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.**

2011 Management's Discussion and Analysis

TABLE OF CONTENTS

SECTION	PAGE
1 **Recent Developments** A description of recent developments	**6**
2 **2011 Highlights** A summary of the Company's key results, figures and notable events for 2011	**15**
3 **Overview of Our Business and Strategy** A discussion of SNC-Lavalin's business and strategy	**18**
4 **How We Analyze and Report our Results** A description of the Company's activities as well as a description of its budget process, and how the Company is generally valued	**21**
5 **Our Key Financial Performance Indicators** A discussion of the Company's key financial performance indicators	**30**
6 **Breakdown of Income Statement** A detailed analysis of the Company's consolidated income statement	**31**
7 **Revenue Backlog** A description and accompanying discussion of the Company's revenue backlog recognition policy and revenue backlog position	**39**
8 **Geographic Breakdown of Revenues by Category of Activity** A discussion of the Company's revenues by geographic area	**45**
9 **Operating Results by Segment** A detailed discussion of the Company's operating results by industry segment	**47**
10 **Liquidity and Capital Resources** A discussion of the Company's financial position, liquidity, cash flows and other financial disclosures	**60**
11 **Related Party Transactions** A discussion on the related party transactions entered into by the Company	**70**
12 **Shareholders and Employee Shareholdings** A discussion of the Company's shareholders, including the employees' share ownership and share-based compensation programs	**71**
13 **Critical Accounting Judgments and Key Sources of Estimation Uncertainty** A description of the Company's critical accounting judgments and the accounting policies to which they relate	**72**
14 **Accounting Policies and Changes** A report on the accounting policies adopted during the year, including first-time adoption of IFRS, and those to be adopted in future periods	**72**
15 **Risks and Uncertainties** A description of the principal risks and uncertainties facing the Company and the policies and practices in place to mitigate them	**74**
16 **Legal Proceedings** A description of legal proceedings	**79**
17 **Fourth Quarter Results** An analysis of the Company's operating results for the fourth quarter, and its revenue backlog and financial position as at December 31, 2011	**80**
18 **Controls and Procedures** A report on the Company's disclosure controls and procedures and internal control over financial reporting	**80**
19 **Quarterly Information** A summary of selected Company financial information by quarter for 2011 and 2010	**83**

2011 Management's Discussion and Analysis

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").

******

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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"

<u>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.</u> 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.

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

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

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

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

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.

<u>Transactions not disclosed</u>. 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.

<u>Accuracy of documents and records</u>. 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.

<u>Proper levels of authority</u>. 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.

******

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.

2011 Management's Discussion and Analysis

> 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.

2011 Management's Discussion and Analysis

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.

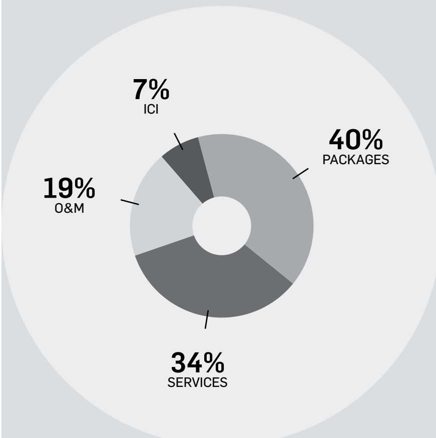
2011 Management's Discussion and Analysis

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

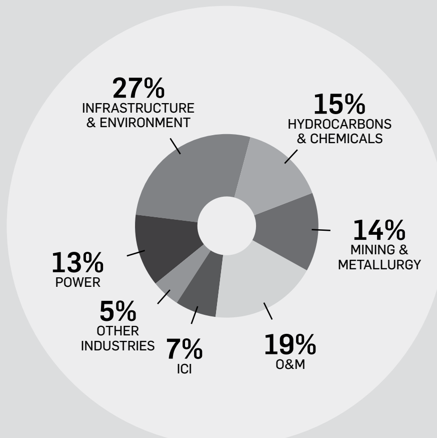
2011 REVENUES ($7.2 BILLION)

CATEGORIES OF ACTIVITY



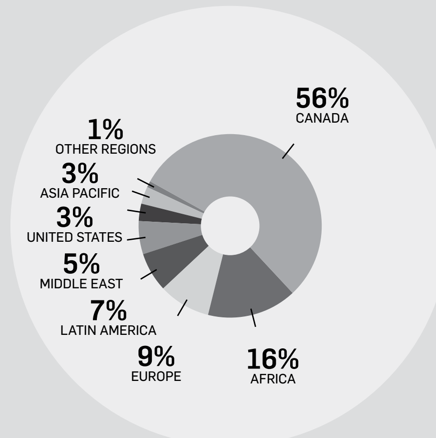
Four activities that are complementary...

INDUSTRY SEGMENTS



...serving multiple industry segments...

GEOGRAPHIC AREAS

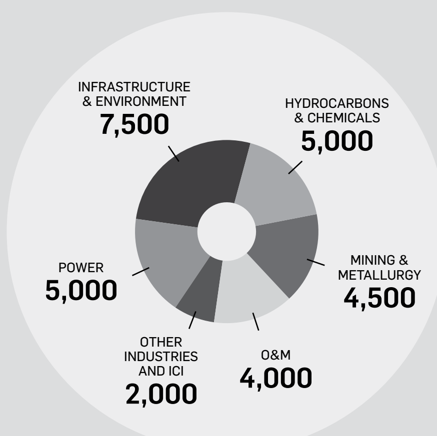


...with good geographic coverage and Canada as its largest base

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%.

2011 Management's Discussion and Analysis

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%.

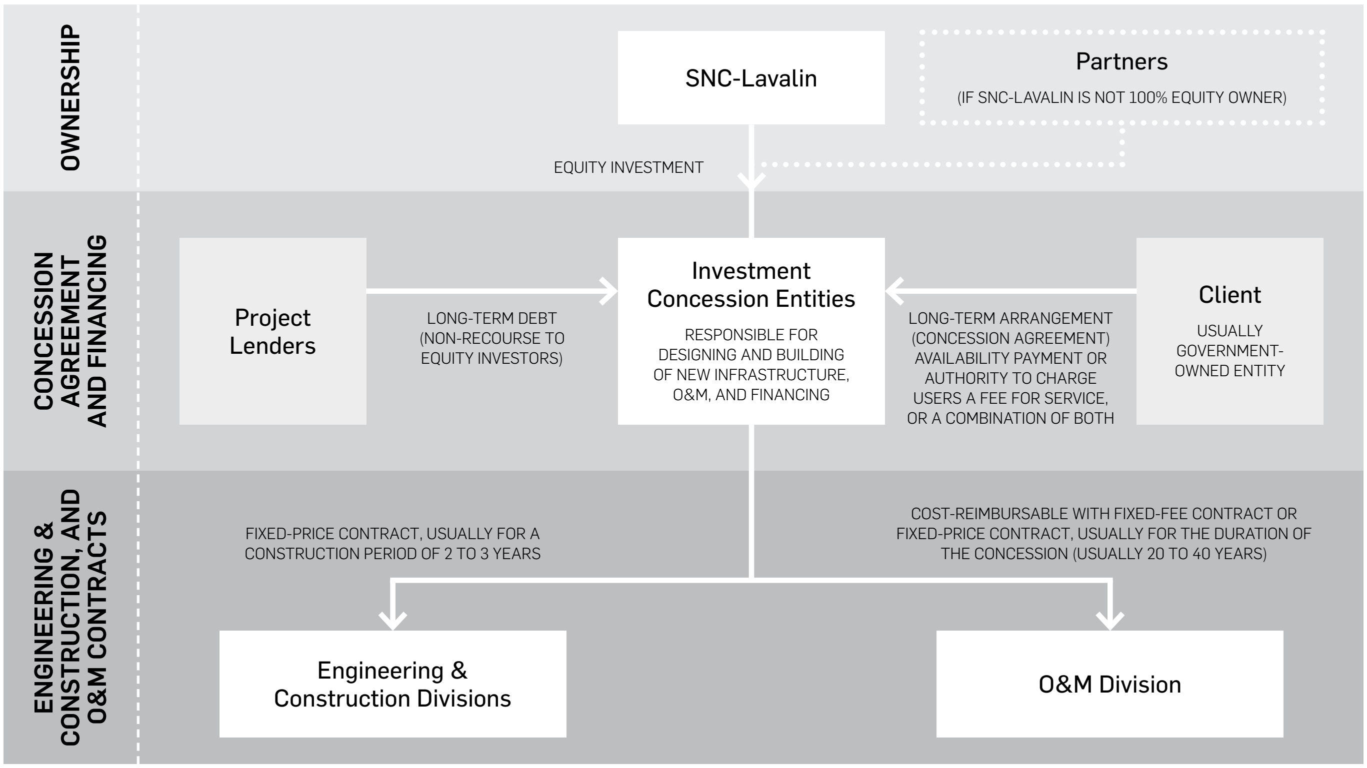
4.1.4 ICI ACTIVITIES

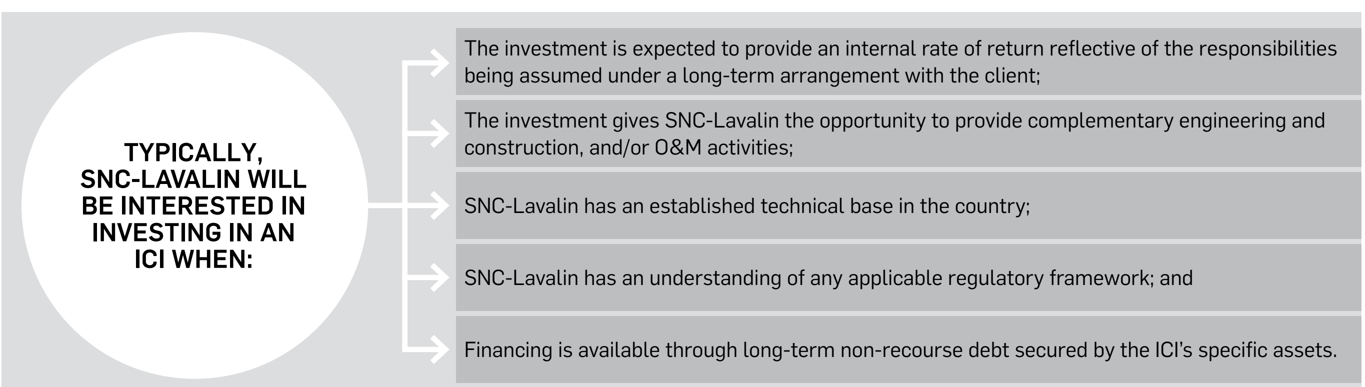
The Company's ICI are typically infrastructure for public services, such as **airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water**. These types of infrastructure are commonly provided by government-owned entities, however, many countries are now turning 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.

2011 Management's Discussion and Analysis

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:





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.

2011 Management's Discussion and Analysis

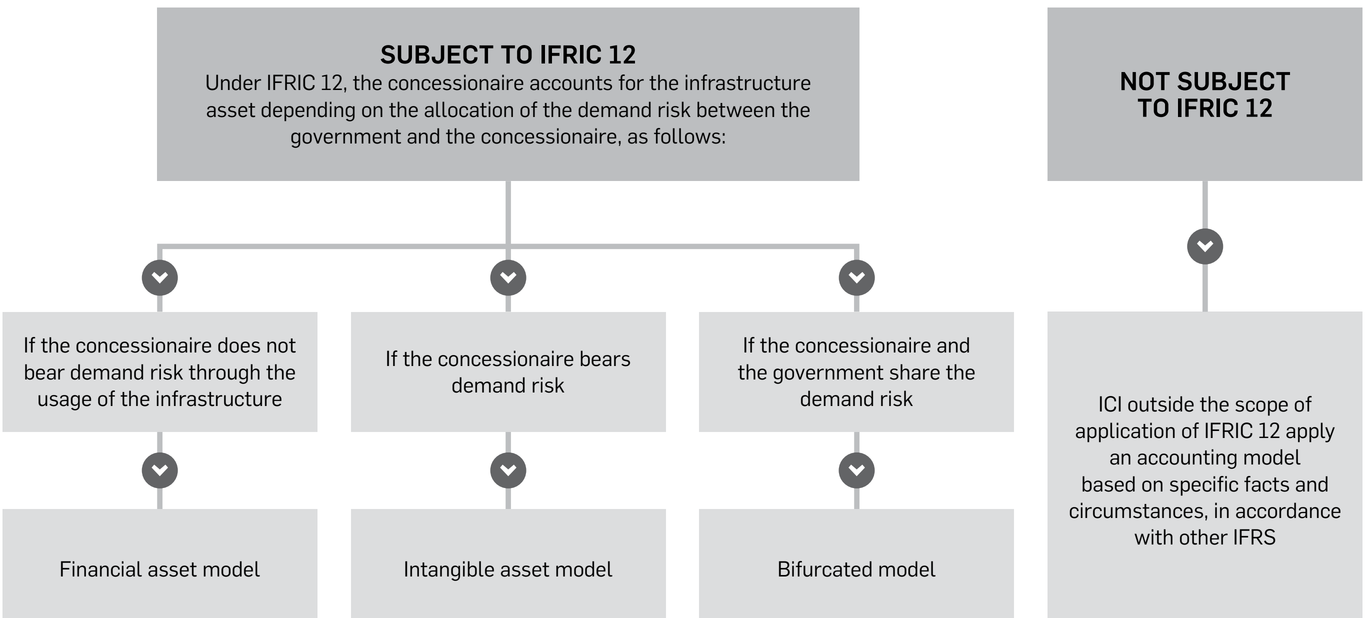
4.1.4.1 ACCOUNTING MODELS USED BY CONCESSION ENTITIES

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.	✓		

2011 Management's Discussion and Analysis

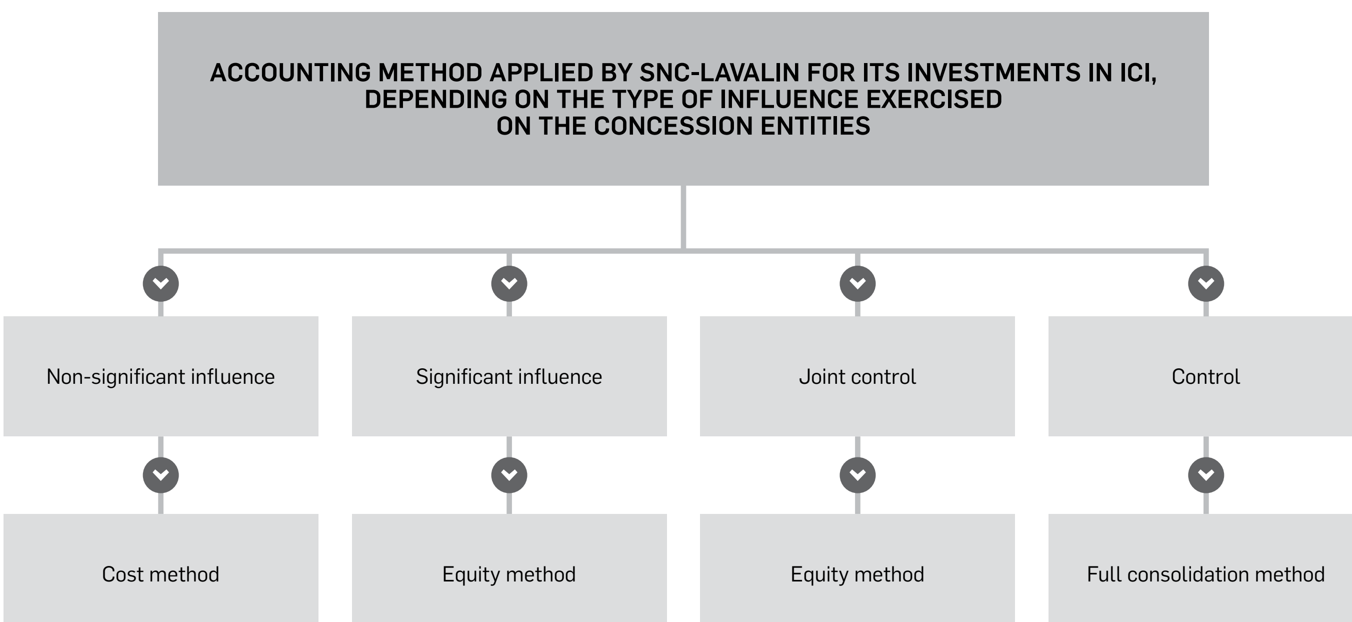
The table below highlights the main characteristics of the accounting of a concession by the Company under the financial asset model, which is used for most of the Company's ICI under IFRIC 12:

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:



2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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

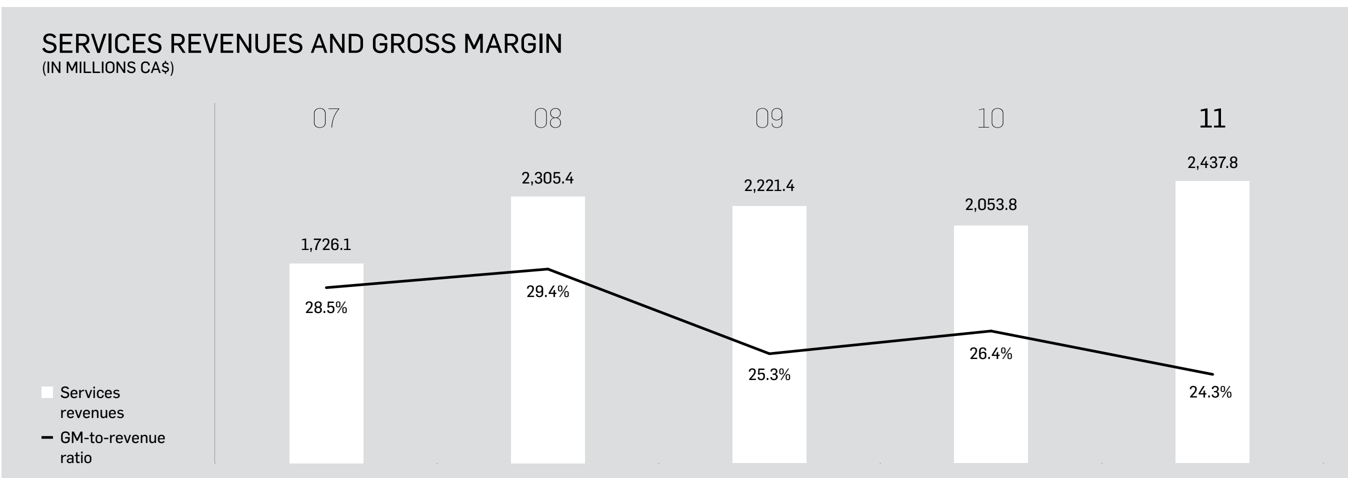
As expected, **revenues increased in 2011** compared to 2010. All the Company's categories of activity increased, with most of the increase from Packages and Services. The increase in 2010 compared to 2009 mainly reflected an increase in Packages and ICI activities, partially offset by a lower level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

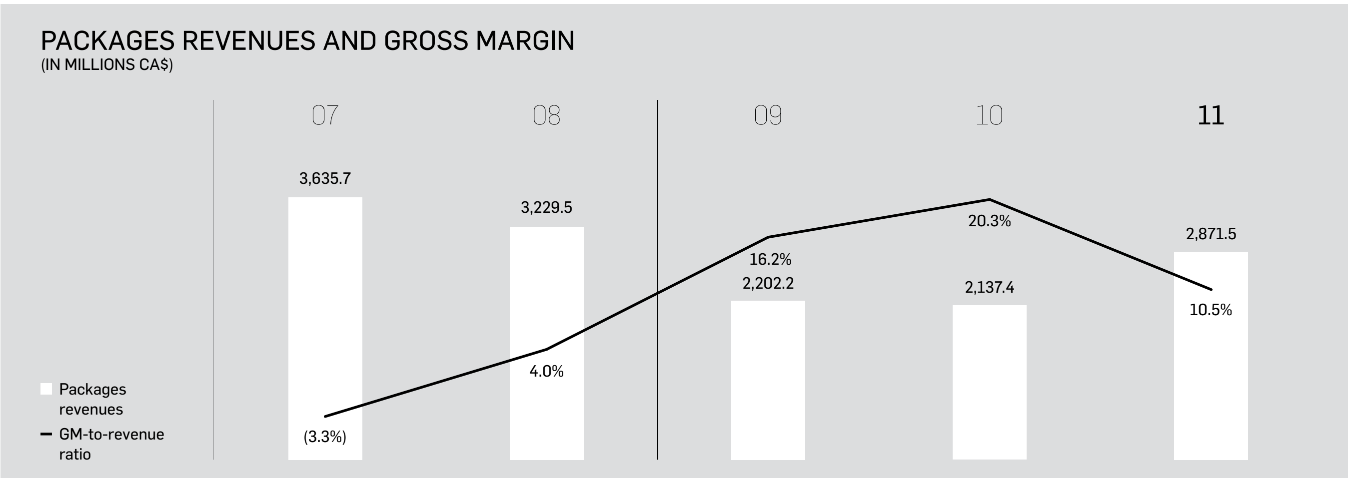
As expected, **Services gross margin increased in 2011** compared to 2010, primarily reflecting a higher level of activity, notably in Mining & Metallurgy, partially offset by a lower gross margin-to-revenue ratio, primarily in Mining & Metallurgy, and Hydrocarbons & Chemicals.

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.

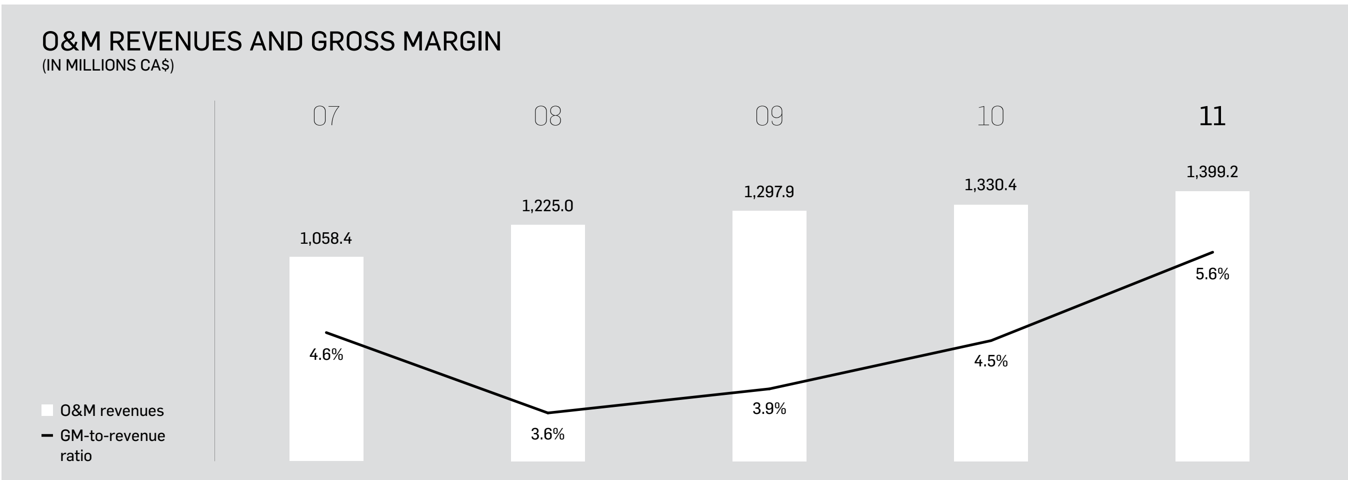
As expected, **gross margin for Packages decreased in 2011** compared to 2010. The decrease was mainly due to a lower gross margin-to-revenue ratio, mainly in Infrastructure & Environment, and Power, partially offset by a higher level of activity, notably in Power. It is noteworthy to mention that the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

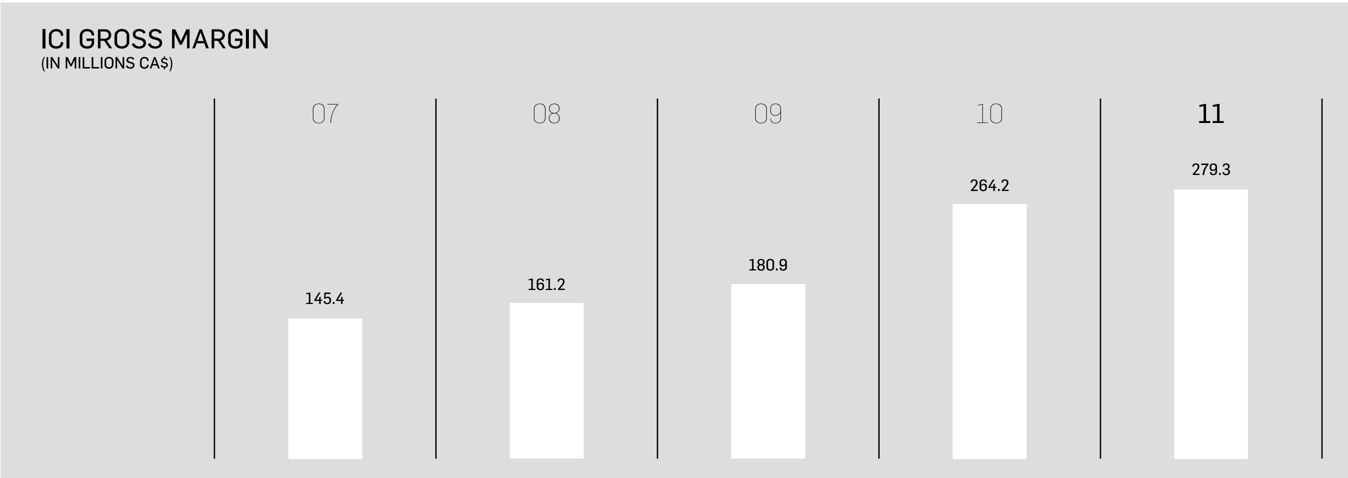
6.2.4 ICI REVENUES AND GROSS MARGIN

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.

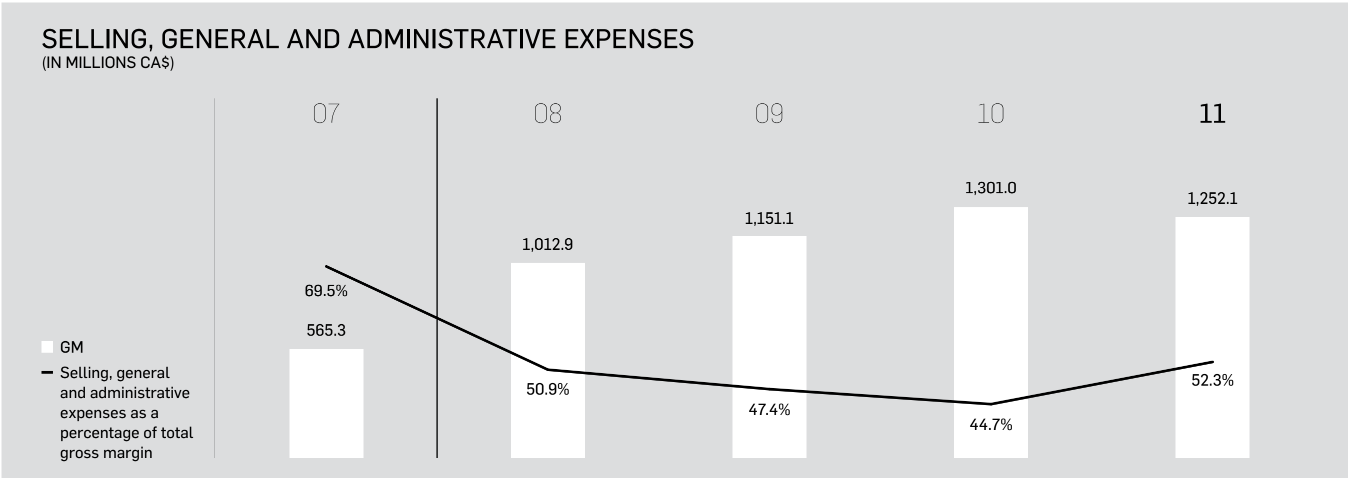
6.3 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

(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

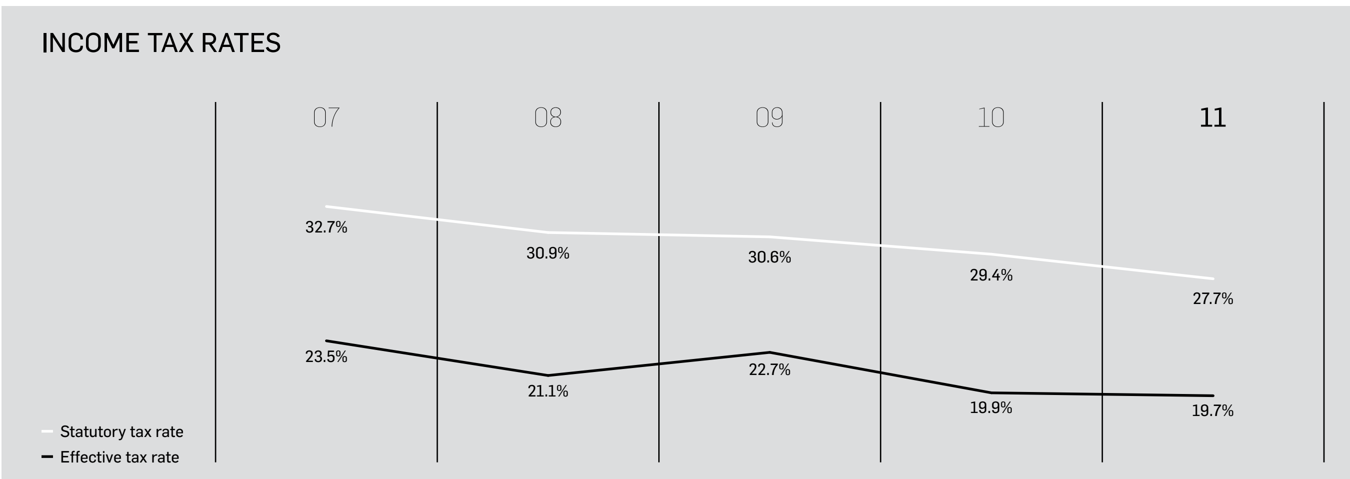
6.5 INCOME TAXES ANALYSIS

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.

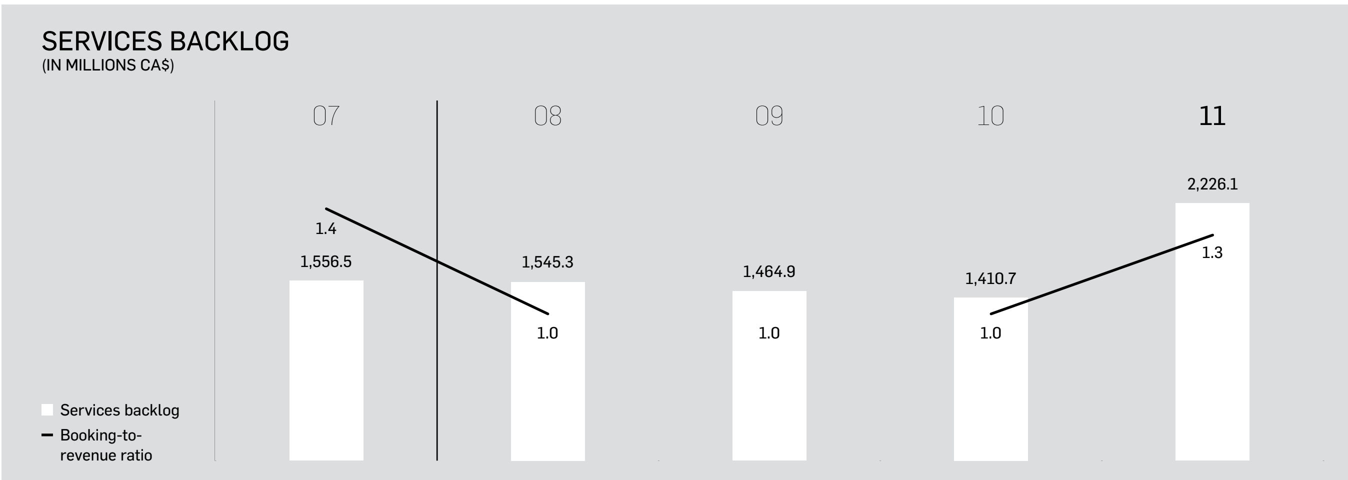
Backlog from Outside Canada increased, mainly due to an increase in Power, and Mining & Metallurgy, partially offset by a decrease in Hydrocarbons & Chemicals.

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.

2011 Management's Discussion and Analysis

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;

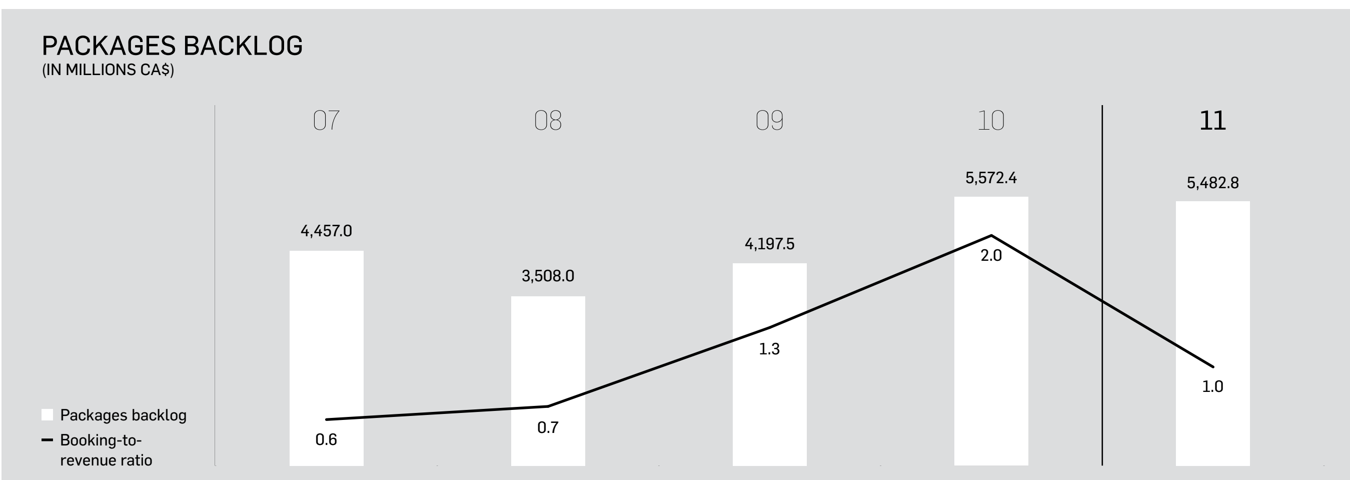
> **Kharyaga** (Hydrocarbons & Chemicals/Other Regions): Contract awarded by Globalstroy-Engineering to perform detailed engineering and procurement for Phase III Package 4 of the Kharyaga project, situated 60 km north of the Polar Circle, in Russia's oil-rich Timan-Pechora province. SNC-Lavalin will 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;

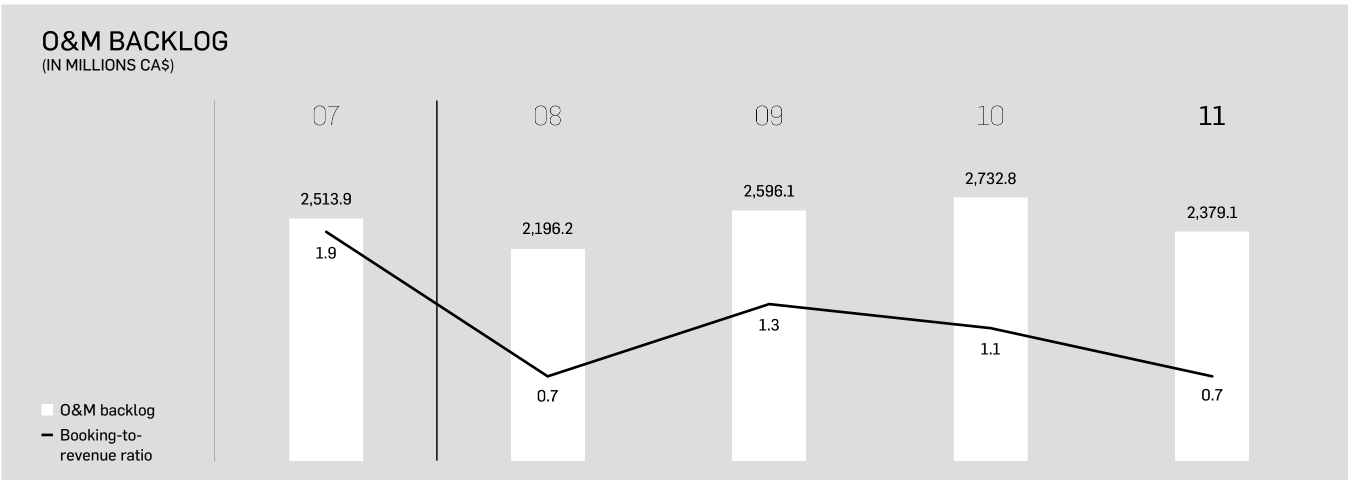
> **SaskPower BD3 CO_2 Compression Balance of Plant** (Power/Canada): The process entails the installation, at SaskPower's Boundary Dam Power Station, of a CO_2 compressor and dehydration packages, and the equipment developed by SNC-Lavalin during the FEED stage of the project. The scope also includes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

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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	↓	↓	✗

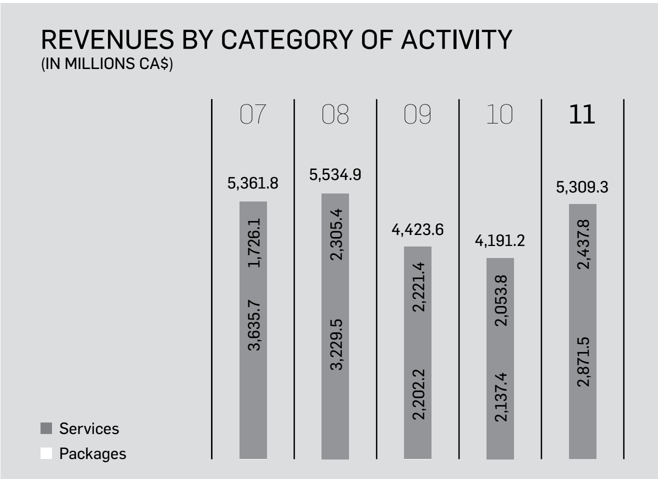
↑ INCREASE COMPARED TO PREVIOUS YEAR ↓ DECREASE COMPARED TO PREVIOUS YEAR — IN LINE WITH PREVIOUS YEAR ✓ IN LINE OR ABOVE EXPECTATIONS ✗ BELOW EXPECTATIONS

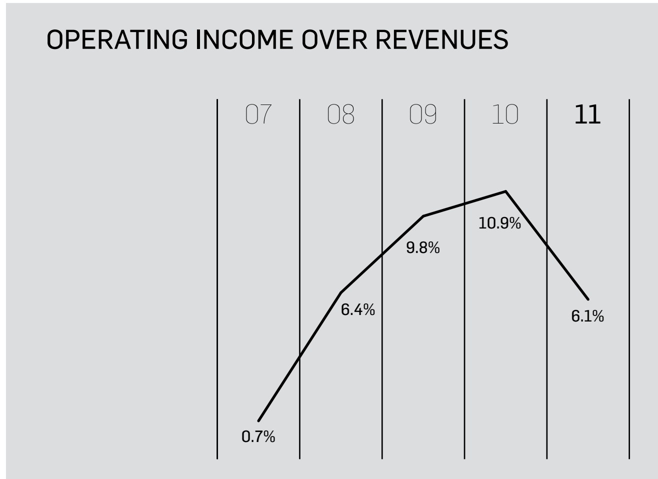
In 2011, the Company's operating income was below expectations, as the decrease in 2011 compared to 2010 was higher than expected, mainly reflecting a higher than expected decrease in contribution from Infrastructure & Environment, and a lower than expected contribution from Hydrocarbons & Chemicals,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

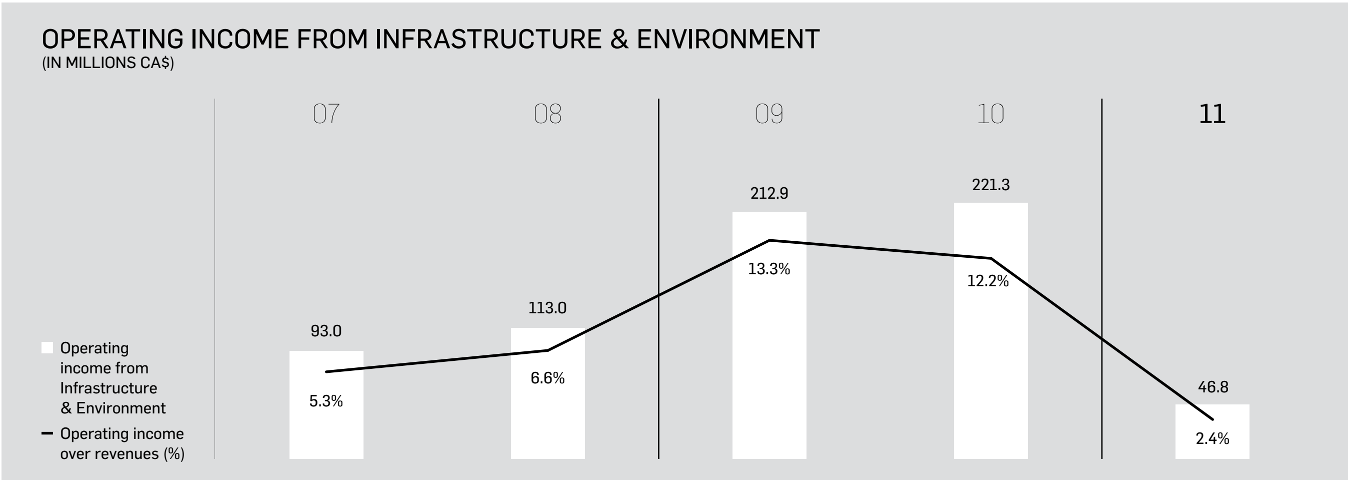
The variation in the operating income-to-revenue ratio is mainly due to: i) the revenue mix as Services and Packages activities generate different gross margin-to-revenue ratios (refer to section 4.1.2, "Understanding the difference between an EPCM contract and an EPC contract"); and ii) the gross margin-to-revenue 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.

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.

(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;

2011 Management's Discussion and Analysis

- > **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.

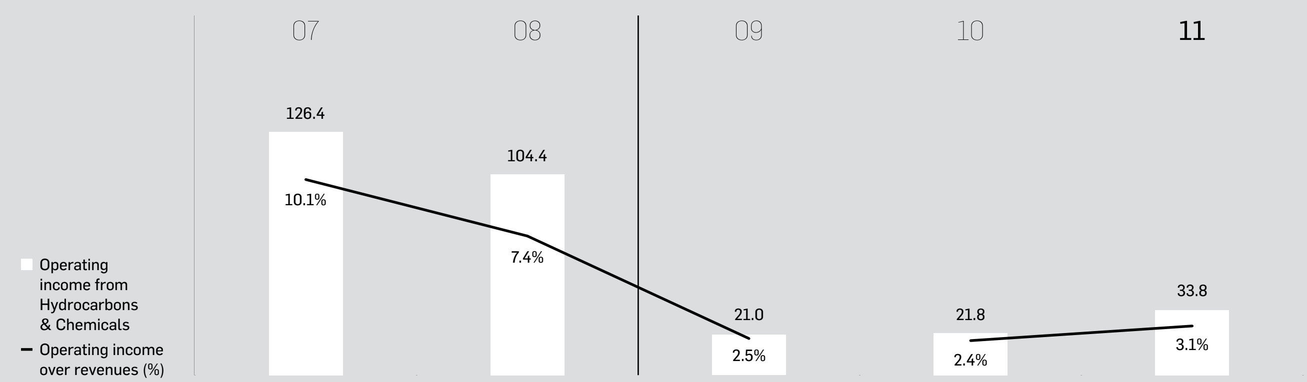
The Company's **operating income from Infrastructure & Environment** was below expectations, as the **decrease in 2011** was higher than expected when compared to 2010, mainly due to a lower than anticipated gross margin-to-revenue ratio, primarily resulting from unfavourable cost reforecasts on certain 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.

2011 Management's Discussion and Analysis

(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.

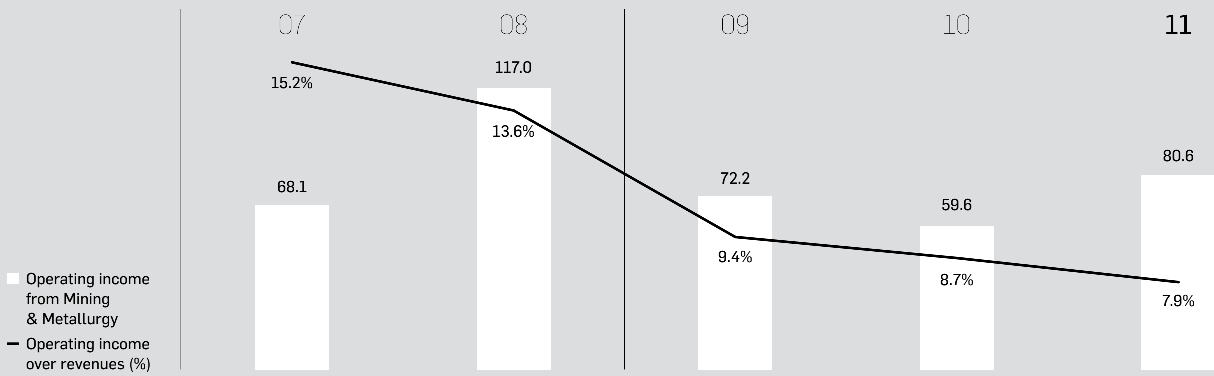
The operating income from Hydrocarbons & Chemicals in 2011 increased when compared to 2010, but the increase was below the Company's expectation, mainly due to unfavorable cost reforecasts on certain Packages projects as well as $35 million of period expenses related to payments made in the fourth quarter 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.

2011 Management's Discussion and Analysis

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.

OPERATING INCOME FROM MINING & METALLURGY
(IN MILLIONS CA$)



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;

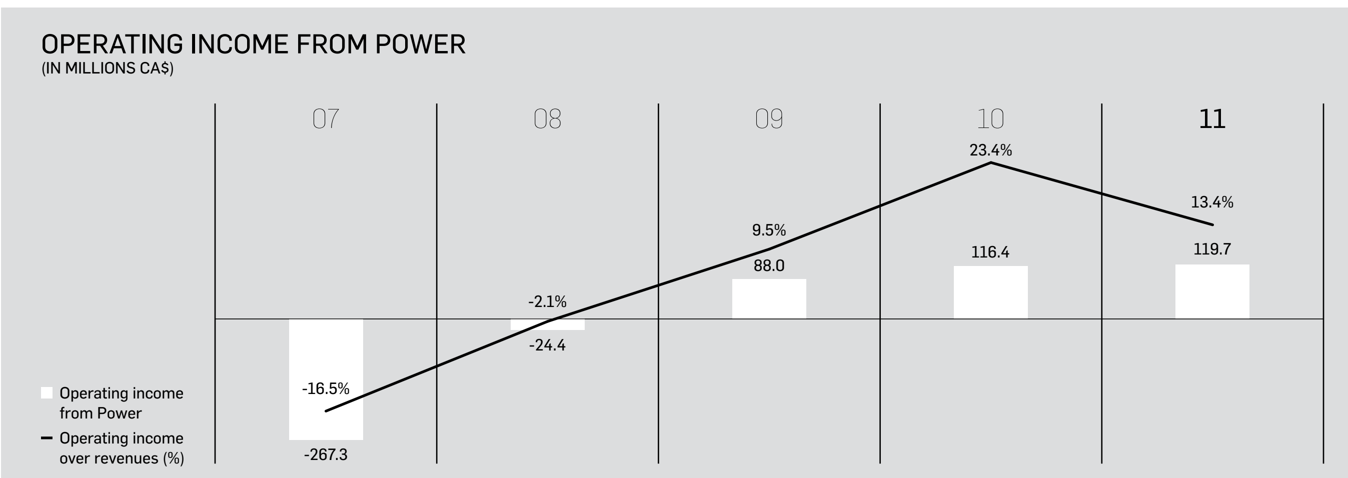
2011 Management's Discussion and Analysis

- **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.

2011 Management's Discussion and Analysis

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;

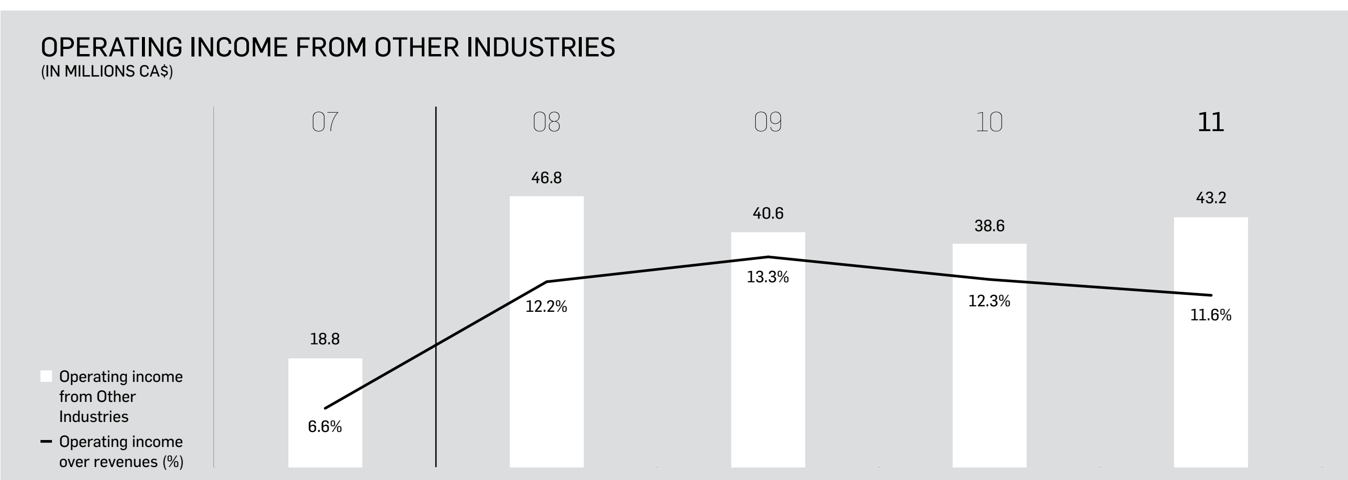
> **Te Mihi Geothermal Project** (Packages/Asia Pacific): EPC-related work awarded by Contact Energy, based in New Zealand, for the construction of the 166 MW Te Mihi geothermal project in Taupo, New Zealand; and

> **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.

2011 Management's Discussion and Analysis

(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.

2011 Management's Discussion and Analysis

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):

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD: 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

2011 Management's Discussion and Analysis

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 m³pd seawater desalination plant in Algeria and will sell the total capacity of treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year take-or-pay agreement.
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

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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

2011 Management's Discussion and Analysis

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

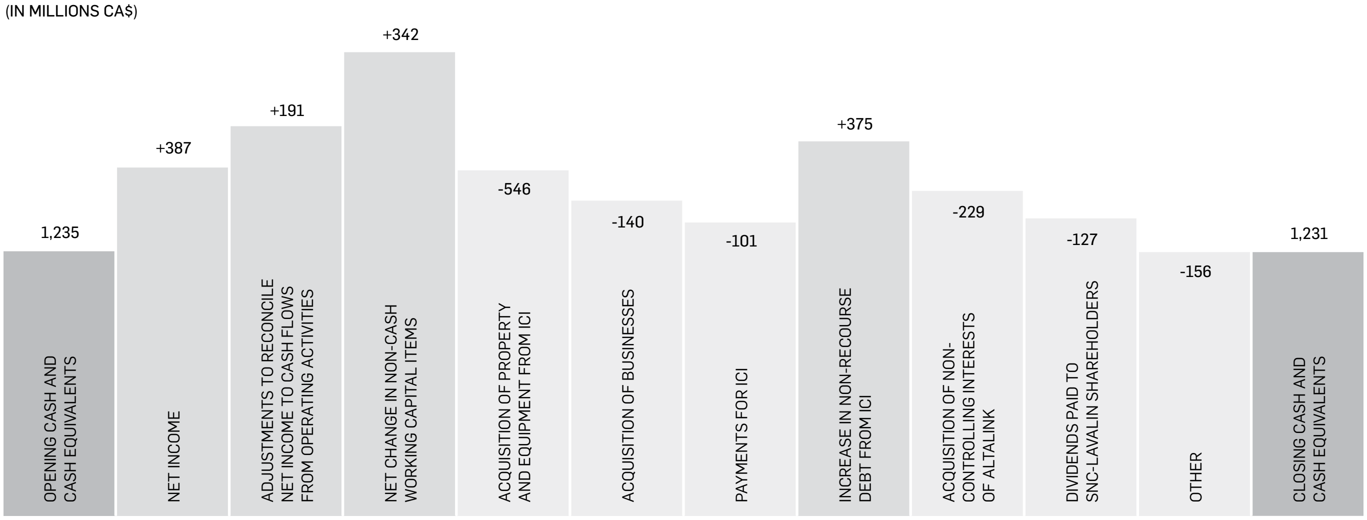
SUMMARY OF CASH FLOWS

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$)



2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

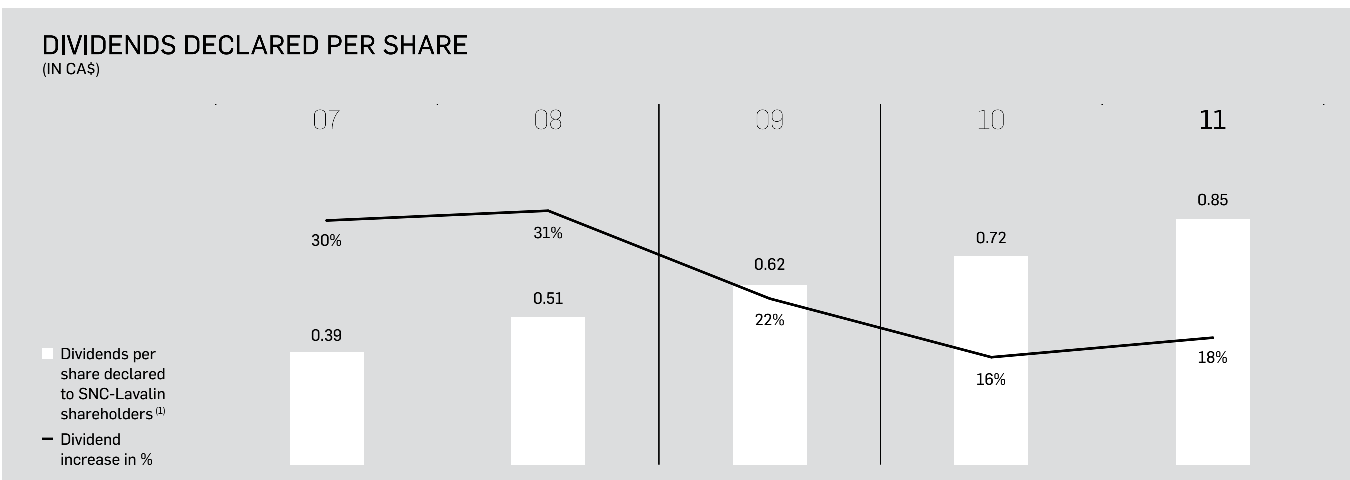
DERIVATIVE FINANCIAL INSTRUMENTS	FINANCIAL ARRANGEMENT
SNC-Lavalin enters into derivative financial instruments, namely: i) forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of 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.

2011 Management's Discussion and Analysis

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:

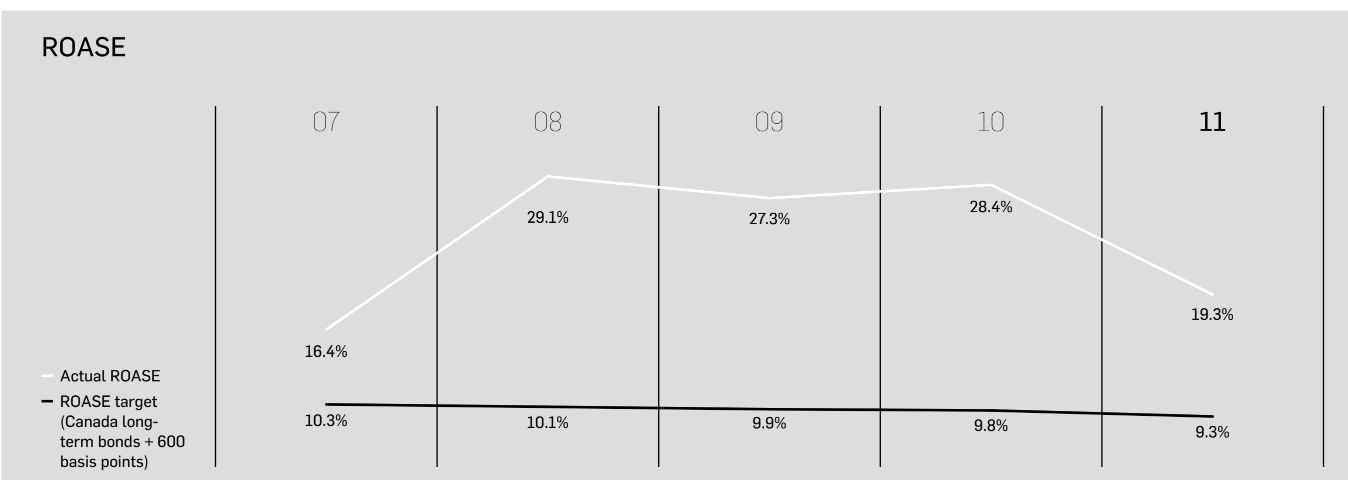
INDICES	DESCRIPTION
S&P/TSX 60 Index	Comprised of 60 large Canadian publicly-traded companies with a view to matching the sector balance of the S&P/TSX Composite Index
S&P/TSX Canadian Dividend Aristocrats Index	Designed to measure the performance of S&P Canada Broad Market Index ("BMI") constituents,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

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

15 RISKS AND 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.

2011 Management's Discussion and Analysis

ICI

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

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

> Independence of the Investment group from the engineering, construction, and O&M groups within SNC-Lavalin;

> Detailed review and structuring of concession contract arrangements;

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

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

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

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

Despite all efforts deployed to mitigate risks and uncertainties, there is no guarantee that 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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

2011 Management's Discussion and Analysis

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.

18 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.

2011 Management's Discussion and Analysis

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").