.	The agency on Project B was neither properly disclosed within the Company, nor to its internal or external auditors until shortly before the Independent Review began. In 2010, the CFO was told at a meeting with the CEO and the Former EVP Construction that an agent had been hired on Project B and that its fees would be charged to other projects. The CFO objected to this at the meeting.

5 In correlating this information to similar information obtained, certain relationships have been established through co-directorships or otherwise with other counterparties to other agency agreements.

6 It is assumed that this corresponds to a renegotiated fee arrangement resulting from a change in the project cost, but there is no evidence of this amendment.

7 In 2011, a senior officer was told that a presumed agent had been hired for Project A. He did not, however, see the A Agreements.

2011 Management's Discussion and Analysis

COLLECTION AGREEMENT

The Collection Agreement and the Invoice were received together. The Collection Agreement purports to relate to a dispute over an amount owing to the Company under Project 4 and to give rise to a payable of US$8.25 million. The Invoice appears to have been received by the Company in 2011 only, but payment was refused on the basis that there were no records or other information available about such an arrangement. On March 21, 2012, a demand letter was received from legal counsel to the counterparty demanding payment of Euros (*sic*) 8.25 million. To date, other than these documents, there is no oral, documentary or circumstantial evidence linking the documents to Project 4 or any other project. In addition, there does not appear to be any payment of any amount to the payee thereof since January 2010. Accordingly, no conclusion can be drawn other than that these documents are unlikely to relate to Project 4, including because there is already a collection arrangement in respect of the presumed dispute and there is no obvious reason why there would need to be a second collection agreement on the project. The Independent Review has found no direct and conclusive evidence establishing the nature of the services or actions undertaken by, or the true identity of, the presumed agent. From the business intelligence gathered, the named counterparty appears to be without substance, and the true principal involved in the transaction does not appear to be an individual named on the public registers relating to the counterparty.

POTENTIAL SANCTIONS

In the absence of direct and conclusive evidence, the use and purpose of the payments or nature of the services rendered or actions taken under the Agreements cannot be determined with certainty. However, the absence of conclusive findings does not exclude the possibility that, if additional facts that were adverse to the Company became known, sanctions could be brought against it in connection with possible violations of law or contracts.

CODE OF ETHICS AND BUSINESS CONDUCT AND RELATED MATTERS

INTRODUCTION

Code. The Company's Code of Ethics and Business Conduct (the "**Code**") was considered in light of the findings of the Independent Review. The general policy underlying the Code is expressed as follows:

> "Our policy is to maintain ethical standards in the conduct of our business and in our relations with whomever we associate – our colleagues, directors, shareholders, customers, associates and suppliers, as well as governments, the public and the media. Our integrity and reputation for ethical practices are among our most valued assets and are essential aspects of our sustained profitability."

The Code applies to "all members of the Boards of Directors and to all officers and employees of SNC-Lavalin in Canada and abroad." It imposes personal obligations on all directors, officers and employees "[a]s a condition of membership and of employment", and each must acknowledge having read the Code, understanding its contents, and being bound by its provisions.

Each person who authorizes or participates in a breach of the Code breaches the Code ("each one of us is accountable for his or her actions"). However, while it is open to any individual who is aware of a suspected breach of the Code by others to report it, there is no duty to report such a suspected breach, such that a person who has knowledge of a breach of the Code and who does not report it is not himself or herself in breach.

Whistleblower Policy. The Procedures for Complaints and Concerns Regarding Accounting, Internal Accounting Controls, Auditing and Other Matters (the "**Whistleblower Policy**") sets out the procedures governing complaints, including matters such as protecting the confidentiality of any whistleblower and ensuring that there be no retaliation against a whistleblower. The Whistleblower Policy does not, however, impose an obligation to report an issue.

Agents Policy. The Code provides that "[a]ll transactions are conducted at the level of authority required by SNC-Lavalin policies and procedures", such that a breach of the Agents Policy is a breach of the Code.

2011 Management's Discussion and Analysis

RECORDS RULE

In the present circumstances, the relevant provisions of the Code includes compliance with sound accounting practices and record maintenance (the **"Records Rule"**):

Compliance with Sound Accounting Practices and Record Maintenance

"Accurately reflecting our business transactions"

We all have a responsibility to ensure that SNC-Lavalin's books and records accurately and punctually reflect the Company's transactions, assets and liabilities. We adhere to a proper application of accepted accounting standards and practices, rules, regulations and controls. These commitments include the following:

> Business records, expense reports, invoices, vouchers, payrolls, employee records and other reports are prepared with care and honesty and in a timely fashion.

> All transactions are conducted at the level of authority required by SNC-Lavalin policies and procedures and in compliance with applicable rules and regulations.

> No transaction, asset, liability or other financial information is concealed from management or from SNC-Lavalin's internal and external auditors. ...

> All documents signed are, to the best of our knowledge, accurate and truthful.

> False or misleading entries and unrecorded bank accounts, for any purpose, whether regarding sales, purchases or other Company activity, are strictly prohibited. ...

The above list is by no means exhaustive. Suspected breaches of our accounting practices and record maintenance and internal controls that appear to be in violation will be investigated." [Emphasis added.]

The Records Rule does not refer to or incorporate materiality thresholds explicitly or implicitly, except where it refers to accounting practices. Accordingly, a finding that the Records Rule has been breached does not require or imply misconduct resulting in a material event on a consolidated basis.

FINDINGS

In the present circumstances, the Records Rule was not complied with as a result of any one of the following findings: (a) the improper documentation of agency arrangements in respect of projects to which they did not relate, and concealment thereof; (b) incorrect entries relating to payments in the books and records of the Company, and concealment thereof; and (c) non-compliance with the Agents Policy.

Transactions not disclosed. The Code provides that no transaction or other financial information is concealed from management or from internal and external auditors. In December 2009 and in July 2011, presumed agents in respect of Projects A and B respectively were hired by the Former EVP Construction, without complying with the Agents Policy. The agencies on Projects A and B were neither properly disclosed within the Company, nor were they disclosed to its internal or external auditors until shortly before the Independent Review began. The CEO and Former EVP Construction authorized or permitted this course of action until 2012, which did not comply with the Code.

Accuracy of documents and records. The Code provides that the Company's books and records accurately reflect the Company's transactions and that all documents signed are, to the best of one's knowledge, accurate and truthful. The Agreements signed by the Former EVP Construction are neither accurate nor truthful, and thus in breach of the Code. The books and records relating to Project 3 inaccurately reflect fees unrelated to it. The CEO knew that agents were being hired by the Former EVP Construction on Projects A and B in unusual circumstances, and that the Former EVP Construction would cause their fees not to be charged to Projects A and B but rather to other projects.[8] The CEO did not see the Agreements or accounting entries in the Company's books and records, but should have known that contractual documents would refer to projects other than Projects A and B and that incorrect entries would be made, which did not comply with the Code.

Proper levels of authority. The Code provides that all transactions are conducted at the level of authority required by Company policies, and the Agents Policy provides that all payments of agent fees must be made by SLII. In December 2011, the Former EVP Construction requested SLII to make the payments under the Agreements. The Chairman of SLII and the CFO refused to authorize the payments. The matter was brought to the CEO, who authorized or permitted the Former EVP Construction to make the payments through his division. While the CEO thought he had the authority to do so, he should have confirmed his authority but did not. The CEO's authorization of these payments did not comply with the Agents Policy and therefore was in breach of the Code.

8 No finding is expressed regarding the Former Controller Construction. However, some awareness on his part of the Agreements can be inferred from the fact he handed copies and/or originals thereof to the CFO upon his departure in February 2012.

2011 Management's Discussion and Analysis

SUMMARY OF ACTIONS RECOMMENDED

The Audit Committee has found that the hiring of presumed agents in respect of Projects A and B and the improper documentation results primarily from the following:

> management override, flawed design or ineffective enforcement of controls in connection with the presumed agencies, including the controls contained in the Agents Policy;
> non-compliance with the Code and the Agents Policy; and
> ineffective enforcement or scope of, or controls over compliance with, the Code and the Agents Policy.

The Company is a multi-national organization that has changed organizational structure over the past several years. One legacy of this changing structure is distributed leadership, which has generally served the Company well. The Audit Committee notes that the model could usefully be reviewed over time and within a broader context.

GOVERNING PRINCIPLES

The Audit Committee considered what governing principles, based on the results of the Independent Review, should be considered to prevent recurrence of inappropriate conduct, and to improve the compliance and control environments. These principles were directed primarily at:

> reinforcing standards of conduct
> strengthening and improving internal controls and processes
> reviewing the compliance environment

RECOMMENDATIONS

The Audit Committee recommendations are discussed below, for consideration by the Board of Directors. If adopted, management should be directed, where applicable, to develop a detailed plan and timetable for their implementation, subject to the Board of Directors monitoring the implementation thereof by management.

CODE AND RELATED MATTERS

The Audit Committee recommends the following measures be taken in light of its findings:

> Non-compliance with the Code. The Board of Directors should consider what sanctions if any to apply in connection with non-compliance with the Code[9]. Generally, in exercising its powers with a view to the best interests of the Company, the Board of Directors may consider in assessing breaches of the Code the following factors:
  > the individual's functions and responsibilities within the Company;
  > the nature and seriousness of the conduct, including the risk of harm to the Company, whether it was repeated, and whether it constituted a breach of law;
  > whether the individual devised or was a participant in the conduct, the length of participation, and the motivation in participating;
  > the timely and voluntary disclosure of the breach and the willingness to cooperate in the investigation;
  > any loss or risks to the Company resulting from the conduct, and whether there are any illicit gains to an individual;
  > whether the breach constitutes aberrant behavior in light of an individual's overall history with the Company and character; and
  > the multiple purposes of enforcing the Code, including sanctioning inappropriate conduct, and specific and general deterrence.
> Code and Whistleblower Policy. The Audit Committee also recommends that the ongoing review and update of the Code, as well as of the Whistleblower Policy, take its findings into account, including to provide for a duty to report violations or possible violations of policies or procedures.

9 These could include disciplinary, compensation, training or other measures.

2011 Management's Discussion and Analysis

INTERNAL CONTROLS AND PROCESSES, AND COMPLIANCE

Internal controls foster sound monitoring of business operations and corporate assets, accurate financial reporting, and compliance with laws, and correspondingly reduce the risks of misuse, inaccuracies and non-compliance. Accordingly, the Audit Committee recommends the implementation of the following measures (the implementation of some of which has already been initiated):

> Management departures. The Company should clarify the procedure to be followed in cases of acceptable management departures from policies or procedures.

> Compliance review. The Board of Directors should hire an independent expert to provide advice on the structure of the organization, guidelines and controls, and communication and training.

> Agents Policy. The Agents Policy should continue to be reviewed from time to time as legislative changes and commercial practices evolve, including in accordance with the proposed changes presented to the Audit Committee in February 2012. However, the Agents Policy should be further reviewed in light of the findings of the Independent Review.

> Approval levels. Procedures and approvals should be reinforced regarding levels of authority, with clear reporting obligations on any deviations or proposed deviations therefrom.

> Divisional controllers. The reporting lines for divisional controllers should be reviewed.

> Internal audit function. The existing practice of having the head of the internal audit group report directly to the Audit Committee should now be formally documented.

> Technology. The Company should continue to move forward with the integration of its technology platforms to further facilitate the production of accurate financial information results, as well as the monitoring thereof in a timely and cost effective manner.

RECOMMENDED ADOPTION

After thorough consideration, the Audit Committee has recommended the adoption by the Board of Directors of each of the recommendations set out above.

CONCLUSION

The Audit Committee understands that with the delivery of this report, its Independent Review of the Agreements and Collection Agreement is terminated. The Audit Committee will continue to review the Agents Policy and compliance matters, including to assess whether amounts may directly or indirectly have improperly been paid to persons owing fiduciary duties to the Company. The Audit Committee will continue to consider, develop and implement additional remedial measures as appropriate. The Audit Committee would expect its next steps may include such other specific activities as it may deem advisable or the Board may instruct.

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2011 Management's Discussion and Analysis

1.2 DEPARTURE OF CEO AND APPOINTMENT OF INTERIM CEO

On March 26, 2012, the Company announced that Mr. Pierre Duhaime has stepped down from his position as chief executive officer of the Company (the "Former CEO") and as a director of the Company and will retire from the Company. At the request of the Board of Directors, Mr. Ian A. Bourne agreed to assume the function of vice-chairman and interim chief executive officer of the Company (the "Interim CEO"). Mr. Bourne has served as a director of the Company and a member of its Audit Committee and Health, Safety and Environment Committee since 2009. Mr. Bourne will remain as a director of the Company but will temporarily step down from the Board Committees. The Company also announced that a search for a new Chief Executive Officer will begin immediately under the direction of the Chairman of the Board. Both internal and external candidates will be considered.

The Board of Directors has struck a Special Transition Committee composed of the Chairman of the Board of Directors, the Interim CEO, and the Chairmen of the Audit and Human Resources Committees to assist with transitional matters, including serving as a resource to the management team.

1.3 PROPOSED CLASS ACTION

On March 5, 2012, the Company announced that it had become aware that a "Motion to Authorize the Beginning of a Class Action and to Obtain the Status of Representative" (the "Motion") had been filed with the Superior Court of Quebec in the Judicial District of Quebec. The Company, its current directors and certain current officers, as well as certain former employees of the Company, have been named as defendants in the proposed action.

The Motion seeks authorization of the Court to bring a class action in connection with alleged misrepresentations on behalf of all persons who acquired securities of the Company from March 13, 2009 to February 28, 2012 and, if so authorized, various declarations and compensatory damages of $250 million are sought. See section 16 "Legal Proceedings".

1.4 BANGLADESH INVESTIGATION

As previously announced on September 6, 2011, the Royal Canadian Mounted Police (the "RCMP") is investigating the Company's involvement in projects in Bangladesh and certain countries in Africa. The Company understands that the investigation is primarily focused on its involvement in a past submission as the Owner's Engineer for the Bangladesh government where the Company would have supervised the contractor responsible for the overall project. The Company's involvement in this matter is also being investigated by the World Bank. The Company understands that the RCMP investigation into this matter is ongoing but no charges have been laid against the Company. The Company also understands that the World Bank investigation is ongoing but no sanctions or proceedings have been initiated against the Company. Due to the nature of these investigations, it is not possible to predict the respective outcomes with any certainty or potential losses, if any, for the Company in connection therewith.

2011 Management's Discussion and Analysis

2 2011 HIGHLIGHTS

DECREASE IN 2011 NET INCOME

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	2011	2010	CHANGE (%)
Net income attributable to SNC-Lavalin shareholders:			
From net gains from the disposals of certain assets and investments	$ –	$ 45.7	N/A
Excluding ICI and a net gain from the disposal of certain technology solution assets	247.6	322.2	(23.1%)
From ICI, excluding a net gain from the disposal of investments	131.2	108.8	20.6%
Net income attributable to SNC-Lavalin shareholders	$ 378.8	$ 476.7	(20.5%)
Earnings per share (diluted) (in $)	$ 2.49	$ 3.13	(20.5%)

> For the year ended December 31, 2011, net income attributable to SNC-Lavalin shareholders was $378.8 million ($2.49 per share on a diluted basis), compared to $476.7 million ($3.13 per share on a diluted basis) for the comparable period in 2010, or $431.0 million ($2.83 per share on a diluted basis) excluding the net gains of $45.7 million from the disposals of certain assets and investments recognized in 2010.

> The variance reflected a lower net income attributable to SNC-Lavalin shareholders excluding ICI, partially offset by a higher net income attributable to SNC-Lavalin shareholders from ICI, in both cases excluding the net gains from the disposals of certain assets and investments. The decrease in net income attributable to SNC-Lavalin shareholders excluding ICI mainly reflected a lower contribution from Infrastructure & Environment partially offset by higher contributions from all other segments, while the increase in net income attributable to SNC-Lavalin shareholders from ICI reflected higher dividends from 407 International Inc. ("Highway 407").

> As announced in a press release dated February 28, 2012, in the fourth quarter of 2011, the Company recognized a net loss of $35 million related to payments made in the fourth quarter of 2011, under what are presumed to be agency agreements (refer to section 1.1" "Recent Developments – Independent Review"). In addition, the Company's 2010 results were adjusted by reducing net income by $17.9 million to reflect the impact of payments of $20 million made in 2010, made under what is presumed to be an agency agreement. The Company decided to correct its prior period comparative financial information in its first issuance of annual audited consolidated financial statements prepared in accordance with IFRS (refer to section 1.1 "Recent Developments – Independent Review" and section 14.1 "First-Time Adoption of IFRS").

HIGHER REVENUES IN 2011

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues	$ 7,209.9	$ 5,993.9	20.3%

> Revenues increased in all the Company's industry segments and in all revenue categories, with Packages revenues growing by 34.3% and Services revenues growing by 18.7%.

SOLID FINANCIAL POSITION

DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Cash and cash equivalents	$ 1,231.0	$ 1,235.1	(0.3%)
Net cash position	$ 851.7	$ 870.1	(2.1%)

> Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) remained solid as at December 31, 2011.

> Cash and cash equivalents in 2011 remained in line with 2010, mainly reflecting cash generated from operating activities, offset mainly by cash used for investing activities.

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> The freehold cash, a non-IFRS 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, decreased to $750 million at the end of 2011 compared to $900 million at the end of 2010, mainly reflecting cash and cash equivalents used for the acquisition of Macquarie Essential Assets Partnership's ("MEAP") 23.08% ownership interest in AltaLink, as well as the acquisition of a subsidiary's debenture as part of the same transaction, as well as the estimated cash requirements to complete existing projects, cash used for business acquisitions, and dividends paid to SNC-Lavalin shareholders. This decrease was partially offset by cash generated from operating activities excluding ICI.

STRONG REVENUE BACKLOG

DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010
Services	**$ 2,226.1**	$ 1,410.7
Packages	**5,482.8**	5,572.4
Operations & Maintenance ("O&M")	**2,379.1**	2,732.8
Total	**$ 10,088.0**	$ 9,715.9

> The increase in the Company's overall revenue backlog as at December 31, 2011 compared to December 31, 2010 reflected the 57.8% increase in Services, at an all-time high of $2.2 billion, partially offset by a decrease in O&M and Packages. The increase in Services was from all the Company's industry segments, mainly in Mining & Metallurgy.

NOTABLE EVENTS RELATED TO ICI

> The Company acquired MEAP's 23.08% ownership interest in AltaLink for a total consideration of $228.8 million in cash. The transaction increased the Company's ownership of AltaLink from 76.92% to 100%. AltaLink has technical expertise and extensive experience in Alberta, Canada, where it owns and operates regulated transmission facilities, such as transmission lines and substations that serves 85% of Alberta's population.

> Notable additions to ICI took place in 2011. The Company's main additions were Société d'Exploitation de l'Aéroport de Mayotte S.A.S. ("Mayotte") and Rainbow Hospital Partnership ("Rainbow").

BUSINESS ACQUISITIONS

> In 2011, SNC-Lavalin completed business acquisitions adding approximately 2,900 people to its workforce, including the acquisition of certain assets of Atomic Energy of Canada Limited's ("AECL") commercial reactor division. Approximately 1,400 employees transitioned from AECL to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. The other business acquisitions were as follows:

- Interfleet Technology, an international rail technology consultancy group headquartered in Derby, United Kingdom, adding approximately 600 employees;
- Arcturus Realty Corporation, which manages over 35 million square feet of office, retail and industrial properties in Canada, adding over 350 employees;
- Groupe Stavibel, a multidisciplinary consulting engineering firm based in Abitibi-Témiscamingue, Quebec, adding approximately 300 employees;
- MDH Engineered Solutions, an engineering consulting and research firm based in Saskatoon, Saskatchewan, adding approximately 175 employees;
- Aqua Data, a Canadian company specializing in the computerized diagnosis and analysis of water distribution systems and wastewater collection systems for municipal, commercial and industrial clients, adding about 100 employees; and
- Harder Associates Engineering Consulting, an engineering consulting firm based in Fort St. John, British Columbia, adding 16 employees.

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RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

YEAR ENDED DECEMBER 31	**2011**	2010	2009 (1)
ROASE	**19.3%**	28.4%	27.3%

(1) In accordance with Canadian GAAP, refer to section 14.1 for more details.

> In 2011, ROASE significantly surpassed the Company's performance objective of 600 basis points above the long-term Canada Bond Yield, which totalled 9.3% for the year.

DIVIDEND INCREASE

> On March 25, 2012, the Company's Board of Directors approved a quarterly dividend of $0.22 per share, a 4.8% increase over the previous quarterly dividend declared.

2011 Management's Discussion and Analysis

3 OVERVIEW OF OUR BUSINESS AND STRATEGY

3.1 OUR BUSINESS

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

SNC-LAVALIN CONSISTS OF: A network of offices located across Canada and in over 40 other countries with 28,000 EMPLOYEES working on over 10,000 PROJECTS in some 100 COUNTRIES, offering expertise that meets clients' needs and making selective investments in infrastructure concessions

Engineering and construction expertise offered as **Services or Packages**, to clients in multiple industries:	› Infrastructure & Environment › Hydrocarbons & Chemicals (previously referred to as Chemicals & Petroleum) › Mining & Metallurgy › Power › Other Industries (including agrifood, pharmaceuticals and biotechnology, and sulphuric acid)
O&M activities performed to efficiently manage clients' facilities and assets, in various lines of business:	› Project, property & facility management › Industrial › Transportation › Defence & logistics
Selectively invest in **ICI** that, in general, offer potential complementary engineering and construction, and/or O&M contract opportunities, with a fair return for SNC-Lavalin shareholders, such as:	› Airports › Bridges › Cultural and public service buildings › Mass transit systems › Power › Roads › Water

Hydrocarbons & Chemicals was previously referred to as Chemicals & Petroleum. As petroleum refers only to liquid crude oil, and not to other hydrocarbon sectors such as liquefied natural gas, gas processing and gas-to-liquid, the new name better reflects the Company's full range of activities.

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 operations. The Company's geographic and industry diversification is one of the key factors that allows SNC-Lavalin to differentiate itself from its competitors.

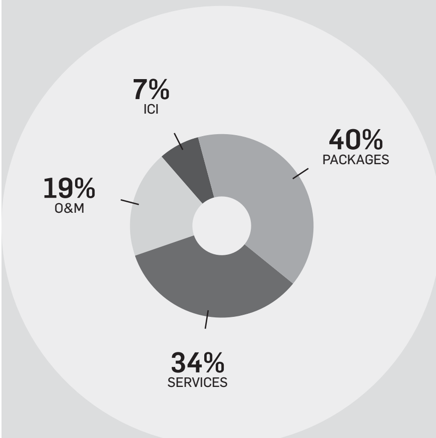
2011 Management's Discussion and Analysis

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 2011 revenue charts.

DIVERSITY OF THE COMPANY'S REVENUE BASE

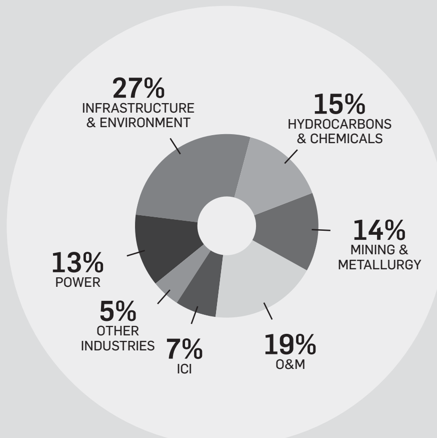
2011 REVENUES ($7.2 BILLION)

CATEGORIES OF ACTIVITY



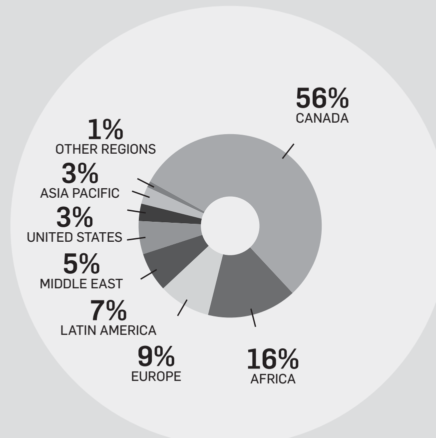
Four activities that are complementary...

INDUSTRY SEGMENTS



...serving multiple industry segments...

GEOGRAPHIC AREAS

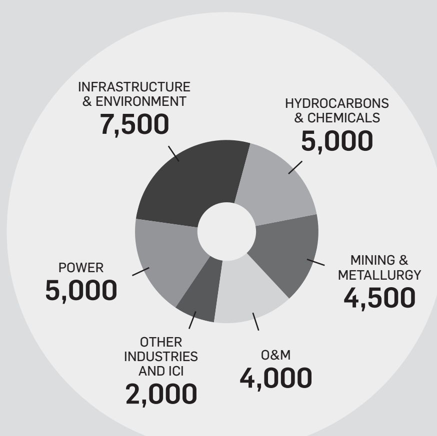


...with good geographic coverage and Canada as its largest base

The **diversity of the Company's 28,000 employees workforce,** illustrated below, allows it to maintain the diversity of its revenue base.

DIVERSITY OF THE COMPANY'S WORKFORCE

(NUMBER OF EMPLOYEES AS AT DECEMBER 31, 2011)



2011 Management's Discussion and Analysis

3.2 OUR BUSINESS STRATEGY

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

BE THE WORLD'S FOREMOST DIVERSIFIED PROVIDER OF SUSTAINABLE ENGINEERING AND CONSTRUCTION SOLUTIONS DELIVERED LOCALLY

The following seven strategic priorities are the pillars on which the Company's strategic vision rests. Focusing on these priorities ensures 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 first and foremost exceeding targets for health and safety performance, budget, schedule, quality of work, and overall client satisfaction.
Improve competitiveness	A focus on cost-efficiency and product differentiation, 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 projects.
Stronger relationships with clients	Creating strong relationships with clients will ensure that SNC-Lavalin 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 in accessing new markets where the Company can continue its growth trajectory. The ability to deliver local projects using local resources will be a key component in delivering the geographic growth strategy.
Build sustainable people and organisational capabilities	Through strong leadership and talent development, the Company will continue to identify and groom its future leaders, and strengthen employee engagement.
Financial strength and flexibility	Maintaining a strong financial position 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. It also allows the Company to seize strategic business opportunities and investments in infrastructure concessions.
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.

2011 Management's Discussion and Analysis

4 HOW WE ANALYZE AND REPORT OUR RESULTS

4.1 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.

4.1.1 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 mainly 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.

4.1.2 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 usually also include 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, in most cases, construction activities. The Company's Packages activities aim to generate a gross margin yield between 7% and 10%.

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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 range of gross margin yield 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 target range of gross margin yield 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.

4.1.3 O&M ACTIVITIES

The Company provides **operations, maintenance and logistics solutions** for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships, and camps for construction sites and the military. **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 therefore 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%.

4.1.4 ICI ACTIVITIES

The Company's ICI are typically infrastructure for public services, such as **airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water**. These types of infrastructure are commonly provided by government-owned entities, however, many countries are now turning to the private sector to take ownership, finance, operate and maintain the assets, usually for a defined period of time. These public-private partnership arrangements allow for the transfer to the private sector of many 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.

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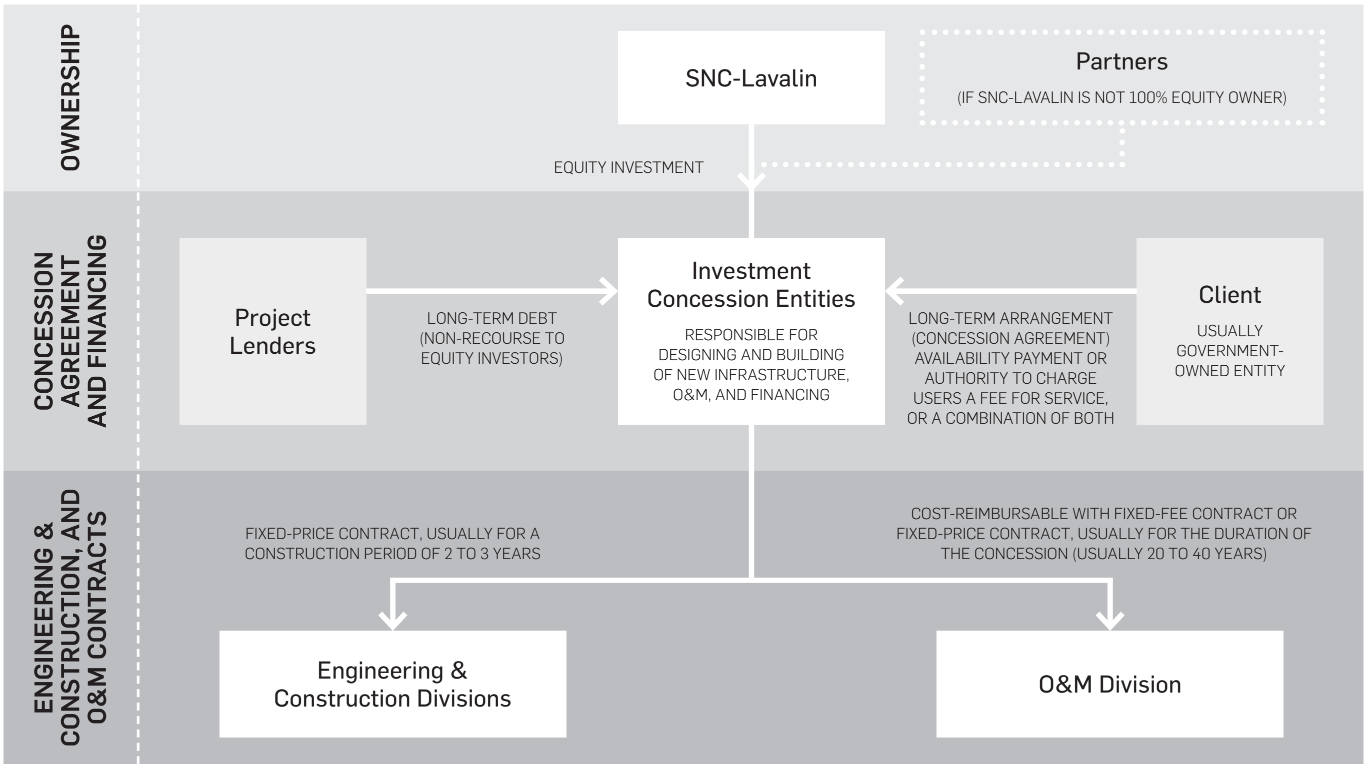
ICI revenues are generated mainly from dividends or distributions received by SNC-Lavalin from the investment concession entities, or from all or a portion of an investment concession entity's net results or revenues, depending on the accounting method required by IFRS, summarized in section 4.1.4.2.

For SNC-Lavalin, a typical structure when investing in a "greenfield" infrastructure concession (meaning that the infrastructure needs to be built, as there is none on the site) 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 client;
- 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.

Historically, the Company invested primarily in concessions for "greenfield" projects, meaning that the infrastructure still needs to be built, as there is none on the site. Those projects provide opportunities for SNC-Lavalin to undertake Services, Packages, and/or O&M activities. While the Company's strategy for ICI is to focus mainly on "greenfield" projects, SNC-Lavalin may also participate in more concession investments for "brownfield" projects, where the infrastructure is already built and operational, provided it generates a fair return on investment and has a strategic value for SNC-Lavalin.

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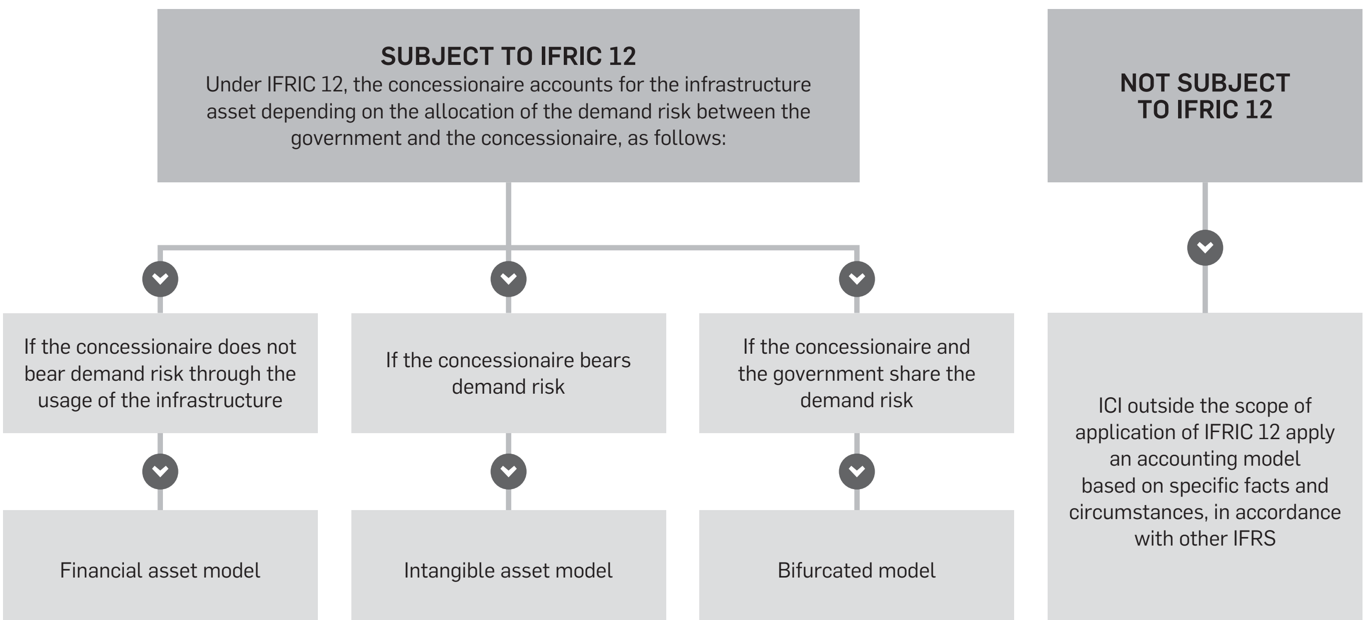
4.1.4.1 ACCOUNTING MODELS USED BY CONCESSION ENTITIES

Certain of the Company's ICI that are public-private partnership arrangements qualify for accounting under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"), which provides guidance on the accounting for such arrangements, whereby the grantor (i.e., usually a government):

> controls or regulates what services the operator (i.e., "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.

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 O&M and its rehabilitation, and is usually 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. Here are the accounting models used by concession entities, depending if the concession agreement is subject, or not, to IFRIC 12:



The following Company's ICI were identified as being within the scope of IFRIC 12:

	FINANCIAL ASSET MODEL	INTANGIBLE ASSET MODEL	BIFURCATED MODEL
Chinook Roads Partnership	✓		
Groupe Immobilier Santé McGill	✓		
InTransit BC Limited Partnership	✓		
Okanagan Lake Concession Limited Partnership	✓		
Ovation Real Estate Group (Quebec) Inc.	✓		
Rainbow Hospital Partnership	✓		
Rayalseema Expressway Private Limited		✓	
Société d'Exploitation de l'Aéroport de Mayotte S.A.S.			✓
TC Dôme S.A.S.	✓		

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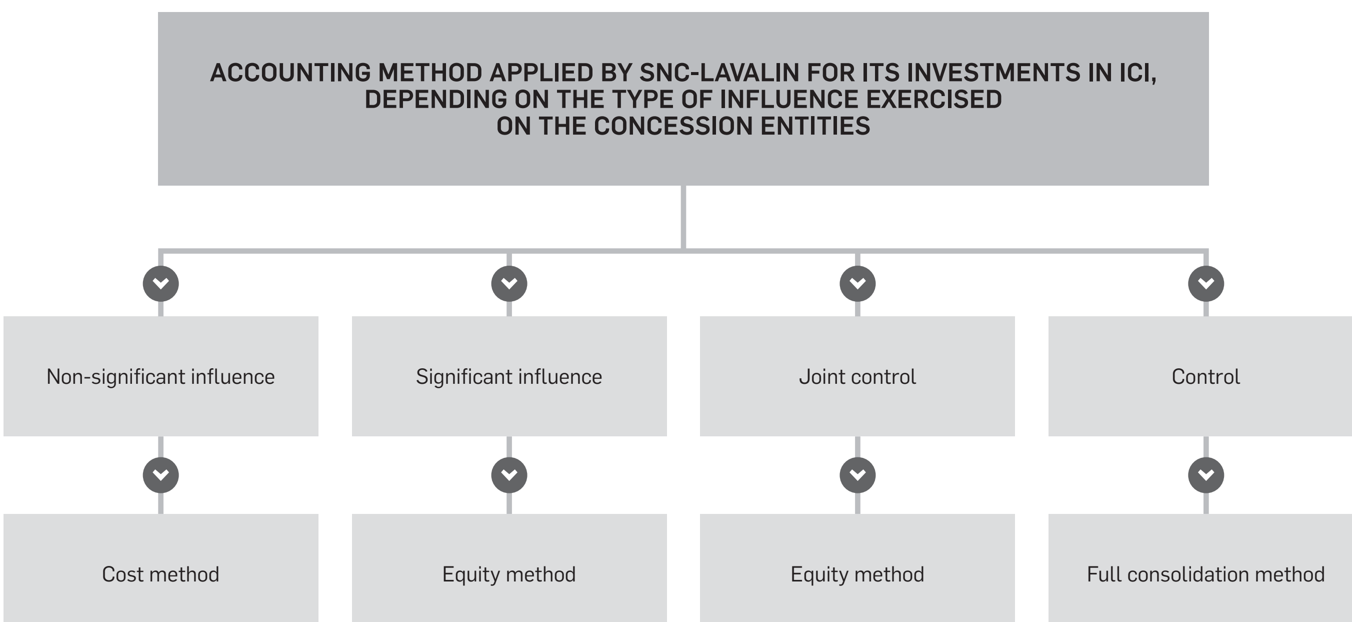
The table below highlights the main characteristics of the accounting of a concession by the Company under the financial asset model, which is used for most of the Company's ICI under IFRIC 12:

Impact on the Company's consolidated statement of financial position	Revenues recognized by the Company under the financial asset model are accumulated in a financial asset, named "Receivables under service concession arrangements", a financial asset that is recovered through payments received from the grantor
Impact on the Company's consolidated income statement	> Recognition of EPC Revenue; and > Cost from EPC contractor
	> Recognition of O&M Revenue; and > Cost from O&M contractor
	Recognition of financial income from the financial asset, using the effective interest method, which is classified as revenue from ICI
	Borrowing costs from the debt

The following ICI are not subject to IFRIC 12: AltaLink, Highway 407, Astoria Project Partners LLC, Astoria Project Partners II LLC, Malta International Airport p.l.c., Myah Tipaza S.p.A., Société d'Exploitation de Vatry Europort S.A. and Shariket Kahraba Hadjret En Nouss S.p.A.

4.1.4.2 ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN CONCESSION ENTITIES

For the purposes of the Company's audited annual consolidated financial statements, SNC-Lavalin's Infrastructure Concession Investments ("ICI") are accounted for as follows:



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Revenues from ICI regroup the following:

ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN ICI	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Full consolidation	**Revenues** that are recognized and reported by the ICI
Equity method	SNC-Lavalin's **share of net results** of the ICI or **dividends** from ICI for which the carrying amount is $nil
Cost method	**Dividends and distributions** from the ICI

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

The Company's consolidated statement of financial position includes the line by line impact of ICI that are fully 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.

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 on its ICI in its audited annual consolidated financial statements, as follows:

Consolidated statement of financial position	> Property and equipment from ICI controlled by the Company; > The net book value of ICI accounted for by the equity or cost methods; > Non-recourse debt from ICI controlled by the Company
Consolidated statement of cash flows	For the ICI controlled by the Company: > Depreciation and amortization from ICI, and acquisition of property and equipment from ICI; > Repayment and increase of non-recourse debt from ICI
Notes to the annual consolidated financial statements	> Main accounts of the statement of financial position impacted by ICI controlled by the Company are shown on separate lines in Note 5; > The net income attributable to SNC-Lavalin shareholders from ICI; > 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.

4.2 RESULTS BY SEGMENT USED FOR ACCOUNTABILITY

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

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4.3 HOW WE BUDGET AND FORECAST OUR RESULTS

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.

PROJECT LEVEL	DIVISIONAL LEVEL	CONSOLIDATED LEVEL	BOARD OF DIRECTORS
The budget information is prepared for individual projects and/or prospects, which will form the primary basis for the Company's consolidated Annual Budget	The project information is then compiled by each division and approved by the Company's divisional management	The divisional budgets are subsequently reviewed by the Company's senior executives	Final approval is provided by the Board of Directors in the fourth quarter of the current year

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 and the Chief Executive Officer.

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 applies, on the value of a contract, 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")
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, net financial expenses, 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, expected results based on assumptions specific to each investment are used.

2011 Management's Discussion and Analysis

One of the key management tools for monitoring the Company's performance is the monthly evaluation and analysis of actual results compared to the Annual Budget or the Quarterly Forecasts, for revenues, 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 categories of activity 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 ("reforecasts")	Variation of the estimated costs to complete projects for fixed-price contracts result in either a positive or negative impact to a project's results. Increases or decreases in profitability for any given fixed-price project are largely dependent on project execution
Changes in the results of its ICI	Variation in the financial results of each ICI will impact the financial results of the Company. Additions to the Company's ICI portfolio, or divestitures from it, can also impact the Company's results

4.4 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:

VALUE OF SNC-LAVALIN

Engineering & Construction, excluding ICI and freehold cash

The value of this component is calculated based on a price/earnings multiplier applied to consolidated net income attributable to SNC-Lavalin shareholders excluding the Company's net income attributable to SNC-Lavalin shareholders from its ICI and its interest income, net of tax, from freehold cash. For this purpose, the Company discloses as supplementary information its net income attributable to SNC-Lavalin shareholders excluding ICI, as well as the amount of freehold cash, on which the average yield earned was 0.90% and 0.58% before taxes, in 2011 and 2010, respectively.

\+

ICI

The fair value of each ICI is calculated using: i) a discounted expected future cash flow methodology; ii) the price of the latest transaction involving shares of an ICI not traded on an active market; or iii) the stock market bid price for shares of an ICI that is traded on an active market. All these approaches are more relevant than a price/earnings methodology. The Company estimates that the fair value of its ICI is higher than its book value of $1.4 billion at December 31, 2011.

\+

Freehold cash

The amount of cash and cash equivalents not committed for the Company's operations or investments in infrastructure concessions, which amounted to approximately $750 million as at December 31, 2011, compared to approximately $900 million as at December 31, 2010 (refer to section 10.2 of this report).

2011 Management's Discussion and Analysis

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.

4.5 NON-IFRS FINANCIAL MEASURES

Some of the indicators used by the Company to analyze and evaluate its results represent non-IFRS financial measures. Consequently, they do not have a standardized meaning as prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. Management believes that these indicators 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.

The non-IFRS financial measures include the following indicators:

NON-IFRS FINANCIAL MEASURE	REFERENCE
Performance	
Gross margin by category of activity	Section 6.2
Revenue backlog	Section 7
Booking-to-revenue ratio	Section 7
Operating income by segment	Section 9
ROASE	Section 10.10

NON-IFRS FINANCIAL MEASURE	REFERENCE
Liquidity	
Net cash position	Section 10.2
Freehold cash	Section 10.2
Working capital	Section 10.4
Recourse debt-to-capital ratio	Section 10.6

Definitions of all non-IFRS 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-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS.

2011 Management's Discussion and Analysis

5 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 attributable to SNC-Lavalin shareholders**, 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**, which is a key indicator of the Company's financial capability.

The following table presents a summary of the Company's key financial performance indicators and compares the results achieved as at or for the years ended December 31, 2011, 2010 and 2009, with the Company's corresponding financial objectives.

KEY FINANCIAL INDICATORS

FINANCIAL INDICATOR	FINANCIAL OBJECTIVE	ACTUAL RESULTS		
		2011	2010	2009 (1)
Growth (decrease) in net income attributable to SNC-Lavalin shareholders	Annual growth between 7% and 12%	✗ **(20.5%)**	✓ 21.6% (2)	✓ 15.0%
ROASE	At least equal to long-term Canada Bond Yield plus 600 basis points (totalling 9.3% for 2011, 9.8% for 2010 and 9.9% for 2009)	✓ **19.3%**	✓ 28.4%	✓ 27.3%
Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt)	Maintain a strong financial position with a net cash position sufficient to meet expected operating, financing and investing plans	✓ **$851.7M**	✓ $870.1M	✓ $722.9M

✓ IN LINE OR ABOVE FINANCIAL OBJECTIVE
✗ BELOW FINANCIAL OBJECTIVE

(1) In accordance with Canadian GAAP, refer to section 14.1 for more details.
(2) Growth in net income based on 2009 and 2010 figures prepared in accordance with Canadian GAAP.

Net income attributable to SNC-Lavalin shareholders in 2011 decreased by 20.5% to 378.8 million ($2.49 per share on a diluted basis), compared to $476.7 million ($3.13 per share on a diluted basis) in 2010. While the Company expected its 2011 net income to remain in line with 2010 when excluding the gains from the disposals of certain assets and investments recognized in 2010, it decreased by 12.1% when excluding such gains.

The 2011 ROASE of 19.3% exceeded the Company's objective for the year of 9.3%, reflecting a solid performance. The Company was able to achieve such significant ROASE while maintaining a strong cash position ($1.2 billion of cash and cash equivalents at December 31, 2011). In 2011, an average yield of 0.90% before taxes was obtained on its cash and cash equivalents, as interest rates remained at low levels.

The Company's net cash position of $851.7 million as at December 31, 2011 is representative of its solid financial position, which allows the Company to meet expected operating, investing and financing plans.

2011 Management's Discussion and Analysis

6 BREAKDOWN OF INCOME STATEMENT

$7.2 billion
REVENUES

$1.3 billion
GROSS MARGIN

$378.8 million
NET INCOME ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS

	IFRS				CANADIAN GAAP [1]			
YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	2011		2010		2010		2009	
Revenues by activity:								
Services	**$ 2,437.8**		$ 2,053.8		$ 2,051.9		$ 2,221.4	
Packages [2]	**2,871.5**		2,137.4		2,409.0		2,202.2	
O&M	**1,399.2**		1,330.4		1,330.5		1,297.9	
ICI [3]	**501.4**		472.3		523.6		380.2	
	$ 7,209.9		$ 5,993.9		$ 6,315.0		$ 6,101.7	
Gross margin by activity:								
Services	**$ 592.5**	**24.3%**	$ 543.0 [2]	26.4%	$ 539.2 [2]	26.3%	$ 562.7	25.3%
Packages	**301.9**	**10.5%**	434.2	20.3%	448.2	18.6%	357.4	16.2%
O&M	**78.4**	**5.6%**	59.6 [3]	4.5%	59.7 [3]	4.5%	50.1	3.9%
ICI	**279.3**	**55.7%**	264.2	55.9%	284.6	54.4%	180.9	47.6%
	$ 1,252.1	**17.4%**	$ 1,301.0	21.7%	$ 1,331.7	21.1%	$ 1,151.1	18.9%
Selling, general and administrative expenses	**654.7**		581.7		585.6		545.6	
Net financial expenses:								
From ICI	**99.7**		85.1		151.8		112.2	
From other activities	**15.5**		26.0		23.1		16.0	
	115.2		111.1		174.9		128.2	
Income before income tax expense	**482.2**		608.2		571.2		477.3	
Income tax expense	**94.9**		120.8		123.4		108.2	
Non-controlling interests	**–**		–		10.8		9.7	
Net income	**$ 387.3**		$ 487.4		$ 437.0		$ 359.4	
Net income attributable to:								
SNC-Lavalin shareholders	**$ 378.8**		$ 476.7		$ 437.0		$ 359.4	
Non-controlling interests	**8.5**		10.7		–		–	
Net income	**$ 387.3**		$ 487.4		$ 437.0		$ 359.4	
Earnings per share ($)								
Basic	**$ 2.51**		$ 3.16		$ 2.89		$ 2.38	
Diluted	**$ 2.49**		$ 3.13		$ 2.87		$ 2.36	

(1) Refer to section 14.1 for more details on transition from Canadian GAAP to IFRS.

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

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

2011 Management's Discussion and Analysis

6.1 NET INCOME ANALYSIS

	IFRS		CANADIAN GAAP (1)	
YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	2010	2009
Net income attributable to SNC-Lavalin shareholders from ICI:				
From a net gain on disposal of Trencap and Valener (2)	**$ –**	$ 26.1	$ 26.1	$ –
Excluding the net gain on disposal of Trencap and Valener	**131.2**	108.8	56.8	36.9
Net income attributable to SNC-Lavalin shareholders from ICI	**131.2**	134.9	82.9	36.9
Net income attributable to SNC-Lavalin shareholders excluding ICI:				
From a gain on disposal of certain technology solution assets (3)	**–**	19.6	19.6	–
Excluding the gain on disposal of certain technology solution assets	**247.6**	322.2	334.5	322.5
Net income attributable to SNC-Lavalin shareholders excluding ICI	**247.6**	341.8	354.1	322.5
Net income attributable to SNC-Lavalin shareholders	**$ 378.8**	$ 476.7	$ 437.0	$ 359.4

(1) Refer to section 14.1 for more details on transition from Canadian GAAP to IFRS.

(2) In 2010, SNC-Lavalin sold all of its interests in Trencap and Valener (Note 5B to the Company's 2011 audited annual consolidated financial statements). The transactions resulted in a net gain after taxes of $26.1 million included in ICI in 2010.

(3) In 2010, SNC-Lavalin 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 attributable to SNC-Lavalin shareholders excluding ICI in 2010.

The analysis that follows is for 2011, 2010 and 2009. The Company did not restate its 2009 financial information in accordance with IFRS. Accordingly, the analysis of the variance between 2010 and 2009, in the present MD&A, are based on figures determined in accordance with Canadian GAAP for both 2009 and 2010.

While the Company expected **net income attributable to SNC-Lavalin shareholders** to remain in line **in 2011** compared to 2010, **excluding the gains mentioned above**, it **decreased**, mainly reflecting a lower net income attributable to SNC-Lavalin shareholders excluding ICI. The increase in net income in 2010 compared to 2009 was due to the growth in net income in both ICI and excluding ICI.

While the Company expected **net income attributable to SNC-Lavalin shareholders excluding ICI in 2011** to remain in line with 2010, **excluding the 2010 gain mentioned above**, it **decreased**, mainly reflecting a lower gross margin-to-revenue ratio, primarily in Packages, partially offset by a higher level of activity. The net income increased in 2010 compared to 2009, 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 surpassed its target 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.

While the Company expected **net income attributable to SNC-Lavalin shareholders from ICI** to remain in line **in 2011** compared to 2010, **excluding the 2010 net gain after taxes of $26.1 million from the disposal of Trencap and Valener**, it **increased**. The increase was mainly due to higher dividends from Highway 407, as well as a higher contribution from AltaLink, partially offset by the absence of contributions in 2011 from the Company's investments in Trencap and Valener, which were sold in the fourth quarter of 2010. 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 six months of operations in 2009.

As announced in a press release dated February 28, 2012, in the fourth quarter of 2011, the Company recognized a net loss of $35 million related to payments made in the fourth quarter of 2011, under what are presumed to be agency agreements (refer to section 1.1 "Recent Developments – Independent Review"). In addition, the Company's 2010 results were adjusted by reducing net income by $17.9 million to reflect the impact of payments of $20 million made in 2010, made under what is presumed to be an agency agreement. The Company decided to correct its prior period comparative financial information in its first issuance of annual audited consolidated financial statements prepared in accordance with IFRS (refer to section 1.1 "Recent Developments – Independent Review" and section 14.1 "First-Time Adoption of IFRS").

2011 Management's Discussion and Analysis

6.2 REVENUE AND GROSS MARGIN ANALYSIS

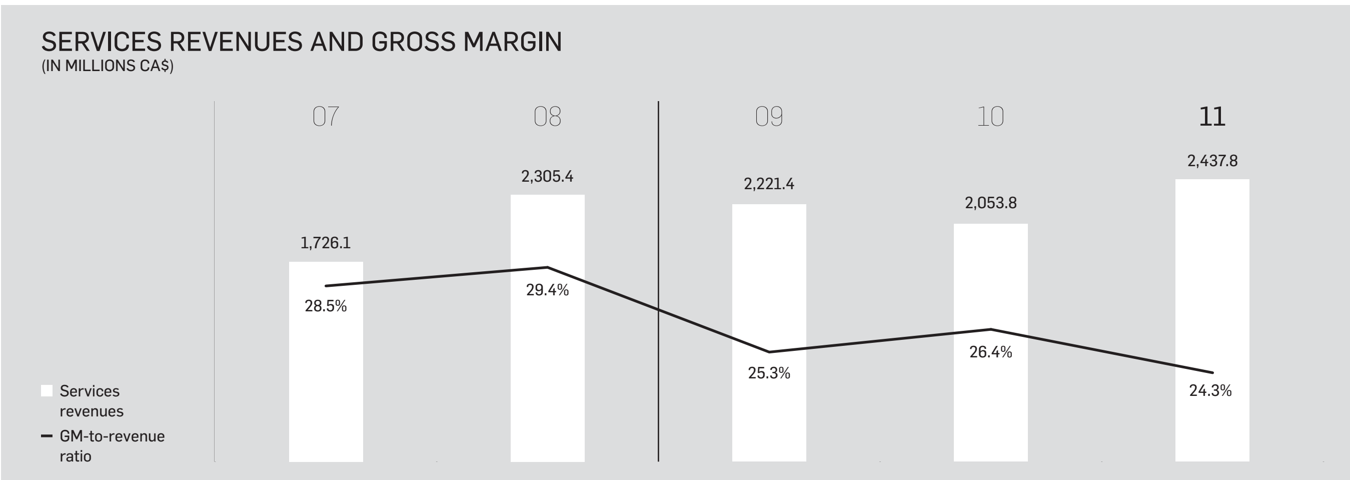
As expected, **revenues increased in 2011** compared to 2010. All the Company's categories of activity increased, with most of the increase from Packages and Services. The increase in 2010 compared to 2009 mainly reflected an increase in Packages and ICI activities, partially offset by a lower level of Services activity.

While the Company expected **gross margin in 2011** to remain in line with 2010, it **decreased**, mainly reflecting a lower gross margin-to-revenue ratio, partially offset by a higher level of activity. The increase in gross margin in 2010, compared to 2009, mainly reflected 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.

6.2.1 SERVICES REVENUES AND GROSS MARGIN

As expected, **services revenues increased in 2011** compared to 2010. The increase is from all the Company's industry segments, notably Mining & Metallurgy.

From 2007 to 2010, Services activities sustained a gross margin-to-revenue ratio between 25% and 29%. In 2011, the gross margin-to-revenue ratio was below the historical range, mainly due to lower gross margins on certain major projects.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

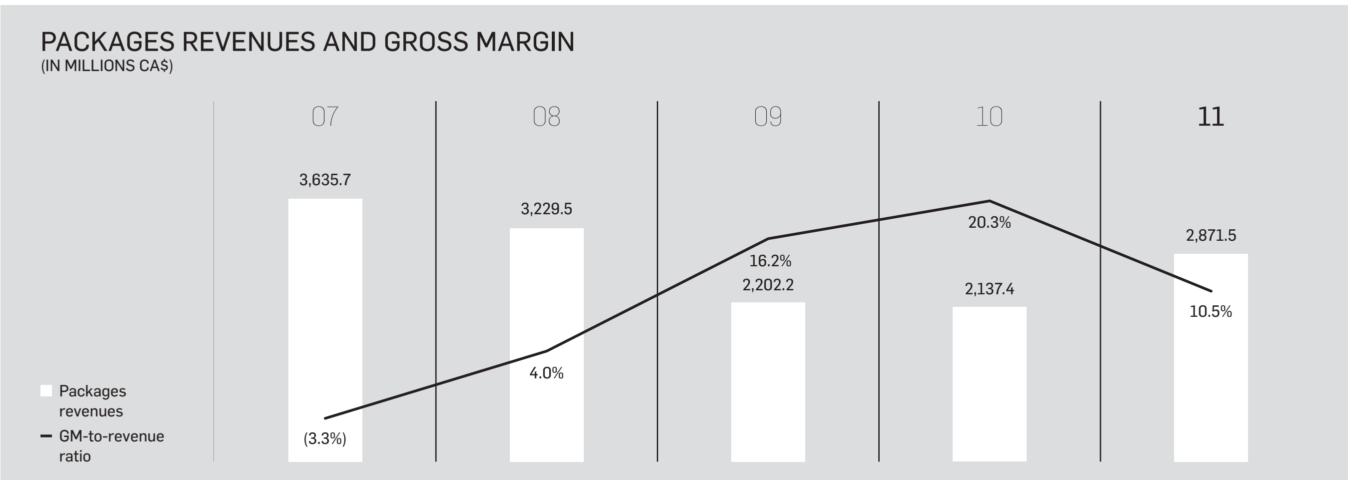
As expected, **Services gross margin increased in 2011** compared to 2010, primarily reflecting a higher level of activity, notably in Mining & Metallurgy, partially offset by a lower gross margin-to-revenue ratio, primarily in Mining & Metallurgy, and Hydrocarbons & Chemicals.

2011 Management's Discussion and Analysis

6.2.2 PACKAGES REVENUES AND GROSS MARGIN

As expected, **Packages revenues increased in 2011** compared to 2010. The increase is from all the Company's industry segments, notably Power.

Packages activities decreased from 2007 to 2010, as some major projects were completed or nearing completion in 2008 and 2009. The decrease was followed by an increased level of activity in 2011. The Company targets a gross margin-to-revenue ratio between 7% and 10% for Packages activities. However, as illustrated in the table below, this ratio was lower than this range for 2007 and 2008, mainly due to a lower gross margin-to-revenue ratio in Power. In 2009 and 2010, the target range was surpassed, mainly due to favourable reforecasts on certain major projects, while the target range was slightly surpassed in 2011.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

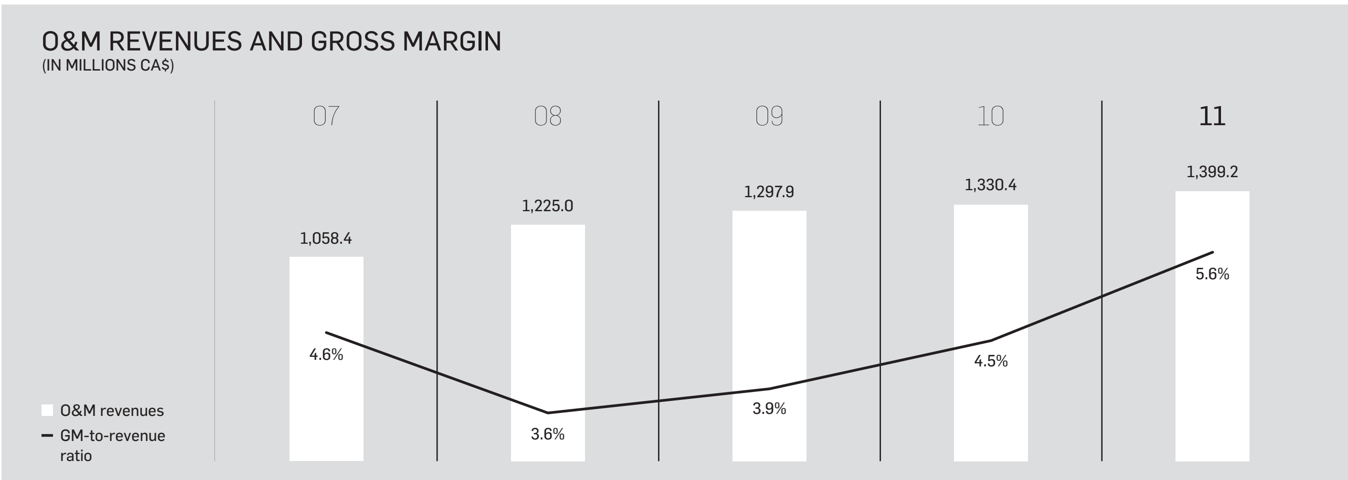
As expected, **gross margin for Packages decreased in 2011** compared to 2010. The decrease was mainly due to a lower gross margin-to-revenue ratio, mainly in Infrastructure & Environment, and Power, partially offset by a higher level of activity, notably in Power. It is noteworthy to mention that the 20.3% gross margin-to-revenue ratio for Packages in 2010 was above the Company's target range of 7% to 10%.

2011 Management's Discussion and Analysis

6.2.3 O&M REVENUES AND GROSS MARGIN

As expected, **O&M revenues increased in 2011** compared to 2010, due to a higher volume of activity.

As illustrated in the table below, O&M activities have increased steadily over the past five years. From 2007 to 2010, the gross margin-to-revenue ratio varied between the historical range of 3% to 5%, while it was surpassed in 2011:



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

As expected, **O&M gross margin increased in 2011** compared to the previous year, mainly reflecting a higher gross margin-to-revenue ratio on certain ongoing contracts.

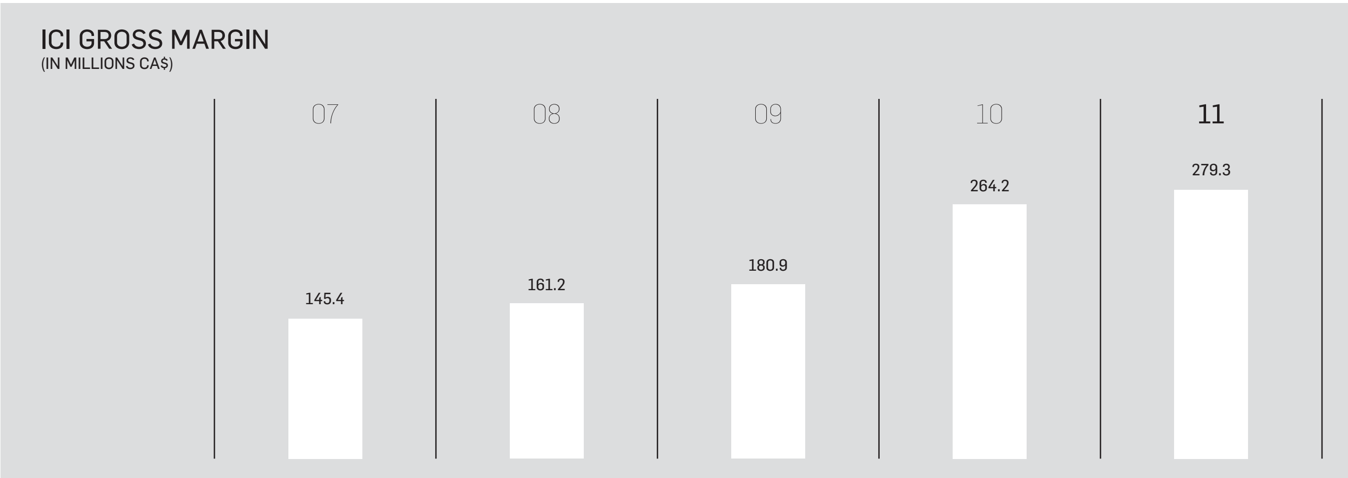
6.2.4 ICI REVENUES AND GROSS MARGIN

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. Management relies on net income attributable to SNC-Lavalin shareholders from ICI as a key indicator when assessing and evaluating the results of its ICI. The analysis presented and discussed in the present section is to provide a better understanding of the gross margin generated from ICI to the reader.

While the Company expected **its 2011 ICI revenues** to remain in line with 2010, it **increased**, mainly due to higher revenues from AltaLink and higher dividends from Highway 407, partially offset by the net gain before taxes of $29.6 million from the disposals of Trencap and Valener in 2010, and by the absence of contributions in 2011 from the Company's investments in Trencap and Valener, which were sold in the fourth quarter of 2010. **Gross margin increased in 2011** compared to 2010, mainly for the same reasons with respect to the revenues increase outlined above.

2011 Management's Discussion and Analysis

As illustrated in the table below, the Company's gross margin from ICI has nearly doubled over the past five years, mainly reflecting 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 from the disposals of Trencap and Valener in 2010.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

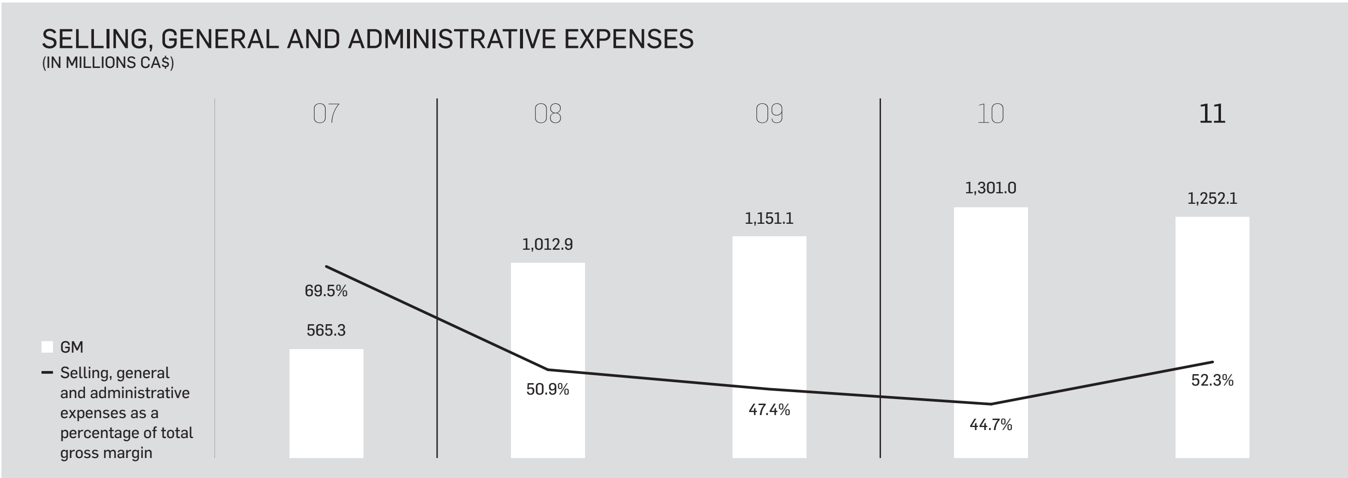
6.3 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Selling costs	**$ 191.3**	$ 168.2	13.7%
General and administrative expenses	**463.4**	413.5	12.1%
Selling, general and administrative expenses	**$ 654.7**	$ 581.7	12.5%

As expected, **Selling, general and administrative expenses increased in 2011** compared to 2010, mainly due to selling, general and administrative expenses of $44.6 million from businesses recently acquired, as well as a higher volume of activity.

As cost management remains a strategic priority, the Company continues to maintain an appropriate balance between gross margin and selling, general and administrative expenses, while sustaining the necessary investment in selling activities in order to achieve its growth objective.

2011 Management's Discussion and Analysis



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

6.4 NET FINANCIAL EXPENSES

While the Company expected variances in net financial expenses from ICI and from other activities to offset each other, and **net financial expenses** to remain in line **in 2011** compared to 2010, it **increased**, mainly reflecting higher net financial expenses from ICI, that were only partially offset by lower net financial expenses from other activities.

As expected, **net financial expenses from ICI increased in 2011** compared to 2010, mainly due to higher interest on non-recourse debt, primarily from AltaLink.

As expected, **net financial expenses from other activities decreased in 2011** compared to the previous year, mainly reflecting lower interest on recourse debt, as a result of the repayment of unsecured debentures totalling $105 million at maturity in September 2010, combined with higher interest revenues, mainly due to higher effective yields.

(IN MILLIONS OF CANADIAN DOLLARS)	2011			2010		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (7.1)**	**$ (10.2)**	**$ (17.3)**	$ (0.1)	$ (6.6)	$ (6.7)
Interest on debt:						
Recourse	**–**	**21.9**	**21.9**	–	27.8	27.8
Non-recourse						
AltaLink	**87.9**	**–**	**87.9**	71.8	–	71.8
Other	**7.9**	**–**	**7.9**	8.6	–	8.6
Other	**11.0**	**3.8**	**14.8**	4.8	4.8	9.6
Net financial expenses	**$ 99.7**	**$ 15.5**	**$ 115.2**	$ 85.1	$ 26.0	$ 111.1

2011 Management's Discussion and Analysis

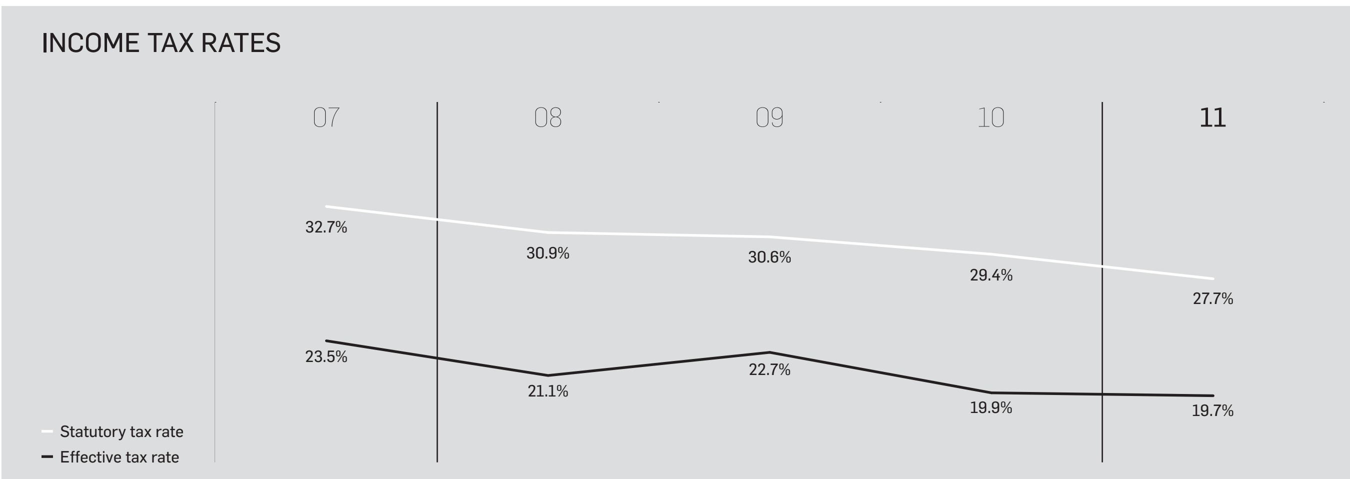
6.5 INCOME TAXES ANALYSIS

As expected, **the effective income tax rate in 2011 remained in line** with 2010.

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)	2011			2010		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Income before income tax expense	**$ 151.3**	**$ 330.9**	**$ 482.2**	$ 158.6	$ 449.6	$ 608.2
Income tax expense	**$ 12.6**	**$ 82.3**	**$ 94.9**	$ 14.4	$ 106.4	$ 120.8
Effective tax rate (%)	**8.4%**	**24.9%**	**19.7%**	9.1%	23.7%	19.9%

The Company's effective tax rate has been lower than the statutory Canadian tax rate since 2007, as illustrated below.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

2011 Management's Discussion and Analysis

7 REVENUE BACKLOG

$10.1 billion
TOTAL REVENUE BACKLOG

$2.2 billion
SERVICES

$5.5 billion
PACKAGES

$2.4 billion
O&M

The Company reports revenue backlog, which is a non-IFRS financial measure, for the following **categories of activity**: i) **Services**; ii) **Packages**; and iii) **O&M**. Revenue backlog is a **forward-looking indicator of anticipated revenues** to be recognized by the Company. It is determined based on **contract awards** that are considered **firm**.

O&M activities are provided under contracts that can cover a period of up to 40 years. In order to provide information that is comparable to the revenue backlog of other categories of activity, the Company limits the O&M revenue backlog to the earlier of: i) **the contract term awarded**; and ii) **the next five years**. An indication of the total O&M backlog for the period beyond the five-year timeframe, that is not included in the Company's backlog, is disclosed in section 7.3.

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.

In the following section, the Company presents its "booking-to-revenue ratio" by category of activity, a non-IFRS measure. The ratio is obtained by dividing the contract bookings by the revenues, for a given period. This measure provides a basis for assessing the renewal of business. However, the revenue backlog measure does not include prospects, one of the key elements taken into account when estimating revenues and gross margin for budget and forecast purposes described in section 4.3, which can be a significant portion of the budgeted and/or forecasted revenues.

Considering the impact of IAS 31, *Interests in Joint Ventures*, ("IAS 31") and IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") on its ICI, the **Company decided, starting January 1st 2011, to no longer include** its revenue backlog for ICI activities when reporting its financial results under IFRS. All comparative figures herein have been restated accordingly. The Company's ICI revenue backlog disclosed in its 2010 Financial Report, under "Management's Discussion and Analysis", was $2.9 billion at December 31, 2010.

2011 Management's Discussion and Analysis

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)	2011			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Services and Packages				
Infrastructure & Environment	**$ 804.7**	**$ 2,051.2**	**$ –**	**$ 2,855.9**
Hydrocarbons & Chemicals	**248.9**	**971.8**	**–**	**1,220.7**
Mining & Metallurgy	**646.4**	**476.6**	**–**	**1,123.0**
Power	**360.8**	**1,601.1**	**–**	**1,961.9**
Other Industries	**165.3**	**382.1**	**–**	**547.4**
O&M	**–**	**–**	**2,379.1**	**2,379.1**
Total	**$ 2,226.1**	**$ 5,482.8**	**$ 2,379.1**	**$ 10,088.0**
FROM CANADA AND OUTSIDE CANADA				
From Canada	**$ 727.7**	**$ 3,885.1**	**$ 1,792.4**	**$ 6,405.2**
Outside Canada	**1,498.4**	**1,597.7**	**586.7**	**3,682.8**
Total	**$ 2,226.1**	**$ 5,482.8**	**$ 2,379.1**	**$ 10,088.0**

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2010			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Services and Packages				
Infrastructure & Environment	$ 665.1	$ 2,820.6	$ –	$ 3,485.7
Hydrocarbons & Chemicals	165.8	923.8	–	1,089.6
Mining & Metallurgy	273.6	167.1	–	440.7
Power	219.6	1,340.4	–	1,560.0
Other Industries	86.6	320.5	–	407.1
O&M	–	–	2,732.8	2,732.8
Total	$ 1,410.7	$ 5,572.4	$ 2,732.8	$ 9,715.9
FROM CANADA AND OUTSIDE CANADA				
From Canada	$ 467.3	$ 3,645.0	$ 2,213.7	$ 6,326.0
Outside Canada	943.4	1,927.4	519.1	3,389.9
Total	$ 1,410.7	$ 5,572.4	$ 2,732.8	$ 9,715.9

The Company's revenue backlog at December 31, 2011 increased compared to the end of 2010, reflecting an increase in Services, partially offset by a decrease in O&M and Packages.

Backlog from Canada increased, primarily due to an increase in Hydrocarbons & Chemicals, and Mining & Metallurgy, partially offset by a decrease in Infrastructure & Environment, and O&M.

Backlog from Outside Canada increased, mainly due to an increase in Power, and Mining & Metallurgy, partially offset by a decrease in Hydrocarbons & Chemicals.

In 2011, SNC-Lavalin acquired certain assets of AECL's commercial reactor division. Approximately 1,400 employees transitioned from AECL to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. Revenue backlog of Candu Energy Inc. amounted to $161.8 million as at December 31, 2011 and was primarily related to Services activities.

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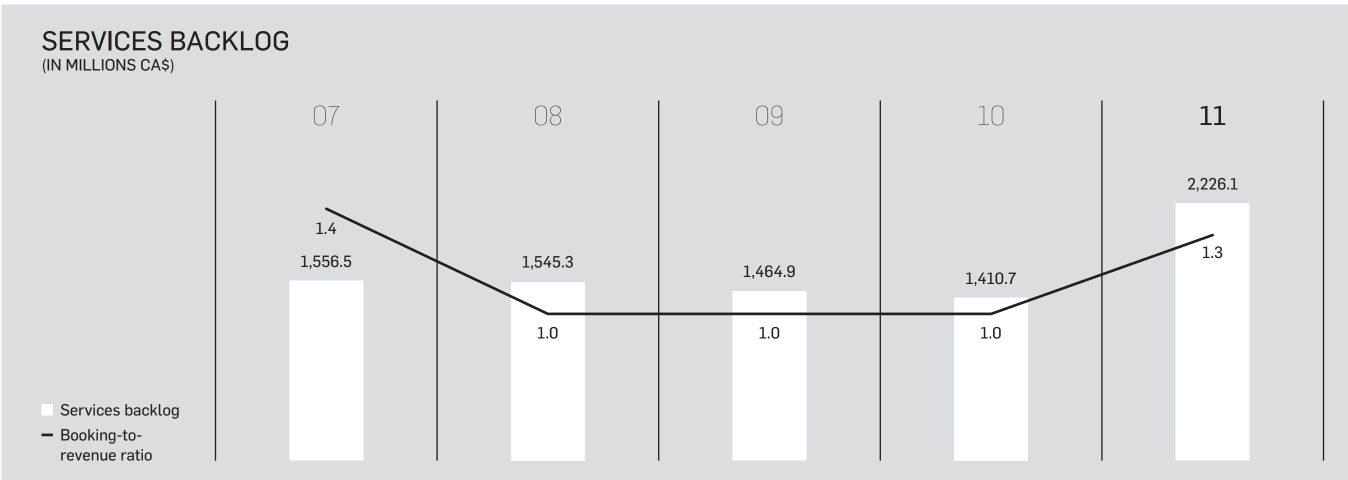
7.1 SERVICES BACKLOG

Services backlog increased at the end of 2011 compared to the end of the previous year, in all the Company's industry segments, mainly in Mining & Metallurgy.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010
Opening backlog	**$ 1,410.7**	$ 1,464.9
Add: Contract bookings during the year	**3,021.1**	1,884.3
Backlog from business acquisitions	**232.1**	115.3
Less: Revenues recognized during the year	**2,437.8**	2,053.8
Ending backlog	**$ 2,226.1**	$ 1,410.7

Services bookings included notable additions in 2011 such as:

> **BHP Billiton Jansen Project** (Mining & Metallurgy/Canada): Definition study phase awarded for Stage 1 of the Jansen Project, a greenfield 2 million tonne per year potash facility located near Lanigan, Saskatchewan. The contract was awarded as part of the multi-year Hub contract signed with BHP Billiton in 2011 for the execution of potash projects to be developed and built mainly in Saskatchewan;

> **Ecopetrol Projects** (Hydrocarbons & Chemicals/Latin America): Three consulting and project management services contracts awarded for various types of facilities and infrastructure of Ecopetrol S.A., in Colombia;

> **El Halassa, Mea and Daoui Wash Plants Projects** (Other Industries/Africa): Contracts awarded by the Office Cherifien des Phosphates ("OCP") to provide EPCM-related activities for the El Halassa Wash Plant, and for the Mea and Daoui Wash Plants, located south-east of Casablanca near the City of Khouribga, Morocco. These facilities process, or will process, phosphate rock to prepare a liquid that will be transported by way of a slurry pipeline to the Jorf Lasfar Terminal on the coast of the Atlantic Ocean;

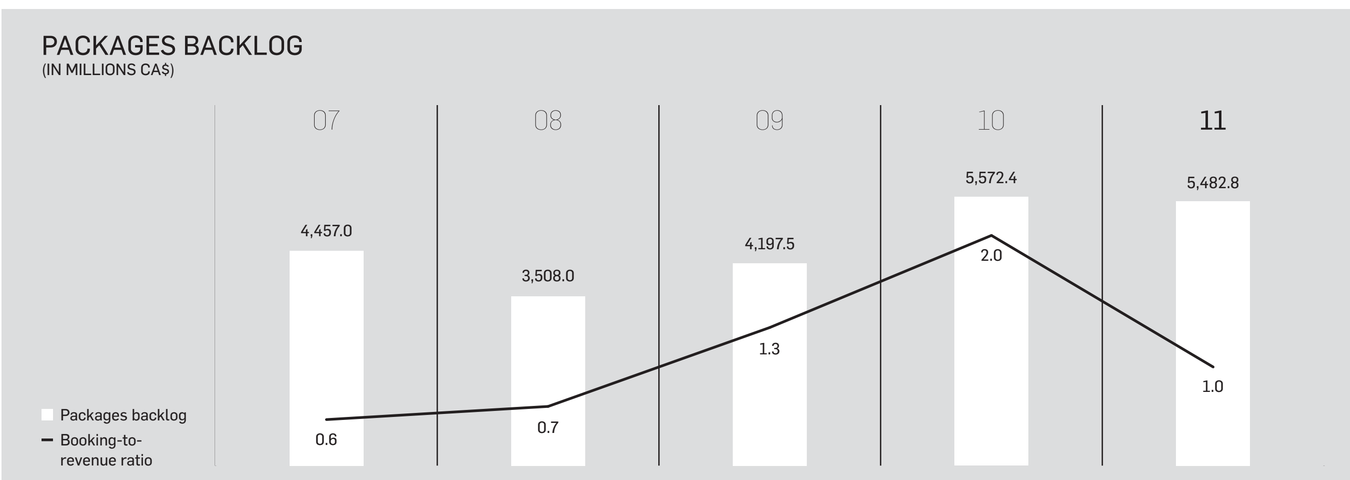
> **Emirates Aluminium Smelter Complex Phase II** (Mining & Metallurgy/Middle East): EPCM services contract awarded by Emirates Aluminium Company Limited PJSC ("EMAL") for Phase II of its smelter in Al Taweelah, in the Emirate of Abu Dhabi. The contract involves EPCM services for a new aluminum smelter, including a 1,000 MW power plant and a 1.7 km-long potline, the longest ever built. Once completed, the EMAL Phase II smelter will produce 525,000 tonnes of aluminum per year;

2011 Management's Discussion and Analysis

- **Fenix Power Plant** (Power/Latin America): Contract awarded by Fenix Power Peru S.A. to provide EPCM services for the Fenix Power Plant, located south of Lima, in Chilca, Peru. The project involves completing a 520 MW combined cycle natural gas-fired electrical power generation plant, and building a seawater intake and outtake structure to convey water to and from the Pacific Ocean to a plant's cooling system;
- **Kharyaga** (Hydrocarbons & Chemicals/Other Regions): Contract awarded by Globalstroy-Engineering to perform detailed engineering and procurement for Phase III Package 4 of the Kharyaga project, situated 60 km north of the Polar Circle, in Russia's oil-rich Timan-Pechora province. SNC-Lavalin will also provide project management support and commissioning services. Phase III involves developing additional reserves, sustaining a daily output of 30,000 barrels a day, achieving 95% associated gas utilization and eliminating flaring;
- **Mont-Wright Expansion** (Mining & Metallurgy/Canada): Contract awarded by ArcelorMittal to provide EPCM services for the Mont-Wright, brownfield expansion project in Quebec, with a nominal rated capacity of 8 million tonnes of iron ore per year. The project will increase the overall production capacity of the Mont-Wright iron ore concentrator to approximately 24 million tonnes per year; and
- **Muskrat Falls Hydroelectric Development** (Power/Canada): Agreement signed with Nalcor Energy to deliver EPCM services for Phase I of the Lower Churchill Project, in Newfoundland and Labrador. Phase I of the project will consist of the Muskrat Falls generating facility with a capacity of 824 MW. The transmission system project will include 1,200 km of transmission lines crossing from Labrador to the island of Newfoundland and associated converter stations, as well as transmission lines interconnecting the Muskrat Falls facility to the Churchill Falls generating station.

7.2 PACKAGES BACKLOG

Packages backlog decreased at the end of 2011 compared to 2010, resulting primarily from a decrease in Infrastructure & Environment, partially offset by an increase in Mining & Metallurgy, and Power.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

2011 Management's Discussion and Analysis

RECONCILIATION OF PACKAGES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010
Opening backlog	$ 5,572.4	$ 3,996.8
Add: Contract bookings during the year	2,764.6	4,197.0
Backlog from business acquisitions	17.3	–
Less: Revenues recognized during the year	2,871.5	2,137.4
Removal of backlog from projects in Libya	–	484.0
Ending backlog	$ 5,482.8	$ 5,572.4

Packages bookings included notable additions in 2011 such as:

> Agrium (Mining & Metallurgy/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 by 1 million tonnes per year, which received full notice to proceed into execution from Agrium in 2011. The infrastructure includes 138 kV power supply systems, a tailings management area, and rail loadout facilities;

> Canadian Natural Resources Ltd ("CNRL") Froth Treatment Plant (Hydrocarbons & Chemicals/Canada): Contract awarded by CNRL, a major oil sands mining producer, to perform EPC-related work for a froth treatment plant that will process 155,000 barrels of bitumen froth per day, in the Fort McMurray region. The engineering phase is underway;

> Edmonton North Link (Infrastructure & Environment/Canada): Contract awarded by the City of Edmonton to the North Link Partnership, a joint venture of the Company, for the Edmonton North light rail transit ("LRT") project to provide construction management services, provision of labour, materials and equipment for all construction work, as well as testing and commissioning of the system for handover to the City of Edmonton. Work on the North LRT project began in 2011;

> Matala Dam Rehabilitation Project (Power/Africa): EPC contract for the design and rehabilitation of a new spillway of an existing hydro power plant, including the supply and construction of new radial gates. The project is underway;

> Restigouche Hospital Centre for Psychiatric Care (Infrastructure & Environment/Canada): EPC-related work, awarded by Rainbow Hospital Partnership, wholly-owned by SNC-Lavalin, for the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick. The hospital will be built by an SNC-Lavalin Construction-led joint venture. It will have 140 beds in seven in-patient units, and facilities for education and research, clinical support, and administration and general support services. It will also serve as the forensic psychiatry facility for the province. Work is underway;

> Rudarsko–Topionicarski Basen Bor Grupa ("RTB-Bor") Copper Smelter Modernization (Other Industries/Europe): EPC contract relating to the RTB-Bor copper smelter upgrade, including a new flash furnace, sulphuric acid plant and effluent treatment plant, and upgrading of the existing facility's key process areas. When the project is completed, the new facility will provide RTB-Bor with 80,000 tonnes of copper anode per year while reducing liquid and gaseous emission levels to European standards. Work has begun;

> SaskPower Heat Rejection System (Power/Canada): EPC contract for the Heat Rejection System of SaskPower's Boundary Dam Power Station that will supply cooling water to the carbon capture sequestration plant, the CO_2 compressor and the flue gas cooler using two closed loop water configurations;

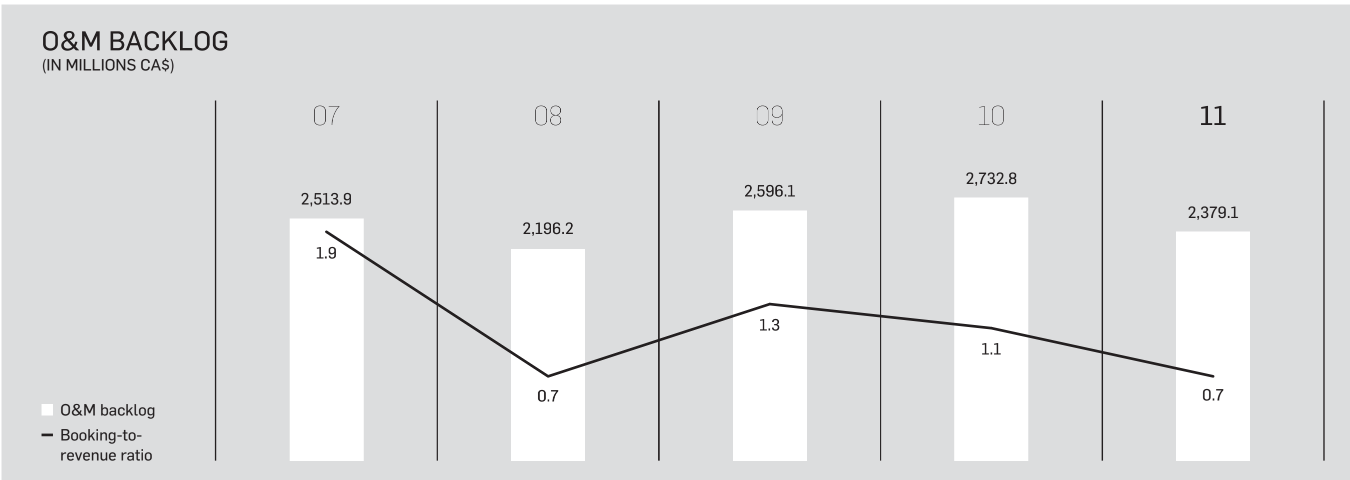
> SaskPower BD3 CO_2 Compression Balance of Plant (Power/Canada): The process entails the installation, at SaskPower's Boundary Dam Power Station, of a CO_2 compressor and dehydration packages, and the equipment developed by SNC-Lavalin during the FEED stage of the project. The scope also includes installation of two redundant 13.8 kV electrical feeds; and

> Te Mihi Geothermal Plant (Power/Asia Pacific): EPC-related work awarded by Contact Energy, based in New Zealand, for the construction of the 166 MW Te Mihi double flash geothermal project in Taupo, New Zealand. Two new geothermal power units of 83 MW each will be built.

2011 Management's Discussion and Analysis

7.3 O&M BACKLOG

O&M backlog at the end of 2011 decreased compared to 2010, reflecting the normal fluctuations in the timing of the long-term contracts, primarily in Canada.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

RECONCILIATION OF O&M BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)		**2011**	2010
Opening backlog		**$ 2,732.8**	$ 2,596.1
Add:	Contract bookings during the year	**1,021.7**	1,467.1
	Backlog from business acquisitions	**23.8**	–
Less:	Revenues recognized during the year	**1,399.2**	1,330.4
Ending backlog		**$ 2,379.1**	$ 2,732.8

Notable contract bookings in 2011 included additions such as:

> Canada's Department of National Defence renewed a support contract for the Canadian Navy's minor warships and auxiliary vessels for another four years, from 2011 to 2015; and

> Service operating concession contracts for four new airports in France, increasing the Company's network to 12 airports in France and French territories 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.

	INCLUDED IN BACKLOG						NOT INCLUDED IN BACKLOG
(IN MILLIONS OF CANADIAN DOLLARS)	2012	2013	2014	2015	2016	TOTAL	THEREAFTER
O&M backlog	$ 1,029.6	$ 566.1	$ 353.3	$ 235.8	$ 194.3	$ 2,379.1	$ 2,641.5

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8 GEOGRAPHIC BREAKDOWN OF REVENUES BY CATEGORY OF ACTIVITY

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	**$ 981.2**	**$ 1,344.7**	**$ 1,195.9**	**$ 480.7**	**$ 4,002.5**	**56%**
Outside Canada						
Africa	**237.6**	**798.2**	**85.6**	**19.3**	**1,140.7**	**16%**
Europe	**319.5**	**252.5**	**49.7**	**2.4**	**624.1**	**9%**
Latin America	**443.4**	**37.5**	**45.8**	**–**	**526.7**	**7%**
Middle East	**147.9**	**240.3**	**3.0**	**–**	**391.2**	**5%**
United States	**137.4**	**110.1**	**–**	**(1.0)**	**246.5**	**3%**
Asia Pacific	**147.2**	**75.0**	**19.2**	**–**	**241.4**	**3%**
Other Regions	**23.6**	**13.2**	**–**	**–**	**36.8**	**1%**
	1,456.6	**1,526.8**	**203.3**	**20.7**	**3,207.4**	**44%**
Total	**$ 2,437.8**	**$ 2,871.5**	**$ 1,399.2**	**$ 501.4**	**$ 7,209.9**	**100%**

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2010					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	$ 714.7	$ 734.7	$ 1,179.7	$ 445.9	$ 3,075.0	51%
Outside Canada						
Africa	232.3	891.5	76.7	25.5	1,226.0	20%
Europe	275.0	171.6	24.9	2.2	473.7	8%
Latin America	243.5	99.5	23.7	–	366.7	6%
Middle East	258.2	138.4	2.9	–	399.5	7%
United States	154.8	66.5	–	(1.3)	220.0	4%
Asia Pacific	149.6	9.7	22.5	–	181.8	3%
Other Regions	25.7	25.5	–	–	51.2	1%
	1,339.1	1,402.7	150.7	26.4	2,918.9	49%
Total	$ 2,053.8	$ 2,137.4	$ 1,330.4	$ 472.3	$ 5,993.9	100%

Expansion of geographic, product and sector coverage is a strategic priority for the Company. The ability to deliver local projects using local resources is a key component in delivering its geographic growth strategy.

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8.1 REVENUES IN CANADA

As expected, **revenues in Canada increased in 2011** compared to 2010, mainly due to a higher level of Packages activities.

Services activities in Canada for 2011 increased compared to 2010, primarily reflecting a higher level of activity in Mining & Metallurgy, and Power.

Packages activities in Canada increased in 2011 compared to the previous year, reflecting mainly a higher level of activity from Infrastructure & Environment, Power, and Mining & Metallurgy.

O&M activities in Canada in 2011 remained in line with 2010.

The increase in ICI revenues in Canada for 2011 compared to 2010 was mainly from AltaLink and Highway 407.

8.2 REVENUES FROM OUTSIDE CANADA

As expected, **the Company's revenue from outside Canada increased in 2011**, compared to 2010. The increase was from all geographic areas, except from Africa, the Middle East, and from Other Regions. The variance is analyzed as follows:

> **Revenues from Africa decreased in 2011** compared to 2010, due to a decrease in Packages activities, mainly from a lower level of activities from Infrastructure & Environment, partially offset by an increase from Hydrocarbons & Chemicals. The Company generated $86.2 million of revenues (1.2% of total revenues) from Libya for the year ended December 31, 2011, compared to $418.2 million (7.0% of total revenues) in 2010.

> **Revenues from Europe increased in 2011** compared to 2010, mainly due to an increase in Packages activities, primarily in Infrastructure & Environment, and a higher level of Services activity, in all the Company's industry segments.

> **Revenues in Latin America increased in 2011** compared to the previous year, mainly reflecting increased Services activities from Mining & Metallurgy, and Hydrocarbons & Chemicals, partially offset by decreased Packages activities, mainly in Infrastructure & Environment.

> **Revenues from the Middle East in 2011 remained in line** with 2010, as the decrease in Services activities, primarily from Hydrocarbons & Chemicals, was offset by a higher level of Packages activity, mainly in Infrastructure & Environment.

> **United States revenues increased in 2011** compared to 2010, mainly due to increased Packages activities, mainly in Power partially offset by a lower level of Services activity, primarily in Power.

> **In Asia Pacific, revenues increased in 2011** compared to the previous year, primarily reflecting a higher level of Packages activity, mainly in Power.

> **In Other Regions, revenues decreased in 2011** compared to 2010, mainly reflecting a lower level of Packages activity.

2011 Management's Discussion and Analysis

9 OPERATING RESULTS BY SEGMENT

$505 million
TOTAL OPERATING INCOME

$324 million
SERVICES AND PACKAGES

$50 million
O&M

$131 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 related industries.

The following discussion reviews the Company's revenues and operating income by segment. Refer to Note 4 to its 2011 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)	2011			2010		
	REVENUES	OPERATING INCOME	OPERATING INCOME OVER REVENUES	REVENUES	OPERATING INCOME	OPERATING INCOME OVER REVENUES
Services and Packages						
Infrastructure & Environment	**$ 1,945.1**	**$ 46.8**	**2.4%**	$ 1,807.1	$ 221.3	12.2%
Hydrocarbons & Chemicals	**1,075.6**	**33.8**	**3.1%**	888.7	21.8	2.4%
Mining & Metallurgy	**1,022.0**	**80.6**	**7.9%**	683.8	59.6	8.7%
Power	**894.1**	**119.7**	**13.4%**	496.6	116.4	23.4%
Other Industries	**372.5**	**43.2**	**11.6%**	315.0	38.6	12.3%
O&M	**1,399.2**	**50.1**	**3.6%**	1,330.4	39.4	3.0%
ICI	**501.4**	**131.2**	**26.2%**	472.3	134.9	28.6%
Total	**$ 7,209.9**	**$ 505.4**	**7.0%**	$ 5,993.9	$ 632.0	10.5%

The summary table below compares the actual contribution of each segment in 2011, in terms of operating income, to the initial expectations expressed in the 2010 annual MD&A.

	2011		
	EXPECTATIONS	ACTUAL	ACTUAL VS. EXPECTATIONS
Services and Packages			
Infrastructure & Environment	↓	↓	✗
Hydrocarbons & Chemicals	↑	↑	✗
Mining & Metallurgy	↑	↑	✓
Power	↑	—	✗
Other Industries	—	↑	✓
O&M	↑	↑	✓
ICI	↓	—	✓
Total operating income	↓	↓	✗

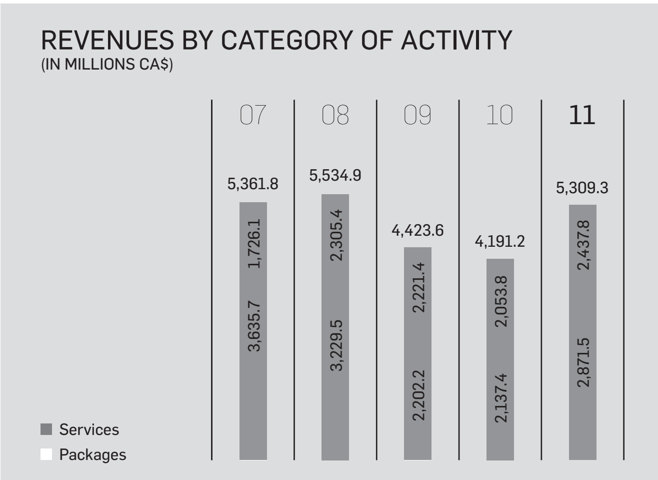
↑ INCREASE COMPARED TO PREVIOUS YEAR ↓ DECREASE COMPARED TO PREVIOUS YEAR — IN LINE WITH PREVIOUS YEAR ✓ IN LINE OR ABOVE EXPECTATIONS ✗ BELOW EXPECTATIONS

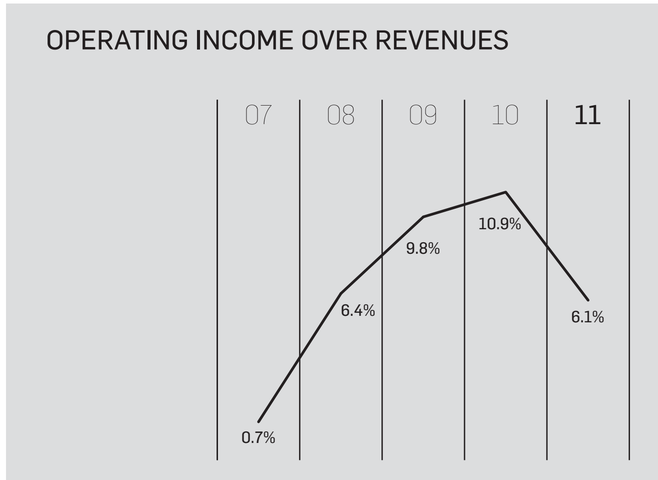
In 2011, the Company's operating income was below expectations, as the decrease in 2011 compared to 2010 was higher than expected, mainly reflecting a higher than expected decrease in contribution from Infrastructure & Environment, and a lower than expected contribution from Hydrocarbons & Chemicals, and Power.

2011 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 figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

The variation in the operating income-to-revenue ratio is mainly due to: i) the revenue mix as Services and Packages activities generate different gross margin-to-revenue ratios (refer to section 4.1.2, "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 Services and Packages mix has varied, from 32.2% in 2007, to 41.7% in 2008, 50.2% in 2009, 49.0% in 2010, and 45.9% in 2011. The lower operating income-to-revenue ratio in 2007 was mainly due to a loss in Power, in Packages activities. The higher operating income-to-revenue ratio for 2009 and 2010 is explained by the proportion of Services in the Services and Packages mix combined with favourable reforecasts on certain major Packages projects in both years.

9.1.1 INFRASTRUCTURE & ENVIRONMENT

Infrastructure & Environment includes a full range of infrastructure projects for the public and private sectors including airports, buildings, health and care, educational and recreational facilities, seaports, marine and ferry terminals, flood control systems, urban transit systems, railways, roads and bridges, and water and wastewater treatment and distribution facilities. It also includes social and environmental impact assessments and studies, community engagement, site assessment, remediation and reclamation, ecological and human health risk assessments, waste management, water resources planning, development and supply, treatment and sanitation, marine and coastal management, geoenvironmental services, climate change, air quality and acoustics, environmental management, geographic information systems, and agriculture and rural development.

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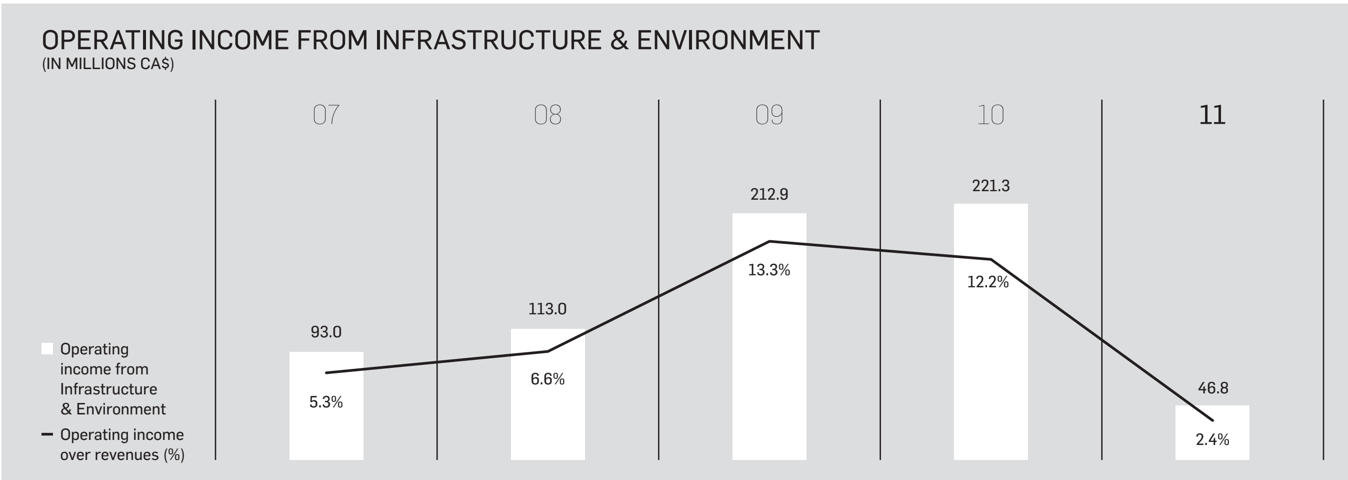

The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from Infrastructure & Environment			
Services	**$ 708.7**	$ 645.2	9.8%
Packages	**1,236.4**	1,161.9	6.4%
Total	**$ 1,945.1**	$ 1,807.1	7.6%
Operating income from Infrastructure & Environment	**$ 46.8**	$ 221.3	(78.9%)
Operating income over revenues from Infrastructure & Environment (%)	**2.4%**	12.2%	N/A
Revenue backlog at year end	**$ 2,855.9**	$ 3,485.7	(18.1%)

Revenues from Infrastructure & Environment increased in 2011 compared to 2010, mainly reflecting a higher level of activity in both categories of activity. The increase in revenues was, however, lower than anticipated. It should be noted that revenues for the year ended December 31, 2011 included $86.2 million of revenues from Libya, compared to $418.2 million in 2010.

The major revenue contributors in 2011 were as follows:

> **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. 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, comprising of 27 bridge structures in the southeast section of Calgary;

> **Calgary West Light Rail Transit ("LRT")** (Packages/Canada): 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;

> **McGill University Health Centre ("MUHC")** (Packages/Canada): EPC-related work for the new Glen Campus awarded by MUHC to Groupe Immobilier Santé McGill ("MIHG"), in Montreal, Quebec, under a public-private partnership arrangement. The contract involves the design and construction of the facilities, comprised mainly of two hospitals, a cancer centre and a research institute. Construction is underway;

> **New District Cooling Plants in Riyadh** (Packages/Middle East): Contract awarded in 2010 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 Dhahran** (Packages/Middle East): Contract awarded in 2010 by Saudi Tabreed for district cooling facilities in Dhahran, in the Kingdom of Saudi Arabia;

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> **New Maison symphonique Concert Hall of Montreal** (Packages/Canada): EPC portion of a public-private partnership arrangement with the Government of Quebec to design and build a new 2,100-seat concert hall in downtown Montreal, which was substantially completed in 2011;

> **Puy de Dôme Cog Railway** (Packages/Europe): Contract to design and build a 5.3 km electric cog railway linking the base of the Puy-de-Dôme tourism site, in France, to its summit, and capable of carrying 1,200 passengers per hour; and

> **Winnipeg's Centreport Canada Way** (Packages/Canada): Contract awarded in 2010 for the design and construction of a four-lane, four-kilometre section of Centreport Canada Way linking Manitoba's 20,000-acre inland port to the James A. Richardson International Airport and the Perimeter Highway.

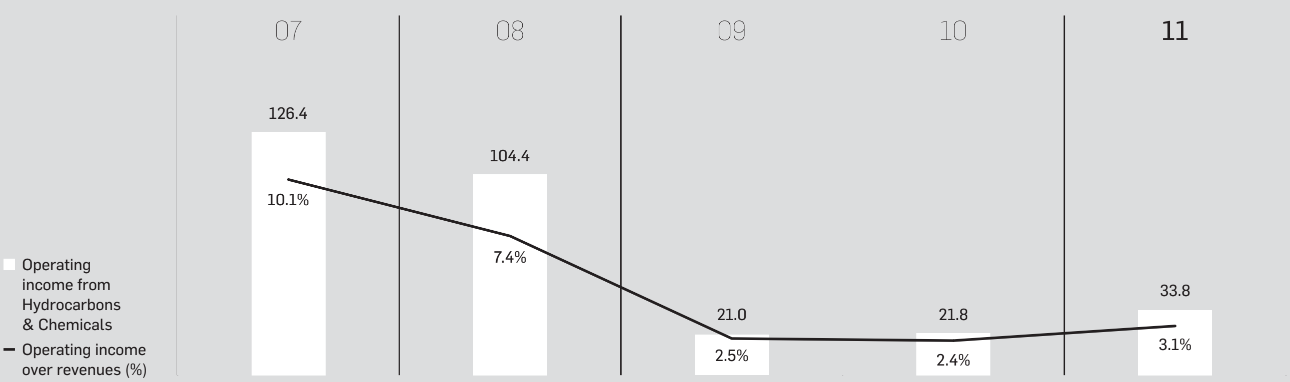
The Company's **operating income from Infrastructure & Environment** was below expectations, as the **decrease in 2011** was higher than expected when compared to 2010, mainly due to a lower than anticipated gross margin-to-revenue ratio, primarily resulting from unfavourable cost reforecasts on certain major Packages projects in 2011, as well as a fourth quarter 2011 loss related to the Company's financial position related to its Libyan infrastructure projects, combined with a lower than anticipated increase in the volume of activity. The 2010 operating income was positively impacted by favourable cost reforecasts on certain major Packages projects. It should be noted that the 2010 operating income was unfavourably adjusted to reflect a correction related to $20 million in payments made, under what is presumed to be an agency agreement, that were charged and documented to a construction project to which they did not relate (refer to section 1.1 "Recent Developments – Independent Review" and 14.1 "First-Time Adoption of IFRS"). Because these payments were documented to construction projects to which they did not relate, and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of the services rendered in connection therewith it was determined that they would need to be recorded as period expenses (i.e., not generating revenues) for accounting purposes.

The Company recorded a loss of $39.3 million on Libyan projects in 2011, of which $22.4 million was recognized by the Company in the fourth quarter in order for its net financial position, excluding $22.9 million of cash and cash equivalents held in a Libyan bank, to be $nil with respect to projects that were in progress before the Company evacuated Libya in February 2011. This net financial position was determined with the projects being considered on an aggregated basis. As a result, the deferred revenues and advances from these projects are economically offset by trade receivables and contracts in progress on these same projects.

9.1.2 HYDROCARBONS & CHEMICALS

Hydrocarbons & Chemicals (previously Chemicals & Petroleum) includes projects in the areas of bitumen production, heavy or conventional oil production, onshore and offshore oil and gas, upgrading and refining, petrochemicals, chemicals, biofuels and green chemicals, gas processing, liquefied natural gas plants and re-gasification terminals, coal gasification, carbon capture, transportation and storage, pipelines, terminals and pump stations.

OPERATING INCOME FROM HYDROCARBONS & CHEMICALS
(IN MILLIONS CA$)



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

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(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from Hydrocarbons & Chemicals			
Services	**$ 375.2**	$ 331.8	13.1%
Packages	**700.4**	556.9	25.8%
Total	**$ 1,075.6**	$ 888.7	21.0%
Operating income from Hydrocarbons & Chemicals	**$ 33.8**	$ 21.8	55.0%
Operating income over revenues from Hydrocarbons & Chemicals (%)	**3.1%**	2.4%	N/A
Revenue backlog at year end	**$ 1,220.7**	$ 1,089.6	12.0%

Hydrocarbons & Chemicals revenues increased in 2011 compared to the previous year, mainly reflecting a higher level of Packages activities.

The major revenue contributors in 2011 were as follows:

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

> **Ecopetrol Projects** (Services/Latin America): Three consulting and project management services contracts awarded for various types of facilities and infrastructure of Ecopetrol S.A., in Colombia;

> **North Atlantic Refinery Debottleneck Project** (Services/Canada): Project to reduce greenhouse gas emissions and provide for steady crude feed blending and storage, and to optimize the current refinery from 112,900 to 120,000 barrels per day by refurbishing 21 process units and cleaning product yield within existing major equipment constraints at the Come by Chance refinery in Newfoundland and Labrador;

> **Oscar II** (Packages/Europe): Turnkey EPC and commissioning contract for GRTgaz, a subsidiary of GDF Suez, for two new natural gas compressor and interconnection stations near the towns of Fontenay-Mauvoisin and Saint-Avit, France; and

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

The operating income from Hydrocarbons & Chemicals in 2011 increased when compared to 2010, but the increase was below the Company's expectation, mainly due to unfavorable cost reforecasts on certain Packages projects as well as $35 million of period expenses related to payments made in the fourth quarter of 2011. These payments, made under what are presumed to be agency agreements, were charged and documented to construction projects to which they did not relate (refer to section 1.1 "Recent Developments – Independent Review"). Because these payments were documented to construction projects to which they did not relate, and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of the services rendered in connection therewith, it was determined that they would need to be recorded as period expenses (i.e., not generating any revenues) for accounting purposes. In 2010, the low level of operating income was mainly due to unfavourable cost reforecasts on certain Packages projects.

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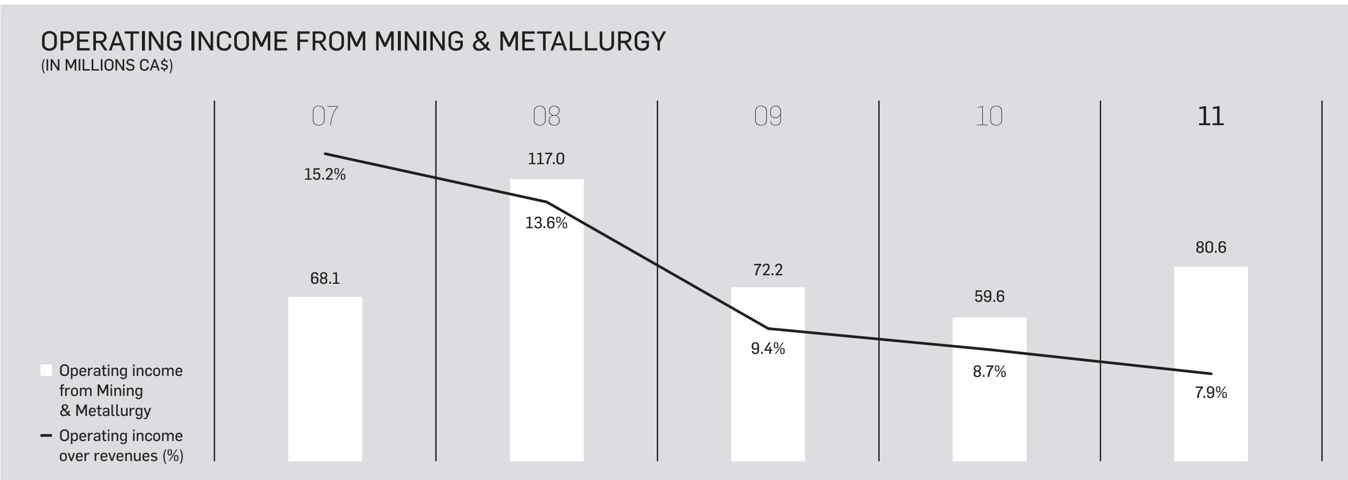
9.1.3 MINING & METALLURGY

Mining & Metallurgy includes a full range of activities for all mineral and metal recovery processes, including mine infrastructure development, mineral processing, smelting, refining, mine closure and reclamation, mine and tailings management, and fertilizers.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from Mining & Metallurgy			
Services	$ 869.2	$ 643.4	35.1%
Packages	152.8	40.4	277.6%
Total	$ 1,022.0	$ 683.8	49.5%
Operating income from Mining & Metallurgy	$ 80.6	$ 59.6	35.4%
Operating income over revenues from Mining & Metallurgy (%)	7.9%	8.7%	N/A
Revenue backlog at year end	$ 1,123.0	$ 440.7	154.8%

As expected, **Mining & Metallurgy revenues increased in 2011** compared to 2010, primarily due to a higher level of activity.

The major revenue contributors in 2011 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;

> **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;

> **BHP Billiton Jansen Project** (Services/Canada): Definition study phase awarded for Stage 1 of the Jansen Project, located near Lanigan, Saskatchewan, as part of the multi-year Hub contract signed with BHP Billiton in 2011 for the execution of potash projects to be developed and built mainly in Saskatchewan;

> **Emirates Aluminum Smelter Complex Phase II** (Services/Middle East): EPCM services contract awarded by Emirates Aluminum Company Limited PJSC (EMAL) in the third quarter of 2011 for Phase II of its smelter in Al Taweelah, in the Emirate of Abu Dhabi;

> **Ferro Carajas S11D** (Services/Latin America): Detailed engineering and technical services for the project implementation phase including consolidation of the basic design and development of the detailed design, procurement support, construction management and pre-commissioning for a mine that would produce 90 million tonnes of iron ore per year and beneficiation plant facilities;

> **Mina de Cobre Panama Project** (Services/Latin America): Contract awarded to provide basic engineering and EPCM services for the development of the Cobre Panama copper mine project in Panama. Construction work began in late 2011;

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> **Mont-Wright Expansion Project** (Services/Canada): Contract awarded by ArcelorMittal to provide EPCM services for the Mont-Wright, brownfield expansion project in Quebec;

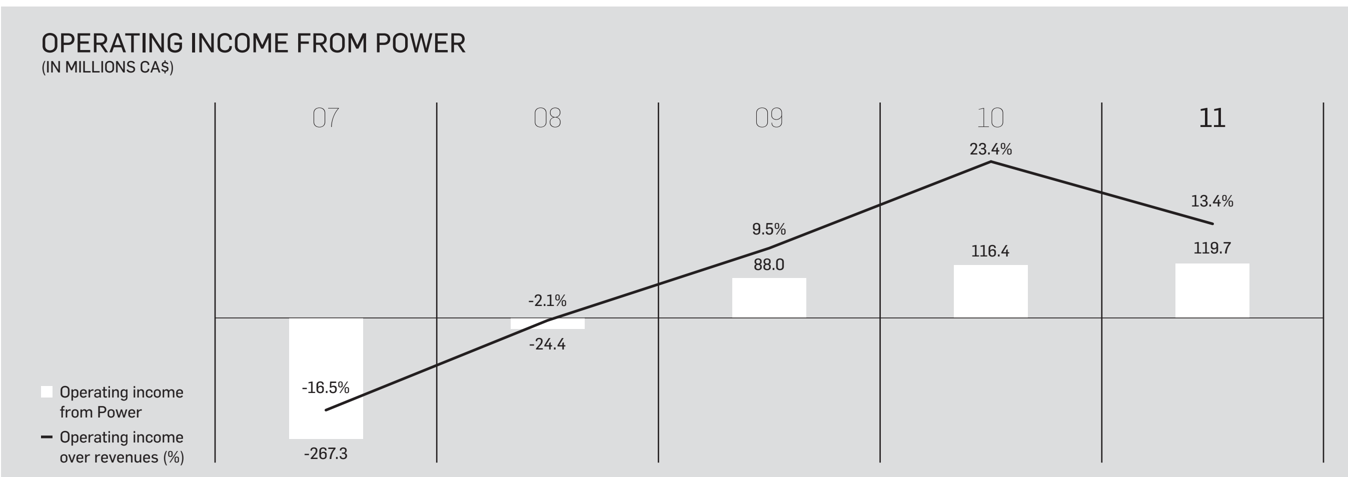
> **Potàsio Rio Colorado Project** (Services/Latin America): Mandate to provide the detailed design for a potash plant in Argentina, for interconnections with the mine and for the airstrip. The initial rated production capacity of the plant is 2.9 million tonnes per year and a future planned expansion will increase it to 4.3 million tonnes per year; and

> **Rio Tinto Alcan's AP60 Project** (Services/Canada): Contract awarded to SNC-Lavalin /Hatch Joint Venture providing the preliminary engineering for a new AP60 pilot plant at Alcan's complex in Jonquiere, Quebec. In late 2010, Rio Tinto Alcan awarded the implementation of the first phase providing project management, engineering, procurement, construction, management and pre-commissioning services to implement this new energy-efficient and cost-effective aluminum smelting technology (AP60) aimed at providing a 40% higher output per pot compared to current production.

As expected, the **Company's contribution from Mining & Metallurgy increased in 2011** compared to 2010, primarily reflecting a higher level of activity. The increase was partially offset by a lower gross margin-to-revenue ratio in Services, mainly due to lower gross margins on certain major projects, combined with additional costs on one project in the first quarter of 2011.

9.1.4 POWER

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



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from Power			
Services	**$ 322.2**	$ 309.3	4.2%
Packages	**571.9**	187.3	205.4%
Total	**$ 894.1**	$ 496.6	80.1%
Operating income from Power	**$ 119.7**	$ 116.4	2.8%
Operating income over revenues from Power (%)	**13.4%**	23.4%	N/A
Revenue backlog at year end	**$ 1,961.9**	$ 1,560.0	25.8%

As expected, **Power revenues increased in 2011** compared to 2010, mainly reflecting an increased level of Packages activity.

In 2011, SNC-Lavalin acquired certain assets of AECL's commercial reactor division. Approximately 1,400 employees transitioned from AECL to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. Revenue backlog of Candu Energy Inc. amounted to $161.8 million as at December 31, 2011 and was primarily related to Services activities.

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The major revenue contributors in 2011 were as follows:

> **335 MW Waneta Expansion Project** (Packages/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;

> **Matala Dam Rehabilitation Project** (Services/Africa): EPC contract for the design and rehabilitation of a new spillway at an existing hydro power plant, including the supply and construction of new radial gates. The project is underway;

> **Muskrat Falls Hydroelectric Development** (Services/Canada): Agreement signed with Nalcor Energy to deliver EPCM activities for Phase I of the Lower Churchill Project, in Newfoundland and Labrador;

> **SaskPower's Boundary Dam Integrated Carbon Capture and Sequestration ("CCS") Plant** (Packages/Canada): Contract for the CCS Demonstration Project, involving the transformation of an aging unit at the coal-fired Boundary Dam Power Station in Saskatchewan into a source of clean electricity and a producer of CO_2 for enhanced oil recovery;

> **Southcentral Power Project** (Packages/United States): Contract awarded in 2010 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;

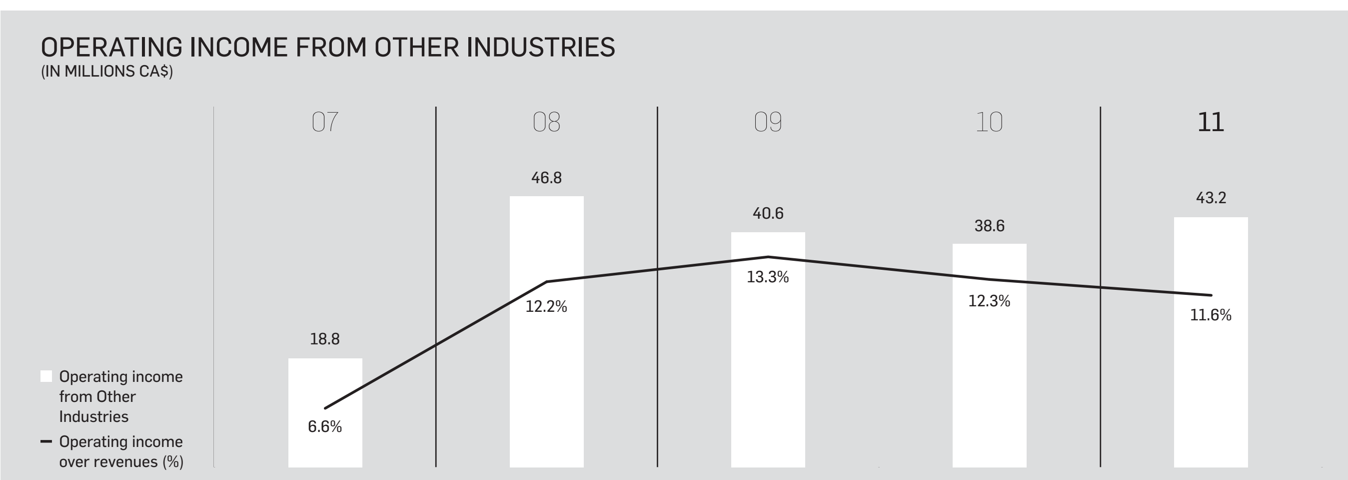
> **Te Mihi Geothermal Project** (Packages/Asia Pacific): EPC-related work awarded by Contact Energy, based in New Zealand, for the construction of the 166 MW Te Mihi geothermal project in Taupo, New Zealand; and

> **Thermal Power Plant in Tunisia** (Packages/Africa): Contract awarded by the Société Tunisienne de l'Éléctricité et du 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.

While the Company expected its **operating income from Power in 2011** to increase compared to 2010, it **remained in line**, as the higher level of Packages activity was offset mainly by a lower gross margin-to-revenue ratio, primarily reflecting the 2010 gain before taxes of $22.8 million from the disposal of certain technology solution assets, as well as favourable costs reforecasts in 2010. Refer to section 6.1 for more details on the 2010 gain before taxes.

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 industry segments.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

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(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from Other Industries			
Services	$ 162.5	$ 124.1	30.9%
Packages	210.0	190.9	10.0%
Total	$ 372.5	$ 315.0	18.2%
Operating income from Other Industries	$ 43.2	$ 38.6	11.9%
Operating income over revenues from Other Industries (%)	11.6%	12.3%	N/A
Revenue backlog at year end	$ 547.4	$ 407.1	34.5%

Other Industries revenues increased in 2011 compared to 2010, reflecting a higher level of activity in both categories of activity.

While the Company expected its **operating income derived from Other Industries in 2011** to remain in line with 2010, **it increased**, mainly due to a higher level of activity, partially offset by a lower gross margin-to-revenue ratio.

9.2 O&M

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

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

> **Industrial:** includes specialized expertise to oversee the 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 airports, public transit systems, highways, bridges and tunnels; and

> **Defence & 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 8,600 facilities that include buildings, workforce lodges, Canada's only air-rail link – the Canada Line, bridges, power plants, ships, highways and airports, spread across 12.6 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)	2011	2010	CHANGE (%)
Revenues from O&M			
Project, property and facility management	$ 939.9	$ 977.9	(3.9%)
Industrial	161.7	137.4	17.7%
Transportation	109.5	104.1	5.1%
Defence and logistics	188.1	111.0	69.4%
Total	$ 1,399.2	$ 1,330.4	5.2%
Operating income from O&M	$ 50.1	$ 39.4	27.1%
Operating income over revenues from O&M (%)	3.6%	3.0%	N/A
Revenue backlog at year end	$ 2,379.1	$ 2,732.8	(12.9%)

As expected, **O&M revenues increased in 2011** compared to 2010.

As expected, **operating income increased in 2011** compared to 2010, mainly reflecting a higher gross margin-to-revenue ratio.

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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 DESCRIPTIONS OF ICI

The ICI segment includes SNC-Lavalin's ownership interest in the following main investments as at December 31, 2011 (refer to Note 5C to the 2011 audited annual consolidated financial statements for additional disclosure on the impact of these investments on the statement of financial position):

		ACCOUNTING METHOD						
NAME	OWNERSHIP INTEREST	FULL CONSO-LIDATION	EQUITY	COST	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	DESCRIPTION OF ACTIVITIES
407 International Inc. ("Highway 407")	16.77%		✓		No	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 Holdings, L.P. ("AltaLink") (1)	100%	✓			No	2002	N/A	Owns and operates approximately 11,800 km of transmission lines and over 275 substations in Alberta on a rate-regulated basis.
Ambatovy Nickel Project ("Ambatovy")	5%			✓	N/A	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 LLC ("Astoria")	21.0%		✓		No	2004	N/A	Owns and operates a 500 MW natural gas-fired combined cycle power plant in Queens, New York.
Astoria Project Partners II LLC ("Astoria II")	18.5%		✓		No	2008	N/A	Astoria II owns and operates 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").
Chinook Roads Partnership ("Chinook")	50%		✓		Yes	2010	2043	Upon completion of the construction, 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%		✓		Yes	2010	2044	Once construction is completed, it will operate and maintain the McGill University Health Centre's new Glen Campus.
InTransit BC Limited Partnership ("InTransit BC")	33.3%		✓		Yes	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.

(1) SNC-Lavalin holds an ownership interest of 100% in AltaLink Holdings, L.P. ("AltaLink"), and ultimately owns 100% of all of its subsidiaries, including AltaLink, L.P., the owner and operator of transmission lines and substations subject to rate regulation.

N/A: not applicable

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NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD FULL CONSO-LIDATION	EQUITY	COST	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	DESCRIPTION OF ACTIVITIES
Malta International Airport p.l.c.	15.5%		✓		No	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%		✓		No	2008	N/A	Myah Tipaza owns, operates and maintains a 120,000 m^3pd 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.
Okanagan Lake Concession Limited Partnership ("Okanagan Lake Concession")	100%	✓			Yes	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%	✓			Yes	2009	2038	Operates and maintains a 2,100-seat concert hall in downtown Montreal, under a 29-year concession agreement.
Rainbow Hospital Partnership ("Rainbow")	100%	✓			Yes	2011	2041	Designs, builds, commissions, finances and, once construction is completed, will operate and maintain certain functions of the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick.
Rayalseema Expressway Private Limited ("REPL")	36.9%		✓		Yes	2010	2040	Builds 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%		✓		No	2006	N/A	Owns, operates and maintains a 1,227 MW gas-fired thermal power plant in Algeria; the total capacity of electricity is sold to Sonelgaz S.p.A. under a 20-year take-or-pay agreement.
Société d'Exploitation de l'Aéroport de Mayotte S.A.S. ("Mayotte")	100%	✓			Yes	2011	2026	Upgrades the infrastructure, builds a new terminal building, manages and maintain the airport under a 15-year concession agreement.
Société d'Exploitation de Vatry Europort ("SEVE")	51.1%		✓		No	1999	2020	Manages and operates a cargo airport under a 20-year concession agreement.
TC Dôme S.A.S. ("TC Dôme")	51%		✓		Yes	2008	2043	Will operate a 5.3 -km electric cog railway in France once construction is completed.

N/A: not applicable

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9.3.2 NOTABLE EVENTS RELATED TO ICI

The following notable events related to ICI took place in 2011:

> In April 2011, Société d'Exploitation de l'Aéroport de Mayotte S.A.S., a wholly-owned subsidiary of the Company, entered into an agreement with the French government to upgrade the infrastructure and build a new terminal building for the Mayotte airport, on a French island located in the Indian Ocean. Société d'Exploitation de l'Aéroport de Mayotte S.A.S. also has the mandate to manage and maintain the airport, in addition to assuming the commercial development, for a 15-year period.

> In September 2011, SNC-Lavalin completed the acquisition of Macquarie Essential Assets Partnership's ("MEAP") 23.08% ownership interest in AltaLink for a total consideration of $228.8 million in cash. The transaction increased the Company's ownership of AltaLink from 76.92% to 100%. AltaLink has technical expertise and extensive experience in Alberta, Canada, where it owns and operates regulated transmission facilities, such as transmission lines and substations that serve 85% of Alberta's population.

> In September 2011, Rainbow Hospital Partnership ("Rainbow"), wholly-owned by SNC-Lavalin, was awarded a public-private partnership contract by the Government of New Brunswick for the design, construction, commissioning, financing and certain operation and maintenance functions of the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick. Rainbow subcontracted the construction of the new hospital to an SNC-Lavalin-led joint venture. It will have 140 beds in seven in-patient units with facilities for education and research, clinical support, and administration and general support services. It will also serve as the forensic psychiatry facility for the province. SNC-Lavalin Operations & Maintenance will provide the operation and maintenance activities for the centre for a total of 30 years.

9.3.3 NET BOOK VALUE OF ICI

Given the significant effect of ICI on the Company's consolidated statement of financial position, the Company provides additional information in Note 5 of its 2011 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 statement of financial position. As at December 31, 2011, the Company estimates that the fair value of its ICI is higher than their net book value, with the Company's investment in Highway 407 and AltaLink having the highest estimated fair values of its ICI portfolio.

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	NET BOOK VALUE	
	2011	2010
Highway 407	**$ –**	$ –
AltaLink	**602.0**	328.2
Others	**763.3**	740.2
Total	**$ 1,365.3**	$ 1,068.4

Under the equity method of accounting, distributions from a jointly controlled entity reduce the carrying amount of the investment. The equity method of accounting 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, or where dividends payable by the jointly controlled entity are in excess of the carrying amount of the investment. In these events, the carrying value of the investment 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. The excess amount of dividends payable by a jointly controlled entity is recognized in net income of the Company.

As a result, the Company recognized in its income statement dividends from Highway 407 of $77.2 million in 2011 (2010: $50.3 million) and did not recognize its share of Highway 407's net income of $21.5 million (2010: $12.9 million) in the same period, as the carrying amount of its investment in Highway 407 was $nil at December 31, 2011, December 31, 2010 and January 1, 2010.

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9.3.4 REVENUES AND OPERATING INCOME OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	CHANGE (%)
Revenues from ICI	**$ 501.4**	$ 472.3	6.2%
Operating income from ICI	**$ 131.2**	$ 134.9	(2.7%)

The information relating to periods prior to 2010, established in accordance with Canadian GAAP, is not presented in the table because the most significant impacts for the Company of adopting IFRS relate to its ICI, as outlined in section 14.1.

The Company's investments are accounted for by either the cost, equity or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control (refer to section 4.1.4 for details). The revenues included in the Company's consolidated income statement are influenced by the consolidation method applied to an ICI, as described in section 4.1.4. 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.

While the Company expected the **operating income from the ICI segment** to remain in line **in 2011** compared to 2010, excluding the 2010 net gain after taxes on disposal of Trencap and Valener, it **increased**, mainly due to higher dividends from Highway 407, as well as a higher contribution from AltaLink, partially offset by the absence of contributions in 2011 from the Company's investments in Trencap and Valener, which were sold in the fourth quarter of 2010.

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As supplementary information, the Company discloses, in the table below, its 16.77% proportionate share of the dividends paid by Highway 407, its net income attributable to SNC-Lavalin shareholders from other ICI, as well as the dividends and distributions received from ICI, as this information is useful in assessing the value of the Company's share price.

(IN MILLIONS OF CANADIAN DOLLARS)	2011	2010	2009 (1)	2008 (1)	2007 (1)
Net income attributable to SNC-Lavalin shareholders from ICI:					
From Highway 407	**$ 77.2**	$ 50.3	$ 9.8	$ 20.0	$ 10.1
From a net gain on disposal of Trencap and Valener	**–**	26.1	–	–	–
From other ICI	**54.0**	58.5	27.1	17.2	13.2
Total	**$ 131.2**	$ 134.9	$ 36.9	$ 37.2	$ 23.3
Dividends and distributions received by SNC-Lavalin:					
From Highway 407	**$ 77.2**	$ 50.3	$ 31.9	$ 22.6	$ 20.1
From other ICI (2)	**12.2**	1.6	41.4	12.8	10.4
Total	**$ 89.4**	$ 51.9	$ 73.3	$ 35.4	$ 30.5

(1) In accordance with Canadian GAAP, refer to section 14.1 for more details.

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

10 LIQUIDITY AND CAPITAL RESOURCES

19.3%
ROASE

$852 million
NET CASH POSITION

$750 million
FREEHOLD CASH

As discussed in section 5 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 solid financial position 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 **financial position** analysis, which has been prepared with the objective of providing additional information on the major changes in the Company's consolidated statement of financial position in 2011 and 2010;

> 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 its 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.

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These elements, as discussed in their corresponding sections below, demonstrate that the Company achieved its key financial objective of maintaining a solid financial position, and has cash and cash equivalents, as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business acquisitions and investments in infrastructure concessions, share repurchases and, business growth, and to 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 FINANCIAL POSITION ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Current assets	**$ 3,546.3**	$ 3,566.5	$ 3,157.6
Non-current assets	**4,807.7**	3,954.3	3,432.5
Total assets	**8,354.0**	7,520.8	6,590.1
Current liabilities	**3,514.3**	2,886.6	2,720.6
Non-current liabilities	**2,953.0**	2,714.7	2,269.9
Total liabilities	**6,467.3**	5,601.3	4,990.5
Equity attributable to SNC-Lavalin shareholders	**1,883.1**	1,816.8	1,518.2
Non-controlling interests	**3.6**	102.7	81.4
Total liabilities and equity	**$ 8,354.0**	$ 7,520.8	$ 6,590.1

10.1.1 TOTAL CURRENT ASSETS

Total current assets decreased by $20.2 million between December 31, 2010 and **December 31, 2011**, reflecting primarily:

FROM ICI	FROM OTHER ACTIVITIES
An increase of **$45.4 million** mainly reflecting: > An increase of $30.6 million in trade receivables; and > An increase of $14.1 million in cash and cash equivalents.	A decrease of **$65.6 million** including mainly: > A decrease of $148.6 million in trade receivables; and > A decrease of $50.9 million in contracts in progress; partially offset by > An increase of $101.7 million in other current financial assets; and > An increase of $44.4 million in other current assets.

Current assets increased by $408.9 million between January 1, 2010 and December 31, 2010, reflecting primarily:

FROM ICI	FROM OTHER ACTIVITIES
An increase of $22.0 million mainly reflecting: > An increase of $22.4 million in other current financial assets.	An increase of $386.9 million including mainly: > An increase of $226.1 million in trade receivables; and > An increase of $128.5 million in contracts in progress.

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10.1.2 TOTAL NON-CURRENT ASSETS

Total non-current assets increased by $853.4 million from December 31, 2010 to **December 31, 2011,** mainly due to:

FROM ICI	FROM OTHER ACTIVITIES
An increase of **$664.5 million** mainly reflecting: > An increase of $564.9 million in property and equipment, from AltaLink; and > An increase of $72.0 million in non-current financial assets.	An increase of **$188.9 million** mainly reflecting: > An increase of $97.4 million in goodwill resulting from acquisition of businesses in 2011; and > An increase of $44.7 million in property and equipment.

Total non-current assets increased by $521.8 million from January 1, 2010 to December 31, 2010, mainly due to:

FROM ICI	FROM OTHER ACTIVITIES
An increase of $422.0 million mainly reflecting: > An increase of $347.6 million in property and equipment, from AltaLink; > An increase of $45.0 million in other non-current assets; and > An increase of $29.4 million in non-current financial assets.	An increase of $99.8 million including mainly: > An increase of $51.1 million in ICI accounted for by the equity or cost methods; and > An increase $21.2 million in goodwill.

10.1.3 TOTAL CURRENT LIABILITIES

Total current liabilities increased by $627.7 million between December 31, 2010, and **December 31, 2011,** reflecting the following items:

FROM ICI	FROM OTHER ACTIVITIES
An increase of **$392.6 million** mainly reflecting: > An increase of $288.6 million in non-recourse short-term debt and current portion of non-recourse long-term debt, primarily from AltaLink; and > An increase of $97.9 million in trade payables.	An increase of **$235.1 million** mainly reflecting: > An increase of $171.1 million in deferred revenues; and > An increase of $147.9 million in trade payables; partially offset by > A decrease of $106.2 million of downpayments in contracts.

Current liabilities increased by $166.0 million between January 1, 2010, and December 31, 2010, reflecting the following items:

FROM ICI	FROM OTHER ACTIVITIES
A decrease of $20.5 million including mainly: > A decrease of $12.8 million in non-recourse short-term debt and current portion of non-recourse long-term debt, primarily from AltaLink; and > A decrease of $7.7 million in other current financial liabilities.	An increase of $186.5 million mainly reflecting: > An increase of $221.4 million in deferred revenues; and > An increase of $92.6 million in other current financial liabilities; partially offset by > A decrease of $104.9 million in the short-term debt and current portion of recourse long-term debt following the repayment of unsecured debentures totalling $105 million at maturity in September 2010.

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10.1.4 TOTAL NON-CURRENT LIABILITIES

Total non-current liabilities increased by $238.3 million from December 31, 2010 to **December 31, 2011,** mainly reflecting:

FROM ICI	FROM OTHER ACTIVITIES
An increase of **$135.1 million** mainly reflecting: > An increase of $57.6 million in other non-current liabilities; > An increase of $44.0 million in other non-current financial liabilities; and > An increase of $32.4 million in the non-recourse long-term debt, primarily relating to AltaLink.	An increase of **$103.2 million** mainly reflecting: > An increase of $49.6 million in deferred income tax liability; and > An increase of $46.7 million in provisions.

Total non-current liabilities increased by $444.8 million from January 1, 2010 to December 31, 2010, mainly reflecting:

FROM ICI	FROM OTHER ACTIVITIES
An increase of $317.8 million including mainly: > An increase of $270.6 million in the non-recourse long-term debt, primarily relating to AltaLink.	An increase of $127.0 million mainly reflecting: > An increase of $80.0 million in deferred income tax liability; and > An increase of $44.3 million in provisions.

10.1.5 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 27A to the 2011 audited annual consolidated financial statements, **were $4.5 billion as at December 31, 2011**, compared to $4.1 billion and $3.8 billion as at December 31, 2010 and January 1, 2010, respectively.

10.1.6 TOTAL EQUITY

Equity attributable to SNC-Lavalin shareholders increased by $66.3 million as at December 31, 2011, compared to December 31, 2010, mainly reflecting the net income attributable to SNC-Lavalin shareholders for 2011, partially offset by the acquisition of non-controlling interests of AltaLink, and by dividends declared to SNC-Lavalin shareholders.

The increase of $298.6 million from January 1, 2010 to December 31, 2010 mainly reflected the net income attributable to SNC-Lavalin shareholders for 2010, partially offset by dividends declared to SNC-Lavalin shareholders.

Non-controlling interests totalled $3.6 million as at December 31, 2011, compared to $102.7 million as at the end of the previous year. The decrease from December 31, 2010 to December 31, 2011 mainly related to the acquisition of MEAP's 23.08% ownership interest in AltaLink, as the carrying value of the non-controlling interests in AltaLink of $110.8 million was reduced to $nil upon completion of the transaction.

10.2 NET CASH POSITION AND FREEHOLD CASH

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

(IN MILLIONS OF CANADIAN DOLLARS)	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Cash and cash equivalents	**$ 1,231.0**	$ 1,235.1	$ 1,191.4
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	**30.9**	16.8	15.6
Recourse debt	**348.4**	348.2	452.9
Net cash position	**$ 851.7**	$ 870.1	$ 722.9
Freehold cash	**$ 750.0**	$ 900.0	$ 800.0

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The net cash position as at December 31, 2011 was in line with December 31, 2010.

In addition to determining its net cash position, the Company estimates its **freehold cash**, a non-IFRS financial measure defined as the amount of cash and cash equivalents 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 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 $750 million as at December 31, 2011**, compared to approximately $900 million as at December 31, 2010. The decrease was mainly due to cash and cash equivalents used for the acquisition of MEAP's 23.08% ownership interest in AltaLink, and for the acquisition of a subsidiary's debenture as part of the same transaction, as well as the estimated cash requirements to complete existing projects, cash used for business acquisitions, and dividends paid to SNC-Lavalin shareholders. This decrease was partially offset by cash generated from operating activities excluding ICI.

The Company's net cash position as at December 31, 2011 includes $22.9 million of cash and cash equivalents held in a Libyan bank. Although the Company believes that there is risk to its current ability to repatriate such funds, the Company has no current intention of attempting to do so or ceasing to do business in Libya and, continues to explore opportunities to resume its existing projects in Libya, as well as new business opportunities. Accordingly, the Company believes that such cash and cash equivalents are fully available to fund its business operations in that country. The Company will continue to assess the risks associated with the political conditions in Libya as developments occur or the circumstances otherwise warrant.

10.3 CASH FLOWS ANALYSIS

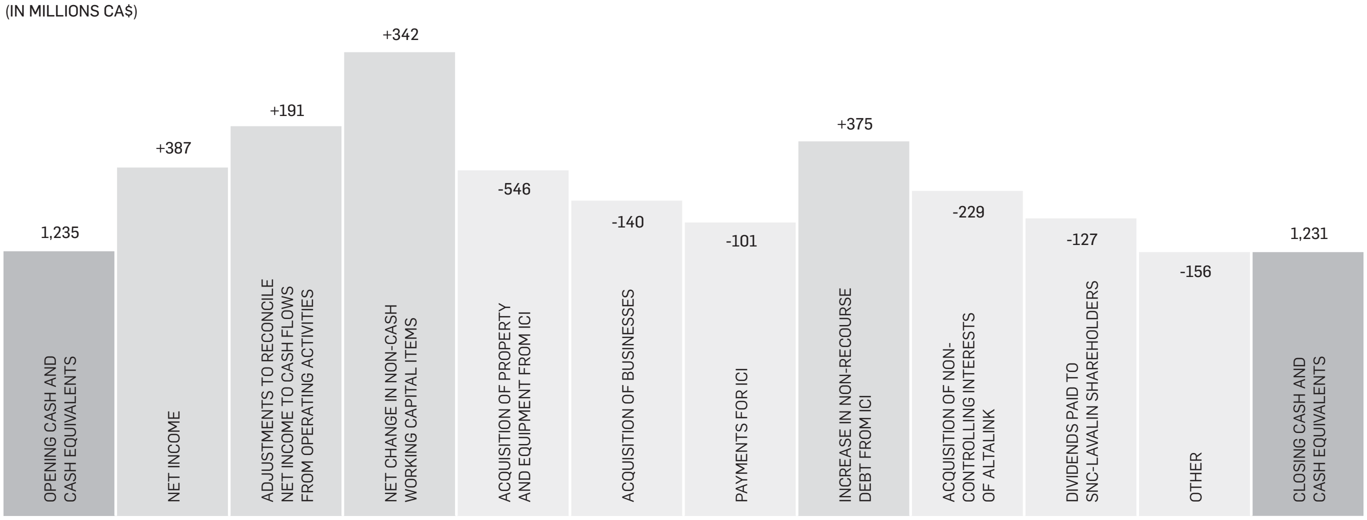
SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2011	2010
Cash flows generated from (used for):		
Operating activities	**$ 919.6**	$ 500.1
Investing activities	**(863.6)**	(475.9)
Financing activities	**(56.8)**	31.9
Decrease in exchange differences on translating cash and cash equivalents held in foreign operations	**(3.3)**	(12.4)
Net increase (decrease) in cash and cash equivalents	**(4.1)**	43.7
Cash and cash equivalents at beginning of year	**1,235.1**	1,191.4
Cash and cash equivalents at end of year	**$ 1,231.0**	$ 1,235.1

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, 2011. These items are further explained below.

2011 VARIATION OF CASH AND CASH EQUIVALENTS

(IN MILLIONS CA$)



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Operating Activities	**Cash generated from operating activities increased to $919.6 million in 2011**, compared to cash generated of $500.1 million in 2010, mainly reflecting: > Cash generated by the net change in non-cash working capital items, which totalled $341.8 million in 2011, compared to cash used of $189.5 million in 2010, primarily reflecting lower working capital requirements; partially offset by > Net income in 2011 of $387.3 million, compared to net income in 2010 of $487.4 million.
Investing Activities	**Cash used for investing activities increased to $863.6 million in 2011**, compared to cash used of $475.9 million in 2010. The major investing activities were as follows: > The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of $545.8 million in 2011 compared to $402.0 million in 2010, due to AltaLink in both years, mainly relating to capital expenditures for transmission projects; > The acquisition of businesses for a total cash outflow of $140.4 million in 2011, compared to $39.2 million in 2010; > The cash outflow of $101.1 million relating to payments for ICI in 2011, reflecting payments for Ambatovy, Astoria II, and REPL, compared to $92.7 million in 2010, reflecting payments for Astoria II, Ambatovy and REPL; and > The acquisition of property and equipment from other activities used a total cash outflow of $67.2 million in 2011 compared to $46.0 million in 2010. Approximately 47% and 54%, in 2011 and 2010 respectively, of the acquisitions of property and equipment from these activities were related to information technology; partially offset by > Proceeds from disposals of two ICI, Valener and Trencap, for a total cash inflow of $176.9 million, in 2010.
Financing Activities	**Cash used for financing activities totalled $56.8 million in 2011**, compared to cash generated from financing activities of $31.9 million in 2010. The major financing activities were as follows: > An increase in non-recourse long-term debt from ICI totaling $374.8 million in 2011, compared to $400.6 million in 2010, mainly due to AltaLink in both years; > Dividends paid to SNC-Lavalin shareholders amounted to $126.8 million in 2011, compared to $102.7 million in 2010, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of $0.84 per share in 2011, compared to $0.68 per share for 2010; > Under its normal course issuer bid, the Company repurchased shares for a total amount of $44.3 million in 2011 (819,400 shares at an average redemption price of $54.03), compared to $47.9 million in 2010 (901,600 shares at an average redemption price of $53.18). The Company expects to be as active in repurchasing its shares in 2012. 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 $26.9 million of cash in 2011 (820,216 stock options at an average price of $32.84), compared to $24.3 million in 2010 (902,465 stock options at an average price of $26.98). As at March 16, 2012, there were 5,167,144 stock options outstanding with exercise prices varying from $31.59 to $57.07 per common share. At that same date there were 151,143,903 common shares issued and outstanding; and > The acquisition of MEAP's 23.08% ownership interest in AltaLink for a total consideration of $228.8 million in cash. As part of that transaction, the Company also acquired a subsidiary's debenture for $50.0 million.

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10.4 WORKING CAPITAL

WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT CURRENT RATIO)	2011	2010
Current assets	**$ 3,546.3**	$ 3,566.5
Current liabilities	**3,514.3**	2,886.6
Working Capital	**$ 32.0**	$ 679.9
Current Ratio	**1.01**	1.24

The working capital and current ratio decreased as at December 31, 2011 compared to the previous year, as the increase generated from the variation in non-cash working capital items in 2011 was more than offset by cash used for financing and investing activities such as the acquisition of MEAP's 23.08% ownership interest in AltaLink as well as the acquisition of a subsidiary's debenture as part of the same transaction, business acquisitions, as well as dividends paid to shareholders.

10.5 CAPITAL MANAGEMENT

SNC-Lavalin's main objective when managing its capital is to maintain an adequate balance between:

> 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,

> optimizing return on average equity attributable to SNC-Lavalin shareholders.

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 equity attributable to SNC-Lavalin shareholders excluding other components of equity plus its recourse debt. The Company excludes other components of equity from its definition of capital because this element of equity results mainly from the accounting treatment of cash flow hedges, including the share of comprehensive income of investments accounted for by the equity method, and is not representative of the way the Company evaluates the management of its foreign currency risk. Accordingly, the other components of equity are not representative of the Company's financial position.

Refer to Note 28 to the 2011 audited annual consolidated financial statements for additional details regarding the Company's management of its capital.

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10.6 RECOURSE DEBT AND NON-RECOURSE DEBT

Recourse debt	Recourse Revolving Credit Facility	**The Company has access to committed long-term revolving lines of credit with banks, totalling $590.0 million**, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 0.0% (2010: 0.2%). As at December 31, 2011, $145.9 million of these lines of credit remained unused, while the balance of $444.1 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.
	Recourse Debenture–Credit Rating	On November 30, 2011, **Standard & Poor's** reconfirmed SNC-Lavalin's debentures' rating of **BBB+ with a stable outlook**. On September 16, 2011, **DBRS improved** its outlook for the Company's debentures from BBB (high) with a stable trend to **BBB (high) with a positive trend**. On February 28, 2012, following the Company's update on the announcement of its 2011 financial results and impact on its 2011 outlook, DBRS placed SNC-Lavalin's debentures' rating at **BBB (high) Under Review with Developing Implications**. DBRS will maintain the rating under review until it has completed its assessment. On February 29, 2012, Standard & Poor's issued a credit rating bulletin stating that SNC-Lavalin's debentures' rating was unaffected in the near-term.
	Recourse Debt-to-Capital Ratio	This ratio compares the recourse debt balance to the sum of recourse debt and equity attributable to SNC-Lavalin shareholders, excluding other components of equity, and is a measure of the Company's financial capabilities. **As at December 31, 2011** and 2010, the **Company's recourse debt-to-capital ratio was 15:85** and 16:84, respectively, below the Company's objective, which is not to surpass a ratio of 30:70.
Non-recourse debt	SNC-Lavalin does not consider non-recourse debt when monitoring its capital because such debt results from the full 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 ICI accounted for using the full and equity consolidation methods may, however, be at risk if such investments were unable to repay their non-recourse long-term debt.	

10.7 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

10.7.1 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 short-term debt and long-term debt repayments, commitments to invest in ICI, and rental obligations:

(IN MILLIONS OF CANADIAN DOLLARS)	2012	2013-2014	2015-2016	THEREAFTER	TOTAL
Short-term debt and long-term debt repayments:					
Recourse	$ –	$ –	$ –	$ 350.0	$ 350.0
Non-recourse from ICI	327.4	344.1	203.4	1,026.2	1,901.1
Commitments to invest in ICI	159.1	–	–	–	159.1
Rental obligations under long-term operating leases	89.5	145.4	102.8	100.0	437.7
Total	$ 576.0	$ 489.5	$ 306.2	$ 1,476.2	$ 2,847.9

Additional details of the future principal repayments of the Company's recourse and non-recourse short-term debt and long-term debt are provided in Note 17D to the Company's 2011 audited annual consolidated financial statements. The commitments to invest in ICI result from SNC-Lavalin not being required to make its contribution immediately when investing, but instead contributing over time, as detailed in Note 5D to its 2011 audited annual consolidated financial statements. The commitments to invest in ICI are recognized for investments accounted for by the equity or cost methods and mainly relate to MIHG, Ambatovy and Chinook. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 31 to its 2011 audited annual consolidated financial statements.

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10.7.2 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 27 to its 2011 audited annual consolidated financial statements.

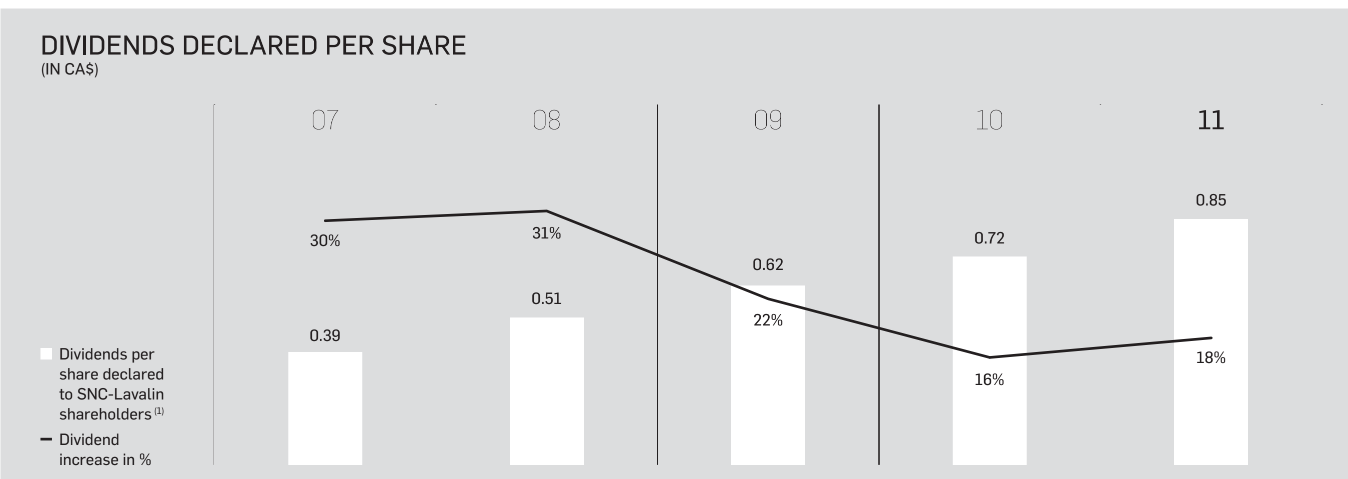
DERIVATIVE FINANCIAL INSTRUMENTS	FINANCIAL ARRANGEMENT
SNC-Lavalin enters into derivative financial instruments, namely: i) forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements.	The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of its cash-settled share-based payment arrangements caused by fluctuations in its share price (refer to Note 21C to the 2011 audited annual consolidated financial statements).

All 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.

10.8 DIVIDENDS DECLARED

The Board of Directors has decided to **increase the quarterly cash dividend payable to shareholders from $0.21 per share to $0.22 per share for the fourth quarter of 2011, resulting in total cash dividends declared of $0.85 per share relating to 2011**. The table below summarizes the dividends declared for each of the past five years:



(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 2011 were $126.8 million, compared to $102.7 million in 2010. The Company has paid quarterly dividends for 22 consecutive years and has increased its yearly dividend paid per share for each of the past 11 years.

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10.9 MARKET INDICES

SNC-Lavalin is listed on the Toronto Stock Exchange under the symbol "SNC" 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:

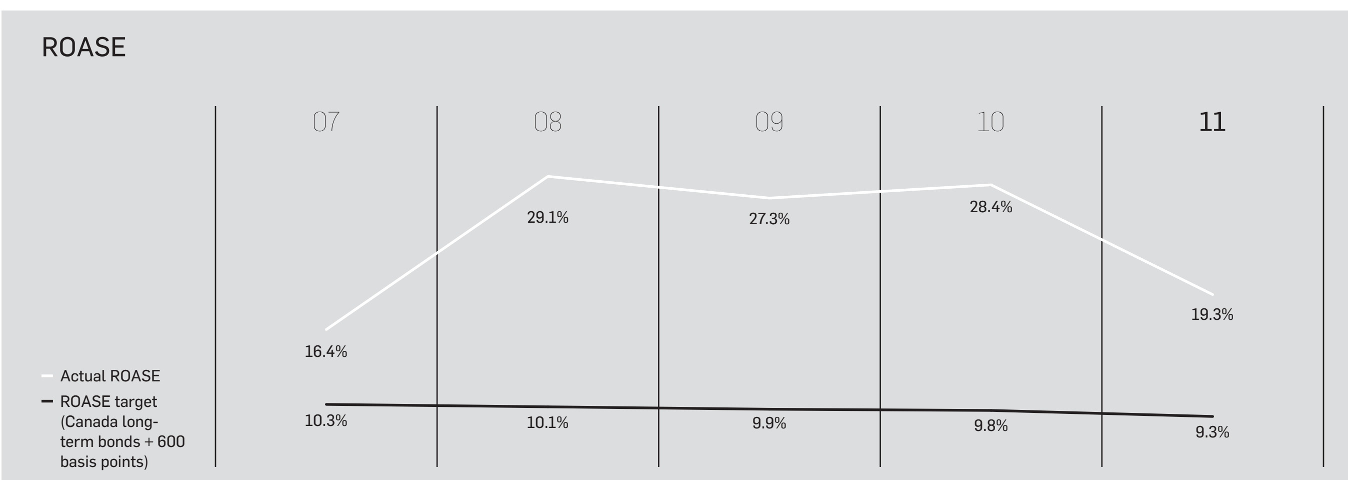
INDICES	DESCRIPTION
S&P/TSX 60 Index	Comprised of 60 large Canadian publicly-traded companies with a view to matching the sector balance of the S&P/TSX Composite Index
S&P/TSX Canadian Dividend Aristocrats Index	Designed to measure the performance of S&P Canada Broad Market Index ("BMI") constituents, 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.

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

ROASE, a non-IFRS 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 net income attributable to SNC-Lavalin shareholders, divided by a trailing 13-month average equity attributable to SNC-Lavalin shareholders, excluding "other components of equity".

The Company excludes "other components of equity" 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 2011 and 2010, **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 solid financial position, which it has achieved over the last years.



The figures for 2007 to 2009 are in accordance with Canadian GAAP, refer to section 14.1 for more details.

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11 RELATED PARTY TRANSACTIONS

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its ICI. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties, consistent with IFRS.

Consistent with IFRS, intragroup profits generated from revenues with ICI accounted for by the equity or full consolidation methods are eliminated in the period they occur, except when such profits are deemed to have been realized by the ICI. Profits generated from transactions with ICI accounted for by the cost method are not eliminated, in accordance with IFRS.

The accounting treatment of intragroup profits is summarized below:

ICI	ACCOUNTING METHOD	ACCOUNTING TREATMENT OF INTRAGROUP PROFITS
AltaLink	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by AltaLink via legislation applied by an independent government regulatory body.
ICI accounted for under IFRIC 12	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client.
	Equity method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client.
Others	Equity method	Eliminated in the period they occur, as a reduction of the underlying asset and subsequently recognized over the depreciation period of the corresponding asset.
	Cost method	Not eliminated, in accordance with IFRS.

For the year ended December 31, 2011, SNC-Lavalin recognized revenues of $559.5 million (2010: $306.3 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized income from these ICI, which represents the Company's share of net income from these ICI, of $102.8 million for the year ended December 31, 2011 (2010: $76.9 million). Intragroup revenues generated from transactions with AltaLink, which amounted to $419.6 million for the year ended December 31, 2011 (2010: $263.7 million), were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to $43.7 million as at December 31, 2011 (December 31, 2010: $12.0 million and January 1, 2010: $102.8 million). SNC-Lavalin's other non-current financial assets receivables from these ICI accounted for by the equity method amounted to $83.0 million as at December 31, 2011 (December 31, 2010: $25.5 million and January 1, 2010: $nil). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was $129.0 million at December 31, 2011 (December 31, 2010: $178.6 million and January 1, 2010: $78.3 million).

All of these related party transactions are measured at fair value.

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12 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 as at March 16, 2012, 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 14.4% 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 Plans	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 2007 have a five-year term and are vesting in three equal tranches of 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 participant's contribution, up to 10% of the employee's base salary. SNC-Lavalin's contributions are paid in two payments of 15% and 20% respectively in the second and third year following the employee's contribution of a given year.	All regular employees in Canada and some regular employees in the United States, France, Belgium, the United Kingdom, Australia and Saudi Arabia
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 to certain of its employees, such as:

PLAN	DESCRIPTION	ELIGIBLE PARTICIPANTS
2009 Deferred Share Unit Plan ("2009 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 a 12-week average of the share price, determined one year following the participant's last day of employment. In the event of death or eligibility for retirement, units vest immediately.	Key executives
2009 Performance Share Unit Plan ("2009 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 annualized growth in earnings per share. The redemption price is based on the share price at the time of vesting. Units are redeemable in cash at the redemption price, or convertible to vested units of 2009 DSU. 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 pro-rata basis, with no payment made until the end of the vesting period.	Selected employees

As at December 31, 2011, the holdings from the ESOP and MSOP plans coupled with private holdings of the reporting insiders, as defined under National Instrument 55-104 *Insider Reporting Requirements and Exemptions of the Ontario Securities Commission* as individuals generally required to file reports disclosing information about transactions involving the Company's securities or related financial instruments, and for which the Company maintains records, totalled 3.8% of the Company's total outstanding shares as at December 31, 2011, compared to 3.6% as at December 31, 2010.

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13 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 2 to the Company's 2011 audited annual consolidated financial statements, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in detail in Note 3 to the Company's 2011 audited annual consolidated financial statements.

14 ACCOUNTING POLICIES AND CHANGES

14.1 FIRST-TIME ADOPTION OF IFRS

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced the changeover from Canadian GAAP to IFRS for Canadian publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As such, the year 2011 is the first year for which consolidated financial statements have been prepared under IFRS. The 2010 comparative figures and the Date of Transition opening statement of financial position have been restated as per the guidance provided in IFRS 1, *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1"). See Note 35 to the Company's 2011 audited annual consolidated financial statements for quantitative reconciliations between Canadian GAAP and IFRS.

The most significant impacts of adopting IFRS related to: i) the presentation of the net income attributable to SNC-Lavalin shareholders separately from the net income attributable to non-controlling interests; ii) the accounting for its jointly controlled entities for ICI, accounted for under IAS 31; and iii) the accounting for the Company's ICI that are accounted for under IFRIC 12. The transition to IFRS had an impact on the Company's ICI, but a limited impact on the Company's other activities.

Following the Independent Review described in section 1.1, the Company adjusted its 2010 IFRS financial information to reflect a correction in 2010 related to certain payments described below.

In 2010, $20 million in payments made, under what is presumed to be an agency agreement, were charged and documented to a construction project to which they did not relate. Because these payments were documented to a construction project to which they did not relate, and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of the services rendered in connection therewith, the Company concluded that these payments should be treated as period expenses (i.e., not generating revenues) for accounting purposes.

The 2010 payments accounted for as period expenses, net of the effect resulting from an increased forecasted gross margin following the exclusion of the payments from the project costs on the project that the payments were originally allocated to, resulted in a reduction in net income of $17.9 million in 2010 ($0.12 per share on both a basic and diluted basis). The Company decided to correct its prior period comparative financial information in its first issuance of annual audited consolidated financial statements prepared in accordance with IFRS.

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While the Company did not apply IFRS to financial information prior to January 1, 2010, the unaudited estimated impact for 2009 of IAS 31, mainly attributable to the change of consolidation method for Highway 407, and IFRIC 12 would have been as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2009				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Decrease in revenues	$ (8.9)	$ (9.4)	$ (14.6)	$ (12.9)	$ (45.8)
Increase in net income	$ 9.1	$ 9.3	$ 8.8	$ 7.6	$ 34.8

Based on the quantified impacts of the transition to IFRS on 2010 and 2009, the impact of the transition to IFRS is deemed not significant on the Company's other activities for the comparative figures of 2007 and 2008 disclosed in this MD&A.

The Company established its accounting policies and methods used in the preparation of its 2011 audited annual consolidated financial statements in accordance with IFRS. See Note 2 to the Company's 2011 audited annual consolidated financial statements for more information about the significant accounting principles used to prepare the financial statements.

14.2 STANDARDS AND INTERPRETATIONS ISSUED TO BE ADOPTED AT A LATER DATE

The following standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after January 1, 2013, with earlier application permitted:

> IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation—Special Purpose Entities*, and establishes principles for identifying when an entity controls other entities.

> IFRS 11, *Joint Arrangements*, ("IFRS 11") supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.

> IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12") establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.

> IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.

> Amended and re-titled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.

> Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.

> Amendments to IAS 19, *Employee Benefits*, to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

The following standard has been issued and is applicable to the Company for its annual periods beginning on or after January 1, 2015, with earlier application permitted:

> IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.

The Company is currently evaluating the impact of adopting these standards and amendments on its financial statements.

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15 RISKSAND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties in carrying out its activities and you should carefully consider the risks and uncertainties below before investing in its securities. Additional risks not currently known or that the Company currently believes are immaterial may also impair its business, results of operations, financial condition and liquidity.

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.

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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 such mitigating factors will be effective and that there will be no impact on the Company's financial results and position if such risks or uncertainties materialized.

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.

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 and Power segments, 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.

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DELIVERY FROM 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 also mitigates the potential impact on its financial results and position.

CONTRACT AWARDS

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

BACKLOG

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

FOREIGN CURRENCY RISK

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

INTEREST RATE RISK

The Company's non-recourse debt from ICI and recourse 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 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.

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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 receivables, contracts in progress and other financial assets. 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 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 receivables on a timely basis. SNC-Lavalin internally allocates imputed interest to provide an incentive to project managers to collect trade 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 TECHNOLOGY

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. 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.

INTERNAL CONTROLS

SNC-Lavalin maintains accounting systems and internal controls over financial reporting and disclosure controls and procedures. There are inherent limitations to any control framework, as controls can be circumvented by acts of individuals, intentional or not, by collusion of two or more individuals, by management override of controls, by lapses in judgment and breakdowns resulting from human error. There are no systems or controls that can provide absolute assurance that all fraud, errors, circumvention of controls or omission of disclosure can and will be prevented or detected. Such fraud, errors, circumvention of controls or omission of disclosure could result in a material misstatement of financial information.

As described in the "Controls and Procedures" section of this MD&A, based in part on the Independent Review, management of the Company has identified certain material weaknesses relating to the design and operational effectiveness of the Company's internal control over financial reporting and has determined that the Company's disclosure controls and procedures and internal control over financial reporting were not effective, in both cases, as at December 31, 2011. Management has identified and, in certain instances, begun to implement a number of measures to address these material weaknesses and strengthen the Company's internal control over financial reporting, as more fully described in the "Controls and Procedures" section. However, such measures may not be effective and the Company could face additional risks and/or unknown losses.

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.

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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 by the Company's employees, agents, subcontractors, suppliers and/or partners, and 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.

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. Misconduct, fraud, non-compliance with applicable laws and regulations or other improper activities by an employee, agent, supplier, subcontractor and/or partner of the Company or further regulatory developments, namely abrupt changes in foreign government policies and regulations, could have a significant adverse 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.

Our policies mandate compliance with anti-bribery laws. Failure by our employees, agents, subcontractors, suppliers and/or partners to comply with anti-bribery laws could impact the Company in various ways that include, but are not limited to, criminal, civil and administrative legal sanctions and could have a significant adverse impact on the Company's results.

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.

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INDEPENDENT REVIEW

In February 2012, the Board of Directors initiated the Independent Review, led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements, the "Representative Agreements") to construction projects to which they did not relate, and certain other contracts. On March 26, 2012, The Company announced the results of the Independent Review and related findings and recommendations of the Audit Committee to the Board of Directors. The Company's senior management and Board of Directors have been required to devote significant time to the Independent Review and related matters which has been distracting from the conduct of the Company's daily business and significant expenses have been incurred in connection with the Independent review including substantial fees of lawyers and other advisors. In addition, the Company and/or employees of the Company could become the subject of investigations by law enforcement and/or regulatory authorities in respect of the matters that were the subject of the Independent Review which, in turn, could require the devotion of additional time of senior management and other resources. As described in the Independent Review Summary, in the absence of direct and conclusive evidence, the use and purpose of the payments or nature of the services rendered or actions taken under these Representative Agreements could not be determined with certainty. However, the absence of conclusive findings of the Independent Review does not exclude the possibility that, if additional facts that are adverse to the Company became known, including matters beyond the scope of the Representative Agreements that were the subject of the Independent Review, sanctions could be brought against the Company in connection with possible violations of law or contracts. The consequences of any such sanctions or other actions, whether actual or alleged, could adversely affect our business and the market price of our publicly traded securities. In addition, the Independent Review and any negative publicity associated with the Independent Review, could damage our reputation and ability to do business. For more information please refer to section 1.1 "Recent Developments – Independent Review."

16 LEGAL PROCEEDINGS

On March 1, 2012, a proposed class action lawsuit was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from and including March 13, 2009 through and including February 28, 2012, whether in a primary market offering or in the secondary market. The Motion for authorization alleges that certain documents issued by SNC-Lavalin between these dates contained misrepresentations. The Motion seeks leave from the Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act and the equivalent provisions contained in the various other Canadian provinces' securities legislation. The proposed action claims damages equivalent to the decline in market value of the securities purchased by class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as the costs of administering the plan to distribute recovery pursuant to the class action. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class actions or other litigation.

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17 FOURTH QUARTER RESULTS

For the fourth quarter of 2011, net income attributable to SNC-Lavalin shareholders was $76.0 million ($0.50 per share on a diluted basis), compared to $158.7 million ($1.04 per share on a diluted basis) for the comparable quarter in 2010, or $132.6 million ($0.87 per share on a diluted basis) excluding the 2010 net gain after taxes of $26.1 million from the disposal of Trencap and Valener. The decrease, excluding the 2010 gain mentioned above, mainly reflected an operating loss in Infrastructure & Environment and in Hydrocarbons & Chemicals, mainly due to unfavourable cost reforecasts on certain projects, a $22.4 million loss from a revised position of the Company's net financial position that related to its Libyan infrastructure projects and period expenses of $35 million in Hydrocarbons & Chemicals, partially offset by higher operating income, mainly from Mining & Metallurgy and O&M. The $35 million of period expenses related to payments made, under what are presumed to be agency agreements that were charged and documented to construction projects to which they did not relate (refer to section 1.1 "Recent Developments – Independent Review"). Because these payments were documented to construction projects to which they did not relate, and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of the services rendered in conection therewith, it was determined that they would need to be recorded as period expenses (i.e., not generating any revenues) for accounting purposes.

Revenues for the fourth quarter of 2011 totalled $2.1 billion, compared to $1.8 billion for the fourth quarter of 2010, as Services and Packages revenues increased by 32.2% and 14.8% respectively.

The Company's backlog increased to $10.1 billion as at December 31, 2011, compared to $9.4 billion as at the end of the third quarter of 2011, mainly reflecting an increase in Packages, primarily in Hydrocarbons & Chemicals and Mining & Metallurgy, partially offset by a decrease in Infrastructure & Environment.

At the end of December 2011, the Company's cash and cash equivalents were $1.2 billion, compared to $1.0 billion at the end of September 2011, mainly reflecting cash generated from operating activities, primarily from the net change in non-cash working capital items, and from the net cash generated from financing activities, partially offset by the net cash used for investing activities.

8 CONTROLS AND PROCEDURES

The Company's chief executive officer ("CEO") and chief financial officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures as well as the internal control over financial reporting, as those terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") of the Canadian securities regulatory authorities.

18.1 DISCLOSURE CONTROLS AND PROCEDURES

The Interim CEO and the CFO have carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as at December 31, 2011. In making this evaluation, the Interim CEO and the CFO considered, among other things:

> the findings of the Independent Review summarized under section 1.1 "Recent Developments — Independent Review";

> the material weaknesses in the Company's internal control over financial reporting that have been identified (as more fully discussed under section 18.2);

> the measures that the Company and its Board of Directors have identified and, in certain instances, begun to implement to address those material weaknesses and to strengthen the Company's internal controls (as more fully described under section 18.3); and

> the results of the ongoing testing and evaluations carried out by the Company of the design and operating effectiveness of its disclosure controls and procedures and internal control over financial reporting throughout the periods covered by the Company's annual and interim filings.

Based on this evaluation, the Interim CEO and the CFO have concluded that the Company's disclosure controls and procedures, as at December 31, 2011, were not effective to provide reasonable assurance that (i) material information relating to the Company is made known to the CEO and CFO by others, particularly during the period in which the Company's annual filings under securities legislation are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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18.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

The Interim CEO and the CFO have carried out an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011. As used herein, the term "material weakness" has the meaning prescribed in NI 52-109 and means a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a reporting issuer's annual or interim financial statements will not be prevented or detected on a timely basis.

In carrying out their evaluation, the Interim CEO and the CFO have identified the following material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2011 and the impact of such material weaknesses on the Company's financial reporting and internal control over financial reporting:

1. Management override of internal controls contained in the Company's Commercial Agents/Representatives Policy and Procedure (the "Agents Policy"). The Independent Review found that the Former CEO, acting at the request of the Former EVP Construction, overrode controls with respect to the authorization of payments to commercial agents which did not comply with the Agents Policy and was a breach of the Company's Code of Ethics and Business Conduct (the "Code of Ethics").

   Disclosure controls and procedures and internal control over financial reporting are subject to inherent limitations, including that management has the ability to override internal controls. The unfettered ability of any member of management to override internal controls exposes the Company to risk by providing an opportunity for such management member and potentially others to engage in and conceal illegal or improper activity or the misuse or misappropriation of corporate assets and possible misrepresentations in financial reporting.

2. Non-compliance with, and ineffective controls over compliance with, the Code of Ethics and the Agents Policy. The Independent Review found that provisions of the Code of Ethics requiring the maintenance of accurate books and records were not complied with by the Former CEO and the Former EVP Construction as a result of any one of the following findings:

   > the improper documentation of certain agency agreements in respect of projects to which they did not relate and the concealment thereof;

   > incorrect entries relating to payments under certain agency agreements in the books and records of the Company, and concealment thereof ; and

   > non-compliance with the Agents Policy.

   The Interim CEO and the CFO have also concluded that the controls over compliance with the Code of Ethics and the Agents Policy were ineffective.

   Non-compliance with and/or ineffective controls regarding the hiring of, appropriate use of, verification of the integrity of, contractual relationship with, and/or supervision of the conduct of, commercial agents exposes the Company to the risk of improper or illegal activities by its employees and agents, the misuse or misappropriation of corporate assets, and the concealment of such activities through falsification of documentation and corporate records, which in turn could impact the reliability of the Company's financial reporting.

In light of these material weaknesses, the Interim CEO and the CFO have concluded that the Company's internal control over financial reporting, as at December 31, 2011, was not effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements for external purposes in accordance with applicable accounting principles.

Despite the conclusions of the evaluations discussed above, the Interim CEO and the CFO believe, based on their knowledge (including, but not limited to, their consideration of the scope of the Independent Review) and having exercised reasonable diligence, that (i) the Company's annual filings for the year ended December 31, 2011 do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the Company's annual filings, and (ii) the annual financial statements together with the other financial information included in the Company's annual filings for the year ended December 31, 2011 fairly present in all material respects the financial condition, financial performance and cash flows of the Company as of the date of and for the periods presented in such annual filings.

18.3 REMEDIAL MEASURES

At the recommendation of the Audit Committee, the Board of Directors has adopted the recommendations for remedial measures contained in the Independent Review Summary. These recommendations are directed at reinforcing standards of conduct, strengthening and improving internal controls and processes, and reviewing the compliance environment. In addition, the Company's management has identified and, in certain instances, began to implement a number of measures to address the material weaknesses identified above and to continue to strengthen the Company's financial controls and procedures. The Board of Directors has directed management to develop a plan and timetable for the implementation of all of these measures and will monitor their implementation. A summary of these measures, as well as previously announced personnel actions, is set forth below.

2011 Management's Discussion and Analysis

REMEDIAL MEASURES TO ADDRESS MATERIAL WEAKNESSES

> Adoption of a clear corporate policy providing procedures to be followed in cases of acceptable management departures from the Company's policies or procedures and anytime management requests or directs others to disregard the Company's policies and procedures;

> The imposition of a clear duty to report violations or proposed violations of Company policies or procedures, including the Code of Ethics;

> The Company has recommended, and the Board of Directors has approved, various immediate changes to the Agents Policy, including:

> > creation of an Agent Review Committee to review and approve the entering into of any agency agreement meeting certain criteria;
> >
> > annual review of the Agents Policy by the Governance Committee of the Board of Directors;
> >
> > annual confirmation of compliance with the Agents Policy by the Executive Vice-President responsible for this policy to be presented to the Audit Committee of the Board of Directors;
> >
> > enhanced due diligence procedures in connection with all potential agency agreements, including completion of a "red flags" warning checklist and integrity certification by senior management following completion of due diligence; and
> >
> > formal training of the Company's commercial agents on the Code of Ethics.

The Board of Directors, the Audit Committee and management of the Company will continue to consider, develop and implement additional remedial measures as appropriate to address the material weaknesses identified above and the findings of the Independent Review, including any additional measures that the Board of Directors considers to be appropriate to address the conduct of individuals involved in the events in question.

MEASURES TO CONTINUE TO STRENGTHEN FINANCIAL CONTROLS AND PROCEDURES

> A continued commitment to and prioritization of ethical business conduct including through :

> > a communication plan emphasizing compliance with the Code of Ethics as a core value in all aspects of the Company's business and enhanced training programs around the Code of Ethics throughout the organization;
> >
> > the ongoing review and update of the Code of Ethics initiated in 2011;
> >
> > the expansion of the scope of complaints and reporting under the Company's Whistleblowing Policy to include all violations of the Code of Ethics; and
> >
> > the specific monitoring of compliance with the Code of Ethics and administration of the Whistleblowing Policy by the Ethics and Compliance Committee, in addition to existing oversight of the Audit Committee and Human Resources Committee.

> Ongoing reinforcement of certain financial controls and procedures, including through:

> > the engagement of an independent expert to provide advice on the structure of the organization, guidelines and controls, and communication and training;
> >
> > formally document the existing practice of the internal auditors reporting directly to the Audit Committee and continue to consider and revise the mandate of the internal audit function of the Company to the Audit Committee;
> >
> > further reinforcing financial control reporting lines, including a primary reporting line of business unit controllers to the corporate finance group;
> >
> > reinforcement of procedures and approvals regarding levels of authority with clear reporting obligations on any deviations or proposed deviations therefrom; and
> >
> > moving forward with the integration of the Company's technology platforms to further facilitate the production of accurate financial information results, as well as monitoring thereof in a timely and cost-effective manner.

OTHER MATTERS

The Former EVP Construction, who was found by the Independent Review to have breached the Agents Policy and the Code of Ethics, and the Former Controller Construction, whose conduct also came into question by the Independent Review, have both ceased to be employed by the Company as of February 9, 2012. Further, the Former CEO, who was found by the Independent Review to have breached the Agents Policy and the Code of Ethics, has stepped down from his position as CEO and as a director of the Company and will retire from the Company.

18.4 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period and year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, the above mentioned proposed changes in the Company's internal control over financial reporting as a result of the implementation of the remedial measures described above are reasonably likely to materially affect the Company's internal control over financial reporting as it relates to the material weaknesses described above. The Company intends to continue to make ongoing assessments of its internal controls and procedures periodically and as a result of the recommendations of the Independent Review.

2011 Management's Discussion and Analysis

19 QUARTERLY INFORMATION

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)	2011					2010				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues by activity:										
Services	**480.2**	**564.4**	**598.0**	**795.2**	**2,437.8**	457.2	501.6	493.7	601.3	2,053.8
Packages	**634.9**	**693.9**	**758.2**	**784.5**	**2,871.5**	384.1	463.2	606.7	683.4	2,137.4
O&M	**426.7**	**281.7**	**308.3**	**382.5**	**1,399.2**	383.1	255.7	308.0	383.6	1,330.4
ICI	**101.8**	**128.7**	**115.0**	**155.9**	**501.4**	86.9	127.8	100.8	156.8	472.3
	1,643.6	**1,668.7**	**1,779.5**	**2,118.1**	**7,209.9**	1,311.3	1,348.3	1,509.2	1,825.1	5,993.9
Gross margin	**276.2**	**316.6**	**340.4**	**318.9**	**1,252.1**	263.5	318.1	318.0	401.4	1,301.0
Selling, general and administrative expenses	**153.0**	**166.1**	**150.7**	**184.9**	**654.7**	130.3	146.0	132.2	173.2	581.7
Net financial expenses:										
From ICI	**23.2**	**20.1**	**25.6**	**30.8**	**99.7**	18.1	21.7	20.8	24.5	85.1
From other activities	**4.0**	**6.3**	**5.4**	**(0.2)**	**15.5**	7.5	9.1	4.4	5.0	26.0
	27.2	**26.4**	**31.0**	**30.6**	**115.2**	25.6	30.8	25.2	29.5	111.1
Income before income tax expense	**96.0**	**124.1**	**158.7**	**103.4**	**482.2**	107.6	141.3	160.6	198.7	608.2
Income tax expense:										
From ICI	**2.2**	**1.5**	**3.3**	**5.6**	**12.6**	1.4	5.4	2.9	4.7	14.4
From other activities	**15.0**	**17.7**	**27.9**	**21.7**	**82.3**	19.5	22.1	32.4	32.4	106.4
	17.2	**19.2**	**31.2**	**27.3**	**94.9**	20.9	27.5	35.3	37.1	120.8
Net income	**78.8**	**104.9**	**127.5**	**76.1**	**387.3**	86.7	113.8	125.3	161.6	487.4
Net income attributable to:										
SNC-Lavalin shareholders	**76.1**	**102.2**	**124.5**	**76.0**	**378.8**	84.1	110.1	123.8	158.7	476.7
Non-controlling interests	**2.7**	**2.7**	**3.0**	**0.1**	**8.5**	2.6	3.7	1.5	2.9	10.7
Net income	**78.8**	**104.9**	**127.5**	**76.1**	**387.3**	86.7	113.8	125.3	161.6	487.4
Basic earnings per share ($)	**0.50**	**0.68**	**0.83**	**0.50**	**2.51**	0.56	0.73	0.82	1.05	3.16
Diluted earnings per share ($)	**0.50**	**0.67**	**0.82**	**0.50**	**2.49**	0.55	0.72	0.81	1.04	3.13
Dividend declared per share ($)	**0.21**	**0.21**	**0.21**	**0.22**	**0.85**	0.17	0.17	0.17	0.21	0.72
Depreciation of property and equipment and amortization of other non-current assets:										
From ICI	**19.7**	**21.2**	**20.9**	**31.3**	**93.1**	18.3	21.7	20.8	26.1	86.9
From other activities	**10.0**	**10.6**	**11.4**	**13.4**	**45.4**	10.2	9.7	9.5	10.2	39.6
	29.7	**31.8**	**32.3**	**44.7**	**138.5**	28.5	31.4	30.3	36.3	126.5
Net income attributable to SNC-Lavalin shareholders from ICI:										
From Highway 407	**13.8**	**32.3**	**13.9**	**17.2**	**77.2**	9.2	22.7	–	18.4	50.3
From other ICI	**10.6**	**9.4**	**11.7**	**22.3**	**54.0**	10.3	21.7	16.4	36.2	84.6
Net income attributable to SNC-Lavalin shareholders excluding ICI	**51.7**	**60.5**	**98.9**	**36.5**	**247.6**	64.6	65.7	107.4	104.1	341.8
Net income attributable to SNC-Lavalin shareholders	**76.1**	**102.2**	**124.5**	**76.0**	**378.8**	84.1	110.1	123.8	158.7	476.7
Revenue backlog (at end of quarter)										
Services	**1,396.0**	**1,679.9**	**2,196.6**	**2,226.1**		1,412.7	1,485.4	1,429.1	1,410.7	
Packages	**5,558.1**	**5,331.2**	**4,852.3**	**5,482.8**		4,288.6	4,134.9	5,520.7	5,572.4	
O&M	**2,429.2**	**2,343.5**	**2,393.2**	**2,379.1**		2,914.5	2,808.8	2,621.3	2,732.8	
	9,383.3	**9,354.6**	**9,442.1**	**10,088.0**		8,615.8	8,429.1	9,571.1	9,715.9	

Note: The quarterly information presented in the table above has been adjusted compared to the previously reported quarterly results to reflect $20 million paid in 2010 and $2.5 million paid in 2011, under what is presumed to be an agency agreement. Payments of $35 million made in the fourth quarter of 2011, under what are presumed to be agency agreements, did not require any adjustments to the previously reported quarters as they were all attributable to the fourth quarter of 2011 and, therefore, not affecting prior periods (refer to section 1.1 "Recent Developments – Independent Review" and section 14.1 "First-Time Adoption of IFRS").

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 International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it considers most appropriate in 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. Two material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting were identified and it was determined that the Company's disclosure controls and procedures and internal control over financial reporting were not effective, in both cases, as at December 31, 2011. Management has identified and, in certain instances, begun to implement a number of measures to address the material weaknesses and continues to strengthen the Company's internal control over financial reporting, as more fully described in the "Controls and Procedures" section of the 2011 Management's Discussion and Analysis. However, such measures may not be effective and the Company could face additional risks and/or unknown losses.

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.

IAN A. BOURNE
VICE-CHAIRMAN AND
INTERIM CHIEF EXECUTIVE OFFICER

GILLES LARAMÉE
EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
MARCH 25, 2012

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated income statements, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 International Financial Reporting Standards, 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 the 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP[1]

CHARTERED ACCOUNTANTS

MONTREAL, CANADA
MARCH 25, 2012

(1) Chartered accountant auditor permit No. 18190

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTE	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
ASSETS				
Current assets				
Cash and cash equivalents	7	**$ 1,231,049**	$ 1,235,085	$ 1,191,398
Restricted cash	7	**39,354**	39,369	31,377
Trade receivables	8	**1,155,544**	1,273,509	1,042,421
Contracts in progress		**557,220**	608,135	479,637
Other current financial assets	9	**396,552**	290,254	279,805
Other current assets	10	**166,563**	120,128	132,941
Total current assets		**3,546,282**	3,566,480	3,157,579
Property and equipment:				
From ICI	5, 11	**2,637,735**	2,072,814	1,725,206
From other activities	11	**159,883**	115,189	111,672
ICI accounted for by the equity or cost methods	5	**643,487**	626,948	575,863
Goodwill	12	**639,471**	542,028	520,862
Deferred income tax asset	26	**161,364**	158,419	139,265
Non-current financial assets	13	**412,258**	313,295	285,728
Other non-current assets	14	**153,521**	125,607	73,974
Total assets		**$ 8,354,001**	$ 7,520,780	$ 6,590,149
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables		**$ 1,520,395**	$ 1,274,658	$ 1,294,752
Downpayments on contracts		**316,714**	422,930	397,329
Deferred revenues		**907,118**	728,187	510,189
Other current financial liabilities	15	**291,031**	324,949	240,083
Other current liabilities	16	**151,689**	97,106	121,757
Short-term debt and current portion of long-term debt:				
Recourse	17	**–**	–	104,874
Non-recourse from ICI	17	**327,381**	38,762	51,596
Total current liabilities		**3,514,328**	2,886,592	2,720,580
Long-term debt:				
Recourse	17	**348,369**	348,204	348,048
Non-recourse from ICI	17	**1,561,377**	1,529,024	1,258,402
Other non-current financial liabilities	18	**130,744**	76,397	81,697
Provisions	19	**224,834**	177,087	131,411
Other non-current liabilities	20	**486,217**	432,183	378,475
Deferred income tax liability	26	**201,416**	151,861	71,843
Total liabilities		**6,467,285**	5,601,348	4,990,456
Equity				
Share capital	21	**455,682**	424,935	397,735
Retained earnings		**1,543,199**	1,459,323	1,124,508
Other components of equity	22	**(115,813)**	(67,480)	(4,035)
Equity attributable to SNC-Lavalin shareholders		**1,883,068**	1,816,778	1,518,208
Non-controlling interests		**3,648**	102,654	81,485
Total equity		**1,886,716**	1,919,432	1,599,693
Total liabilities and equity		**$ 8,354,001**	$ 7,520,780	$ 6,590,149

See accompanying notes to consolidated financial statements.

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

David Goldman

IAN A. BOURNE
DIRECTOR

DAVID GOLDMAN
DIRECTOR

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES) 2011

	EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS						
	SHARE CAPITAL						
	COMMON SHARES (IN THOUSANDS)	AMOUNT	RETAINED EARNINGS	OTHER COMPONENTS OF EQUITY (NOTE 22)	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at beginning of year	**151,034**	**$ 424,935**	**$ 1,459,323**	**$ (67,480)**	**$ 1,816,778**	**$ 102,654**	**$ 1,919,432**
Net income	**–**	**–**	**378,800**	**–**	**378,800**	**8,542**	**387,342**
Other comprehensive income (loss)	**–**	**–**	**(11,747)**	**(45,565)**	**(57,312)**	**702**	**(56,610)**
Total comprehensive income	**–**	**–**	**367,053**	**(45,565)**	**321,488**	**9,244**	**330,732**
Dividends declared (Note 21F)	**–**	**–**	**(126,750)**	**–**	**(126,750)**	**–**	**(126,750)**
Dividends declared by subsidiaries to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(827)**	**(827)**
Stock option compensation (Note 21B)	**–**	**–**	**15,411**	**–**	**15,411**	**–**	**15,411**
Shares issued under stock option plans (Note 21B)	**820**	**33,219**	**(6,283)**	**–**	**26,936**	**–**	**26,936**
Shares redeemed and cancelled (Note 21D)	**(820)**	**(2,472)**	**(41,799)**	**–**	**(44,271)**	**–**	**(44,271)**
Acquisition of non-controlling interests of AltaLink (Note 5A)	**–**	**–**	**(124,353)**	**(2,768)**	**(127,121)**	**(110,813)**	**(237,934)**
Acquisition of other non-controlling interests	**–**	**–**	**597**	**–**	**597**	**(1,226)**	**(629)**
Capital contributions by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**4,616**	**4,616**
Balance at end of year	**151,034**	**$ 455,682**	**$ 1,543,199**	**$ (115,813)**	**$ 1,883,068**	**$ 3,648**	**$ 1,886,716**

YEAR ENDED DECEMBER 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES) 2010

	EQUITY ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS						
	SHARE CAPITAL						
	COMMON SHARES (IN THOUSANDS)	AMOUNT	RETAINED EARNINGS	OTHER COMPONENTS OF EQUITY (NOTE 22)	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at beginning of year	151,033	$ 397,735	$ 1,124,508	$ (4,035)	$ 1,518,208	$ 81,485	$ 1,599,693
Net income	–	–	476,666	–	476,666	10,723	487,389
Other comprehensive income (loss)	–	–	(1,083)	(63,445)	(64,528)	770	(63,758)
Total comprehensive income	–	–	475,583	(63,445)	412,138	11,493	423,631
Dividends declared (Note 21F)	–	–	(102,706)	–	(102,706)	–	(102,706)
Dividends declared by subsidiaries to non-controlling interests	–	–	–	–	–	(1,796)	(1,796)
Stock option compensation (Note 21B)	–	–	12,736	–	12,736	–	12,736
Shares issued under stock option plans (Note 21B)	903	29,737	(5,392)	–	24,345	–	24,345
Shares redeemed and cancelled (Note 21D)	(902)	(2,537)	(45,406)	–	(47,943)	–	(47,943)
Capital contributions by non-controlling interests	–	–	–	–	–	11,472	11,472
Balance at end of year	151,034	$ 424,935	$ 1,459,323	$ (67,480)	$ 1,816,778	$ 102,654	$ 1,919,432

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED INCOME STATEMENTS

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND NUMBER OF SHARES)	NOTE	2011	2010
Revenues by activity:			
Services		**$ 2,437,778**	$ 2,053,787
Packages		**2,871,530**	2,137,421
O&M		**1,399,197**	1,330,459
ICI		**501,366**	472,274
		7,209,871	5,993,941
Direct costs of activities		**5,957,735**	4,692,964
Gross margin		**1,252,136**	1,300,977
Selling, general and administrative expenses	24	**654,691**	581,699
Net financial expenses	23	**115,211**	111,075
Income before income tax expense		**482,234**	608,203
Income tax expense	26	**94,892**	120,814
Net income		**$ 387,342**	$ 487,389
Net income attributable to:			
SNC-Lavalin shareholders		**$ 378,800**	$ 476,666
Non-controlling interests		**8,542**	10,723
Net income		**$ 387,342**	$ 487,389
Earnings per share (in $)			
Basic		**$ 2.51**	$ 3.16
Diluted		**$ 2.49**	$ 3.13
Weighted average number of outstanding shares (in thousands)	21E		
Basic		**150,897**	151,020
Diluted		**151,940**	152,277

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2011		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income	**$ 378,800**	**$ 8,542**	**$ 387,342**
Other comprehensive income (loss):			
Exchange differences on translating foreign operations (Note 22)	**(11,951)**	**39**	**(11,912)**
Available-for-sale financial assets (Note 22)	**212**	**–**	**212**
Cash flow hedges (Note 22)	**(11,859)**	**663**	**(11,196)**
Defined benefit pension plans and other post-employment benefits (Note 22)	**(16,033)**	**–**	**(16,033)**
Share of other comprehensive loss of investments accounted for by the equity method (Note 22)	**(42,863)**	**–**	**(42,863)**
Income tax benefit relating to components of other comprehensive loss (Note 22)	**25,182**	**–**	**25,182**
Total other comprehensive income (loss)	**(57,312)**	**702**	**(56,610)**
Total comprehensive income	**$ 321,488**	**$ 9,244**	**$ 330,732**

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	2010		
	ATTRIBUTABLE TO SNC-LAVALIN SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL
Net income	$ 476,666	$ 10,723	$ 487,389
Other comprehensive income (loss):			
Exchange differences on translating foreign operations (Note 22)	(21,077)	(116)	(21,193)
Available-for-sale financial assets (Note 22)	(11,456)	–	(11,456)
Cash flow hedges (Note 22)	(16,408)	886	(15,522)
Defined benefit pension plans and other post-employment benefits (Note 22)	(1,442)	–	(1,442)
Share of other comprehensive loss of investments accounted for by the equity method (Note 22)	(27,250)	–	(27,250)
Income tax benefit relating to components of other comprehensive loss (Note 22)	13,105	–	13,105
Total other comprehensive income (loss)	(64,528)	770	(63,758)
Total comprehensive income	$ 412,138	$ 11,493	$ 423,631

See accompanying notes to consolidated financial statements.

Consolidated Financial Statements

SNC-Lavalin Group Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF CANADIAN DOLLARS)	NOTE	2011	2010
Operating activities			
Net income		**$ 387,342**	$ 487,389
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation of property and equipment and amortization of other non-current assets:			
From ICI		**93,099**	86,879
From other activities		**45,378**	39,664
Income tax expense recognized in net income	26	**94,892**	120,814
Income taxes paid		**(14,145)**	(2,397)
Net financial expenses recognized in net income	23	**115,211**	111,075
Interest paid:			
From ICI		**(91,072)**	(78,287)
From other activities		**(21,507)**	(32,784)
Expense recognized in respect of stock options	21B	**15,411**	12,736
Expense recognized in respect of cash-settled share-based payment arrangements	21C	**8,938**	5,523
Income from ICI accounted for by the equity method		**(102,827)**	(76,897)
Net gain on disposals of ICI, before taxes	5B	**–**	(29,567)
Other		**(42,178)**	(6,491)
Dividends and distributions received from ICI accounted for by the equity method		**89,372**	51,904
		577,914	689,561
Net change in non-cash working capital items	25	**341,755**	(189,480)
Net cash generated from operating activities		**919,669**	500,081
Investing activities			
Acquisition of property and equipment:			
From ICI		**(545,781)**	(402,013)
From other activities		**(67,224)**	(46,032)
Payments for ICI	5D	**(101,138)**	(92,728)
Recovery from ICI		**16,055**	–
Acquisition of businesses	6	**(140,399)**	(39,164)
Proceeds from disposals of ICI		**–**	176,934
Increase in receivables under service concession arrangements		**(83,735)**	(48,999)
Recovery of receivables under service concession arrangements		**68,255**	15,698
Other		**(9,670)**	(39,589)
Net cash used for investing activities		**(863,637)**	(475,893)
Financing activities			
Repayment of debt:			
Non-recourse from ICI		**(7,683)**	(142,263)
Recourse from other activities		**–**	(105,000)
Acquisition of a subsidiary's debenture related to the AltaLink transaction	5A	**(50,000)**	–
Increase in non-recourse debt from ICI		**374,792**	400,646
Proceeds from exercise of stock options		**26,936**	24,345
Redemption of shares	21D	**(44,271)**	(47,943)
Dividends paid to SNC-Lavalin shareholders	21F	**(126,750)**	(102,706)
Acquisition of non-controlling interests of AltaLink (1)	5A	**(228,816)**	–
Other		**(976)**	4,790
Net cash generated from (used for) financing activities		**(56,768)**	31,869
Decrease in exchange differences on translating cash and cash equivalents held in foreign operations		**(3,300)**	(12,370)
Net increase (decrease) in cash and cash equivalents		**(4,036)**	43,687
Cash and cash equivalents at beginning of year		**1,235,085**	1,191,398
Cash and cash equivalents at end of year		**$ 1,231,049**	$ 1,235,085
Supplementary cash flow information	25		

(1) The acquisition of non-controlling interests of AltaLink is classified as cash flows used for **financing activities** in accordance with IFRS as there is specific applicable guidance when acquiring non-controlling interests and, as such, is not part of **investing activities**.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

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

1 Description of Business

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. SNC-Lavalin Group Inc. is a public company listed on the Toronto Stock Exchange in Canada. 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.

The Company provides engineering and construction, and operations and maintenance expertise through its network of offices located across Canada and in over 40 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 wherein 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 wherein 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 and equipment, and usually also includes 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, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships and camps for construction sites and the military.

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 for public services, 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.

2 Summary of Significant Accounting Policies

A) BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with **International Financial Reporting Standards ("IFRS")** issued and effective, or issued and early adopted, for the year ended December 31, 2011, and are presented in **Canadian dollars.** All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, ("IFRS 1") is applied.

The preparation of annual consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 35.

The IFRS accounting policies set out below were consistently applied to all periods presented. They were also applied in preparing the IFRS statement of financial position as at January 1, 2010 ("Date of Transition") for the purpose of transition to IFRS, as required by IFRS 1.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

The Company's financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for cash-settled share-based payment arrangements, which are measured at fair value; and ii) defined benefit liability, which is measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets. Historical cost generally represents the fair value of consideration given in exchange for assets upon initial recognition.

The Company's financial statements were authorized for issue by the Board of Directors on March 25, 2012.

B) STANDARDS AND INTERPRETATIONS ISSUED TO BE ADOPTED AT A LATER DATE

The following standards and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on or after January 1, 2013, with earlier application permitted:

> IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation—Special Purpose Entities*, and establishes principles for identifying when an entity controls other entities.

> IFRS 11, *Joint Arrangements*, ("IFRS 11") supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.

> IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12") establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.

> IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.

> Amended and re-titled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.

> Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.

> Amendments to IAS 19, *Employee Benefits*, to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

The following standard has been issued and is applicable to the Company for its annual periods beginning on or after January 1, 2015, with earlier application permitted:

> IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.

The Company is currently evaluating the impact of adopting these standards and amendments on its financial statements.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

C) BASIS OF CONSOLIDATION

The financial statements consist of the full consolidation of the accounts of SNC-Lavalin Group Inc. and its subsidiaries.

In accordance with IFRS, SNC-Lavalin's investments are accounted for as follows:

TYPE OF INVESTMENT	TYPE OF INFLUENCE	ACCOUNTING METHOD
Subsidiary	Control	Full consolidation method
Jointly controlled entity	Joint control	Equity method
Jointly controlled operation	Joint control	SNC-Lavalin's proportionate interest
Associate	Significant influence	Equity method
Available-for-sale financial asset	Non-significant influence	Cost method

A subsidiary that is not wholly-owned by SNC-Lavalin results in non-controlling interests that are presented separately on the consolidated statement of financial position, while the portions of net income and of comprehensive income attributable to such non-controlling interests are also shown separately on the consolidated income statement and on the consolidated statement of comprehensive income, respectively.

When necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring their accounting policies in line with those used by the Company.

BUSINESS ACQUISITIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company, if any, in exchange for control of the acquiree. Provisional fair values allocated at a reporting date are finalized within twelve months of the acquisition date.

Business acquisition costs are expensed in the periods in which these costs are incurred and the services are received.

The results of businesses acquired are included in the consolidated financial statements from the date on which control commences.

D) FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

The individual financial statements of each entity within the Company are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity within the Company are expressed in Canadian dollars ("CAD"), which is the functional currency of the Company and the presentation currency for its consolidated financial statements.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

For the purpose of preparing financial statements, Canadian and foreign operations apply the following procedure on transactions and balances in currencies other than their functional currency: 1) monetary items are translated in their functional currency using the exchange rate in effect at the period end rate; 2) non-monetary items are translated in their functional currency using the historical exchange rate if they are measured at cost, or using the exchange rate at the measurement date if they are measured at fair value; and 3) revenues and expenses are translated in their functional currency using the average exchange rate of the period. Any resulting gains or losses are recognized in net income and, if hedged, offsetting losses or gains from the hedging items are also recognized in net income.

As a result of applying the procedure described above, Canadian and foreign operations obtain financial statements presented in their functional currency.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS
For the purpose of presenting consolidated financial statements in Canadian dollars, the assets and liabilities of the Company's foreign operations that have a functional currency other than Canadian dollars are expressed in Canadian dollars using exchange rates prevailing at the end of the reporting period, while revenues and expenses items are translated at the average exchange rate for the period. Exchange differences arising on consolidation, if any, are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal, or in the case of impairment of the net investment.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E) REVENUE RECOGNITION

REVENUES FROM SERVICES, PACKAGES, AND OPERATIONS AND MAINTENANCE ACTIVITIES
Revenues from **Services, Packages**, and **Operations and Maintenance** 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 stage of completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its stage of completion at any given time. The stage of completion is determined by dividing the cumulative costs incurred as at the period end date by the sum of incurred costs and anticipated costs for completing a contract.

> **Operations and Maintenance:** 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 cumulative costs incurred as at the period end date and dividing them by the sum of incurred costs and anticipated costs for completing a contract. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenues 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.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

REVENUES FROM ICI

Revenues from **ICI** regroup the following:

ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN ICI	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Full consolidation	**Revenues** that are recognized and reported by the ICI
Equity method	SNC-Lavalin's **share of net results** of the ICI or **dividends** from ICI for which the carrying amount is $nil
Cost method	**Dividends and distributions** from the ICI

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 Operations and Maintenance, and/or ICI. When entering into such arrangements, the Company allocates consideration received or receivable by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. 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.

F) 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 is 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	Fair value derived from published bid price quotations for listed securities. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably measured, assets are carried at cost.	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 including transaction costs	Amortized cost using the effective interest method	All recognized in net income
Other financial liabilities	Financial liabilities	Transaction price including transaction costs	Amortized cost using the effective interest method	All recognized in net income

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

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 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 and 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 components of equity, while the ineffective portion, if any, of such change is recognized in net income. Gains or losses from cash flow hedges included in other components of equity are reclassified to net income as an offset to the losses or gains recognized on the underlying hedged items.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those held for trading, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognized in net income.

When an available-for-sale financial asset is considered to be impaired, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income. Impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to an impairment is recognized in other comprehensive income.

G) SERVICES CONCESSION ARRANGEMENTS UNDER IFRIC INTERPRETATION 12

IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government):

> controls or regulates what services the operator (i.e. "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.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

Under such concession arrangements, the concessionaire accounts for the infrastructure asset by applying one of the following accounting models depending on the allocation of the demand risk between the grantor and the concessionaire:

ACCOUNTING MODEL	DEMAND RISK
Financial asset model	The concessionaire does not bear demand risk through the usage of the infrastructure (i.e., it has an unconditional right to receive cash irrespective of the usage of the infrastructure, e.g. availability payments).
Intangible asset model	The concessionaire bears demand risk (i.e., it has a right to charge fees for usage of the infrastructure).
Bifurcated model	The concessionaire shares demand risk with the grantor (i.e., the grantor pays the concessionaire for its services partly by a financial asset and partly by granting a right to charge users of the infrastructure).

Revenues from services concession arrangements accounted for under IFRIC 12 are recognized as follows:

ACTIVITIES PROVIDED BY THE CONCESSIONAIRE	REVENUE RECOGNITION	CLASSIFICATION OF REVENUES IN THE INCOME STATEMENT
Construction or upgrade (when a service concession arrangement involves the construction or upgrade of the public service infrastructure)	Revenues relating to construction or upgrade services under a service concession arrangement are recognized based on the stage of completion of the work performed, consistent with the Company's accounting policy on recognizing revenue applicable to any construction contract (see Note 2E).	The Company classifies these revenues as "Packages" activities when SNC-Lavalin acts as an EPC contractor. When SNC-Lavalin does not act as an EPC contractor, revenues are recognized by the concession as part of "ICI" activities.
Operations and maintenance (these activities may include maintenance of the infrastructure and other activities provided directly to the grantor or the users)	Operations and maintenance revenues are recognized in the period in which the activities are performed by the Company, consistent with the Company's accounting policy on recognizing revenue applicable to any operation and maintenance contract (see Note 2E).	The Company classifies these revenues as "O&M" activities when SNC-Lavalin acts as an O&M contractor. When SNC-Lavalin does not act as an O&M contractor, revenues are recognized by the concession as part of "ICI" activities.
Rehabilitation (when a service concession arrangement requires the concessionaire to rehabilitate the infrastructure such that the infrastructure can deliver a specified standard of service at all times)	When rehabilitation activities are considered revenue-generating activities, revenues are recognized in the period in which the services are provided, consistent with the Company's accounting policy on recognizing revenue applicable to any other similar contract (see Note 2E).	The Company classifies these revenues as "O&M" activities when SNC-Lavalin acts as a rehabilitation contractor. When SNC-Lavalin does not act as a rehabilitation contractor, revenues are recognized by the concession as part of "ICI" activities.
Financing (when financial asset model is applied)	Finance income generated on financial assets is recognized using the effective interest method.	The Company classifies this finance income as "ICI" activities.

FINANCIAL ASSET MODEL

When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair values of the activity delivered, when the amounts are separately identifiable.

Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements", a financial asset that is recovered through payments received from the grantor.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

INTANGIBLE ASSET MODEL

The Company recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. The intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Borrowing costs, if any, are capitalized until the infrastructure is ready for its intended use as part of the carrying amount of the intangible asset.

The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement.

Fees collected by the concessionaire upon the usage of the infrastructure are classified as revenues from "ICI" activities.

H) 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.

I) RESTRICTED CASH

Restricted cash includes cash and cash equivalents for which the use is restricted for specific purposes under certain arrangements. Restricted cash that is not expected to become unrestricted within the next twelve months is included in "Non-current financial assets" (Note 13). Restricted cash is designated as held for trading and accounted for at fair value.

J) CONTRACTS IN PROGRESS

Contracts in progress represent the gross unbilled amount for a given project that is expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized by the Company to date less progress billings.

If progress billings for a given project exceed costs incurred plus recognized profits, then the difference is presented as deferred revenues.

K) 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 less their residual values (if any) over their estimated useful lives.

FROM ICI

Property and equipment from ICI that are accounted for by the full consolidation method are primarily:

ICI	CATEGORY	DEPRECIATION METHOD	DEPRECIATION PERIOD
AltaLink	Transmission assets and other	Straight-line	30 to 40 years

Borrowing costs are capitalized if they are incurred in connection with the acquisition or production of a "qualified asset" for which a considerable period of time is required to prepare the asset for its intended use.

AltaLink borrows funds to provide financing for its capital construction program. Borrowing costs eligible for capitalization are allocated to capital expenditures. The capitalization rate is based on actual costs of debt used to finance the acquisition or construction of qualifying assets.

FROM OTHER ACTIVITIES

Property and equipment used for Services, Packages, and Operations and Maintenance activities are primarily:

CATEGORY	DEPRECIATION METHOD	DEPRECIATION PERIOD
Buildings	Straight-line, by component	25 to 50 years
Computer equipment	Straight-line	2 years
Office furniture	Diminishing balance	20%

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

L) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets, which mainly include property and equipment, and its intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of: i) fair value less costs to sell; and ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in net income.

M) GOODWILL

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is separately disclosed and goodwill on acquisitions of associates and jointly controlled entities is included within investments accounted for by the equity method.

Goodwill is not amortized and is assessed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGU or group of CGU expected to benefit from the synergies of the combination. A CGU or group of CGU to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU or group of CGU may be impaired. If the recoverable amount of the CGU or group of CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGU and then to the other assets of the CGU or group of CGU pro-rata on the basis of the carrying amount of each asset in the CGU or group of CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The Company has designated October 31 as the date for the annual impairment test. As at January 1, 2010, Date of Transition to IFRS, as at October 31, 2011, date of the last impairment test, and as at October 31, 2010, goodwill was not considered to be impaired.

N) 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.

O) 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.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

P) DEFERRED REVENUES

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

Q) INCOME TAXES

Income tax expense recognized in net income comprises the sum of deferred income tax and current income tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise amounts receivable from or payable to tax authorities relating to the current or prior reporting periods, which are uncollected or unpaid at the reporting date. Current tax is payable on taxable income, which differs from net income in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax on temporary differences associated with shares in subsidiaries, joint ventures and associates is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred income tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. For management's assessment of the probability of future taxable income to utilize against deferred income tax assets, see Note 3 . Deferred income tax liabilities are always provided for in full.

Deferred income tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred income tax assets or liabilities are recognized as a component of income tax expense (benefit) in net income, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred income tax is also recognized in other comprehensive income or equity, respectively.

R) DEFINED BENEFIT PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Defined benefit pension plans and other post-employment benefits obligations are included in "Provisions" in the consolidated statement of financial position and have been determined using the projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement to the eligible employees and measures each unit separately to build up the final obligation. In valuing the defined benefit cost as well as other post-employment 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, vested past service costs and effects of any curtailment or settlements are recognized in net income in the period. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to equity in other comprehensive income in the period in which they arise. For the purpose of calculating the expected return on plan assets, such assets are valued at fair value.

S) SELLING EXPENSES

All costs related to contract proposals are expensed as incurred.

Notes to Consolidated Financial Statements

2 Summary of Significant Accounting Policies (continued)

T) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income attributable to SNC-Lavalin shareholders for the period 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 date of grant with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

U) SHARE-BASED PAYMENTS

STOCK OPTIONS

Stock options granted to employees are measured at their fair value at the grant date. The estimated fair value of the stock options is determined using the Black-Scholes option pricing model.

The fair value determined at the grant date of the stock options is expensed on a straight-line basis over the shorter of the vesting period or the term over which an employee becomes eligible to retire, based on the Company's estimate of stock options that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest and the impact of such revision, if any, is recognized in net income.

CASH-SETTLED SHARE-BASED PAYMENT ARRANGEMENTS

The objective of the 2009 Performance Share Unit plan ("2009 PSU plan"), 2009 Deferred Share Unit plan ("2009 DSU plan"), Restricted Share Unit plan ("RSU plan"), Performance Share Unit plan ("PSU plan") and Deferred Share Unit plan ("DSU plan") is to align executive compensation to the long-term objectives of the Company. For share units granted to employees under cash-settled share-based payment arrangements, a liability is recognized and measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the period.

V) PROVISIONS

A provision is a liability of uncertain timing or amount that is recognized in the consolidated statement of financial position.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to Consolidated Financial Statements

3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2 , management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

REVENUE AND GROSS MARGIN RECOGNITION

The determination of **anticipated costs** for completing a fixed-price 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 judgments are 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.

As risks and uncertainties are different for each fixed-price project, the sources of variations between anticipated costs and actual costs incurred will also vary for each project. In particular, while Services and Packages activities usually do not exceed 4 years, O&M activities include fixed-price contracts for which the duration might exceed 20 years, notably on certain public-private partnership arrangements. The long-term nature of certain fixed-price arrangements usually results in significant estimates related to scheduling and prices.

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.

SERVICE CONCESSION ARRANGEMENTS

The accounting for certain ICI activities requires the application of judgment in determining if they fall within the scope of IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"). Additional judgments need to be exercised when determining, among other things, the accounting model to be applied under IFRIC 12, the allocation of the consideration receivable between revenue-generating activities, the classification of costs incurred on such activities, the accounting treatment of rehabilitation costs and associated estimates, as well as the effective interest rate to be applied to the financial asset. As the accounting for ICI under IFRIC 12 requires the use of estimates over the term of the arrangement, any changes to these long-term estimates could result in a significant variation in the accounting for the ICI.

BASIS OF CONSOLIDATION

Under certain circumstances, the determination of the Company's level of power to govern the financial and operating policies of another entity requires exercise of judgment. As such, the classification of the entity as a subsidiary, a joint venture, an associate or a cost investment might require the application of judgment through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors and various other factors.

Notes to Consolidated Financial Statements

3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

VALUES USED IN IMPAIRMENT TESTS

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated. The value in use calculation requires management to estimate future cash flows expected to arise from the CGU or group of CGU and a suitable discount rate in order to calculate present value.

The identification of events that could have an impact on the estimated cash flows of the financial assets and the determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets.

MEASUREMENT OF RETIREMENT BENEFIT OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS

SNC-Lavalin's obligations and expenses relating to defined benefit pension plans and other post-employment benefits are determined using actuarial valuations, and are dependent on significant assumptions such as the expected long-term rate of return on plan assets and the rate of compensation increase as determined by management. While management believes these assumptions represent its best estimate, differences in actual results or changes in assumptions could have an impact on the obligations, expenses and amounts of actuarial gains (losses) recognized in the consolidated statement of comprehensive income.

MEASUREMENT OF PROVISIONS SHOWN IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In measuring a provision, the Company takes risks and uncertainties into account. The uncertainties mainly relate to timing and amount of a provision. Also, risks and uncertainties arise from discounting a provision, where the effect of the time value of money is significant, using a pre-tax discount rate that reflects current market assessments of the time value of money. Additionally, the Company takes future events, such as changes in the law, into account where there is sufficient objective evidence that they will occur when measuring a provision.

MEASUREMENT OF SHARE-BASED PAYMENT EXPENSES

The Company offers the 2009 performance share unit plan to selected individuals within the organization. Subject to performance conditions, the number of units granted is 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 at the end of the vesting period. At each measurement date, management is required to estimate the number of 2009 performance share units that will vest, which impacts the amount of associated liability and expenses.

ASSESSMENT OF DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred 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. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This method requires the exercise of significant judgment in determining whether or not the Company's deferred income tax assets are "probable" 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.

MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE

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.

RATE-REGULATED ACTIVITIES

AltaLink, a subsidiary of the Company, is an entity whose operations are subject to rate regulation. Certain estimates are necessary since the regulatory environment in which AltaLink operates often requires amounts to be recorded at estimated values until these amounts are finalized in regulatory decisions, or other regulatory proceedings. Estimates and judgments are based on historical experience, including experience with the regulatory process, current conditions and various other assumptions that are believed to be reasonable under the circumstances. These factors form the basis for making judgments about the carrying values of assets and liabilities.

Notes to Consolidated Financial Statements

4 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 related industries, and are as follows:

> **Infrastructure & Environment** includes a full range of infrastructure projects for the public and private sectors including airports, buildings, health and care, educational and recreational facilities, seaports, marine and ferry terminals, flood control systems, urban transit systems, railways, roads and bridges, and water and wastewater treatment and distribution facilities. It also includes social and environmental impact assessments and studies, community engagement, site assessment, remediation and reclamation, ecological and human health risk assessments, waste management, water resources planning, development and supply, treatment and sanitation, marine and coastal management, geoenvironmental services, climate change, air quality and acoustics, environmental management, geographic information systems, and agriculture and rural development.

> **Hydrocarbons & Chemicals** (previously Chemicals & Petroleum) includes projects in the areas of bitumen production, heavy or conventional oil production, onshore and offshore oil and gas, upgrading and refining, petrochemicals, chemicals, biofuels and green chemicals, gas processing, liquefied natural gas ("LNG") plants and re-gasification terminals, coal gasification, carbon capture, transportation and storage, pipelines, terminals and pump stations.

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

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

> **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.

ii) **O&M** consists of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships, and camps for construction sites and the military.

iii) **ICI** regroups SNC-Lavalin's investments in infrastructure concessions, for which further details are provided in Note 5.

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 results of its investments, or dividends from ICI for which the carrying amount is $nil (i.e., 407 International Inc.), for investments accounted for by the equity method; and iii) 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

4 Segment Disclosures (continued)

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

YEAR ENDED DECEMBER 31	2011		2010	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
Services and Packages				
Infrastructure & Environment	**$ 1,945,147**	**$ 46,801**	$ 1,807,120	$ 221,320
Hydrocarbons & Chemicals (1)	**1,075,559**	**33,747**	888,653	21,770
Mining & Metallurgy	**1,022,006**	**80,611**	683,821	59,547
Power (2)	**894,081**	**119,637**	496,565	116,367
Other Industries	**372,515**	**43,228**	315,049	38,621
O&M	**1,399,197**	**50,136**	1,330,459	39,432
ICI (3)	**501,366**	**131,215**	472,274	134,896
	$ 7,209,871	**505,375**	$ 5,993,941	631,953
Reversal of items included above:				
Imputed interest benefit		**(29,058)**		(22,886)
Net financial expenses from ICI		**99,731**		85,094
Income tax expense from ICI		**12,644**		14,428
Non-controlling interests before income tax expense		**8,753**		10,689
Income before net financial expenses and income tax expense		**597,445**		719,278
Net financial expenses (Note 23)		**115,211**		111,075
Income before income tax expense		**482,234**		608,203
Income tax expense (Note 26)		**94,892**		120,814
Net income		**$ 387,342**		$ 487,389
Net income attributable to:				
SNC-Lavalin shareholders		**$ 378,800**		$ 476,666
Non-controlling interests		**8,542**		10,723
Net income		**$ 387,342**		$ 487,389

The Company also discloses in the table below under "Supplementary Information" its dividends from 407 International Inc. ("Highway 407"), separately from its net income attributable to SNC-Lavalin shareholders from other ICI, from other activities and from net gains on disposals as this information is useful in assessing the value of the Company's share price.

YEAR ENDED DECEMBER 31	2011	2010
Supplementary information:		
Net income attributable to SNC-Lavalin shareholders from ICI:		
From Highway 407	**$ 77,161**	$ 50,323
From other ICI:		
From a net gain on disposal of Trencap Limited Partnership and Valener Inc. (3)	**–**	26,125
Excluding the net gain on disposal of Trencap Limited Partnership and Valener Inc.	**54,054**	58,448
Net income attributable to SNC-Lavalin shareholders excluding ICI: (2)		
From a gain on disposal of certain technology solution assets	**–**	19,625
Excluding the gain on disposal of certain technology solution assets	**247,585**	322,145
Net income attributable to SNC-Lavalin shareholders	**$ 378,800**	$ 476,666

(1) Previously Chemicals & Petroleum.

(2) In 2010, SNC-Lavalin 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 has 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 attributable to SNC-Lavalin shareholders excluding ICI" in 2010.

(3) In 2010, SNC-Lavalin sold all of its interests in Trencap Limited Partnership and Valener Inc. (Note 5B). The transactions resulted in a net gain after taxes of $26.1 million included in "ICI" in 2010.

Notes to Consolidated Financial Statements

4 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:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Total assets from ICI (Note 5):			
ICI accounted for by the full consolidation method	**$ 3,458,683**	$ 2,748,681	$ 2,304,755
ICI accounted for by the equity method	**350,246**	392,528	244,632
ICI accounted for by the cost method	**293,241**	234,420	331,231
Total assets from ICI	**4,102,170**	3,375,629	2,880,618
Segment non-cash working capital (deficit) from other activities			
Services and Packages			
Infrastructure & Environment	**(197,168)**	(26,079)	(64,353)
Hydrocarbons & Chemicals	**142,561**	117,653	(81,337)
Mining & Metallurgy	**59,142**	22,756	23,383
Power	**(447,594)**	(204,390)	(34,591)
Other Industries	**(110,562)**	(85,728)	(75,187)
O&M	**(150,410)**	(64,250)	(92,659)
Total segment non-cash working capital (deficit) from other activities	**(704,031)**	(240,038)	(324,744)
Reversal of current liabilities included in the non-cash working capital (deficit) above	**2,877,921**	2,467,251	2,218,135
Current assets from other activities, excluding cash and cash equivalents and restricted cash	**2,173,890**	2,227,213	1,893,391
Other assets from other activities:			
Cash and cash equivalents and restricted cash from other activities	**1,237,137**	1,249,462	1,196,363
Property and equipment, goodwill, other non-current financial assets and other non-current assets from other activities	**840,804**	668,476	619,777
Total assets from other activities	**4,251,831**	4,145,151	3,709,531
Total assets	**$ 8,354,001**	$ 7,520,780	$ 6,590,149

The following table presents property, equipment, goodwill and intangible assets inside and outside Canada reflected on the Company's consolidated statements of financial position:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Property, equipment, goodwill and intangible assets			
Canada:			
From ICI	**$ 2,946,470**	$ 2,361,565	$ 1,971,077
From other activities	**284,896**	202,164	197,316
	3,231,366	2,563,729	2,168,393
Outside Canada:			
From ICI	**7,762**	–	–
From other activities	**310,672**	251,267	231,432
	318,434	251,267	231,432
	$ 3,549,800	$ 2,814,996	$ 2,399,825

Notes to Consolidated Financial Statements

4 Segment Disclosures (continued)

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

YEAR ENDED DECEMBER 31	2011			
	SERVICES AND PACKAGES	O&M	ICI	TOTAL
Revenues by geographic area				
Canada	**$ 2,325,973**	**$ 1,195,863**	**$ 480,663**	**$ 4,002,499**
Africa	**1,035,779**	**85,628**	**19,308**	**1,140,715**
Europe	**571,963**	**49,725**	**2,392**	**624,080**
Latin America	**480,921**	**45,815**	**–**	**526,736**
Middle East	**388,118**	**3,033**	**–**	**391,151**
United States	**247,533**	**–**	**(997)**	**246,536**
Asia Pacific	**222,226**	**19,133**	**–**	**241,359**
Other Regions	**36,795**	**–**	**–**	**36,795**
	$ 5,309,308	**$ 1,399,197**	**$ 501,366**	**$ 7,209,871**

YEAR ENDED DECEMBER 31	2010			
	SERVICES AND PACKAGES	O&M	ICI	TOTAL
Revenues by geographic area				
Canada	$ 1,449,436	$ 1,179,730	$ 445,841	$ 3,075,007
Africa	1,123,709	76,777	25,510	1,225,996
Europe	446,588	24,911	2,202	473,701
Latin America	343,069	23,644	–	366,713
Middle East	396,616	2,906	–	399,522
United States	221,243	–	(1,279)	219,964
Asia Pacific	159,324	22,491	–	181,815
Other Regions	51,223	–	–	51,223
	$ 4,191,208	$ 1,330,459	$ 472,274	$ 5,993,941

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments ("ICI")

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.

In accordance with IFRS, SNC-Lavalin's infrastructure concession investments are accounted for as follows:

ACCOUNTING METHOD

TYPE OF INFLUENCE	ACCOUNTING METHOD
Non-significant influence	Cost method
Significant influence	Equity method
Joint control	Equity method
Control	Full consolidation method

ACCOUNTING MODEL

TYPE OF CONCESSION	ACCOUNTING MODEL
ICI accounted for under IFRIC 12	Financial asset model when concessionaire bears no demand risk
	Intangible asset model when concessionaire bears demand risk
	Bifurcated model when concessionaire and grantor share demand risk
ICI outside the scope of application of IFRIC 12	Model based on specific facts and circumstances, but usually with infrastructure asset accounted for as property and equipment

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") are all accounted for under the financial asset model, except the Rayalseema Expressway Private Limited ("REPL") concession, which is accounted for under the intangible asset model, and the Société d'Exploitation de l'Aéroport de Mayotte S.A.S. concession, which is accounted for under the bifurcated model.

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 AND INCREASED OWNERSHIP INTEREST IN ICI

I) IN 2011

MAYOTTE DAOUDZI AIRPORT

In April 2011, Société d'Exploitation de l'Aéroport de Mayotte S.A.S., a wholly-owned subsidiary of the Company, entered into an agreement with the French government to upgrade the infrastructure and build a new terminal building for the Mayotte airport, on a French island located in the Indian Ocean. Société d'Exploitation de l'Aéroport de Mayotte S.A.S. also has the mandate to manage and maintain the airport, in addition to assuming the commercial development, for a 15-year period. The Company committed to invest in this ICI an amount of €10.6 million (approximately $14 million) in equity.

ALTALINK

In September 2011, SNC-Lavalin completed the acquisition of Macquarie Essential Assets Partnership's ("MEAP") 23.08% ownership interest in AltaLink for a total consideration of $228.8 million in cash. As part of the transaction, SNC-Lavalin recognized an additional $9.1 million of deferred income tax liability. The transaction increased the Company's ownership of AltaLink from 76.92% to 100%.

Notes to Consolidated Financial Statements

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

The following summarizes the effect of this transaction on equity attributable to SNC-Lavalin shareholders:

Cash consideration paid for the additional 23.08% ownership interest in AltaLink, including transaction costs	**$ 228,816**
Recognition of deferred income tax liability	**9,118**
Total consideration and liability related to the equity transaction	**237,934**
Less: Carrying amount of non-controlling interests at the date of acquisition	**110,813**
Difference recognized as a reduction of equity attributable to SNC-Lavalin shareholders	**$ 127,121**

Upon acquisition of the remaining interest in AltaLink, SNC-Lavalin also acquired from MEAP a debenture issued by one of the Company's subsidiaries with a face value of $45.0 million, plus accrued interest. The acquisition of the debenture for a consideration of $50.0 million plus accrued interest of $1.1 million for a total consideration of $51.1 million in cash resulted in a loss before taxes of $5.0 million ($3.8 million after taxes). This loss is due to the fact that SNC-Lavalin's subsidiary that issued the debenture was carrying it at amortized cost in its statement of financial position in accordance with IFRS while the receivable relating to this debenture recognized in the statement of financial position of another SNC-Lavalin's subsidiary was carried at the amount of consideration paid of $50.0 million, which corresponds to its fair value. Upon consolidation, both the asset and the liability of the subsidiaries are eliminated.

The following summarizes the effect of the acquisition of the 23.08% ownership interest and $45.0 million debenture on the carrying amount of SNC-Lavalin's investment in AltaLink, at the date of transaction:

Carrying amount of 23.08% ownership interest of non-controlling interests acquired, prior to the date of acquisition	**$ 110,813**
Carrying amount of debenture and accrued interest acquired by SNC-Lavalin and eliminated at consolidated level	**46,062**
Net increase in SNC-Lavalin's ownership interest in AltaLink	**156,875**
Carrying amount of SNC-Lavalin's 76.92% ownership interest in AltaLink, excluding carrying amount of non-controlling interests	**370,859**
Carrying amount of SNC-Lavalin's 100% ownership interest in AltaLink, after the acquisition	**$ 527,734**

As previously indicated, the carrying amount of SNC-Lavalin's 100% ownership interest in AltaLink of $527.7 million has not been increased by the difference between i) the total consideration of $237.9 million and ii) the carrying amount of the 23.08% ownership interest of the non-controlling interests prior to the acquisition of $110.8 million, since that difference of $127.1 million was recognized as a reduction of equity attributable to SNC-Lavalin shareholders.

RAINBOW HOSPITAL PARTNERSHIP

In September 2011, Rainbow Hospital Partnership ("Rainbow"), wholly-owned by SNC-Lavalin, was awarded a public-private partnership contract by the Government of New Brunswick for the design, construction, commissioning, financing and certain operation and maintenance functions of the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick. Rainbow subcontracted the construction of the new hospital to an SNC-Lavalin-led joint venture. It will have 140 beds in seven in-patient units with facilities for education and research, clinical support, and administration and general support services. It will also serve as the forensic psychiatry facility for the province. SNC-Lavalin Operations & Maintenance will provide the operations and maintenance activities for the centre for a total of 30 years.

SNC-Lavalin's investment in Rainbow is accounted for by the full consolidation method.

Notes to Consolidated Financial Statements

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

II) IN 2010

CHINOOK ROADS PARTNERSHIP

At the end of March 2010, Chinook Roads Partnership ("Chinook"), an entity accounted for by the equity 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.

SNC-Lavalin and its partner committed to invest a total of $32.3 million in equity and subordinated debt in Chinook.

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.

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 equity method.

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 then an amount of $36.7 million in equity and subordinated debt. SNC-Lavalin's investment in REPL is accounted for by the equity method.

B) DISPOSALS OF ICI

I) IN 2010

VALENER INC. (PREVIOUSLY GAZ MÉTRO LIMITED PARTERSHIP)

In October 2010, SNC-Lavalin had entered into an agreement with a group of financial institutions to sell all of its 10.07% equity interest in Valener Inc. ("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 had entered into an agreement with Caisse de dépôt et placement du Québec to sell all of its 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.

Notes to Consolidated Financial Statements

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

C) NET BOOK VALUE AND DESCRIPTIONS OF ICI

The Company's consolidated statement of financial position includes the following assets and liabilities from its ICI:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Cash and cash equivalents	**$ 30,901**	$ 16,757	$ 15,612
Restricted cash	**2,365**	8,235	10,800
Trade receivable, other current financial assets and other current assets	**101,989**	64,813	41,413
Property and equipment	**2,637,735**	2,072,814	1,725,206
Goodwill	**203,786**	203,786	203,786
Non-current financial assets	**366,869**	294,851	265,516
Other non-current assets	**115,038**	87,425	42,422
Total assets	**3,458,683**	2,748,681	2,304,755
Trade payables, deferred revenues, other current financial liabilities and other current liabilities	**246,599**	142,560	150,216
Non-recourse short-term debt and current portion of non-recourse long-term debt	**327,381**	38,762	51,596
Non-recourse long-term debt	**1,561,377**	1,529,024	1,258,402
Other non-current financial liabilities	**113,958**	69,932	77,404
Provisions and other non-current liabilities	**487,510**	428,796	374,141
Non-controlling interests	**–**	98,172	76,886
Total liabilities and non-controlling interests	**2,736,825**	2,307,246	1,988,645
Net assets from ICI accounted for by the full consolidation method	**$ 721,858**	$ 441,435	$ 316,110
Net book value of ICI accounted for by the equity method	**$ 350,246**	$ 392,528	$ 244,632
Net book value of ICI accounted for by the cost method	**293,241**	234,420	331,231
Net book value of ICI accounted for by the equity or cost methods	**$ 643,487**	$ 626,948	$ 575,863
Total net book value of ICI	**$ 1,365,345**	$ 1,068,383	$ 891,973

Notes to Consolidated Financial Statements

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

I) ICI ACCOUNTED FOR BY THE FULL CONSOLIDATION METHOD

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

NAME OF ICI	PRINCIPAL ACTIVITY	SUBJECT TO IFRIC 12	MATURITY OF CONCESSION AGREEMENT	LOCATION	OWNERSHIP INTEREST DECEMBER 31 2011	OWNERSHIP INTEREST DECEMBER 31 2010	OWNERSHIP INTEREST JANUARY 1 2010
AltaLink (1)	Rate-regulated transmission lines and substations	No	N/A	Canada	**100.0%**	76.92%	76.92%
Ovation Real Estate Group (Quebec) Inc. ("Ovation")	2,100-seat acoustic concert hall under a 29-year concession agreement	Yes	2038	Canada	**100.0%**	100.0%	100.0%
Okanagan Lake Concession Limited Partnership ("Okanagan Lake Concession")	1.1-km William R. Bennett Bridge under a 30-year concession agreement	Yes	2035	Canada	**100.0%**	100.0%	100.0%
Rainbow Hospital Partnership ("Rainbow")	Restigouche Hospital Center for psychiatric care (under construction)	Yes	2044	Canada	**100.0%**	–	–
Société d'Exploitation de l'Aéroport de Mayotte S.A.S.	Mayotte airport under a 15-year concession agreement (under construction)	Yes	2026	France	**100.0%**	–	–

(1) SNC-Lavalin holds an ownership interest of 100% in AltaLink Holdings, L.P. ("AltaLink"), and ultimately owns 100% of all of its subsidiaries, including AltaLink, L.P., the owner and operator of transmission lines and substations subject to rate regulation.

N/A: not applicable

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

YEAR ENDED DECEMBER 31	2011	2010
Revenues and net income included in the Company's consolidated income statement:		
Revenues	**$ 398,539**	$ 362,128
Net income from ICI accounted for by the full consolidation method, less the portion attributable to non-controlling interests	**$ 28,388**	$ 24,750

Notes to Consolidated Financial Statements

5 Infrastructure Concession Investments (“ICI”) (continued)

II) ICI ACCOUNTED FOR BY THE EQUITY METHOD

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

NAME OF ICI	PRINCIPAL ACTIVITY	SUBJECT TO IFRIC 12	MATURITY OF CONCESSION AGREEMENT	LOCATION	OWNERSHIP INTEREST DECEMBER 31 2011	OWNERSHIP INTEREST DECEMBER 31 2010	OWNERSHIP INTEREST JANUARY 1 2010
Jointly controlled entities:							
407 International Inc. (1) (“Highway 407”)	108-km toll highway under a 99-year concession agreement	No	2098	Canada	**16.77%**	16.77%	16.77%
Chinook Roads Partnership (“Chinook”)	25-km of six-lane road (under construction)	Yes	2043	Canada	**50.0%**	50.0%	–
Groupe Immobilier Santé McGill (2) (“MIHG”)	McGill University Health Centre—Glen Campus under a 34-year concession agreement (under construction)	Yes	2044	Canada	**60.0%**	60.0%	–
TC Dôme S.A.S. (2) (“TC Dôme”)	5.3-km electric cog railway (under construction)	Yes	2043	France	**51.0%**	51.0%	51.0%
Associates:							
Astoria Project Partners LLC	500 MW natural-gas power plant	No	N/A	U.S.A.	**21.0%**	21.0%	21.0%
Astoria Project Partners II LLC (3)	550 MW natural-gas power plant	No	N/A	U.S.A.	**18.5%**	18.5%	18.5%
InTransit BC Limited Partnership (“InTransit BC”)	19-km rapid transit line	Yes	2040	Canada	**33.3%**	33.3%	33.3%
Malta International Airport p.l.c. (3)	65-year concession agreement to operate the Malta airport	No	2067	Malta	**15.5%**	15.5%	15.5%
Myah Tipaza S.p.A.	Seawater desalination plant to supply treated water under a 25-year take-or-pay agreement	No	N/A	Algeria	**25.5%**	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)	Yes	2040	India	**36.9%**	36.9%	–
Société d’Exploitation de Vatry Europort S.A. (2)	20-year concession agreement to operate the Vatry airport	No	2020	France	**51.1%**	51.1%	51.1%
Shariket Kahraba Hadjret En Nouss S.p.A.	1,227 MW gas-fired thermal power plant supplying electricity under a 20-year take-or-pay agreement	No	N/A	Algeria	**26.0%**	26.0%	26.0%

(1) Although the Company holds less than 20% of the equity shares of Highway 407, the Company exercises joint control over this entity based on its contractual agreements.

(2) Although the Company’s ownership interest in MIHG, TC Dôme and Société d’Exploitation de Vatry Europort S.A. is more than 50%, the Company does not exercise control over these entities based on its contractual agreements.

(3) Although the Company’s ownership interest in Astoria Project Partners II LLC and in Malta International Airport p.l.c. is less than 20%, the Company exercises significant influence over these entities based on its contractual agreements.

N/A: not applicable

Notes to Consolidated Financial Statements

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

ICI ACCOUNTED FOR BY THE EQUITY METHOD–JOINTLY CONTROLLED ENTITIES

SNC-Lavalin carries out part of its ICI activity through jointly controlled entities which are accounted for by the equity method. The aggregate amounts of current assets, non-current assets, current liabilities, non-current liabilities, revenues and expenses related to such jointly controlled entities are summarized below:

YEAR ENDED DECEMBER 31	2011	2010
Income statements (at 100%)		
Revenues (at 100%)	**$ 1,230,428**	$ 918,211
Expenses (at 100%)	**1,098,108**	840,642
Net income (at 100%)	**$ 132,320**	$ 77,569
Company's share of net income of ICI based on its ownership interest (1)	**$ 23,737**	$ 12,531
Company's net income from ICI reported in its income statement (1)	**$ 79,364**	$ 49,946

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Statements of financial position			
Current assets (at 100%)	**$ 1,205,494**	$ 1,008,568	$ 526,514
Non-current assets (at 100%)	**5,113,502**	5,184,081	4,311,504
Total assets (at 100%)	**$ 6,318,996**	$ 6,192,649	$ 4,838,018
Current liabilities (at 100%)	**$ 344,151**	$ 359,712	$ 920,604
Non-current liabilities (at 100%)	**6,815,088**	6,332,419	4,187,771
Total liabilities (at 100%)	**$ 7,159,239**	$ 6,692,131	$ 5,108,375
Net liabilities (at 100%)	**$ (840,243)**	$ (499,482)	$ (270,357)
Company's carrying value of ICI reported in its statement of financial position (1)	**$ 124,206**	$ 131,022	$ 10,050

(1) Under the equity method of accounting, distributions from a jointly controlled entity reduce the carrying amount of the investment. The equity method of accounting 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, or where dividends payable by the jointly controlled entity are in excess of the carrying amount of the investment. In these events, the carrying value of the investment 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. The excess amount of dividends payable by a jointly controlled entity is recognized in net income of the Company.

As a result, the Company recognized in its income statement dividends from Highway 407 of $77.2 million in 2011 (2010: $50.3 million) and did not recognize its share of Highway 407's net income of $21.5 million (2010: $12.9 million) in the same period, as the carrying amount of its investment in Highway 407 was $nil at December 31, 2011, December 31, 2010 and January 1, 2010.

ICI ACCOUNTED FOR BY THE EQUITY METHOD–ASSOCIATES

The summary tables below provide supplementary information in respect of the Company's ICI that are associates:

YEAR ENDED DECEMBER 31	2011	2010
Total revenue (at 100%)	**$ 724,369**	$ 671,659
Total net income (at 100%)	**$ 99,429**	$ 133,845
Company's share of net income of ICI	**$ 23,463**	$ 26,951

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Total assets (at 100%)	**$ 4,322,081**	$ 3,978,903	$ 3,721,443
Total liabilities (at 100%)	**3,691,152**	3,326,966	3,151,554
Net assets (at 100%)	**$ 630,929**	$ 651,937	$ 569,889
Company's share of net assets of ICI	**$ 226,040**	$ 261,506	$ 234,582

Notes to Consolidated Financial Statements

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

III) ICI ACCOUNTED FOR BY THE COST METHOD

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

				OWNERSHIP INTEREST		
NAME OF ICI	PRINCIPAL ACTIVITY	MATURITY OF CONCESSION AGREEMENT	LOCATION	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Ambatovy Nickel Project ("Ambatovy")	Open-pit mine and hydrometallurgical processing plant (under construction)	N/A	Madagascar	**5.0%**	5.0%	5.0%
Valener Inc. (previously Gaz Métro Limited Partnership) (1)	Publicly traded entity involved mainly in natural gas distribution	N/A	Canada	**–**	–	2.42%
Trencap Limited Partnership (1)	Holds an indirect interest in Gaz Métro	N/A	Canada	**–**	–	11.1%

(1) In 2010, SNC-Lavalin sold all of its ownership interest in Trencap Limited Partnership and Valener Inc.

N/A: not applicable

The Company's consolidated income includes the following revenues from these investments:

YEAR ENDED DECEMBER 31	2011	2010
Dividends and distributions from ICI accounted for by the cost method included in the Company's consolidated income statements	**$ –**	$ 7,124
Net gain on disposals of ICI accounted for by the cost method included in the Company's consolidated income statements, after taxes	**$ –**	$ 26,125

Notes to Consolidated Financial Statements

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

D) PAYMENTS AND REMAINING COMMITMENTS 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, 2011 and 2010 and January 1, 2010:

	2011	2010
Commitments to invest in ICI—January 1	**$ 214,678**	$ 105,600
Increase in commitments to invest in ICI	**45,538**	201,806
Payments for ICI during the year	**(101,138)**	(92,728)
Commitments to invest in ICI—December 31	**$ 159,078**	$ 214,678

At December 31, 2011, the commitments to invest in ICI were related to contributions for Ambatovy, Chinook, MIHG and TC Dôme (December 31, 2010: Ambatovy, Astoria II, Chinook, MIHG, REPL and TC Dôme; and January 1, 2010: Ambatovy and Astoria II) and were presented as "Other current financial liabilities" 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, 2010 and January 1, 2010: US$105 million) and a US$70 million cross-guarantee (December 31, 2010 and January 1, 2010: US$70 million) to the Ambatovy project's lenders, which are not recognized in the Company's consolidated statement of financial position. 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 contribution of one of Ambatovy's shareholders, which is also the project operator ("Project Operator"), for up to US$57.3 million (CA$58.3 million) (December 31, 2010: US$57.3 million [CA$57.4 million] and January 1, 2010: US$57.3 million [CA$60.3 million]). At December 31, 2011, SNC-Lavalin had loaned US$57.3 million (CA$58.3 million) (December 31, 2010: US$53.5 million [CA$53.5 million] and January 1, 2010: US$40.0 million [CA$42.1 million]) presented in "ICI accounted for by the equity or cost methods".

Notes to Consolidated Financial Statements

6 Acquisition of Businesses

A) BUSINESSES ACQUIRED

In 2011, SNC-Lavalin completed the following business acquisitions, which added approximately 2,900 people to its workforce:

In May 2011, Groupe Stavibel, a multidisciplinary consulting engineering firm based in Abitibi-Témiscamingue, Quebec. Groupe Stavibel provides engineering consulting expertise in numerous fields of activity in the buildings, infrastructure, transport, mining, and environment sectors. The firm has approximately 300 permanent employees working in several offices throughout Abitibi-Témiscamingue and in the Greater Montreal area.

In June 2011, Aqua Data, a company of about 100 employees specializing in the computerized diagnosis and analysis of water distribution systems and wastewater collection systems for municipal, commercial and industrial clients. Formerly a subsidiary of Gaz Métro, Aqua Data has clients in Quebec, Ontario, the Maritimes and the United States. Its head office is in Pincourt, Quebec, near Montreal.

In July 2011, MDH Engineered Solutions, an engineering consulting and research firm based in Saskatoon, Saskatchewan. MDH Engineered Solutions provides geo-environmental, geotechnical, hydrogeological and environmental engineering consulting services to the mining, oil and gas, transportation, utility and government sectors. The firm has approximately 175 permanent employees working in offices in Saskatoon, Regina, Prince Albert and Esterhazy, Saskatchewan, and in Edmonton and Fort McMurray, Alberta.

In October 2011, Candu Energy Inc., a wholly-owned subsidiary of the Company, acquired certain assets of Atomic Energy of Canada Limited's ("AECL") commercial reactor division. Approximately 1,400 employees transitioned from AECL to Candu Energy Inc. In addition to the acquisition, Candu Energy Inc. will work towards completing the Enhanced CANDU reactor (EC6) development program.

In October 2011, Interfleet Technology ("Interfleet"), an international rail technology consultancy group headquartered in Derby, United Kingdom. Interfleet specializes in rolling stock, railway systems, and strategic railway management and is well-known for its detailed understanding of both national rail systems and international best-practice. Interfleet has approximately 600 employees in 22 locations. Interfleet serves public and private clients around the world from its offices in United Kingdom, Scandinavia, Central Europe, Australasia, India and North America.

In December 2011, Arcturus Realty Corporation ("Arcturus"), an entity that manages over 35 million square feet of office, retail and industrial properties in Canada. With over 350 employees, Arcturus provides a comprehensive scope of real estate services including property management, leasing, development advisory services and facilities management. Its client base consists of financial institutions, insurance companies, major retailers, public sector and private investors.

In December 2011, Harder Associates Engineering Consulting, an engineering consulting firm based in Fort St. John, British Columbia. Harder Associates Engineering Consulting provides consulting services in construction, upstream oil and gas, and environmental and geotechnical fields. The firm has 16 employees working in offices in Fort St. John and Fort Nelson, British Columbia, and Grande Prairie, Alberta.

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 hydrocarbons and chemicals sector based in Bogota, Colombia, that employs approximately 1,000 people. Since 1989, Itansuca Proyectos de Ingenieria S.A. has been offering energy 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.

Notes to Consolidated Financial Statements

6 Acquisition of Businesses (continued)

B) ALLOCATION OF PURCHASE PRICE

These acquisitions have been accounted for using the acquisition method and consolidated from the effective date of acquisition. All business acquisitions completed by SNC-Lavalin in 2011 and 2010 were for 100% of the voting shares, except for the acquisition of certain assets of AECL in October 2011.

The purchase price for these business acquisitions, subject to final adjustments, was $131.4 million (2010: $39.1 million), net of cash and cash equivalents existing in these businesses at the time of acquisition of $2.5 million (2010: $9.9 million). The allocation of the purchase price to acquire these businesses and the total cash consideration paid were as follows:

YEAR ENDED DECEMBER 31	2011	2010
Cash and cash equivalents	**$ 2,530**	$ 9,896
Trade receivables and other current assets	**79,908**	27,230
Contracts in progress	**11,870**	171
Property and equipment	**24,970**	1,767
Other non-current assets	**3,448**	1,188
Trade payables	**(39,279)**	(16,389)
Other liabilities assumed	**(55,130)**	(3,402)
Net identifiable assets of businesses acquired	**28,317**	20,461
Goodwill	**105,653**	28,576
Total purchase price	**133,970**	49,037
Less: Cash and cash equivalents at acquisition	**2,530**	9,896
Total purchase price, net of cash and cash equivalents at acquisition	**131,440**	39,141
Less: Balance of purchase price payable in future years	**18,455**	19,195
Cash consideration paid for businesses acquired in the year	**112,985**	19,946
Plus: Balance of purchase price from previous years paid in current year	**27,414**	19,218
Cash consideration paid for acquisition of businesses presented on consolidated statements of cash flows	**$ 140,399**	$ 39,164

C) GOODWILL ARISING ON BUSINESS ACQUISITIONS

Goodwill arose in the business combinations because the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

D) BUSINESS ACQUISITION COSTS

For the year ended December 31, 2011, business acquisition costs of $4.0 million (2010: $1.6 million) related to the transactions described above and were included in the selling, general and administrative expenses in the consolidated income statement.

E) IMPACT OF BUSINESS ACQUISITIONS ON THE RESULTS OF SNC-LAVALIN

SNC-Lavalin's consolidated revenues and net income attributable to SNC-Lavalin shareholders in 2011 included approximately $142.1 million and $9.2 million, respectively, from business acquisitions completed in 2011. Had 2011 business acquisitions all occurred on January 1, 2011, SNC-Lavalin's pro-forma consolidated revenues and net income attributable to SNC-Lavalin shareholders would have been approximately $7,542.1 million and $397.9 million, respectively. These 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 should not be viewed as indicative of SNC-Lavalin's future results.

Notes to Consolidated Financial Statements

7 Cash and Cash Equivalents and Restricted Cash

A) CASH AND CASH EQUIVALENTS

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Bank balances, bank term deposits and bankers' acceptances	**$ 1,231,049**	$ 1,235,085	$ 1,190,778
Government treasury bills and treasury notes	**–**	–	620
Cash and cash equivalents	**$ 1,231,049**	$ 1,235,085	$ 1,191,398

B) RESTRICTED CASH

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Bank balances, bank term deposits and bankers' acceptances	**$ 40,981**	$ 40,283	$ 32,253
Government treasury bills and treasury notes	**4,471**	5,184	5,061
Restricted cash—current and non-current	**$ 45,452**	$ 45,467	$ 37,314
Presented on the statement of financial position as follows:			
Current assets—"Restricted cash"	**$ 39,354**	$ 39,369	$ 31,377
Non-current assets—included in "Non-current financial assets" (Note 13)	**$ 6,098**	$ 6,098	$ 5,937

8 Trade Receivables

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:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Trade receivables:			
Within normal terms of payment	**$ 851,875**	$ 967,424	$ 830,087
Past due	**417,604**	385,720	275,883
Total trade receivables	**1,269,479**	1,353,144	1,105,970
Allowance for doubtful accounts	**(113,935)**	(79,635)	(63,549)
Trade receivables, net of allowance for doubtful accounts	**$ 1,155,544**	$ 1,273,509	$ 1,042,421

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	2011	2010
Balance at beginning of year	**$ 79,635**	$ 63,549
Change in allowance, other than write-offs and recoveries	**61,137**	39,018
Write-offs of trade receivables	**(10,555)**	(8,451)
Recoveries	**(16,282)**	(14,481)
Balance at end of year	**$ 113,935**	$ 79,635

Notes to Consolidated Financial Statements

9 Other Current Financial Assets

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Retentions on client contracts	**$ 139,520**	$ 77,000	$ 71,362
Advances to suppliers, subcontractors and employees and deposits on contracts	**99,014**	93,141	127,174
Derivative financial instruments used for cash flow hedges—favourable fair value	**42,960**	37,793	26,448
Cash-settled share-based payment arrangement asset (Note 21C)	**39,671**	34,544	47,766
Current portion of receivables under service concession arrangements	**21,766**	19,115	1,694
Other	**53,621**	28,661	5,361
Other current financial assets	**$ 396,552**	$ 290,254	$ 279,805

10 Other Current Assets

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Income taxes and other taxes receivable	**$ 133,571**	$ 94,352	$ 108,761
Prepaid expenses and other	**32,992**	25,776	24,180
Other current assets	**$ 166,563**	$ 120,128	$ 132,941

11 Property and Equipment

A) PROPERTY AND EQUIPMENT FROM ICI

	PROPERTY AND EQUIPMENT OF ALTALINK
Gross carrying amount	
Balance as at January 1, 2011	**$ 2,149,288**
Additions	**648,911**
Balance as at December 31, 2011	**$ 2,798,199**
Accumulated depreciation	
Balance as at January 1, 2011	**76,474**
Depreciation expense	**83,990**
Balance as at December 31, 2011	**$ 160,464**

	PROPERTY AND EQUIPMENT OF ALTALINK
Gross carrying amount	
Balance as at January 1, 2010	$ 1,725,206
Additions	424,082
Balance as at December 31, 2010	$ 2,149,288
Accumulated depreciation	
Balance as at January 1, 2010	–
Depreciation expense	76,474
Balance as at December 31, 2010	$ 76,474

Net book value:

As at January 1, 2010	$ 1,725,206
As at December 31, 2010	$ 2,072,814
As at December 31, 2011	**$ 2,637,735**

An amount of $671.2 million as at December 31, 2011 (December 31, 2010: $302.8 million and January 1, 2010: $353.7 million) of property and equipment from ICI was not being depreciated as the corresponding assets are mainly transmission assets of AltaLink under construction.

AltaLink has a contractual commitment to acquire property and equipment of $1,062.1 million as at December 31, 2011.

Notes to Consolidated Financial Statements

11 Property and Equipment (continued)

B) PROPERTY AND EQUIPMENT FROM OTHER ACTIVITIES

	BUILDINGS	COMPUTER EQUIPMENT	OFFICE FURNITURE	OTHER	TOTAL
Gross carrying amount					
Balance as at January 1, 2011	**$ 67,170**	**$ 251,477**	**$ 107,055**	**$ 58,367**	**$ 484,069**
Additions	**7,016**	**31,854**	**13,637**	**14,641**	**67,148**
Additions through business acquisitions	**4,335**	**3,431**	**10,269**	**6,935**	**24,970**
Effect of foreign currency exchange differences	**(643)**	**(1,668)**	**(521)**	**(495)**	**(3,327)**
Disposals/retirements/salvage	**–**	**(15,777)**	**(4,945)**	**(1,482)**	**(22,204)**
Balance as at December 31, 2011	**$ 77,878**	**$ 269,317**	**$ 125,495**	**$ 77,966**	**$ 550,656**
Accumulated depreciation					
Balance as at January 1, 2011	**26,602**	**224,774**	**80,525**	**36,979**	**368,880**
Depreciation expense	**2,979**	**25,341**	**8,666**	**6,814**	**43,800**
Effect of foreign currency exchange differences	**(28)**	**(1,400)**	**(189)**	**(237)**	**(1,854)**
Disposals/retirements/salvage	**–**	**(15,365)**	**(4,014)**	**(674)**	**(20,053)**
Balance as at December 31, 2011	**$ 29,553**	**$ 233,350**	**$ 84,988**	**$ 42,882**	**$ 390,773**

	BUILDINGS	COMPUTER EQUIPMENT	OFFICE FURNITURE	OTHER	TOTAL
Gross carrying amount					
Balance as at January 1, 2010	$ 65,579	$ 237,226	$ 105,382	$ 55,717	$ 463,904
Additions	3,089	24,816	9,089	8,893	45,887
Additions through business acquisitions	856	188	635	88	1,767
Effect of foreign currency exchange differences	(28)	(3,078)	(1,783)	(954)	(5,843)
Disposals/retirements/salvage	(2,326)	(7,675)	(6,268)	(5,377)	(21,646)
Balance as at December 31, 2010	$ 67,170	$ 251,477	$ 107,055	$ 58,367	$ 484,069
Accumulated depreciation					
Balance as at January 1, 2010	24,560	211,608	80,248	35,816	352,232
Depreciation expense	2,532	23,084	6,710	6,260	38,586
Effect of foreign currency exchange differences	–	(2,789)	(1,380)	(492)	(4,661)
Disposals/retirements/salvage	(490)	(7,129)	(5,053)	(4,605)	(17,277)
Balance as at December 31, 2010	$ 26,602	$ 224,774	$ 80,525	$ 36,979	$ 368,880

Net book value:

As at January 1, 2010	$ 41,019	$ 25,618	$ 25,134	$ 19,901	$ 111,672
As at December 31, 2010	$ 40,568	$ 26,703	$ 26,530	$ 21,388	$ 115,189
As at December 31, 2011	**$ 48,325**	**$ 35,967**	**$ 40,507**	**$ 35,084**	**$ 159,883**

The Company did not receive any compensation from third parties that is included in net income in 2011 and/or 2010 for items of property and equipment that were impaired, lost or given up.

Notes to Consolidated Financial Statements

12 Goodwill

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

		FROM OTHER ACTIVITIES		
	ICI	SERVICES AND PACKAGES	O&M	TOTAL
Balance at January 1, 2010	$ 203,786	$ 296,201	$ 20,875	$ 520,862
Goodwill arising from acquisitions completed in the year	–	28,576	–	28,576
Net foreign currency exchange differences	–	(7,410)	–	(7,410)
Balance at December 31, 2010	203,786	317,367	20,875	542,028
Goodwill arising from acquisitions completed in the year	**–**	**101,357**	**4,296**	**105,653**
Net foreign currency exchange differences	**–**	**(8,210)**	**–**	**(8,210)**
Balance at December 31, 2011	**$ 203,786**	**$ 410,514**	**$ 25,171**	**$ 639,471**

At the Date of Transition, the amount of goodwill was tested for impairment. The forecast at the Date of Transition showed that there was no impairment. As at October 31, 2011 and 2010, the Company assessed the recoverable amount of goodwill and determined that there was no impairment.

For the purpose of annual impairment testing and as at Date of Transition, goodwill is allocated to the following CGU or groups of CGU, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises.

CGU OR GROUP OF CGU	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
AltaLink	**$ 203,786**	$ 203,786	$ 203,786
Services and Packages–Europe	**137,402**	77,249	78,151
Services and Packages–Brazil	**77,118**	84,905	82,857
Services and Packages–Other	**195,994**	155,213	135,193
O&M	**25,171**	20,875	20,875
	$ 639,471	$ 542,028	$ 520,862

The recoverable amounts of the CGU or groups of CGU were determined based on value in use calculations, covering a five-year forecast for all CGU or groups of CGU, followed by a terminal value based on extrapolation of expected future cash flows.

13 Non-Current Financial Assets

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
From ICI			
Receivables under service concession arrangements	**$ 239,113**	$ 219,646	$ 190,599
Third party deposits of AltaLink	**95,285**	48,965	62,842
Restricted cash	**6,098**	6,098	5,937
Other	**26,373**	20,142	6,138
	366,869	294,851	265,516
From other activities	**45,389**	18,444	20,212
Non-current financial assets	**$ 412,258**	$ 313,295	$ 285,728

Certain third parties of AltaLink contribute their share of capital project costs in advance of construction and provide advance funding for future operating and maintenance costs of assets constructed with third party-contributed funds. Third party deposits of AltaLink are recognized as non-current financial assets with corresponding other non-current financial liabilities (see Note 18).

Notes to Consolidated Financial Statements

14 Other Non-Current Assets

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
From ICI			
Intangible assets of AltaLink	**$ 104,949**	$ 84,965	$ 42,085
Other	**10,089**	2,460	337
	115,038	87,425	42,422
From other activities	**38,483**	38,182	31,552
Other non-current assets	**$ 153,521**	$ 125,607	$ 73,974

Intangible assets of AltaLink include mainly land rights. The amortization rate applied to land rights was 2.00% for the year ended December 31, 2011 (2010: 2.85%), while the amortization rates applied by AltaLink to its other intangible assets ranged from 12.38% to 24.32% (2010: from 12.95% to 25.64%). Intangible assets under construction are not amortized until they are available for use. An amount of $18.8 million as at December 31, 2011 (December 31, 2010: $3.1 million and January 1, 2010: $nil) of the intangible assets was not being amortized.

15 Other Current Financial Liabilities

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Commitments to invest in ICI accounted for by the equity and cost methods (Note 5D)	**$ 159,078**	$ 214,678	$ 105,600
Retentions on supplier contracts	**103,605**	77,322	104,482
Balance of purchase price payable relating to acquisition of businesses	**20,631**	25,356	19,529
Derivative financial instruments used for cash flow hedges—unfavourable fair value	**7,717**	7,593	10,472
Other current financial liabilities	**$ 291,031**	$ 324,949	$ 240,083

16 Other Current Liabilities

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Income taxes and other taxes payable	**$ 113,946**	$ 62,876	$ 73,991
Cash-settled share-based payment arrangement liabilities (Note 21C)	**37,743**	34,230	47,766
Other current liabilities	**$ 151,689**	$ 97,106	$ 121,757

Notes to Consolidated Financial Statements

17 Short-Term Debt and Long-Term Debt

A) RECOURSE REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, totalling $590.0 million, upon which it may either issue letters of credit, or borrow at variable rates not exceeding the prime rate plus 0.00% (2010: 0.20%). As at December 31, 2011, $145.9 million of these lines of credit remained unused, while the balance of $444.1 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

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
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 $350.0 million repayable in full at maturity	**348,369**	348,204	348,048
Both the 2010 and 2019 debentures described are unsecured and subject to negative pledge clauses.			
Total recourse long-term debt	**348,369**	348,204	452,922
Less: current portion	**–**	–	104,874
Recourse long-term debt	**$ 348,369**	$ 348,204	$ 348,048

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

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
AltaLink			
Senior Debt, 4.46% to 5.43%, due from 2013 to 2041, secured by a first floating charge security interest on AltaLink L.P.'s assets.	**$ 1,219,244**	$ 945,211	$ 671,543
Unsecured Debt, 5.02%, due in 2012, 10.50%, due in 2015, and 5.21%, due in 2016	**392,994**	437,200	436,469
Unsecured credit facility of $300 million (December 31, 2010: $150 million and January 1, 2010: $10 million) under which AltaLink may borrow at prime rate and bankers' acceptances, maturing in 2014	**104,500**	34,964	–
Unsecured Commercial Paper and bank credit facility	**18,981**	–	47,982
The unsecured commercial paper is supported by a $850 million (December 31, 2010: $550 million and January 1, 2010: $400 million) bank credit facility under which AltaLink may also borrow at prime rate and bankers' acceptances, maturing in 2013 and ranking equally with the Senior Debt. At December 31, 2011 and 2010, drawdowns under the bank credit facility were $nil (January 1, 2010: $nil).			
Other	**433**	707	983
Okanagan Lake Concession			
5.415% credit facility, due in 2033, secured by all assets of Okanagan Lake Concession, including a pledge by SNC-Lavalin of its units in Okanagan Lake Concession as well as an assignment of the concession's future revenues.	**141,324**	149,704	153,021
Other	**11,282**	–	–
Total non-recourse long-term debt from ICI	**1,888,758**	1,567,786	1,309,998
Less: short-term debt and current portion of long-term debt	**327,381**	38,762	51,596
Non-recourse long-term debt from ICI	**$ 1,561,377**	$ 1,529,024	$ 1,258,402

Notes to Consolidated Financial Statements

17 Short-Term Debt and Long-Term Debt (continued)

D) REPAYMENT OF PRINCIPAL OF SHORT-TERM DEBT AND LONG-TERM DEBT

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

AT DECEMBER 31, 2011	RECOURSE	NON-RECOURSE FROM ICI	TOTAL
2012	$ –	$ 327,381	$ 327,381
2013	–	340,171	340,171
2014	–	3,876	3,876
2015	–	49,098	49,098
2016	–	154,332	154,332
Thereafter	350,000	1,026,230	1,376,230
Total	$ 350,000	$ 1,901,088	$ 2,251,088
Net unamortized deferred financing costs and unamortized discounts	(1,631)	(12,330)	(13,961)
Net carrying amount of short-term debt and long-term debt	$ 348,369	$ 1,888,758	$ 2,237,127

18 Other Non-Current Financial Liabilities

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Third party deposits of AltaLink	**$ 95,285**	$ 48,965	$ 62,842
Other	**35,459**	27,432	18,855
Other non-current financial liabilities	**$ 130,744**	$ 76,397	$ 81,697

Certain third parties of AltaLink contribute their share of capital project costs in advance of construction and provide advance funding for future operating and maintenance costs of assets constructed with third party-contributed funds. Third party deposits of AltaLink are recognized as non-current financial assets (see Note 13) with corresponding other non-current financial liabilities.

19 Provisions

	PENSION AND OTHER POST-EMPLOYMENT BENEFITS	OTHER [1]	TOTAL
Balance at January 1, 2011	$ 50,753	$ 126,334	$ 177,087
Additional provisions recognized in the year	24,625	72,146	96,771
Amounts used during the year	(9,507)	(44,001)	(53,508)
Unused amounts reversed during the year	–	(19,675)	(19,675)
Actuarial losses recognized in equity	16,033	–	16,033
Unwinding of discount and effect of changes in discount rates	6,919	1,207	8,126
Balance at December 31, 2011	**$ 88,823**	**$ 136,011**	**$ 224,834**

(1) Other provisions include mainly litigations, forecasted losses on certain contracts and warranty provisions.

Notes to Consolidated Financial Statements

20 Other Non-Current Liabilities

Other non-current liabilities manly include contributions received by AltaLink from third parties used to finance certain capital construction costs which are released into revenues over the lives of the related assets. Other non-current liabilities also include funds provided by the *Alberta Utilities Commission* to AltaLink to pay for salvage costs, which are released into revenues when the associated costs are incurred.

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Third party contributions of AltaLink	**$ 310,498**	$ 247,919	$ 195,071
Funds for salvage costs of AltaLink	**170,596**	174,960	173,283
Other	**5,123**	9,304	10,121
Other non-current liabilities	**$ 486,217**	$ 432,183	$ 378,475

21 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.

The share capital issued and outstanding of the Company consists only of fully paid common shares without nominal value. All common shares are equally eligible to receive dividends, subject to the prior rights of the holders of preferred shares. Each common share carries one vote at the shareholders' meeting of the Company.

Subject to the prior rights of the holders of preferred shares, upon the liquidation or dissolution of the Company or any other distribution of its assets among its shareholders for the purpose of winding-up its affairs, all the Company's assets available for payment or distribution to the holders of the common shares are paid or distributed equally, share for share, to the holders of such common shares.

B) STOCK OPTION PLANS

The main features of the stock option plans under which stock options were outstanding at December 31, 2011 are summarized below:

	2011, 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

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The table below presents the changes in the number of options outstanding in 2011 and 2010:

	2011		2010	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE (IN DOLLARS)
Options outstanding at beginning of year	**5,126,117**	**$ 40.61**	5,073,954	$ 35.57
Granted (1)	**1,119,200**	**$ 54.06**	1,110,500	$ 52.45
Exercised (2)	**(820,216)**	**$ 32.84**	(902,465)	$ 26.98
Forfeited	**(67,586)**	**$ 44.21**	(155,872)	$ 39.84
Options outstanding at end of year	**5,357,515**	**$ 44.57**	5,126,117	$ 40.61

(1) The weighted average fair value of stock options granted was $15.04 in 2011 ($15.50 in 2010).

(2) The weighted average market price of the Company's common shares upon the exercise of stock options was $53.56 in 2011 ($52.63 in 2010).

The table below summarizes information regarding the stock options outstanding and exercisable as at December 31, 2011.

	OPTIONS OUTSTANDING					OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	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)
$29.20 to $32.50	2004	2006	131,500	3	$ 30.24	131,500	$ 30.24
$37.64 to $42.36	2007	2007	688,450	5	$ 37.74	688,450	$ 37.74
$37.17 to $55.10	2007	2008	1,099,368	15	$ 46.23	696,834	$ 46.23
$31.59	2007	2009	914,826	26	$ 31.59	261,735	$ 31.59
$37.53	2009	2009	337,421	28	$ 37.53	104,022	$ 37.53
$52.40 to $57.07	2009	2010	1,074,250	39	$ 52.45	–	$ –
$51.55 to $54.07	2011	2011	1,111,700	52	$ 54.06	–	$ –
			5,357,515	29	$ 44.57	1,882,541	$ 39.49

As at December 31, 2011, 1,188,300 stock options remained available for future grants under the 2011 stock option plan (December 31, 2010: 548,516 stock options and January 1, 2010: 1,629,891 stock options remained available under the 2009 stock option plan), while no stock options remain available for future grants under the 2009, 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:

	2011	2010
Risk-free interest rate	**2.15%**	2.47%
Expected stock price volatility	**34.78%**	36.64%
Expected option life	**4 years**	4 years
Expected dividend yield	**1.00%**	1.00%

The underlying expected volatility was determined by reference to historical data.

C) CASH-SETTLED SHARE-BASED PAYMENT ARRANGEMENTS

As at December 31, 2011, the Company had four cash-settled share-based payment compensation plans for executives, namely 2009 PSU plan, 2009 DSU plan, PSU plan and RSU plan, which was introduced in 2010. As at December 31, 2011, the Company also had a cash-settled share-based payment compensation plan, DSU plan, for members of the Board of Directors of SNC-Lavalin Group Inc.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The terms and conditions of the executive plans are summarized below:

	2009 PSU PLAN	2009 DSU PLAN / PSU PLAN (1)	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 2009 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

(1) The PSU plan has the same terms and conditions as the 2009 DSU plan, except that under certain conditions the vesting was immediate allowing the participant to receive 50% of the current year's grant as a cash payment. No units are available for future grants under the PSU plan since January 1, 2010.

The terms and conditions of the DSU plan are as follows: units are issued to Board Members of SNC-Lavalin Group Inc. at the end of each quarter. Each member is required to participate in the DSU plan by deferring at least 25% of their annual retainer. An additional number of units is also granted annually as determined by the Corporate Governance Committee of SNC-Lavalin Group Inc. All units issued vest immediately. When a member ceases to be a member of the Board of Directors, units are redeemed immediately in cash.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

The table below presents the number of granted share units and the weighted average fair value per granted share unit for the years ended December 31, 2011 and 2010:

	2011		2010	
	NUMBER OF GRANTED SHARE UNITS	WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS)	NUMBER OF GRANTED SHARE UNITS	WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS)
2009 PSU plan	**35,734**	**$ 55.00**	31,322	$ 52.40
2009 DSU plan	**36,516**	**$ 54.98**	34,027	$ 52.40
RSU plan	**91,678**	**$ 55.07**	84,507	$ 52.86
DSU plan	**24,717**	**$ 52.85**	22,037	$ 48.82

The tables below present the changes in the number of outstanding share units in 2011 and 2010:

	2011				
	NUMBER OF 2009 PSU	NUMBER OF 2009 DSU	NUMBER OF RSU	NUMBER OF PSU	NUMBER OF DSU
Share units outstanding at beginning of year	**31,322**	**34,027**	**81,125**	**341,816**	**101,128**
Granted	**35,734**	**36,516**	**91,678**	**–**	**24,717**
Exercised	**–**	**–**	**(4,119)**	**–**	**–**
Forfeited	**–**	**–**	**(6,186)**	**–**	**–**
Share units outstanding at end of year	**67,056**	**70,543**	**162,498**	**341,816**	**125,845**

	2010				
	NUMBER OF 2009 PSU	NUMBER OF 2009 DSU	NUMBER OF RSU	NUMBER OF PSU	NUMBER OF DSU
Share units outstanding at beginning of year	–	–	–	800,136	84,589
Granted	31,322	34,027	84,507	–	22,037
Exercised	–	–	–	(458,320)	(5,498)
Forfeited	–	–	(3,382)	–	–
Share units outstanding at end of year	31,322	34,027	81,125	341,816	101,128

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 statement of financial position under "Other current financial assets", while the cash-settled share-based payment arrangement liabilities are recorded in "Other current liabilities". 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 cash-settled share-based payment arrangement liabilities. The financing arrangement is adjusted as needed to reflect new awards and/or settlements of units.

The compensation expense, net of the loss of $5.6 million from the remeasurement of the cash-settled share-based payment arrangement asset which offsets the gain of $5.2 million from the remeasurement of the cash-settled share-based payment arrangement liabilities in 2011 (2010: gain of $3.7 million which offsets the loss of $3.4 million), was $8.9 million for the year ended December 31, 2011 (2010: $5.5 million).

The total intrinsic value of the cash-settled share-based payment arrangement liabilities for which the participant's right to cash vested was $31.7 million as at December 31, 2011, $30.5 million as at December 31, 2010 and $47.8 million as at January 1, 2010.

Notes to Consolidated Financial Statements

21 Share Capital (continued)

D) REDEMPTION OF SHARES

In 2011, 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 (2010: 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 redemptions of shares in 2011 and 2010 were as follows:

	2011	2010
Redeemed and cancelled:		
Portion allocated to share capital	**$ 2,472**	$ 2,537
Portion allocated to retained earnings	**41,799**	45,406
	$ 44,271	$ 47,943
Number of shares redeemed and cancelled	**819,400**	901,600
Average redemption price per share ($)	**$ 54.03**	$ 53.18

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

The weighted average number of outstanding shares in 2011 and 2010 used to calculate the basic and diluted earnings per share were as follows:

AT DECEMBER 31 (IN THOUSANDS)	2011	2010
Weighted average number of outstanding shares—basic	**150,897**	151,020
Dilutive effect of stock options	**1,043**	1,257
Weighted average number of outstanding shares—diluted	**151,940**	152,277

In 2011, 2,186,950 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive (2010: 1,095,250 outstanding stock options).

F) DIVIDENDS

During the year ended December 31, 2011, the Company recognized as distributions to its equity shareholders dividends of $126.8 million or $0.84 per share (2010: $102.7 million or $0.68 per share).

22 Other Components of Equity

The Company has the following elements, net of income tax, within its other components of equity at December 31, 2011, December 31, 2010 and January 1, 2010:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Exchange differences on translating foreign operations	**$ (33,028)**	$ (21,077)	$ –
Available-for-sale financial assets	**1,538**	1,317	11,215
Cash flow hedges	**(24,375)**	(15,920)	(1,136)
Share of other comprehensive loss of investments accounted for by the equity method	**(59,948)**	(31,800)	(14,114)
Other components of equity	**$ (115,813)**	$ (67,480)	$ (4,035)

Notes to Consolidated Financial Statements

22 Other Components of Equity (continued)

> Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal.

> Available-for-sale financial assets component arises upon the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the component that relates to that financial asset, and is effectively realized, is recognized in net income. When a revaluated financial asset is impaired, the portion of the component that relates to that financial asset is recognized in net income.

> Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

> Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company's proportionate share of the other comprehensive income (loss) from its investments accounted for by the equity method.

The following table provides a reconciliation of each element of other components of equity for the years ended December 31, 2011 and 2010:

YEAR ENDED DECEMBER 31	2011	2010
Exchange differences on translating foreign operations:		
Balance at beginning of year	**$ (21,077)**	$ –
Current year losses	**(11,951)**	(21,077)
Balance at end of year	**(33,028)**	(21,077)
Available-for-sale financial assets:		
Balance at beginning of year	**1,317**	11,215
Current year gains	**1,395**	18,111
Income tax expense relating to current year gains	**(151)**	(1,884)
Reclassification to net income	**(1,183)**	(29,567)
Income tax expense relating to amounts reclassified to net income	**160**	3,442
Balance at end of year	**1,538**	1,317
Cash flow hedges:		
Balance at beginning of year	**(15,920)**	(1,136)
Current year gains (losses)	**(7,618)**	38,519
Income tax benefit (expense) relating to current year gains (losses)	**2,632**	(18,743)
Reclassification to net income	**(4,241)**	(54,927)
Income tax expense relating to amounts reclassified to net income	**3,540**	20,367
Balance at end of year before the acquisition of non-controlling interests of AltaLink	**(21,607)**	(15,920)
Portion of cash flow hedges attributable to non-controlling interests of AltaLink reallocated to equity attributable to SNC-Lavalin shareholders	**(3,690)**	–
Income tax benefit related to the reallocated portion of cash flows hedges of AltaLink	**922**	–
Balance at end of year after the acquisition of non-controlling interests of AltaLink	**(24,375)**	(15,920)
Share of other comprehensive income (loss) of investments accounted for by the equity method:		
Balance at beginning of year	**(31,800)**	(14,114)
Current year share	**(49,738)**	(34,178)
Income tax benefit relating to current year share	**16,156**	11,236
Reclassification to net income	**6,875**	6,928
Income tax benefit relating to amounts reclassified to net income	**(1,441)**	(1,672)
Balance at end of year	**(59,948)**	(31,800)
Other components of equity	**$ (115,813)**	$ (67,480)

Notes to Consolidated Financial Statements

22 Other Components of Equity (continued)

The Company expects that approximately $13.1 million of the accumulated net unrealized loss on cash flow hedges at December 31, 2011 will be reclassified in net income in the next 12 months, offsetting unrealized gains on the corresponding underlying hedged items.

ACTUARIAL GAINS AND LOSSES RECOGNIZED IN OTHER COMPREHENSIVE INCOME

Actuarial gains and losses recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits were as follows:

YEAR ENDED DECEMBER 31	2011			2010		
	BEFORE TAX	INCOME TAX BENEFIT	NET OF TAX	BEFORE TAX	INCOME TAX BENEFIT (EXPENSE)	NET OF TAX
Cumulative amount at January 1	$ (1,442)	$ 359	$ (1,083)	$ –	$ –	$ –
Recognized during the year:						
Defined benefit pension plans	(15,358)	4,117	(11,240)	(2,204)	544	(1,660)
Other post-employment benefits	(675)	169	(507)	762	(185)	577
	(16,033)	4,286	(11,747)	(1,442)	359	(1,083)
Cumulative amount at December 31	$ (17,475)	$ 4,645	$ (12,830)	$ (1,442)	$ 359	$ (1,083)

The actuarial gains and losses on defined benefit plans are recognized in other comprehensive income and are not reclassified to net income in subsequent periods. The cumulative amount of actuarial gains and losses is included in retained earnings.

23 Net Financial Expenses

YEAR ENDED DECEMBER 31	2011			2010		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	$ (7,139)	$ (10,158)	$ (17,297)	$ (105)	$ (6,646)	$ (6,751)
Interest on debt:						
Recourse	–	21,879	21,879	–	27,754	27,754
Non-recourse:						
AltaLink	87,862	–	87,862	71,829	–	71,829
Other	7,947	–	7,947	8,609	–	8,609
Other (1)	11,061	3,759	14,820	4,761	4,873	9,634
Net financial expenses	$ 99,731	$ 15,480	$ 115,211	$ 85,094	$ 25,981	$ 111,075

(1) In 2011, other net financial expenses from ICI include a loss of $5.0 million before taxes from the acquisition of a subsidiary's debenture related to the AltaLink transaction (Note 5A).

24 Selling, General and Administrative Expenses

YEAR ENDED DECEMBER 31	2011	2010
Selling costs	$ 191,282	$ 168,199
General and administrative expenses	463,409	413,500
Selling, general and administrative expenses	$ 654,691	$ 581,699

Notes to Consolidated Financial Statements

25 Supplementary Cash Flow Information

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:

	2011	2010
Decrease (increase) in trade receivables	$ 69,674	$ (241,840)
Decrease (increase) in contracts in progress	59,384	(135,748)
Decrease (increase) in other current financial assets	(98,480)	6,972
Increase in other current assets	(16,793)	(2,970)
Increase in trade payables	151,221	19,985
Increase (decrease) in downpayments on contracts	(75,024)	29,690
Increase in deferred revenues	223,617	224,260
Increase (decrease) in other current financial liabilities	24,557	(22,045)
Increase (decrease) in other current liabilities	3,599	(67,784)
Net change in non-cash working capital items	**$ 341,755**	$ (189,480)

26 Income Taxes

A) DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Deferred income taxes arising from temporary differences and unused tax losses can be summarized as follows:

	JANUARY 1 2011	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	RECOGNIZED IN BUSINESS COMBINATIONS AND UPON ACQUISITION OF NON-CONTROLLING INTERESTS OF ALTALINK	RECOGNIZED IN NET INCOME	EXCHANGE DIFFERENCES AND OTHER CHARGES	DECEMBER 31 2011
Current:						
Retentions on client contracts	$ (9,479)	$ –	$ (2)	$ (22,614)	$ –	$ (32,095)
Contracts in progress	(14,639)	–	(332)	(12,714)	–	(27,685)
Retentions on supplier contracts	14,384	–	–	8,043	–	22,427
Accrued employee compensation	4,528	–	–	2,044	–	6,572
Current liabilities	50,119	–	10	9,204	56	59,389
Other	1,248	–	–	(885)	–	363
Non-current:						
Property and equipment, and goodwill	(41,434)	–	(10,396)	(28,469)	8,282	(72,017)
Non-current financial assets	(6,473)	–	–	(703)	–	(7,176)
Provisions	(54,171)	–	–	(4,100)	(4,001)	(62,272)
ICI accounted for by the equity or cost methods	2,819	14,716	–	(29,654)	(45)	(12,164)
Pension plans and other post-employment benefits	11,224	4,286	2,553	(1,822)	(6)	16,235
Other	(6,414)	6,180	488	2,704	518	3,476
Unused tax losses	54,846	–	16	14,370	(4,337)	64,895
Deferred income tax asset (liability), net	**$ 6,558**	**$ 25,182**	**$ (7,663)**	**$ (64,596)**	**$ 467**	**$ (40,052)**
Presented on the statement of financial position as follows:						
Deferred income tax asset	**$ 158,419**	–	–	$ –	–	**161,364**
Deferred income tax liability	**$ 151,861**	–	–	$ –	–	**201,416**

Notes to Consolidated Financial Statements

26 Income Taxes (continued)

Deferred income taxes for the comparative period 2010 can be summarized as follows:

	JANUARY 1 2010	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	RECOGNIZED IN BUSINESS COMBINATIONS	RECOGNIZED IN NET INCOME	EXCHANGE DIFFERENCES AND OTHER CHARGES	DECEMBER 31 2010
Current:						
Retentions on client contracts	$ (1,410)	$ –	$ –	$ (8,069)	$ –	$ (9,479)
Contracts in progress	(12,056)	–	–	(2,583)	–	(14,639)
Retentions on supplier contracts	15,777	–	–	(1,393)	–	14,384
Accrued employee compensation	7,612	–	–	(3,084)	–	4,528
Current liabilities	44,946		37	4,982	154	50,119
Other	2,463	–	–	(1,215)	–	1,248
Non-current:						
Property and equipment, and goodwill	(23,960)	–	–	(14,812)	(2,662)	(41,434)
Non-current financial assets	(6,311)	–	–	(162)	–	(6,473)
Provisions	(29,104)	–	(22)	(26,367)	1,322	(54,171)
ICI accounted for by the equity or cost methods	(12,811)	9,565	–	5,996	69	2,819
Pension plans and other post-employment benefits	12,492	359	–	(1,627)	–	11,224
Other	(6,520)	3,181	–	(2,796)	(279)	(6,414)
Unused tax losses	76,304	–	–	(22,203)	745	54,846
Deferred income tax asset, net	$ 67,422	$ 13,105	$ 15	$ (73,333)	$ (651)	$ 6,558
Presented on the statement of financial position as follows:						
Deferred income tax asset	$ 139,265	–	–	$ –	–	158,419
Deferred income tax liability	$ 71,843	–	–	$ –	–	151,861

At December 31, 2011, the Company had $250.1 million of non-capital tax losses carried-forward that expire in varying amounts from 2012 to 2031. A deferred income tax asset of $64.9 million has been recognized on $218.4 million of these losses. The deferred income tax assets are recognized only to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilized.

A deferred income tax liability has not been recognized on temporary differences of $884.6 millions (2010: $776.3 million) associated with investments in subsidiaries, associates and interests in joint ventures, as the Company controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Consolidated Financial Statements

26 Income Taxes (continued)

B) INCOME TAX EXPENSE

The relationship between the expected tax expense based on Canadian effective tax rate of SNC-Lavalin at 27.7% (2010: 29.4%) and the reported tax expense in net income can be reconciled as follows, also showing major components of tax expense:

YEAR ENDED DECEMBER 31	2011		2010	
	AMOUNT	%	AMOUNT	%
Income before income tax expense	**$ 482,234**		$ 608,203	
Canadian tax rate for SNC-Lavalin		**27.7**		29.4
Expected income tax expense	**$ 133,690**		$ 178,990	
Increase (decrease) resulting from:				
Effect of differences of foreign tax rates compared to Canadian rates	**(13,941)**	**(2.9)**	(44,811)	(7.3)
Net income not affected by tax	**(50)**	**–**	3,888	0.6
Non-taxable income from certain ICI accounted for by the equity or cost methods	**(27,549)**	**(5.7)**	(26,892)	(4.4)
Other permanent differences for tax purposes	**9,593**	**2.0**	13,111	2.2
Effect of income tax rate changes on deferred income tax asset and deferred income tax liability	**1,323**	**0.3**	(2,886)	(0.5)
Non-taxable capital gain on dispositions of assets and ICI	**–**	**–**	(6,646)	(1.1)
Other	**(8,174)**	**(1.7)**	6,060	1.0
Income tax expense at effective tax rate	**$ 94,892**	**19.7**	$ 120,814	19.9

The effective income tax rate in 2011 is in line with 2010.

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

YEAR ENDED DECEMBER 31	2011	2010
Current income tax expense	**$ 30,296**	$ 47,481
Deferred income tax expense	**64,596**	73,333
Income tax expense	**$ 94,892**	$ 120,814

Notes to Consolidated Financial Statements

27 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, 2011, December 31, 2010 and January 1, 2010 by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2011					
	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	**$ 1,231,049**	**$ –**	**$ –**	**$ –**	**$ 1,231,049**	**$ 1,231,049**
Restricted cash	**39,354**	**–**	**–**	**–**	**39,354**	**39,354**
Trade receivables	**–**	**–**	**1,155,544**	**–**	**1,155,544**	**1,155,544**
Other current financial assets:						
Cash-settled share-based payment arrangement asset	**39,671**	**–**	**–**	**–**	**39,671**	**39,671**
Derivative financial instruments	**–**	**–**	**–**	**42,960**	**42,960**	**42,960**
Other current financial assets	**–**	**–**	**313,921**	**–**	**313,921**	**313,921**
ICI accounted for by the cost method:						
At cost (1)	**–**	**226,362**	**–**	**–**	**226,362**	**See (1)**
At amortized cost	**–**	**–**	**66,879**	**–**	**66,879**	**66,879**
Non-current financial assets:						
Restricted cash	**6,098**	**–**	**–**	**–**	**6,098**	**6,098**
Other:						
At fair value	**–**	**13,505**	**–**	**–**	**13,505**	**13,505**
At cost/amortized cost	**95,285**	**–**	**297,370**	**–**	**392,655**	**403,722**
Total	**$ 1,411,457**	**$ 239,867**	**$ 1,833,714**	**$ 42,960**	**$ 3,527,998**	

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	$ 1,235,085	$ –	$ –	$ –	$ 1,235,085	$ 1,235,085
Restricted cash	39,369	–	–	–	39,369	39,369
Trade receivables	–	–	1,273,509	–	1,273,509	1,273,509
Other current financial assets:						
Cash-settled share-based payment arrangement asset	34,544	–	–	–	34,544	34,544
Derivative financial instruments	–	–	–	37,793	37,793	37,793
Other current financial assets	–	–	217,917	–	217,917	217,917
ICI accounted for by the cost method:						
At cost (1)	–	179,228	–	–	179,228	See (1)
At amortized cost	–	–	55,192	–	55,192	55,192
Non-current financial assets:						
Restricted cash	6,098	–	–	–	6,098	6,098
Other:						
At fair value	–	13,664	–	–	13,664	13,664
At cost/amortized cost	48,965	–	244,568	–	293,533	279,760
Total	$ 1,364,061	$ 192,892	$ 1,791,186	$ 37,793	$ 3,385,932	

(1) These available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

AT JANUARY 1	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	$ 1,191,398	$ –	$ –	$ –	$ 1,191,398	$ 1,191,398
Restricted cash	31,377	–	–	–	31,377	31,377
Trade receivables	–	–	1,042,421	–	1,042,421	1,042,421
Other current financial assets:						
Cash-settled share-based payment arrangement asset	47,766	–	–	–	47,766	47,766
Derivative financial instruments	–	–	–	26,448	26,448	26,448
Other current financial assets	–	–	205,591	–	205,591	205,591
ICI accounted for by the cost method:						
At fair value	–	148,054	–	–	148,054	148,054
At cost (1)	–	139,589	–	–	139,589	See (1)
At amortized cost	–	–	43,588	–	43,588	43,588
Non-current financial assets:						
Restricted cash	5,937	–	–	–	5,937	5,937
Other:						
At fair value	–	15,376	–	3,759	19,135	19,135
At cost/amortized cost	62,842	–	197,814	–	260,656	236,830
Total	$ 1,339,320	$ 303,019	$ 1,489,414	$ 30,207	$ 3,161,960	

(1) These available-for-sale financial assets represent equity instruments that do not have a quoted market price in an active market.

The following tables present the carrying value of SNC-Lavalin's financial liabilities at December 31, 2011, December 31, 2010 and January 1, 2010 by category and classification, with the corresponding fair value, when available:

AT DECEMBER 31	2011			
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY			
	DERIVATIVES USED FOR CASH FLOW HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade payables	**$ –**	**$ 1,520,395**	**$ 1,520,395**	**$ 1,520,395**
Other current financial liabilities:				
Derivative financial instruments	**7,717**	**–**	**7,717**	**7,717**
Other current financial liabilities	**–**	**283,314**	**283,314**	**283,314**
Downpayments on contracts	**–**	**316,714**	**316,714**	**316,714**
Short-term debt and long-term debt (2):				
Recourse	**–**	**348,369**	**348,369**	**411,079**
Non-recourse from ICI	**–**	**1,888,758**	**1,888,758**	**2,101,628**
Other non-current financial liabilities	**8,056**	**122,688**	**130,744**	**130,744**
Total	**$ 15,773**	**$ 4,480,238**	**$ 4,496,011**	

(2) The fair value of short-term debt and 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

27 Financial Instruments (continued)

AT DECEMBER 31	2010			
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY			
	DERIVATIVES USED FOR CASH FLOW HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade payables	$ –	$ 1,274,658	$ 1,274,658	$ 1,274,658
Other current financial liabilities:				
Derivative financial instruments	7,593	–	7,593	7,593
Other current financial liabilities	–	317,356	317,356	317,356
Downpayments on contracts	–	422,930	422,930	422,930
Short-term debt and long-term debt (1):				
Recourse	–	348,204	348,204	387,730
Non-recourse from ICI	–	1,567,786	1,567,786	1,675,962
Other non-current financial liabilities	–	76,397	76,397	76,397
Total	$ 7,593	$ 4,007,331	$ 4,104,924	

AT JANUARY 1	2010			
	CARRYING VALUE OF FINANCIAL LIABILITIES BY CATEGORY			
	DERIVATIVES USED FOR CASH FLOW HEDGES	OTHER FINANCIAL LIABILITIES	TOTAL	FAIR VALUE
Trade payables	$ –	$ 1,294,752	$ 1,294,752	$ 1,294,752
Other current financial liabilities:				
Derivative financial instruments	10,472	–	10,472	10,472
Other current financial liabilities	–	229,611	229,611	229,611
Downpayments on contracts	–	397,329	397,329	397,329
Short-term debt and long-term debt (1):				
Recourse	–	452,922	452,922	481,005
Non-recourse from ICI	–	1,309,998	1,309,998	1,350,826
Other non-current financial liabilities	–	81,697	81,697	81,697
Total	$ 10,472	$ 3,766,309	$ 3,776,781	

(1) The fair value of short-term debt and 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.

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 cash-settled share-based payment arrangement asset (included in other current financial assets)
Level 3	Inputs for the asset or liability that are not based on observable market data	None

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

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 cash-settled share-based payment 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 high-grade financial institutions, which are expected to satisfy their obligations under the contracts.

iii) Trade 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 receivables on a timely basis. The Company internally allocates imputed interest to provide an incentive to project managers to collect trade 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) Other current financial assets, as detailed in Note 9, and non-current financial assets, as detailed in Note 13.

v) The financial assets classified as "Loans and Receivables" included in "ICI accounted for by the equity or cost methods", which consist mainly of a loan to the Ambatovy's Project Operator (Note 5D).

vi) The financial guarantees on the Ambatovy project disclosed in Note 5D.

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 5, SNC-Lavalin's consolidated statement of financial position included approximately $2,736.8 million at December 31, 2011 (December 31, 2010: $2,209.1 million and January 1, 2010: $1,911.8 million) of liabilities from ICI that are accounted for by the full consolidation method. 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 $492.9 million of financial assets at December 31, 2011 (December 31, 2010: $361.8 million and January 1, 2010: $322.2 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 consolidation method were unable to meet their obligations, corresponds to the carrying amount invested in these entities, which totalled $721.9 million at December 31, 2011 (December 31, 2010: $441.4 million and January 1, 2010: $316.1 million).

SNC-Lavalin's future principal payments on its short-term debt and long-term debt are presented in Note 17.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

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, 2011			AT DECEMBER 31, 2010			AT JANUARY 1, 2010		
BUY	SELL	MATURITY	BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$ 471,149	**US$ 456,234**	**2012-2016**	CA$ 181,642	US$ 172,856	2011-2015	CA$ 290,643	US$ 264,634	2010-2013
CA$ 533,003	**€ 375,781**	**2012-2015**	CA$ 530,946	€ 375,608	2011-2015	CA$ 368,559	€ 241,171	2010-2013
US$ 61,806	**CA$ 63,829**	**2012-2013**	US$ 27,961	CA$ 28,756	2011-2012	US$ 27,787	CA$ 29,499	2010-2011
US$ 21,457	**€ 15,698**	**2012**	US$ 37,098	€ 28,689	2011	US$ 50,924	€ 37,474	2010
€ 19,793	**US$ 26,761**	**2012-2013**	€ 9,756	US$ 13,368	2011	€ 23,639	US$ 32,777	2010
€ 26,223	**CA$ 37,066**	**2012-2013**	€ 20,487	CA$ 30,454	2011-2013	€ 19,304	CA$ 29,112	2010-2012

As at December 31, 2011, the forward foreign exchange contracts used for hedging purposes by the Company had a net favourable fair value of $35.2 million (December 31, 2010: $30.2 million and January 1, 2010: $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.

SENSITIVITY ANALYSIS

CHANGE IN FOREIGN EXCHANGES RATES (1)	ESTIMATED IMPACT ON OTHER COMPONENTS OF EQUITY (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	"Other components of equity" would have been a cumulative loss of $79.7 million, compared to a cumulative loss of $115.8 million reported at December 31, 2011
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	"Other components of equity" would have been a cumulative loss of $151.9 million, compared to a cumulative loss of $115.8 million reported at December 31, 2011

(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 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 "Other components of equity" account, as part of the exchange differences on translating foreign operations.

Notes to Consolidated Financial Statements

27 Financial Instruments (continued)

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 SHORT-TERM DEBT AND 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 PRICE RISK

SNC-Lavalin limits its exposure arising from the cash-settled share-based payment arrangements caused by fluctuations in its share price, through a financing arrangement with a high-grade financial institution described in Note 21C.

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, 2011, SNC-Lavalin had outstanding letters of credit of $1,907.9 million (December 31, 2010: $2,005.6 million and January 1, 2010: $1,652.1 million).

28 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 equity attributable to SNC-Lavalin shareholders.

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 equity attributable to SNC-Lavalin shareholders excluding other components of equity plus its recourse debt. The Company excludes other components of equity from its definition of capital because this element of equity results mainly from the accounting treatment of cash flow hedges, including the share of comprehensive income of investments accounted for by the equity method, and is not representative of the way the Company evaluates the management of its foreign currency risk. Accordingly, the other components of equity are 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 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.

Notes to Consolidated Financial Statements

28 Capital Management (continued)

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:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Recourse debt	**$ 348,369**	$ 348,204	$ 452,922
Equity attributable to SNC-Lavalin shareholders	**$ 1,883,068**	$ 1,816,778	$ 1,518,208
Less: Other components of equity	**(115,813)**	(67,480)	(4,035)
Plus: Recourse debt	**348,369**	348,204	452,922
Capital	**$ 2,347,250**	$ 2,232,462	$ 1,975,165
Recourse debt-to-capital ratio	**15:85**	16:84	23:77

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 22 consecutive years and strives to increase its yearly dividend paid per share, which it has done over the past 11 years.

In 2011, the Company complied with all of the covenants related to its debentures and bank credit facilities.

29 Pension Plans and Other Post-Employment 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 $70.9 million in 2011 (2010: $57.6 million).

SNC-Lavalin also has a number of defined benefit pension plans, which are all 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 three principal pension plans, the latest actuarial valuations were performed on December 31, 2010. The measurement date used for the above benefit obligation and plan assets is December 31 of each year. All SNC-Lavalin's defined benefit pension plans are partly funded.

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 $78.4 million in 2011 (2010: $68.0 million).

Notes to Consolidated Financial Statements

29 Pension Plans and Other Post-Employment Benefits (continued)

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

AT DECEMBER 31	2011	2010
Change in pension benefit obligation:		
Pension benefit obligation at beginning of year	**$ 122,677**	$ 155,323
Current service cost	**1,327**	840
Interest cost	**6,202**	6,415
Benefits paid	**(11,531)**	(10,297)
Actuarial losses	**19,419**	3,521
Effect of foreign currency exchange differences	**(1,479)**	–
Business acquisitions	**66,835**	–
Settlement	**–**	(33,125)
Pension benefit obligation at end of year	**$ 203,450**	$ 122,677
Change in pension plan assets:		
Fair value of pension plan assets at beginning of year	**$ 85,244**	$ 115,038
Expected return on plan assets	**6,038**	5,698
Actuarial gains	**1,984**	633
Effect of foreign currency exchange differences	**(1,283)**	–
Benefits paid	**(11,531)**	(10,297)
Employer contributions	**7,484**	10,361
Business acquisitions	**57,769**	–
Settlement	**–**	(36,189)
Fair value of pension plan assets at end of year	**$ 145,705**	$ 85,244

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Funded status reflected in the statement of financial position:			
Pension plans in deficit	**$ 57,745**	$ 37,433	$ 40,285
Additional liability due to minimum funding requirements	**689**	2,766	3,450
Net accrued pension benefit liability	**$ 58,434**	$ 40,199	$ 43,735

Notes to Consolidated Financial Statements

29 Pension Plans and Other Post-Employment Benefits (continued)

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

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Asset category			
Equity securities	**70%** (1)	56%	43%
Debt securities	**30%** (1)	44%	57%
Total	**100%**	100%	100%

(1) Due to the acquisition of Interfleet Technology Limited completed by SNC-Lavalin in 2011, the allocation of the major categories of assets of SNC-Lavalin's defined benefit pension plans as at December 31, 2011 is not representative of SNC-Lavalin's asset management policy or of its historical allocation patterns and is expected to be changed in the future to get closer to SNC-Lavalin's historical allocation patterns.

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:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Accrued pension benefit obligation			
Discount rate	**3.82%**	4.57%	4.64%
Rate of compensation increase	**4.06%**	4.61%	4.62%

YEAR ENDED DECEMBER 31	2011	2010
Net benefit pension costs		
Discount rate	**4.62%**	4.64%
Expected long-term rate of return on plan assets	**6.85%**	6.30%
Rate of compensation increase	**4.04%**	4.62%

SNC-Lavalin's assessment of the expected long-term rate of return on plan assets is based on the historical return trends and advisors' predictions on the future return of each asset category.

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

YEAR ENDED DECEMBER 31	2011	2010
Current service cost	**$ 1,327**	$ 840
Interest cost on benefit obligation	**6,202**	6,415
Expected actuarial return on plan assets	**(6,038)**	(5,698)
Settlement loss	**–**	3,064
Other	**–**	74
Net defined benefit pension cost recognized in the year	**$ 1,491**	$ 4,695

SNC-Lavalin expects to make contributions of $7.6 million in 2012 to its defined benefit pension plans.

B) OTHER POST-EMPLOYMENT BENEFITS

As at December 31, 2011, the obligation for other post-employment benefits amounted to $30.4 million (December 31, 2010: $10.6 million and January 1, 2010: $11.3 million), of which $19.1 million relate to businesses acquired in 2011.

Notes to Consolidated Financial Statements

30 Contingent Liabilities

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.

BANGLADESH INVESTIGATION

As previously announced on September 6, 2011, the Royal Canadian Mounted Police (the "RCMP") is investigating the Company's involvement in projects in Bangladesh and certain countries in Africa. The Company understands that the investigation is primarily focused on its involvement in a past submission as the Owner's Engineer for the Bangladesh government where the Company would have supervised the contractor responsible for the overall project. The Company's involvement in this matter is also being investigated by the World Bank. The Company understands that the RCMP investigation into this matter is ongoing but no charges have been laid against the Company. The Company also understands that the World Bank investigation is ongoing but no sanctions or proceedings have been initiated against the Company. Due to the nature of these investigations, it is not possible to predict the respective outcomes with any certainty or potential losses, if any, for the Company in connection therewith.

31 Operating Lease Arrangements

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases, mainly for office space, amounted to $437.7 million in 2011. The annual minimum lease payments are as follows: 2012—$89.5 million; 2013—$76.7 million; 2014—$68.7 million; 2015—$59.5 million; 2016—$43.3 million and thereafter—$100.0 million.

32 Remuneration

A) EMPLOYEE REMUNERATION

Expenses recognized for employee benefits, including expenses recognized for key management remuneration and directors' fees, are analyzed as follows:

YEAR ENDED DECEMBER 31	2011	2010
Short-term benefits	**$ 2,037,228**	$ 1,777,272
Share-based payments	**24,349**	18,259
Pension plans and other post-employment benefits	**3,773**	6,036
	$ 2,065,350	$ 1,801,567

B) KEY MANAGEMENT REMUNERATION AND DIRECTORS' FEES

Expenses recognized for key management remuneration and directors' fees, representing approximately 103 people (2010: 93 people) and comprising all members of the Company's Management Committee and all directors of SNC-Lavalin Group Inc.'s Board of Directors, are detailed as follows:

YEAR ENDED DECEMBER 31	2011	2010
Short-term benefits	**$ 32,290**	$ 33,324
Share-based payments	**13,761**	11,778
Pension plans and other post-employment benefits	**3,505**	4,854
	$ 49,556	$ 49,956

Notes to Consolidated Financial Statements

33 Related Party Transactions

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its ICI. Investments in which SNC-Lavalin has significant influence or joint control, which are accounted for by the equity method, are considered related parties, consistent with IFRS.

Consistent with IFRS, intragroup profits generated from revenues with ICI accounted for by the equity or full consolidation methods are eliminated in the period they occur, except when such profits are deemed to have been realized by the ICI. Profits generated from transactions with ICI accounted for by the cost method are not eliminated, in accordance with IFRS.

The accounting treatment of intragroup profits is summarized below:

ICI	ACCOUNTING METHOD	ACCOUNTING TREATMENT OF INTRAGROUP PROFITS
AltaLink	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by AltaLink via legislation applied by an independent governmental regulatory body.
ICI accounted for under IFRIC 12	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client.
	Equity method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client.
Others	Equity method	Eliminated in the period they occur, as a reduction of the underlying asset and subsequently recognized over the depreciation period of the corresponding asset.
	Cost method	Not eliminated, in accordance with IFRS.

For the year ended December 31, 2011, SNC-Lavalin recognized revenues of $559.5 million (2010: $306.3 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized income from these ICI, which represents the Company's share of net income from these ICI, of $102.8 million for the year ended December 31, 2011 (2010: $76.9 million). Intragroup revenues generated from transactions with AltaLink, which amounted to $419.6 million for the year ended December 31, 2011 (2010: $263.7 million), were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to $43.7 million as at December 31, 2011 (December 31, 2010: $12.0 million and January 1, 2010: $102.8 million). SNC-Lavalin's other non-current financial assets receivables from these ICI accounted for by the equity method amounted to $83.0 million as at December 31, 2011 (December 31, 2010: $25.5 million and January 1, 2010: $nil). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was $129.0 million at December 31, 2011 (December 31, 2010: $178.6 million and January 1, 2010: $78.3 million).

All of these related party transactions are measured at fair value.

Notes to Consolidated Financial Statements

34 Subsidiaries, Joint Ventures and Associates

The main subsidiaries, jointly controlled entities, jointly controlled operations and associates of the Company at December 31, 2011, in addition to their jurisdiction of incorporation and the percentage of voting shares beneficially owned, or controlled, or directed, directly or indirectly by the Company or the percentage of joint venture interest are set out below:

SUBSIDIARIES	%	COUNTRY
AltaLink, L.P.	100.0	Canada
Candu Energy Inc.	100.0	Canada
Groupe Qualitas Inc.	100.0	Canada
Groupe Stavibel Inc.	100.0	Canada
Intecsa-Inarsa, S.A.	100.0	Spain
Interfleet Technology Limited	100.0	United Kingdom
Itansuca Proyectos de Ingenieria S.A.	100.0	Colombia
MDH Engineered Solutions Corp.	100.0	Canada
Marte Engenharia Ltda	100.0	Brazil
Minerconsult Engenharia Ltda	100.0	Brazil
Nexacor Realty Management Inc.	100.0	Canada
Okanagan Lake Concession Limited Partnership	100.0	Canada
Ovation Real Estate Group (Québec) Inc.	100.0	Canada
P.T. SNC-Lavalin TPS	95.0	Indonesia
Rainbow Hospital Partnership	100.0	Canada
S.A. SNC-Lavalin N.V.	100.0	Belgium
SNC-Lavalin (Malaysia) Sdn. Bhd.	100.0	Malaysia
SNC-Lavalin (Shanghai) International Trading Co. Ltd.	100.0	China
SNC-Lavalin Aéroports S.A.S.U.	100.0	France
SNC-Lavalin Algérie EURL	100.0	Algeria
SNC-Lavalin Angola Lda	100.0	Angola
SNC-Lavalin Arabia LLC	100.0	Saudi Arabia
SNC-Lavalin ATP Inc.	100.0	Canada
SNC-Lavalin Australia Pty. Ltd.	100.0	Australia
SNC-Lavalin Chile S.A.	100.0	Chile
SNC-Lavalin Construction (Atlantic) Inc.	100.0	Canada
SNC-Lavalin Construction Inc.	100.0	Canada
SNC-Lavalin Construction (Ontario) Inc.	100.0	Canada
SNC-Lavalin Construction International SAS	100.0	France
SNC-Lavalin Constructors Inc.	100.0	United States
SNC-Lavalin Defence Programs Inc.	100.0	Canada
SNC-Lavalin Dominicana S.A.	100.0	Dominican Republic
SNC-Lavalin Engineering India Private Limited	100.0	India
SNC-Lavalin Engineers & Constructors, Inc.	100.0	United States
SNC-Lavalin Eurasia OOO	100.0	Russia
SNC-Lavalin Europe B.V.	100.0	Netherlands
SNC-Lavalin Europe S.A.S.	100.0	France
SNC-Lavalin Inc.	100.0	Canada
SNC-Lavalin International Inc.	100.0	Canada
SNC-Lavalin International S.A.S.	100.0	France
SNC-Lavalin Nuclear Inc.	100.0	Canada
SNC-Lavalin Operations & Maintenance Inc.	100.0	Canada
SNC-Lavalin Peru S.A.	100.0	Peru
SNC-Lavalin Pharma Inc.	100.0	Canada
SNC-Lavalin Pharma S.A.	100.0	Belgium
SNC-Lavalin Polska Sp. z o.o.	100.0	Poland
SNC-Lavalin Romania S.A.	100.0	Romania
SNC-Lavalin S.A.S.	100.0	France

Notes to Consolidated Financial Statements

34 Subsidiaries, Joint Ventures and Associates (continued)

SUBSIDIARIES	%	COUNTRY
SNC-Lavalin Services Ltd.	100.0	Canada
SNC-Lavalin South Africa (Proprietary) Limited	100.0	South Africa
SNC-Lavalin UK Limited	100.0	United Kingdom
Société d'Exploitation de l'Aéroport de Mayotte S.A.S.	100.0	France
Socodec Venezuela C.A.	100.0	Venezuela
The SNC-Lavalin Corporation	100.0	United States

JOINTLY CONTROLLED ENTITIES	%	COUNTRY
Infrastructure Concession Investments		
407 International Inc. (1)	16.77	Canada
Chinook Roads Partnership	50.0	Canada
Groupe immobilier santé McGill, S.E.N.C. (3)	60.0	Canada
TC Dôme S.A.S. (3)	51.0	France

JOINTLY CONTROLLED OPERATIONS	%	COUNTRY
SLN-Aecon JV	50.0	Canada
SNC-Lavalin Graham Joint Venture	50.0	Canada
SNC-Lavalin Gulf Contractors LLC	49.0	United Arab Emirates
Société d'expertise et d'ingénierie L.G.L., S.A.	33.33	Haiti
JV Vault	50.0	Canada

ASSOCIATES	%	COUNTRY
Infrastructure Concession Investments		
Astoria Project Partners LLC	21.0	United States
Astoria Project Partners II LLC (2)	18.5	United States
InTransit BC Limited Partnership	33.3	Canada
Malta International Airport p.l.c. (2)	15.5	Malta
Myah Tipaza S.p.A.	25.5	Algeria
Rayalseema Expressway Private Limited	36.9	India
Shariket Kahraba Hadjret En Nouss S.p.A.	26.0	Algeria
Société d'Exploitation de Vatry Europort S.A. (3)	51.1	France
Other		
OAO VNIPIneft	48.0	Russia

(1) Although the Company holds less than 20% of the equity shares of 407 International Inc., the Company exercises joint control over this entity based on its contractual agreements.

(2) Although the Company's ownership interest in Astoria Project Partners II LLC and in Malta International Airport p.l.c. is less than 20%, the Company exercises significant influence over these entities based on its contractual agreements.

(3) Although the Company's ownership interest in Groupe immobilier santé McGill, S.E.N.C., TC Dôme S.A.S. and Société d'Exploitation de Vatry Europort S.A. is more than 50%, the Company does not exercise control over these entities based on its contractual agreements.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS

As stated in Note 2 , these are the Company's first consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

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"). Therefore, the Company's IFRS accounting policies presented in Note 2 have been applied in preparing these consolidated financial statements as at and for the year ended December 31, 2011, the opening consolidated statement of financial position as at January 1, 2010, as well as all comparative information included in these financial statements. Consequently, January 1, 2010 is the Company's date of transition ("Date of Transition") from Canadian generally accepted accounting principles ("GAAP") to IFRS.

The current note has been prepared with the objective of explaining to the reader the impact of the Company's transition from Canadian GAAP to IFRS, and is structured as follows:

SECTION	TITLE	OBJECTIVE
35.1	Executive summary	Provides an overview of the main accounting differences in the Company's accounting policies resulting from the adoption of IFRS
35.2	Effect of IFRS adoption on the Company's consolidated statements of financial position and equity	Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated statements of financial position and equity as at the Date of Transition and as at December 31, 2010, with detailed explanations on the reconciling items
35.3	Effect of IFRS adoption on the Company's consolidated income statement	Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated income statement for the year ended December 31, 2010, with detailed explanations on the reconciling items
35.4	Effect of IFRS adoption on the Company's consolidated statement of comprehensive income	Provides a quantitative reconciliation between Canadian GAAP and IFRS for the Company's consolidated statement of comprehensive income for the year ended December 31, 2010, with detailed explanations of the reconciling items
35.5	Effect of IFRS adoption on the Company's consolidated statements of cash flows	Explains the main differences between Canadian GAAP and IFRS for the Company's consolidated statements of cash flows from January 1, 2010 and thereafter
35.6	Other	Explains other IFRS requirements regarding January 1, 2010

35.1 EXECUTIVE SUMMARY

As required by IFRS, the Company has applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*, ("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 had been 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 Canadian GAAP and IFRS resulting from transactions prior to that date are to be recorded 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 for 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 to apply or not the optional exemptions. The Company has applied all mandatory exceptions and has applied certain of the optional exemptions that are detailed in the current note, resulting in the prospective application of IFRS related to these exceptions and exemptions.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

Upon transition to IFRS, certain of the Company's accounting policies did not require a change, while others have been changed. The following table summarizes the main differences between IFRS and Canadian GAAP that impacted the Company's consolidated financial statements:

IFRS	Canadian 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 35.2]				
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 35.2]				
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.	Canadian 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 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 costs associated with issuing debt or equity securities.	Under Canadian 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 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 35.2]				
IFRS allows accounting for actuarial gains and losses arising from defined benefit plans and post-employment benefit plans in net income or in other comprehensive income.	Canadian GAAP requires to account for recognized actuarial gains or losses arising from defined benefit plans and post-employment 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 Canadian 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-employment 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

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

IFRS	Canadian 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 35.2]				
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.	Canadian 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 zero 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 Canadian GAAP balance included in other components of equity, under "exchange differences on translating foreign operations" account, on 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 35.2]				
No specific standard for rate-regulated activities	Canadian GAAP provides guidance for entities subject to rate regulation related to 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 Canadian GAAP, that do not qualify for capitalisation under IFRS. As per the optional exemption in IFRS 1 effective for annual periods beginning on or after January 1, 2011, an entity may elect to use the Canadian GAAP carrying amount of such items as its opening IFRS balance at the Date of Transition to IFRS if it early adopts this optional exemption on January 1, 2010. The Company elected to early adopt this optional exemption on January 1, 2010 and applied it 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 Canadian GAAP balance in the Company's consolidated statement of financial position at the Date of Transition to IFRS and thereafter.	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
		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.		Yes for all other assets and liabilities
Financial Instruments: Recognition and Measurement (IAS 39) [Note d.1 in section 35.2]				
IFRS requires all available-for-sale financial assets to be measured at fair value, unless fair value is not reliably determinable.	Under Canadian 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 other components of equity 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 had to elect a method from available accounting methods are not discussed here as their impact is not material to the Company.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 EFFECT OF IFRS ADOPTION ON THE COMPANY'S JANUARY 1, 2010 ("OPENING STATEMENT OF FINANCIAL POSITION") AND DECEMBER 31, 2010 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(IN THOUSANDS OF CANADIAN DOLLARS)	JANUARY 1, 2010						
		EFFECT OF TRANSITION TO IFRS					
	CANADIAN GAAP	IFRIC 12	IAS 31	RECLASSI-FICATIONS	OTHER	TAX EFFECT	IFRS
ASSETS		(Note 35.2a)	(Note 35.2b)	(Note 35.2c)	(Note 35.2d)		
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
Contracts in progress	479,637	–	–	–	–	–	479,637
Contracts in progress from concession arrangements	33,941	(33,941)	–	–	–	–	–
Other current financial assets	–	1,694	(3,824)	281,935	–	–	279,805
Deferred income tax asset	112,557	–	–	(112,557)	–	–	–
Other current assets	–	–	(56)	132,997	–	–	132,941
Total current assets	3,393,023	(48,784)	(74,103)	(112,557)	–	–	3,157,579
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 methods	469,402	40,097	9,976	43,588	12,800	–	575,863
Goodwill	520,862	–	–	–	–	–	520,862
Deferred income tax asset	–	–	(8,555)	112,557	38,775	(3,512)	139,265
Non-current financial assets	–	190,599	(52,585)	145,082	2,632	–	285,728
Other non-current assets	491,997	–	(271,438)	(146,585)	–	–	73,974
Total assets	7,206,283	37,603	(781,452)	79,300	51,927	(3,512)	6,590,149

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

(IN THOUSANDS OF CANADIAN DOLLARS)	JANUARY 1, 2010						
		EFFECT OF TRANSITION TO IFRS					
	CANADIAN GAAP	IFRIC 12	IAS 31	RECLASSI-FICATIONS	OTHER	TAX EFFECT	IFRS
LIABILITIES AND EQUITY		(Note 35.2a)	(Note 35.2b)	(Note 35.2c)	(Note 35.2d)		
Current liabilities							
Trade and other payables	1,702,034	–	(16,975)	(390,307)	–	–	1,294,752
Downpayments on contracts	397,329	–	–	–	–	–	397,329
Deferred revenues	505,531	(328)	(620)	5,606	–	–	510,189
Other current financial liabilities	–	–	4,094	235,989	–	–	240,083
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)	47,606	–	–	51,596
Total current liabilities	2,848,951	(328)	(148,694)	20,651	–	–	2,720,580
Long-term debt:							
Recourse	348,048	–	–	–	–	–	348,048
Non-recourse from ICI	2,005,485	–	(699,477)	(47,606)	–	–	1,258,402
Other non-current financial liabilities	–	–	–	83,225	(1,528)	–	81,697
Provisions	–	–	–	109,529	21,882	–	131,411
Other non-current liabilities	464,666	–	–	(86,191)	–	–	378,475
Deferred income tax liability	24,408	–	6,654	(308)	38,775	2,314	71,843
Total liabilities	5,691,558	(328)	(841,517)	79,300	59,129	2,314	4,990,456
Non-controlling interests	80,033	–	–	(80,033)	–	–	–
Equity							
Share capital	397,735	–	–	–	–	–	397,735
Contributed surplus	33,473	–	–	(33,473)	–	–	–
Retained earnings	1,026,790	36,513	63,196	33,473	(31,960)	(3,504)	1,124,508
Other components of equity	(23,306)	–	(3,131)	–	24,724	(2,322)	(4,035)
Equity attributable to SNC-Lavalin shareholders	1,434,692	36,513	60,065	–	(7,236)	(5,826)	1,518,208
Non-controlling interests	–	1,418	–	80,033	34	–	81,485
Total equity	1,434,692	37,931	60,065	80,033	(7,202)	(5,826)	1,599,693
Total liabilities and equity	7,206,283	37,603	(781,452)	79,300	51,927	(3,512)	6,590,149

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

(IN THOUSANDS OF CANADIAN DOLLARS)	DECEMBER 31, 2010							
			EFFECT OF TRANSITION TO IFRS					
	CANADIAN GAAP	2010 CORRECTION	IFRIC 12	IAS 31	RECLASSI-FICATIONS	OTHER	TAX EFFECT	IFRS
ASSETS		(Note 35.2e)	(Note 35.2a)	(Note 35.2b)	(Note 35.2c)	(Note 35.2d)		
Current assets								
Cash and cash equivalents	1,288,232	–	–	(53,147)	–	–	–	1,235,085
Restricted cash	340,063	–	–	(300,694)	–	–	–	39,369
Trade and other receivables	1,673,082	–	(16,537)	(5,960)	(377,076)	–	–	1,273,509
Contracts in progress	624,547	(16,412)	–	–	–	–	–	608,135
Contracts in progress from concession arrangements	167,097	–	(82,249)	(84,848)	–	–	–	–
Other current financial assets	–	–	19,115	15,054	255,477	608	–	290,254
Deferred income tax asset	78,306	–	–	–	(78,306)	–	–	–
Other current assets	–	–	–	(1,471)	121,599	–	–	120,128
Total current assets	4,171,327	(16,412)	(79,671)	(431,066)	(78,306)	608	–	3,566,480
Property and equipment:								
From ICI	2,588,649	–	(141,289)	(380,799)	22,548	(16,295)	–	2,072,814
From other activities	117,510	–	–	–	–	(2,321)	–	115,189
ICI accounted for by the equity or cost methods	386,696	–	61,348	123,712	55,192	–	–	626,948
Goodwill	543,642	–	–	–	–	(1,614)	–	542,028
Deferred income tax asset	–	–	–	(6,545)	78,306	91,978	(5,320)	158,419
Non-current financial assets	–	–	219,646	(356,162)	429,282	20,529	–	313,295
Other non-current assets	795,399	–	–	(270,282)	(399,510)	–	–	125,607
Total assets	8,603,223	(16,412)	60,034	(1,321,142)	107,512	92,885	(5,320)	7,520,780

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

(IN THOUSANDS OF CANADIAN DOLLARS)	DECEMBER 31, 2010							
			EFFECT OF TRANSITION TO IFRS					
	CANADIAN GAAP	2010 CORRECTION	IFRIC 12	IAS 31	RECLASSI-FICATIONS	OTHER	TAX EFFECT	IFRS
LIABILITIES AND EQUITY		(Note 35.2e)	(Note 35.2a)	(Note 35.2b)	(Note 35.2c)	(Note 35.2d)		
Current liabilities								
Trade and other payables	1,666,117	–	(17)	(18,407)	(373,035)	–	–	1,274,658
Downpayments on contracts	551,862	–	–	(128,932)	–	–	–	422,930
Deferred revenues	700,279	–	(744)	19,782	8,870	–	–	728,187
Other current financial liabilities	–	–	–	129,080	195,869	–	–	324,949
Other current liabilities	–	1,476	–	–	95,630	–	–	97,106
Current portion of long-term debt:								
Recourse	–	–	–	–	–	–	–	–
Non-recourse from ICI	6,651	–	–	(2,463)	34,574	–	–	38,762
Total current liabilities	2,924,909	1,476	(761)	(940)	(38,092)	–	–	2,886,592
Long-term debt:								
Recourse	348,204	–	–	–	–	–	–	348,204
Non-recourse from ICI	2,981,448	–	–	(1,417,850)	(34,574)	–	–	1,529,024
Other non-current financial liabilities	–	–	–	(660)	75,858	1,199	–	76,397
Provisions	–	–	–	–	155,543	21,544	–	177,087
Other non-current liabilities	481,148	–	–	(2,189)	(46,776)	–	–	432,183
Deferred income tax liability	56,493	–	–	3,053	(4,447)	91,978	4,784	151,861
Total liabilities	6,792,202	1,476	(761)	(1,418,586)	107,512	114,721	4,784	5,601,348
Non-controlling interests	102,595	–	–	–	(102,595)	–	–	–
Equity								
Share capital	424,935	–	–	–	–	–	–	424,935
Contributed surplus	42,742	–	–	–	(42,742)	–	–	–
Retained earnings	1,315,692	(17,888)	60,778	100,475	42,742	(32,790)	(9,686)	1,459,323
Other components of equity	(74,943)	–	–	(3,031)	–	10,912	(418)	(67,480)
Equity attributable to SNC-Lavalin shareholders	1,708,426	(17,888)	60,778	97,444	–	(21,878)	(10,104)	1,816,778
Non-controlling interests	–	–	17	–	102,595	42	–	102,654
Total equity	1,708,426	(17,888)	60,795	97,444	102,595	(21,836)	(10,104)	1,919,432
Total liabilities and equity	8,603,223	(16,412)	60,034	(1,321,142)	107,512	92,885	(5,320)	7,520,780

See pages 157 to 166 for explanatory notes to the reconciliation above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

RECONCILIATION OF EQUITY

(IN THOUSANDS OF CANADIAN DOLLARS)	NOTE	JANUARY 1 2010	DECEMBER 31 2010
Total shareholders' equity under Canadian GAAP		1,434,692	1,708,426
Service concession arrangements	35.2 a	37,931	60,795
Jointly controlled entities	35.2 b	60,065	97,444
Reclassification of non-controlling interests to equity	35.2 c.1	80,033	102,595
Measurement of available-for-sale securities	35.2 d.1	15,432	1,620
Defined benefit plans and other post-employment benefits	35.2 d.2	(19,366)	(18,847)
2010 correction	35.2 e	–	(16,412)
Other		(3,268)	(4,609)
Total adjustment to equity, before income taxes		170,827	222,586
Income tax effect of the above		(5,826)	(11,580)
Total adjustment to equity		165,001	211,006
Total equity under IFRS		1,599,693	1,919,432

35.2 A. SERVICE CONCESSION ARRANGEMENTS (IFRIC 12)

Upon transition to IFRS, the Company retrospectively adopted IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"). IFRIC 12 provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor (i.e., usually a government):

i) controls or regulates what services the operator (i.e. "the concessionaire") must provide with the infrastructure, to whom it must provide them, and at what price; and

ii) 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 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 by applying i) the intangible asset model if the concessionaire bears demand risk through the usage of the infrastructure; ii) the financial asset model if the concessionaire does not bear such risk; or iii) a combination of both (i.e., bifurcated model) if the concessionaire bears part of such risk.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

The following Company's ICI were identified as being within the scope of IFRIC 12:

	FINANCIAL ASSET MODEL	INTANGIBLE ASSET MODEL	BIFURCATED MODEL
ICI existing at January 1, 2010:			
InTransit BC Limited Partnership	✓		
Okanagan Lake Concession Limited Partnership	✓		
Ovation Real Estate Group (Quebec) Inc.	✓		
TC Dôme S.A.S.	✓		
ICI entered into after January 1, 2010:			
Chinook Roads Partnership	✓		
Groupe Immobilier Santé McGill	✓		
Rainbow Hospital Partnership	✓		
Rayalseema Expressway Private Limited		✓	
Société d'Exploitation de l'Aéroport de Mayotte S.A.S.			✓

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 Company's concession arrangements within the scope of IFRIC 12 for which the financial asset model is applied:

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 income statement	**General principle:** The Company accounts for the total consideration as revenue, based on the fair value of each deliverable activity. Consistent with IFRS, intragroup 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 agreement. **Construction revenues:** The Company recognizes revenues and costs relating to construction of infrastructure in accordance with IAS 11, *Construction Contracts,* ("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 operation and maintenance of an infrastructure as any other operation 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 the Company 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 statement of financial position	Revenues recognized by the Company under the financial asset model are accumulated in "Receivables under service concession arrangements", which are included in "Other current financial assets" or "Non-current financial assets" on the Company's consolidated statement of financial position. The balance of these "Receivables under service concession arrangements" is reduced by the payments received from the government.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

For concession arrangements accounted for by the intangible asset model, the concessionaire recognizes an intangible asset to the extent that it receives a right to charge for the usage of the asset.

Borrowing costs, if any, are capitalized as part of the carrying amount of the intangible asset during the construction phase. Capitalization of borrowing costs ceases when the infrastructure is ready for its intended use.

The intangible asset is amortized over its expected useful life, which is the concession period in a service concession arrangement. Amortization period begins when the infrastructure is available for use.

The Company's only concession arrangement accounted for by the intangible asset model is REPL, which is an ICI accounted for by the equity method.

35.2 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 Canadian GAAP, jointly controlled operations were accounted for by the proportionate consolidation method. Under IFRS, the Company recognizes the assets that it controls, the liabilities and expenses that it incurs, and its share of the income that it earns from the sale of goods or services by the jointly controlled operations. Therefore, there is no significant impact on the Company's 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 Canadian GAAP, such interests were accounted for using the proportionate consolidation method.

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 STATEMENTS OF FINANCIAL POSITIONS

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

Under Canadian GAAP, the proportionate 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 and $97.5 million at December 31, 2010, 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 Canadian GAAP to the equity method which is used to account for the Company's jointly controlled entities under IFRS was accounted for on a retrospective basis and resulted 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 other components of equity) and of $97.5 million at December 31, 2010 (an increase of $100.5 million in retained earnings and a decrease of $3.0 million in other components of equity), mainly from the Company's investment in Highway 407.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

IMPACT ON THE COMPANY'S CONSOLIDATED INCOME STATEMENTS

In regards to the income statement, under Canadian 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 income statement 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 payable by 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 payable by a jointly controlled entity is recognized in net income of the Company.

Accordingly, the adjustments to the Company's consolidated income statement for the year ended December 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 year of its jointly controlled entities which investment account shows a positive carrying amount as at December 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.

For further details regarding the Company's jointly controlled entities accounted for by the equity method, refer to Note 5.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 C. RECLASSIFICATIONS

The following reclassifications were made to the Company's consolidated statements of financial position at January 1, 2010 and at December 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 statement of financial position") and December 31, 2010 consolidated statements of financial position" tables:

(IN THOUSANDS OF CANADIAN DOLLARS)	JANUARY 1, 2010						
	RECLASSIFICATIONS						
Statement of financial position line items	NOTE 35.2 C.1	NOTE 35.2 C.2	NOTE 35.2 C.3	NOTE 35.2 C.4	NOTE 35.2 C.5	NOTE 35.2 C.6	TOTAL
Current assets							
Trade and other receivables	–	(414,932)	–	–	–	–	(414,932)
Other current financial assets	–	281,935	–	–	–	–	281,935
Deferred income 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
ICI accounted for by the equity or cost methods	–	43,588	–	–	–	–	43,588
Deferred income tax asset	–	–	112,557	–	–	–	112,557
Non-current financial assets	–	145,082	–	–	–	–	145,082
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)
Deferred revenues	–	–	–	5,606	–	–	5,606
Other current financial liabilities	–	235,989	–	–	–	–	235,989
Other current liabilities	–	121,757	–	–	–	–	121,757
Current portion of long-term debt:							
Non-recourse from ICI	–	47,606	–	–	–	–	47,606
Net impact on current liabilities	–	45,914	–	5,606	–	(30,869)	20,651
Non-current liabilities							
Long-term debt							
Non-recourse from ICI	–	(47,606)	–	–	–	–	(47,606)
Other non-current financial liabilities	–	191,580	–	–	(108,355)	–	83,225
Provisions	–	–	–	–	–	109,529	109,529
Other non-current liabilities	–	(189,580)	–	195,069	(13,020)	(78,660)	(86,191)
Deferred income tax liability	–	(308)	–	–	–	–	(308)
Net impact on non-current liabilities	–	(45,914)	–	195,069	(121,375)	30,869	58,649
Non-controlling interests	(80,033)	–	–	–	–	–	(80,033)
Equity							
Contributed surplus	(33,473)	–	–	–	–	–	(33,473)
Retained earnings	33,473	–	–	–	–	–	33,473
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 statement of financial position affected by the reclassifications at January 1, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

(IN THOUSANDS OF CANADIAN DOLLARS)	DECEMBER 31, 2010						
	RECLASSIFICATIONS						
Statement of financial position line items	NOTE 35.2 C.1	NOTE 35.2 C.2	NOTE 35.2 C.3	NOTE 35.2 C.4	NOTE 35.2 C.5	NOTE 35.2 C.6	TOTAL
Current assets							
Trade and other receivables	–	(377,076)	–	–	–	–	(377,076)
Other current financial assets	–	255,477	–	–	–	–	255,477
Deferred income tax asset	–	–	(78,306)	–	–	–	(78,306)
Other current assets	–	121,599	–	–	–	–	121,599
Net impact on current assets	–	–	(78,306)	–	–	–	(78,306)
Non-current assets							
Property and equipment:							
From ICI	–	–	–	256,787	(234,239)	–	22,548
ICI accounted for by the equity or cost methods	–	55,192	–	–	–	–	55,192
Deferred income tax asset	–	–	78,306	–	–	–	78,306
Non-current financial assets	–	429,282	–	–	–	–	429,282
Other non-current assets	–	(484,474)	–	–	84,964	–	(399,510)
Net impact on non-current assets	–	–	78,306	256,787	(149,275)	–	185,818
Total impact on assets	–	–	–	256,787	(149,275)	–	107,512
Current liabilities							
Trade and other payables	–	(291,200)	–	–	–	(81,835)	(373,035)
Deferred revenues	–	–	–	8,870	–	–	8,870
Other current financial liabilities	–	195,869	–	–	–	–	195,869
Other current liabilities	–	95,630	–	–	–	–	95,630
Current portion of long-term debt:							
Non-recourse from ICI	–	34,574	–	–	–	–	34,574
Net impact on current liabilities	–	34,873	–	8,870	–	(81,835)	(38,092)
Non-current liabilities							
Long-term debt							
Non-recourse from ICI	–	(34,574)	–	–	–	–	(34,574)
Other non-current financial liabilities	–	160,752	–	–	(84,894)	–	75,858
Provisions	–	–	–	–	–	155,543	155,543
Other non-current liabilities	–	(156,604)	–	247,917	(64,381)	(73,708)	(46,776)
Deferred income tax liability	–	(4,447)	–	–	–	–	(4,447)
Net impact on non-current liabilities	–	(34,873)	–	247,917	(149,275)	81,835	145,604
Non-controlling interests	(102,595)	–	–	–	–	–	(102,595)
Equity							
Contributed surplus	(42,742)	–	–	–	–	–	(42,742)
Retained earnings	42,742	–	–	–	–	–	42,742
Non-controlling interests	102,595	–	–	–	–	–	102,595
	102,595	–	–	–	–	–	102,595
Total impact on liabilities and equity	–	–	–	256,787	(149,275)	–	107,512

Only line items of the Company's consolidated statement of financial position affected by the reclassifications at December 31, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 C.1 RECLASSIFICATION OF NON-CONTROLLING INTERESTS AND CONTRIBUTED SURPLUS

Under IFRS, non-controlling interests are presented within equity as they 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 Canadian 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 $102.6 million at December 31, 2010.

On the Date of Transition, the Company elected to reclassify the amount of contributed surplus relating to the stock option compensation to retained earnings. The effect of the change is a decrease in contributed surplus and an equivalent increase in retained earnings of $33.5 million at January 1, 2010 and of $42.7 million at December 31, 2010.

35.2 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.

35.2 C.3 RECLASSIFICATION OF DEFERRED INCOME TAX ASSET AND DEFERRED INCOME TAX LIABILITY

Under Canadian 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 income tax liabilities and deferred income tax assets were also segregated.

Under IFRS, when an entity classifies its statement of financial position by presenting current assets and current liabilities separately from non-current assets and non-current liabilities, it needs to classify deferred income tax assets and deferred income tax liabilities as non-current assets and non-current liabilities. Therefore, a deferred income tax asset of $112.6 million included in current assets was reclassified to non-current assets on the Date of Transition (December 31, 2010: $78.3 million).

35.2 C.4 TRANSFERS OF ASSETS FROM CUSTOMERS

AltaLink, a subsidiary of the Company, enters into certain transactions whereby it receives cash from customers dedicated to the construction of transmission lines and substations, which provides these customers with ongoing access to a supply of electricity. Under Canadian 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 values of the related items of property and equipment in the statement of financial position.

Upon transition to IFRS, the Company retrospectively adopted IFRIC Interpretation 18, *Transfers of Assets from Customers*, ("IFRIC 18") with the effective date of April 29, 2002 (date of inception of AltaLink). IFRIC 18 applies to transactions described above. As per IFRIC 18's guidance, 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 resulted in an increase in property and equipment of $200.7 million at January 1, 2010 (December 31, 2010: $256.8 million), with an equivalent increase to deferred revenues, of which $5.6 million is in current liabilities and $195.1 million is in other non-current liabilities (December 31, 2010: $8.9 million and $247.9 million, respectively). This change did not have any impact on the Company's retained earnings at January 1, 2010.

The effect of this change also resulted in an increase of revenues and of the depreciation expense by $7.9 million for the year ended December 31, 2010, with no impact on net income.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

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

Under Canadian GAAP, AltaLink recognized liabilities for future dismantling costs related to both the interim retirement and the final retirement of transmission facilities. Under IFRS, AltaLink recognizes a reserve for salvage costs liability for forecasted future dismantling costs associated with the retirement of tangible long-lived assets.

Under IFRS, AltaLink's asset retirement obligation at January 1, 2010 is reduced from $186.3 million (December 31, 2010: $239.3 million) to $nil, combined with a decrease of $121.4 million (December 31, 2010: $149.3 million) in property and equipment and an increase of $64.9 million (December 31, 2010: $90.0 million) in other non-current liabilities.

As mentioned in section 35.1, AltaLink is an entity whose operations are subject to rate regulation. Under Canadian GAAP, it is subject to accounting for entities subject to rate regulation. Consequently, AltaLink presented certain of its intangible assets, mainly land rights, together with property and equipment. Under IFRS, such intangible assets are presented as a separate line item in the statement of financial position. Therefore, the effect of this reclassification is a decrease of property and equipment of $42.1 million at January 1, 2010 (December 31, 2010: $85.0 million) and an increase in other non-current assets of the same amount.

35.2 C.6 PROVISIONS

Under Canadian GAAP, provisions were included in "trade and other payables" and "other non-current liabilities" in the statement of financial position. Under IFRS, provisions have to be included in the statement of financial position as a separate line item. Therefore, the effect of this reclassification is 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 (December 31, 2010: $81.8 million and $73.7 million, respectively) and an increase in provisions of the same amount.

35.2 D. OTHER ADJUSTMENTS

The following other adjustments were made to the Company's consolidated statements of financial position at January 1, 2010 and December 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 statement of financial position") and December 31, 2010 consolidated statements of financial position" tables:

(IN THOUSANDS OF CANADIAN DOLLARS)	JANUARY 1, 2010				
	OTHER ADJUSTMENTS				
Statement of financial position line items	NOTE 35.2 D.1	NOTE 35.2 D.2	NOTE 35.2 D.3	OTHER	TOTAL
Non-current assets					
Property and equipment:					
From other activities	–	–	–	(2,280)	(2,280)
ICI accounted for by the cost method	12,800	–	–	–	12,800
Deferred income 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
Deferred income tax liability	–	–	–	38,775	38,775
Net impact on non-current liabilities	–	19,366	–	39,763	59,129
Equity					
Retained earnings	–	(19,400)	(9,292)	(3,268)	(31,960)
Other components of equity	15,432	–	9,292	–	24,724
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 statement of financial position affected by the adjustments at January 1, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

(IN THOUSANDS OF CANADIAN DOLLARS)	DECEMBER 31, 2010				
	OTHER ADJUSTMENTS				
Statement of financial position line items	NOTE 35.2 D.1	NOTE 35.2 D.2	NOTE 35.2 D.3	OTHER	TOTAL
Current assets					
Other current financial assets	–	–	–	608	608
Net impact on current assets	–	–	–	608	608
Non-current assets					
Property and equipment:					
From ICI	–	–	–	(16,295)	(16,295)
From other activities	–	–	–	(2,321)	(2,321)
Goodwill	–	–	–	(1,614)	(1,614)
Deferred income tax asset	–	–	–	91,978	91,978
Non-current financial assets	1,620	–	–	18,909	20,529
Net impact on non-current assets	1,620	–	–	90,657	92,277
Total impact on assets	1,620	–	–	91,265	92,885
Non-current liabilities					
Other non-current financial liabilities	–	(2,023)	–	3,222	1,199
Provisions	–	20,870	–	674	21,544
Deferred income tax liability	–	–	–	91,978	91,978
Net impact on non-current liabilities	–	18,847	–	95,874	114,721
Equity					
Retained earnings	–	(18,889)	(9,292)	(4,609)	(32,790)
Other components of equity	1,620	–	9,292	–	10,912
Non-controlling interests	–	42	–	–	42
Net impact on equity	1,620	(18,847)	–	(4,609)	(21,836)
Total impact on liabilities and equity	1,620	–	–	91,265	92,885

Only line items of the Company's consolidated statement of financial position affected by the adjustments at December 31, 2010 are shown in the table above.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.2 D.1 MEASUREMENT OF UNLISTED SECURITIES

Under Canadian 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 is an increase in equity of $15.4 million (December 31, 2010: $1.6 million), with an increase to ICI accounted for by the equity or cost methods of $12.8 million (December 31, 2010: $nil) and to non-current financial assets of $2.6 million (December 31, 2010: $1.6 million).

After the Date of Transition, revaluation gains (losses) on these available-for-sale financial assets that are not traded on an active market are 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 income statement.

35.2 D.2 DEFINED BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

As mentioned in section 35.1, the Company has elected to apply the optional exemption in IFRS 1 and recognized unamortized net actuarial losses for all its defined benefit plans in the consolidated statement of financial position, i.e., the full net pension liability is recognized at January 1, 2010. The Company also applied IFRIC Interpretation 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*, ("IFRIC 14"). The total effect of IFRS 1 and IFRIC 14 is a decrease in equity at the Date of Transition of $19.4 million (December 31, 2010: $18.8 million).

Net actuarial gains and losses arising after the Date of Transition for all the Company's defined benefit plans are recognized in other comprehensive income. Net actuarial losses recognized in other comprehensive income amounted to $1.4 million for the year ended December 31, 2010. The reversal of the Canadian GAAP amount relating to the amortization of actuarial losses in net income represented $1.1 million for the year ended December 31, 2010.

35.2 D.3 CUMULATIVE TRANSLATION DIFFERENCE FROM FOREIGN OPERATIONS

As mentioned in section 35.1, the Company elected to reclassify cumulative translation losses included in other components of equity, 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 is a decrease to retained earnings and an increase to other components of equity of $9.3 million at January 1, 2010 and at December 31, 2010.

35.2 E. 2010 CORRECTION

The 2010 correction relates to $20 million in payments made in 2010 under what is presumed to be an agency agreement, that were charged and documented to a construction project to which they did not relate (see Note 36A). Because these payments were documented to a construction project to which they did not relate and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of services rendered in connection therewith, the Company concluded that these payments should be treated as period expenses (i.e., not generating revenues) for accounting purposes.

The 2010 payments accounted for as period expenses, net of the effect resulting from an increased forecasted gross margin following the exclusion of the payments from the project costs on the project that the payments were originally allocated to, resulted in a reduction in net income of $17.9 million in 2010 ($0.12 per share on both a basic and diluted basis). The Company decided to correct its prior period comparative financial information under its first issuance of annual audited consolidated financial statements prepared in accordance with IFRS.

Notes to Consolidated Financial Statements

35 First-Time Adoption of IFRS (continued)

35.3 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)	CANADIAN GAAP	EFFECT OF TRANSITION TO IFRS: 2010 CORRECTION	IFRIC 12	IAS 31	RECLASSIFICATIONS AND CONSOLIDATION ELIMINATION	OTHER	IFRS
Revenues by activity:		(Note 35.2e)	(Note 35.2a)	(Note 35.2b)	(Note 35.3a)		
Services	2,051,894	–	1,893	–	–	–	2,053,787
Packages	2,409,000	(16,412)	8,496	–	(263,663)	–	2,137,421
O&M	1,330,501	–	(42)	–	–	–	1,330,459
ICI	523,595	–	12,365	(84,048)	7,911	12,451	472,274
	6,314,990	(16,412)	22,712	(84,048)	(255,752)	12,451	5,993,941
Direct cost of activities	4,983,264	–	(1,703)	(32,099)	(255,752)	(746)	4,692,964
Gross margin	1,331,726	(16,412)	24,415	(51,949)	–	13,197	1,300,977
Selling, general and administrative expenses	585,629	–	193	(12,254)	1,315	6,816	581,699
Net financial expenses	–	–	–	(70,488)	177,727	3,836	111,075
Interest and capital taxes	174,903	–	–	–	(174,903)	–	–
Income before income taxes	571,194	(16,412)	24,222	30,793	(4,139)	2,545	608,203
Income tax expense	123,422	1,476	–	(6,486)	(4,139)	6,541 (1)	120,814
Non-controlling interests	10,758	–	–	–	(10,758)	–	–
Net income	437,014	(17,888)	24,222	37,279	10,758	(3,996)	487,389
Net income attributable to:							
SNC-Lavalin shareholders	437,014	(17,888)	24,265	37,279	–	(4,004)	476,666
Non-controlling interests	–	–	(43)	–	10,758	8	10,723
Net income	437,014	(17,888)	24,222	37,279	10,758	(3,996)	487,389
Earnings per share (in $)							
Basic	2.89						3.16
Diluted	2.87						3.13

(1) Represents income tax expense from all IFRS adjustments, excluding $1.5 million of income tax expense relating to the 2010 correction.

35 First-Time Adoption of IFRS (continued)

35.3 A. RECLASSIFICATIONS AND CONSOLIDATION ELIMINATION

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 SNC-Lavalin shareholders.

Packages revenues between SNC-Lavalin and AltaLink have been eliminated on a consolidated basis while related intragroup profits have not been eliminated upon consolidation in the period they occur, as transactions are considered realized by AltaLink via legislation applied by an independent governmental regulatory body. As such, this packages revenues elimination has no impact on the Company's net income.

35.4 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

			EFFECT OF TRANSITION TO IFRS				
YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS OF CANADIAN DOLLARS)	CANADIAN GAAP	2010 CORRECTION	IFRIC 12	IAS 31	RECLASSIFICATIONS AND CONSOLIDATION ELIMINATION	OTHER	IFRS
		(Note 35.2e)	(Note 35.2a)	(Note 35.2b)	(Note 35.3a)		
Net income	437,014	(17,888)	24,222	37,279	10,758	(3,996)	487,389
Other comprehensive income (loss):							
Exchange differences on translating foreign operations	(21,077)	–	–	–	(116)	–	(21,193)
Available-for-sale financial assets (Note 35.2 d.1)	2,010	–	–	–	346	(13,812)	(11,456)
Cash flow hedges	(32,570)	–	–	100	16,948	–	(15,522)
Defined benefit pension plans and other post-employment benefits (Note 35.2 d.2)	–	–	–	–	–	(1,442)	(1,442)
Share of other comprehensive loss of investments accounted for by the equity method	–	–	–	–	(27,250)	–	(27,250)
Income tax benefit relating to components of other comprehensive income (loss)	–	–	–	–	10,842	2,263	13,105
Total other comprehensive loss	(51,637)	–	–	100	770	(12,991)	(63,758)
Total comprehensive income	385,377	(17,888)	24,222	37,379	11,528	(16,987)	423,631
Total comprehensive income attributable to:							
SNC-Lavalin shareholders	385,377	(17,888)	24,265	37,379	–	(16,995)	412,138
Non-controlling interests	–	–	(43)	–	11,528	8	11,493
Total comprehensive income	385,377	(17,888)	24,222	37,379	11,528	(16,987)	423,631

35.5 EFFECT OF IFRS ADOPTION ON THE COMPANY'S CONSOLIDATED STATEMENTS OF CASH FLOWS

INTERESTS IN JOINT VENTURES (IAS 31)

Under Canadian GAAP, interests in jointly controlled entities were accounted for using the proportionate consolidation method. Under IFRS, interests in jointly controlled entities are accounted for using either the equity method or the proportionate consolidation method. The Company has elected to account for its interests in jointly controlled entities using the equity method upon transition to IFRS.

In regards to the statement of cash flows, under Canadian GAAP, the proportionate consolidation method required the Company to consolidate its proportionate share of the jointly controlled entities' cash flows on a line-by-line basis. Therefore, the adjustment to the consolidated statements of cash flows represents an elimination of cash flows and cash positions previously recognized by the Company under proportionate consolidation method.

35 First-Time Adoption of IFRS (continued)

STATEMENT OF CASH FLOWS (IAS 7)

Under Canadian GAAP, interest paid and income taxes paid included in the determination of net income were disclosed separately as supplementary cash flow information. Under IFRS, interest paid and income taxes paid are included into the body of the statement of cash flows as separate line items.

35.6 OTHER

As per IFRS 1, since IFRS 3 is not applied retrospectively, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter applies IAS 36, *Impairment of Assets*, in testing the goodwill for impairment at the date of transition to IFRS. Therefore, the Company performed an impairment test on its goodwill as at the Date of Transition and concluded that there was no impairment.

36 Subsequent Events

A) INDEPENDENT REVIEW

In February 2012, the Board of Directors initiated an independent review (the "Independent Review") led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements, the "Representative Agreements") to construction projects to which they did not relate, and certain other contracts. The Company's senior management and Board of Directors have been required to devote significant time to the Independent Review and related matters which has been distracting from the conduct of the Company's daily business and significant expenses have been incurred in connection with the Independent Review including substantial fees of lawyers and other advisors. In addition, the Company and/or employees of the Company could become the subject of investigations by law enforcement and/or regulatory authorities in respect of the matters that were subject to the Independent Review which, in turn, could require the devotion of additional time of senior management and other resources. In the absence of direct and conclusive evidence, the use and purpose of the payments or nature of the services rendered or actions taken under these Representative Agreements could not be determined with certainty by the Independent Review. However, the absence of conclusive findings of the Independent Review does not exclude the possibility that, if additional facts that are adverse to the Company became known, including matters beyond the scope of the Representative Agreements that were the subject of the Independent Review, sanctions could be brought against the Company in connection with possible violations of law or contracts. The consequences of any such sanctions or other actions, whether actual or alleged, could adversely affect our business and the market price of our publicly traded securities. In addition, the Independent Review and any negative publicity associated with the Independent Review, could damage our reputation and ability to do business.

B) PROPOSED CLASS ACTION LAWSUIT

On March 1, 2012, a proposed class action lawsuit was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from and including March 13, 2009 through and including February 28, 2012, whether in a primary market offering or in the secondary market. The Motion for authorization alleges that certain documents issued by SNC-Lavalin between these dates contained misrepresentations. The Motion seeks leave from the Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act and the equivalent provisions contained in the various other Canadian provinces' securities legislation. The proposed action claims damages equivalent to the decline in market value of the securities purchased by class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as the costs of administering the plan to distribute recovery pursuant to the class action. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class actions or other litigation.

Office of the President

IAN A. BOURNE

Vice-Chairman and Interim
Chief Executive Officer

FEROZ ASHRAF

Executive Vice-President

Mining and Metallurgy

JEAN BEAUDOIN

Executive Vice-President

Integrated Management Systems

JIM BURKE

Executive Vice-President

Airports, Mass Transit,
Railways, Ports and Marine
and Environment

DARLEEN CARON

Executive Vice-President

Global Human Resources

CHARLES CHEBL

(appointed February 9, 2012)

Executive Vice-President
Infrastructure and Construction

CHRISTIAN JACQUI

(appointed January 2nd, 2012)

Executive Vice-President

Europe

PATRICK LAMARRE

Executive Vice-President

Power

GILLES LARAMÉE

Executive Vice-President and Chief
Financial Officer

ANDREW MACKINTOSH

Executive Vice-President

Hydrocarbons and Chemicals

MICHAEL NOVAK

Executive Vice-President

International and Aboriginal Affairs

CHARLIE RATE

Executive Vice-President

Operations and Maintenance

Board of Directors

IAN A. BOURNE

Vice-Chairman and Interim
Chief Executive Officer

SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

DAVID GOLDMAN

Company Director

Toronto, Ontario
Canada

Chair of the Audit Committee

Member of the Governance Committee

PATRICIA A. HAMMICK, Ph.D.

Company Director

Kilmarnock, Virginia
United States

Member of the Audit Committee

Member of the Human
Resources Committee

PIERRE H. LESSARD

Executive Chairman

Metro Inc.
Montreal, Quebec
Canada

Member of the Governance Committee

Member of the Human
Resources Committee

EDYTHE (DEE) A. MARCOUX

Company Director

Gibsons, British Columbia
Canada

Chair of the Health, Safety
and Environment Committee

Member of the Audit Committee

Member of the Governance Committee

PROFESSOR LORNA R. MARSDEN,
C.M., Ph.D.

President Emerita

York University
Toronto, Ontario
Canada

Member of the Human
Resources Committee

Member of the Health, Safety
and Environment Committee

CLAUDE MONGEAU

President and Chief Executive Officer

Canadian National Railway Company
Montreal, Quebec
Canada

Member of the Audit Committee

GWYN MORGAN, O.C.

Chairman of the Board

SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

Chair of the Governance Committee

MICHAEL D. PARKER, CBE

Company Director

London
United Kingdom

Member of the Audit Committee

Member of the Health, Safety
and Environment Committee

THE HON. HUGH D. SEGAL, C.M.

Senator

Senate of Canada Ottawa, Ontario
Canada

Member of the Human
Resources Committee

Member of the Health, Safety
and Environment Committee

ERIC D. SIEGEL

Company Director

Ottawa, Ontario
Canada

Member of the Audit Committee

Member of the Health, Safety
and Environment Committee

(Appointed January 1, 2012)

LAWRENCE N. STEVENSON

Managing Director

Callisto Capital LP Toronto, Ontario
Canada

Chair 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.

BOOKING-TO-REVENUE RATIO
Ratio obtained by dividing the contract bookings by the revenues, for a given period.

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

GAAP
Canadian generally accepted accounting principles.

HYDROCARBONS & CHEMICALS
Part of Services and Packages activities, it includes projects in the areas of bitumen production, heavy and conventional oil production, onshore and offshore oil and gas, upgrading and refining, petrochemicals, chemicals, biofuels and green chemicals, gas processing, liquefied natural gas ("LNG") plants and re-gasification terminals, coal gasification, carbon capture, transportation and storage, pipelines, terminals and pump stations.

IFRS
International financial reporting standards.

INFRASTRUCTURE & ENVIRONMENT
Part of Services and Packages activities, it includes a full range of infrastructure projects for the public and private sectors including airports, buildings, health and care, educational and recreational facilities, seaports, marine and ferry terminals, flood control systems, urban transit systems, railways, roads and bridges, and water and wastewater treatment and distribution facilities. It also includes social and environmental impact assessments and studies, community engagement, site assessment, remediation and reclamation, ecological and human health risk assessments, waste management, water resources planning, development and supply, treatment and sanitation, marine and coastal management, geoenvironmental services, climate change, air quality and acoustics, environmental management, geographic information systems, and agriculture and rural development.

INFRASTRUCTURE CONCESSION INVESTMENTS ("ICI")
The Company's equity investments in infrastructure concessions for public services such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water.

LUMPSUM 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 fixed-price contract.

MINING & METALLURGY
Part of Services and Packages activities, it includes a full range of services for all mineral and metal recovery processes, including mine infrastructure development, mineral processing, smelting, refining, mine closure and reclamation, mine and tailings management, and fertilizer 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, property and facility management, ii) industrial, iii) transportation, and iv) defence and 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 industry 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 preceding industry segments.

PACKAGES
Category of activity that includes contracts wherein 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, thermal and nuclear power generation, energy from waste, green energy solutions, and transmission and distribution.

REVENUE BACKLOG
Forward-looking indicator of anticipated revenues to be recognized by the Company, determined based on contract awards that are considered firm. O&M activities are provided under contracts that can cover a period of up to 40 years. In order to provide an information that is comparable to the revenue backlog of other categories of activity, 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 trailing 12-month net income attributable to SNC-Lavalin shareholders, divided by a trailing 13-month average equity attributable to SNC-Lavalin shareholders, excluding "other components of equity".

SERVICES
Category of activity that includes contracts whereby 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)	IFRS		Canadian GAAP							
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues by activity										
Services	**2,437.8**	2,053.8	2,221.4	2,305.4	1,726.1	1,180.2	958.5	923.6	888.8	777.2
Packages	**2,871.5**	2,137.4	2,202.2	3,229.5	3,635.7	2,835.9	1,704.1	1,502.7	1,463.7	1,769.3
Operations and Maintenance	**1,399.2**	1,330.4	1,297.9	1,225.0	1,058.4	920.9	695.9	646.1	569.7	553.2
Infrastructure Concession Investments (ICI)	**501.4**	472.3	380.2	347.0	309.4	212.2	88.7	85.0	76.1	64.6
	7,209.9	5,993.9	6,101.7	7,106.9	6,729.6	5,149.2	3,447.2	3,157.4	2,998.3	3,164.3
Gross margin	**1,252.1**	1,301.0	1,151.1	1,012.9	565.3	536.8	457.1	446.3	433.6	404.5
Selling, general and administrative expenses	**654.7**	581.7	545.6	515.2	392.8	285.2	257.0	254.8	270.3	259.1
Net financial expenses										
From ICI	**99.7**	85.1	112.2	108.2	104.6	74.3	47.6	52.9	44.7	47.9
From other activities	**15.5**	26.0	16.0	(13.7)	(32.1)	(21.0)	(3.5)	5.2	4.6	8.3
Income before gains and income tax expense	**482.2**	608.2	477.3	403.2	100.0	198.3	156.0	133.4	114.0	89.2
Gain on disposal of a portion of the investment in 407 International Inc. and dilution gain	**–**	–	–	–	–	–	–	–	–	164.0
Income before income tax expense	**482.2**	608.2	477.3	403.2	100.0	198.3	156.0	133.4	114.0	253.2
Income tax expense	**94.9**	120.8	108.2	85.1	23.5	55.0	50.6	46.1	43.2	65.2
Non-controlling interests	**–**	–	9.7	5.6	9.2	7.3	2.2	–	–	–
Net income from continuing operations	**387.3**	487.4	359.4	312.5	67.3	136.0	103.2	87.3	70.8	188.0
Net income from discontinued operations	**–**	–	–	–	84.1	21.8	24.3	15.7	15.7	14.5
Net income	**387.3**	487.4	359.4	312.5	151.4	157.8	127.5	103.0	86.5	202.5
Net income attributable to										
SNC-Lavalin Shareholders	**378.8**	476.7	359.4	312.5	151.4	157.8	127.5	103.0	86.5	202.5
Non-controlling interests	**8.5**	10.7	–	–	–	–	–	–	–	–
Net income	**387.3**	487.4	359.4	312.5	151.4	157.8	127.5	103.0	86.5	202.5
Return on average shareholders' equity (1)	**19.3%**	28.4%	27.3%	29.1%	16.4%	19.0%	17.0%	15.1%	13.8%	36.0%
Acquisition of property and equipment										
From ICI	**545.8**	402.0	274.1	193.5	308.6	182.5	22.3	9.1	75.0	13.1
From other activities	**67.2**	46.0	32.4	46.3	41.2	37.7	25.5	19.6	14.8	32.8
	613.0	448.0	306.5	239.8	349.8	220.2	47.8	28.7	89.8	45.9
Depreciation of property and equipment and amortization of other non-current assets										
From ICI	**93.1**	86.9	86.6	88.1	76.9	52.4	13.7	13.5	11.0	10.4
From other activities	**45.4**	39.6	43.5	41.9	35.2	28.2	24.6	31.4	32.6	31.2
	138.5	126.5	130.1	130.0	112.1	80.6	38.3	44.9	43.6	41.6
EBITDA (2)										
From ICI	**344.1**	330.6	252.9	238.8	214.5	146.4	65.5	62.8	49.9	208.1
From other activities	**391.8**	515.2	482.7	388.9	70.1	185.8	172.9	173.6	157.0	142.9
	735.9	845.8	735.6	627.7	284.6	332.2	238.4	236.4	206.9	351.0

(1) Excluding other components of equity.

(2) EBITDA, a non-IFRS financial measure, is defined as net income before net financial expenses, income tax expense, depreciation of property and equipment and amortization of other non-current assets. Under Canadian GAAP, net income was adjusted to add back non-controlling interests.

Note: The figures for 2009 and prior periods have been prepared in accordance with Canadian GAAP, and have not been restated as they relate to periods prior to the Date of Transition to International Financial Reporting Standards ("IFRS"). The net income for periods prior to the Date of Transition does not include non-controlling interests, as they were presented outside shareholders' equity under Canadian GAAP.

YEAR ENDED DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	IFRS		Canadian GAAP							
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Supplementary Information:										
Net income (loss) attributable to SNC-Lavalin shareholders from ICI										
From Highway 407	**77.2**	50.3	9.8	20.0	10.1	8.1	(4.7)	(14.5)	(12.7)	113.0
From other ICI	**54.0**	84.6	27.1	17.2	13.2	6.8	6.1	7.2	4.1	5.2
Net income attributable to SNC-Lavalin shareholders excluding ICI	**247.6**	341.8	322.5	275.3	128.1	142.9	126.1	110.3	95.1	84.3
Net income attributable to SNC-Lavalin shareholders	**378.8**	476.7	359.4	312.5	151.4	157.8	127.5	103.0	86.5	202.5
Earnings per share ($)										
Basic	**2.51**	3.16	2.38	2.07	1.00	1.05	0.84	0.68	0.57	1.35
Diluted	**2.49**	3.13	2.36	2.05	0.99	1.03	0.83	0.67	0.56	1.32
Weighted average number of outstanding shares (in thousands)										
Basic	**150,897**	151,020	151,042	150,925	151,172	151,034	151,499	151,816	151,130	150,416
Diluted	**151,940**	152,277	151,992	152,265	152,697	152,685	153,143	153,449	153,639	153,888
Annual dividends declared per share ($)	**0.85**	0.72	0.62	0.51	0.39	0.30	0.23	0.18	0.14	0.12

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	IFRS		Canadian GAAP							
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of employees	**28,100**	23,923	21,948	21,260	18,691	13,297	11,187	9,545	9,047	13,284
Revenue backlog by activity										
Services	**2,226.1**	1,410.7	1,464.9	1,545.3	1,556.5	819.8	604.2	564.9	567.7	416.2
Packages	**5,482.8**	5,572.4	4,197.5	3,508.0	4,457.0	6,082.6	4,308.1	2,483.2	1,749.5	1,715.4
Operations and Maintenance	**2,379.1**	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
	10,088.0	9,715.9	8,258.5	7,249.5	8,527.4	8,472.6	7,024.7	5,261.6	3,081.5	3,267.5
Cash and cash equivalents	**1,231.0**	1,235.1	1,218.2	988.2	1,088.6	1,106.3	1,153.5	676.3	471.9	467.4
Working capital	**32.0**	679.9	544.1	276.4	270.2	300.3	411.4	334.8	395.6	277.3
Property and equipment										
From ICI	**2,637.7**	2,072.8	2,217.0	1,750.7	1,640.7	1,439.3	452.5	450.8	456.8	451.0
From other activities	**159.9**	115.2	114.0	123.4	112.0	94.3	81.0	77.4	87.0	107.4
	2,797.6	2,188.0	2,331.0	1,874.1	1,752.7	1,533.6	533.5	528.2	543.8	558.4
Recourse long-term debt	**348.4**	348.2	452.9	104.7	104.6	104.5	104.4	104.3	104.2	104.0
Non-recourse long-term debt										
From ICI	**1,561.4**	1,529.0	2,005.5	2,003.3	1,971.0	1,650.5	785.9	728.5	673.1	612.1
From other activities	**–**	–	–	–	–	26.2	28.2	30.5	32.1	34.8
	1,561.4	1,529.0	2,005.5	2,003.3	1,971.0	1,676.7	814.1	759.0	705.2	646.9
Equity attributable to SNC-Lavalin shareholders	**1,883.1**	1,816.8	1,434.7	1,089.2	922.4	901.9	786.2	716.7	658.3	597.1
Book value per share ($)	**12.47**	12.03	9.50	7.21	6.11	5.97	5.20	4.73	4.33	3.97
Number of outstanding common shares (in thousands)	**151,034**	151,034	151,033	151,033	151,038	151,032	151,282	151,525	152,005	150,472
Closing market price per share ($)	**51.08**	59.77	53.99	39.69	48.14	31.47	25.43	19.33	17.00	11.35
Market capitalization	**7,714.8**	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

Note: Starting in 2011, the Company no longer discloses its ICI revenue backlog and, as such, all comparative figures have been restated accordingly.

Information for Shareholders

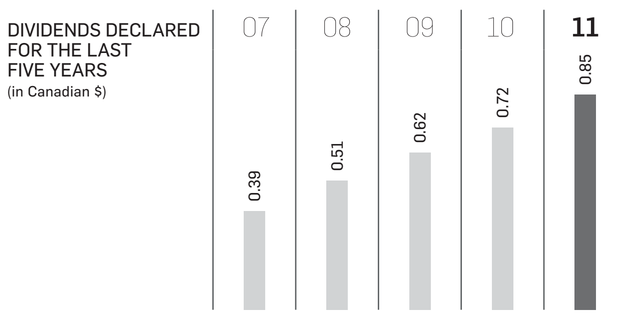
Common Share Information

Listed:	Toronto Stock Exchange
Symbol:	SNC
Shares outstanding:	151.0 million (December 31, 2011)
Market capitalization:	$7,715 million (December 31, 2011)

Trading Activity and Market Capitalization

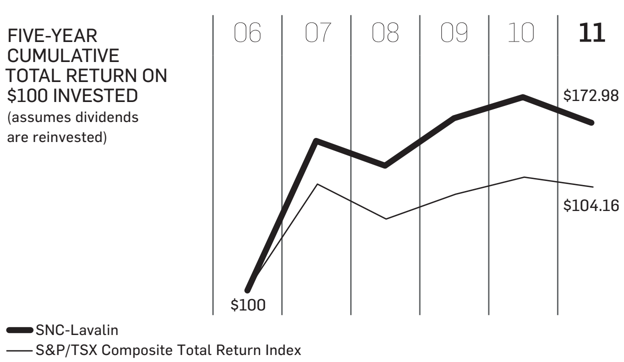
	Volume (M)	High ($)	Low ($)	Close ($)	Market Capitalization at Dec. 31 (M$)
2011	122.8	63.23	38.51	51.08	7,715
2010	98.7	60.00	41.59	59.77	9,027
2009	103.6	54.00	26.35	53.99	8,154
2008	147.3	61.95	26.00	39.69	5,995
2007	102.7	51.04	30.00	48.14	7,271

Dividends



Performance Graph

The following performance graph illustrates the five-year cumulative total return assuming $100 was invested on December 31, 2006 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) (1)

(1) Under review with developing implications

Annual Meeting

The Annual Shareholder's Meeting will be held at 11:00 a.m. Eastern Daylight Time on Thursday, May 3rd, 2012, at the Toronto Board of Trade, located at First Canadian Place, 77 Adelaide Street West, Toronto, Ontario.

Key Dates for 2012

	Earnings Announcement	Dividend Record	Dividend Payment
Q1	May 3	May 17	May 31
Q2	August 3	August 17	August 31
Q3	November 2	November 16	November 30
Q4	March 8, 2013	March 22, 2013	April 5, 2013

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
514-390-8000, ext. 7553

Corporate Governance

Our website provides information on our corporate governance practices, including 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 at www.snclavalin.com.

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.

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78	1.0 t	135 m^3	10 kg	3 t CO_2	9,378 kWh
Trees saved	Reduction in solid waste *(1/12 of a dump truck)*	Recuperated waste water *(about 1/20 of an Olympic swimming pool)*	Reduction in suspended particles in water *(or the equivalent of waste water from 1 household over 1 month)*	Reduction in atmospheric emissions *(or the emissions of 1 car for about 7 months)*	Clear energy saved *(or the energy used to light and heat 1 house for just over 4 months)*

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

THANK YOU Our sincere thanks to all our employees who agreed to appear in this Financial Report.

SNC·LAVALIN

HEAD OFFICE
455 René-Lévesque Blvd. West, Montreal, QC, H2Z 1Z3, Canada
Tel.: 514-393-1000 Fax: 514-866-0795

www.snclavalin.com

We invite you to visit our website at www.snclavalin.com to learn more about SNC-Lavalin. In addition to this financial report, SNC-Lavalin has produced a separate 2011 annual report, as well as a sustainability report that will be available in the Fall of 2012. All documents will be available on our website or can be ordered through the company.

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