

# 2012 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 8, 2013

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business 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.snc-lavalin.com](http://www.snc-lavalin.com)) as well as on SEDAR ([www.sedar.com](http://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").**

## FORWARD-LOOKING STATEMENTS

Statements made in this MD&A that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions, projections of the future or strategies may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "aims", "anticipates", "assumes", "believes", "estimates", "expects", "goal", "intends", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. Forward-looking statements also include any other statements that do not refer to historical facts. All such forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities laws. 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. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of the Company's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Company's business and anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions believed by the Company to be reasonable on March 8, 2013. The assumptions are set out throughout this MD&A (particularly in the sections entitled "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and "How We Analyze and Report our Results" in this MD&A). If these assumptions are inaccurate, the Company's actual results could differ materially from those expressed or implied in such forward-looking statements. In addition, important risk factors could cause the Company's assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by these forward-looking statements. These risks include, but are not limited to: (a) the outcome of pending and future claims and litigation could have a material adverse impact on the Company's business, financial condition and results of operation; (b) the Company is subject to ongoing investigations which could adversely affect its business, results of operations or reputation and which could subject it to sanctions, fines or monetary penalties, some of which may be significant; (c) further regulatory developments could have a significant adverse impact on the Company's results, and employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm the Company's reputation, reduce its revenues and net income, and subject the Company to criminal and civil enforcement actions; (d) a negative impact on the Company's public image could influence its ability to obtain future projects; (e) fixed-price contracts or the Company's failure to meet contractual schedule or performance requirements may increase the volatility and unpredictability of its revenue and profitability; (f) the Company's revenue and profitability are largely dependent on the awarding of new contracts, which it does not directly control, and the uncertainty of contract award timing could have an adverse effect on the Company's ability to match its workforce size with its contract needs; (g) the Company's backlog is subject to unexpected adjustments and cancellations, including under "termination for convenience" provisions, and does not represent a guarantee of the Company's future revenues or profitability; (h) SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting; (i) the Company's international operations are exposed to various risks and uncertainties, including unfavourable political environments, weak foreign economies and the exposure to foreign currency risk; (j) there are risks associated with the Company's ownership interests in ICI that could adversely affect it; (k) the Company is dependent on third parties to complete many of its contracts; (l) the Company's use of joint ventures and partnerships exposes it to risks and uncertainties, many of which are outside of the Company's control; (m) the competitive nature of the markets in which the Company does business could adversely affect it; (n) the Company's project execution activities may result in professional liability or liability for faulty services; (o) the Company could be subject to monetary damages and penalties in connection with professional and engineering reports and opinions that it provides; (p) the Company may not have in place sufficient insurance coverage to satisfy its needs; (q) the Company's employees work on projects that are inherently dangerous and a failure to maintain a safe work site could result in significant losses and/or an inability to obtain future projects; (r) the Company's failure to attract and retain qualified personnel could have an adverse effect on its activities; (s) work stoppages, union negotiations and other labour matters could adversely affect the Company; (t) the Company relies on information systems and data in its operations. Failure in the availability or security of the Company's information systems or in data security could adversely affect its business and results of operations; (u) any acquisition or other investment may present risks or uncertainties; (v) a deterioration or weakening of the Company's financial position, including its net cash position, would have a material adverse effect on its business and results of operations; (w) the Company may have significant working capital requirements, which if unfunded could negatively impact its business, financial condition and cash flows; (x) an inability of SNC-Lavalin's clients to fulfill their obligations on a timely basis could adversely affect the Company; (y) the Company may be required to impair certain of its goodwill, and it may also be required to write down or write off the value of certain of its assets and investments, either of which could have a material adverse impact on the Company's results of operations and financial condition; (z) global economic conditions could affect the Company's client base, partners, subcontractors and suppliers and could materially affect its backlog, revenues, net income and ability to secure and maintain financing; (aa) fluctuations in commodity prices may affect clients' investment decisions and therefore subject the Company to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards, and may affect the costs of the Company's projects; (bb) inherent limitations to the Company's control framework could result in a material misstatement of financial information, and; (cc) environmental laws and regulations expose the Company to certain risks, could increase costs and liabilities and impact demand for the Company's services. 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 sections "Risks and Uncertainties", "How We Analyze and Report Our Results", and "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" in this report.

**The forward-looking statements in this document reflect the Company's expectations as at March 8, 2013, 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 whether as a result of new information, future events or otherwise, unless required by applicable legislation or regulation.**

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## 1. RECENT DEVELOPMENTS

### ETHICS AND COMPLIANCE PROGRAM

The Company continues to develop and implement a comprehensive ethics and compliance program with the assistance of Freeh Group International Solutions and Fairfax Group. Over the course of the past twelve months, the Company has implemented a series of measures, including the adoption of an amended Code of Ethics and Business Conduct ("Code of Ethics"), an expansion of the mechanisms for reporting complaints, the establishment of an ethics and compliance 24/7 hotline, the creation of an ethics and compliance committee and an agent review committee, a process for the adherence of business partners to the Company's ethics values, the adoption of a management override policy, direct line reporting from business unit lawyers and finance staff to, respectively, the Executive Vice-President and General Counsel and the Chief Financial Officer ("CFO"), and the engagement of external consultants assisting in monitoring the implementation of these measures and in framing a compliance program that can be benchmarked against a number of outside sources and the Company's peer group. As part of this ongoing process, on February 22, 2013, the Company announced the appointment of the former Chief Compliance Officer of Siemens AG, Andreas Pohlmann, as its Chief Compliance Officer, effective March 1, 2013.

### CORPORATE STRUCTURE AND MANAGEMENT CHANGES

On August 10, 2012, the Company announced that, effective October 1, 2012, Robert G. Card would become its new President and Chief Executive Officer (the "CEO"), and a member of the Board of Directors. Mr. Card has almost 40 years of experience in the operations and management of infrastructure and energy projects in the industry, including most recently with a Fortune 500 engineering services firm with 30,000 staff, a presence in more than 80 countries and approximately \$6 billion in annual revenues.

Mr. Card replaced Ian A. Bourne, who, at the request of the Board of Directors, agreed to assume the functions of interim Chief Executive Officer (the "Interim CEO") and Vice-Chairman of the Board of Directors following the announcement on March 26, 2012 that Pierre Duhaime had stepped down from his position as Chief Executive Officer of the Company (the "Former CEO") and as a director of the Company. Mr. Bourne remains Vice-Chairman of the Board of Directors.

Under Mr. Card's leadership, the Company continues to assess and has begun to implement certain structural changes within the organization with goals, amongst others, to improve integration of products and services throughout the Company and increase global geographical presence to complement the existing global operating structure by sector of activity. As part of this process, the Company has also taken a number of measures to further strengthen its management structure and extend its scope. These measures include:

- > Effective January 21, 2013, Neil Bruce assumed the newly created role of President, Resources & Environment, and became a member of the Office of the President. This newly formed group includes the Company's global business in Hydrocarbons & Chemicals, Mining & Metallurgy, Environment and Water;
- > As announced on January 18, 2013, a Global Operations group has been created. Christian Jacqui, formerly Executive Vice-President, Europe, was assigned a new role as Executive Vice-President, Global Operations. This role will oversee the globalization of the Company's operations to complement the existing global operating structure by sector of activity;
- > As announced on December 13, 2012, Gilles Laramée, CFO, assumed responsibility as Executive Vice-President Infrastructure, Concessions and Investments ("ICI"). The Company has initiated a search to replace Mr. Laramée as CFO. Mr. Laramée will continue as CFO until his replacement is in place;
- > The following individuals were named Office of the President members in 2012 and early 2013: Charles Chebl, Executive Vice-President Infrastructure and Construction, Dale Clarke, Executive Vice-President Mining and Metallurgy, Réjean Goulet, Executive Vice-President and General Counsel, Ric Sorbo, Acting Executive Vice-President, Hydrocarbons and Chemicals, and Scott Thon, Acting Executive Vice-President, Power.

## REMEDICATION OF PREVIOUSLY IDENTIFIED MATERIAL WEAKNESSES

The CEO and the CFO of the Company have supervised an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012. Based on this evaluation, including an assessment of the remedial measures that have been implemented by the Company during 2012 (as described in section 15.3), the CEO and the CFO have concluded that the previously identified material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting no longer existed as at December 31, 2012. See section 15 "Controls and Procedures".

At the request of the Company's Audit Committee, its independent auditor, Deloitte LLP ("Deloitte"), conducted an audit of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Deloitte has issued an audit report dated March 8, 2013 which concludes that, in Deloitte's opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2012, in accordance with criteria established in the COSO Framework. This report is reproduced in section 16 of this MD&A and should be read in its entirety.

## 2. 2012 FINANCIAL HIGHLIGHTS

### DECREASE IN 2012 NET INCOME

YEAR ENDED DECEMBER 31 (IN MILLIONS CAD, EXCEPT EARNINGS PER SHARE)	2012	2011	CHANGE
Net income attributable to SNC-Lavalin shareholders:			
Excluding Infrastructure Concession—Investments ("ICI")	\$ 152.2	\$ 247.6	(38.5%)
From ICI	156.9	131.2	19.6%
Net income attributable to SNC-Lavalin shareholders	\$ 309.1	\$ 378.8	(18.4%)
Earnings per share (diluted) (in \$)	\$ 2.04	\$ 2.49	(18.1%)

- > For the year ended December 31, 2012, net income attributable to SNC-Lavalin shareholders was \$309.1 million (\$2.04 per share on a diluted basis), compared to \$378.8 million (\$2.49 per share on a diluted basis) for the comparable period in 2011. Net income attributable to SNC-Lavalin shareholders decreased in 2012 compared to 2011, reflecting lower net income attributable to SNC-Lavalin shareholders excluding Infrastructure Concession—Investments ("ICI"), partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI.
- > Net income attributable to SNC-Lavalin shareholders excluding ICI decreased in 2012 compared to 2011. The decrease mainly reflected higher selling, general and administrative expenses partially offset by a higher gross margin amount. The increase in gross margin reflected a higher level of activity, partially offset by a lower gross margin-to-revenue ratio, notably in Packages which was impacted particularly by unfavourable cost reforecasts on a major Power project with an adverse impact of \$110.9 million on gross margin in 2012. On a segment basis, with the exception of Mining & Metallurgy, all other segments had lower operating income in 2012 compared to 2011, and Hydrocarbons & Chemicals had an operating loss in 2012.
- > Net income attributable to SNC-Lavalin shareholders from ICI increased in 2012 compared to 2011, mainly due to higher dividends received from 407 International Inc. ("Highway 407") and higher net income of AltaLink, partially offset by lower net income from Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH").

**HIGHER REVENUES IN 2012**

YEAR ENDED DECEMBER 31 (IN MILLIONS CAS)	2012	2011	CHANGE
Revenues	\$ 8,091.0	\$ 7,209.9	12.2%

- > Revenues for the year ended December 31, 2012 increased by 12.2% compared to 2011, primarily reflecting a 30.2% increase in Services.

**CASH POSITION**

DECEMBER 31 (IN MILLIONS CAS)	2012	2011	CHANGE
Cash and cash equivalents	\$ 1,174.9	\$ 1,231.0	(4.6%)
Net cash position	\$ 808.7	\$ 851.7	(5.1%)

- > Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) decreased as at December 31, 2012 compared to December 31, 2011.

**REVENUE BACKLOG**

DECEMBER 31 (IN MILLIONS CAS)	2012	2011
Services	\$ 2,151.3	\$ 2,226.1
Packages	5,747.7	5,482.8
Operations & Maintenance ("O&M")	2,234.4	2,379.1
<b>Total</b>	<b>\$ 10,133.4</b>	<b>\$ 10,088.0</b>

- > The Company's overall revenue backlog as at December 31, 2012 remained in line with December 31, 2011, as the increase in Packages was offset by a decrease in O&M and Services.

**DIVIDEND INCREASE**

- > On March 8, 2013, the Company's Board of Directors approved a quarterly dividend of \$0.23 per share, a 4.5% increase over the previous quarterly dividend declared.

### 3. OVERVIEW OF OUR BUSINESS

SNC-Lavalin is a leading international engineering and construction company, and a leader in Operations & Maintenance ("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  
**34,000 EMPLOYEES**  
working 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
- › Mining & Metallurgy
- › Power
- › Hydrocarbons & Chemicals
- › 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:

- › Integrated Real Estate Solutions
- › 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:

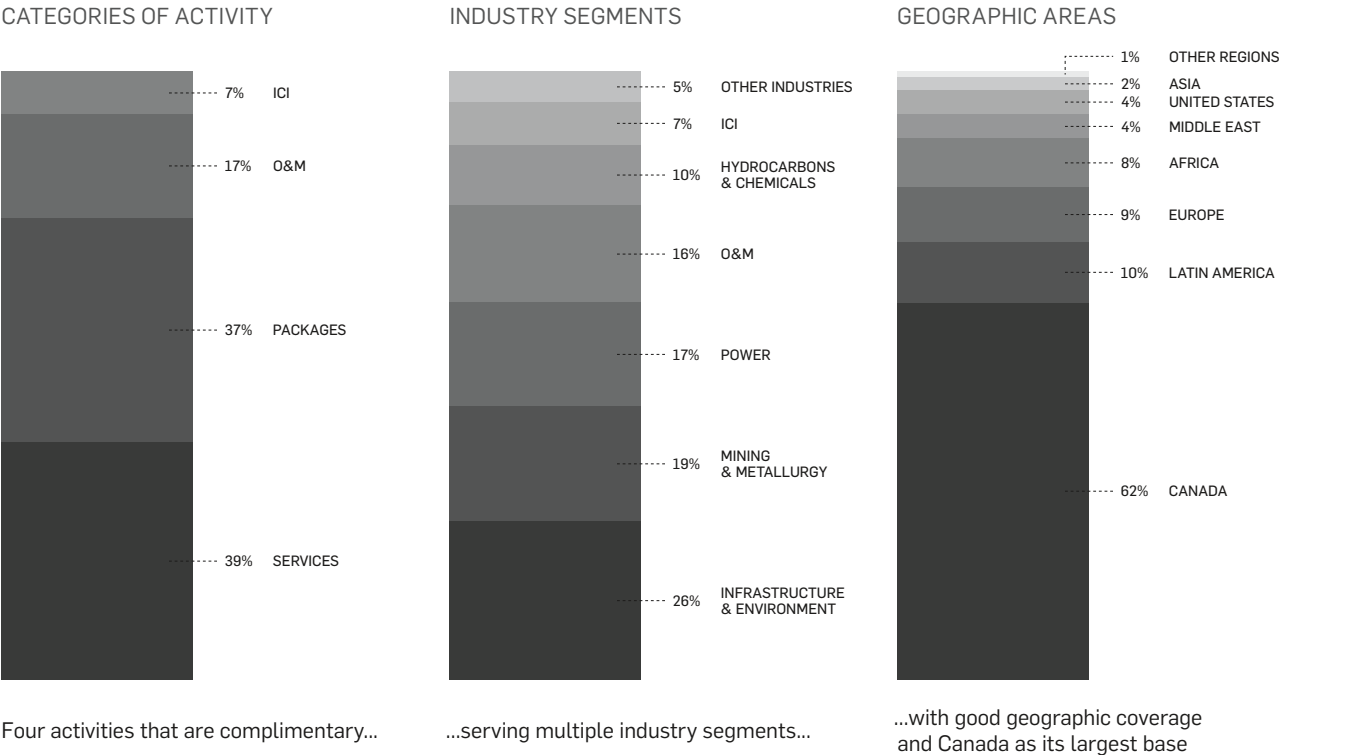
- › Airports
- › Bridges
- › Cultural and public service buildings
- › Mass transit systems
- › Power
- › Roads
- › Water

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.

SNC-Lavalin has ongoing projects in multiple geographic regions and for multiple 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.

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 2012 revenue charts.

**DIVERSITY OF THE COMPANY'S REVENUE BASE**  
2012 REVENUES (\$8.1 BILLION)



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's management 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. The Company's Services activities aim to generate 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 aims to generate a gross margin yield between 7% and 10% on Packages projects.

### 4.1.3 O&M ACTIVITIES

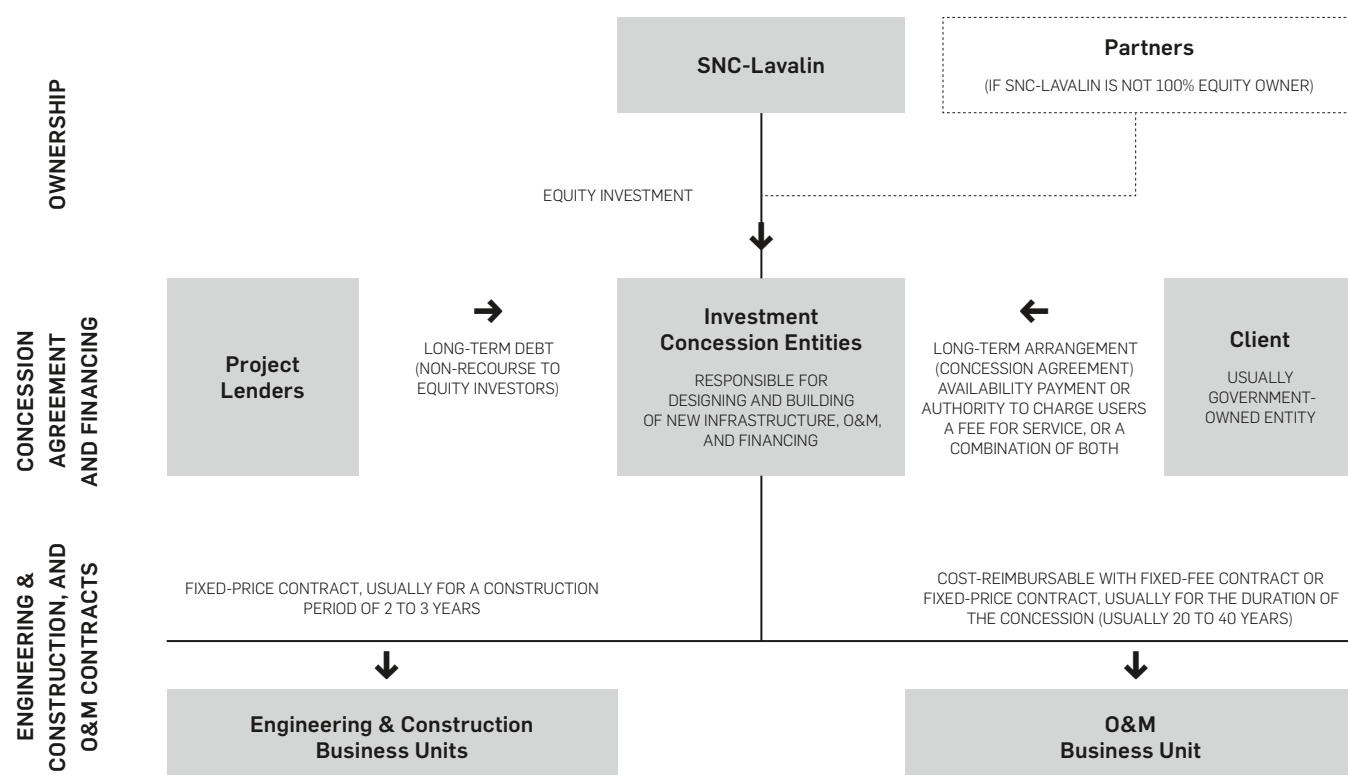
The Company provides **operations, maintenance and logistics solutions** for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, telecommunications infrastructure, highways, bridges, light rail transit systems, airports, ships, oil and gas facilities, and camps for construction operations 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.

**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:



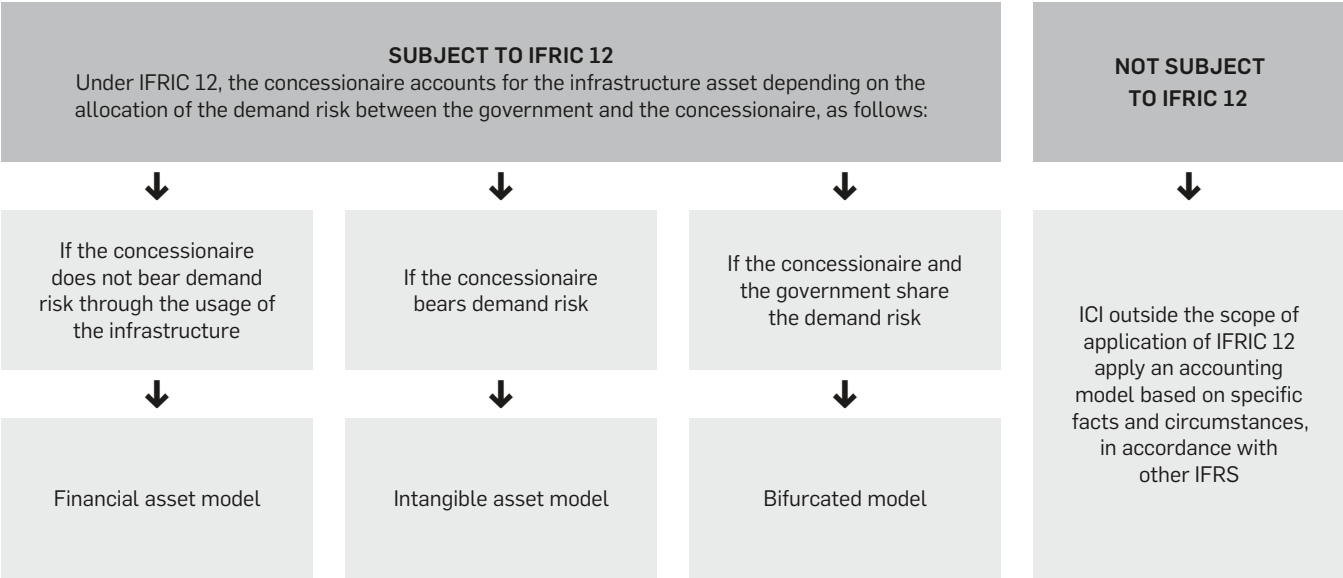


4.1.4.1 ACCOUNTING MODELS USED BY CONCESSION ENTITIES

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 (usually a government):

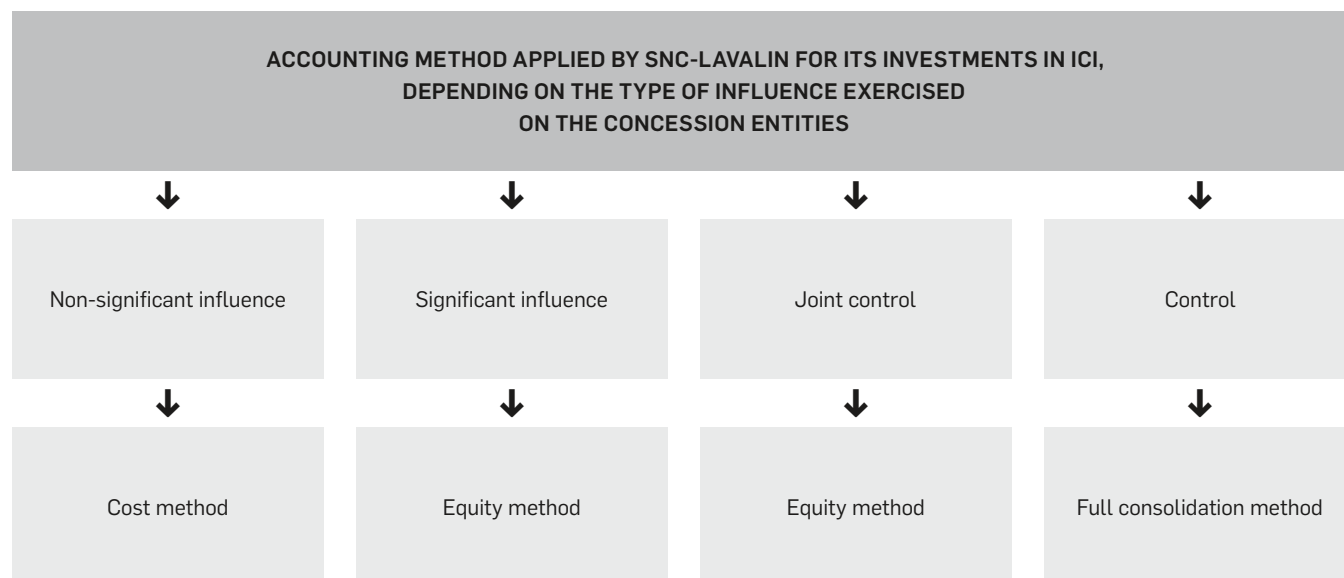
- i) controls or regulates what services the operator ("the concessionaire") must provide with the infrastructure, to whom it must provide them, and at what price; and
- ii) controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

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:



#### 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:



#### 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 usually non-recourse to the general credit of the Company.

The following information on the Company's ICI is included in its audited annual consolidated financial statements:

Consolidated statement of financial position	<ul style="list-style-type: none"> <li>&gt; Property and equipment from ICI controlled by the Company</li> <li>&gt; The net book value of ICI accounted for by the equity and cost methods, distinctively</li> <li>&gt; Non-recourse debt from ICI controlled by the Company</li> </ul>
Consolidated statement of cash flows	<p>For the ICI controlled by the Company:</p> <ul style="list-style-type: none"> <li>&gt; Depreciation and amortization from ICI, and acquisition of property and equipment from ICI</li> <li>&gt; Repayment and increase of non-recourse debt from ICI</li> </ul>
Notes to the annual consolidated financial statements	<ul style="list-style-type: none"> <li>&gt; Main accounts of the statement of financial position impacted by ICI controlled by the Company are shown on separate lines in Note 5</li> <li>&gt; Net income attributable to SNC-Lavalin shareholders from ICI</li> <li>&gt; Certain other notes provide information regarding ICI separately from other activities</li> </ul>

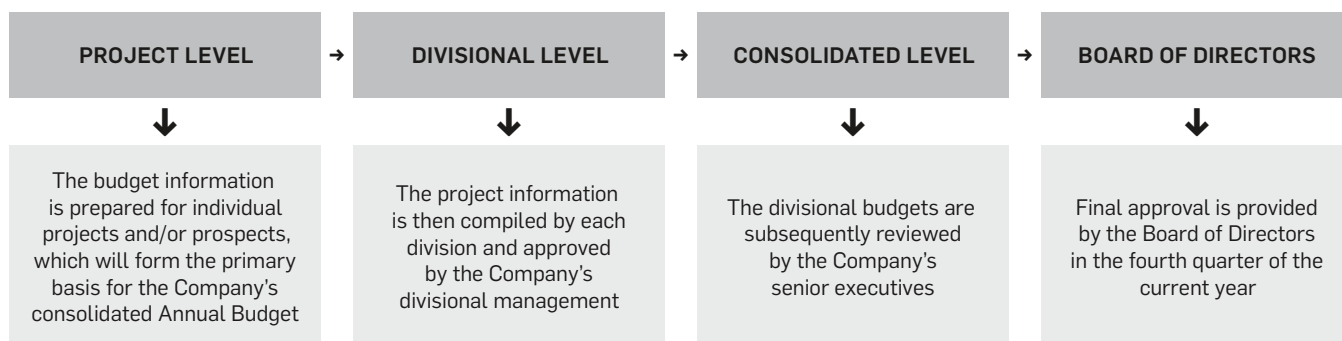
Section 9.3 of the current MD&A also presents specific information on the Company's ICI, including snapshots on Highway 407 and AltaLink, which are considered to represent the most significant portion of the total fair value of the Company's ICI portfolio.

## 4.2 RESULTS BY SEGMENT

In addition to analyzing its results by categories of activity, the Company presents information in the way management performance is evaluated, by regrouping its engineering and constructions projects within the related industries, as follows: i) Infrastructure & Environment; ii) Mining & Metallurgy; iii) Power; iv) Hydrocarbons & Chemicals, and; v) Other Industries. The O&M and ICI segments correspond to the O&M and ICI categories of activity.

## 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.



The Annual Budget is a key tool used by management to monitor the Company's performance and progress against key financial objectives. 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 projects (i.e., its estimated revenues and costs to complete) is 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 unit executive vice-president, the CFO and the CEO.

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 on 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 ("Go"), and the probability that it will be awarded to the Company ("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.

In regards to its ICI budget and forecast, expected results based on assumptions specific to each investment are used.

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 costs to complete each individual project ("cost 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 estimated revenues and in the recovery of such revenues	Variation of the estimated revenues of projects, including the impact from change orders and claims, as well as the change in estimates on the recovery of trade receivables, contracts in progress and other financial assets, may impact the financial results of the Company.
Changes in the results of its ICI	Variation in the financial results of each ICI accounted for under the full consolidation or equity methods 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.
Level of selling, general and administrative expenses	Variation in selling, general and administrative expenses have a direct impact on the profitability of the Company. The level of selling, general and administrative expenses is influenced by the level of activity, and can depend on several other factors not related to project execution or performance, that can be recurring or not.
Income taxes	Variation in income taxes impact the profitability of the Company, and depends on various factors, as, amongst others, the geographic areas in which the Company is present, the statutory tax rates enacted, the nature of the revenues earned by the Company as well as tax assessments made by authorities.

#### 4.4 NON-IFRS FINANCIAL MEASURES

Some of the indicators used by the Company's management 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:

PERFORMANCE		LIQUIDITY	
NON-IFRS FINANCIAL MEASURE	REFERENCE	NON-IFRS FINANCIAL MEASURE	REFERENCE
Gross margin by category of activity	Section 6.2	Net cash position	Section 11.2
Revenue backlog	Section 7	Working capital	Section 11.4
Booking-to-revenue ratio	Section 7	Recourse debt-to-capital ratio	Section 11.5
Operating income by segment	Section 9		

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.

## 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
- > **Net cash position**, which is a key indicator of the Company's financial capability.

While the Return on Average Shareholders Equity ("ROASE") continues to be presented in the Company's MD&A (see section 11.8), management no longer views ROASE as a key financial performance indicator.

The following table presents a summary of the Company's key financial performance indicators and outlines the results achieved as at or for the years ended December 31, 2012, 2011 and 2010.

### KEY FINANCIAL PERFORMANCE INDICATORS

FINANCIAL INDICATOR	ACTUAL RESULTS		
	2012	2011	2010
Growth (decrease) in net income attributable to SNC-Lavalin shareholders	(18.4%)	(20.5%)	21.6%
Net cash position (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt)	\$808.7M	\$851.7M	\$870.1M

**Net income attributable to SNC-Lavalin shareholders in 2012 decreased by 18.4% to \$309.1 million** (\$2.04 per share on a diluted basis), compared to \$378.8 million (\$2.49 per share on a diluted basis) in 2011. Net income attributable to SNC-Lavalin shareholders of the past three years is discussed in section 6.1.

The **Company's net cash position of \$808.7 million as at December 31, 2012** contributes to the capacity of the Company to meet operating, investing and financing needs. The Company's liquidity and capital resources are discussed in section 11.2.

## 6. BREAKDOWN OF INCOME STATEMENT

**\$8.1 BILLION  
REVENUES**

**\$1.4 BILLION  
GROSS MARGIN**

**\$309.1 MILLION  
NET INCOME  
ATTRIBUTABLE  
TO SNC LAVALIN  
SHAREHOLDERS**

YEAR ENDED DECEMBER 31 (IN MILLIONS CA\$, EXCEPT EARNINGS PER SHARE)	2012		2011		2010	
<b>Revenues by activity:</b>						
Services	\$ 3,175.0		\$ 2,437.8		\$ 2,053.8	
Packages	3,020.4		2,871.5		2,137.4	
O&M	1,330.5		1,399.2		1,330.4	
ICI	565.1		501.4		472.3	
	\$ 8,091.0		\$ 7,209.9		\$ 5,993.9	
<b>Gross margin by activity:</b>						
Services	\$ 747.3	23.5%	\$ 592.5	24.3%	\$ 543.0	26.4%
Packages	227.1	7.5%	301.9	10.5%	434.2	20.3%
O&M	64.0	4.8%	78.4	5.6%	59.6	4.5%
ICI	316.6	56.0%	279.3	55.7%	264.2	55.9%
	\$ 1,355.0	16.7%	\$ 1,252.1	17.4%	\$ 1,301.0	21.7%
<b>Selling, general and administrative expenses</b>	851.2		654.7		581.7	
<b>Net financial expenses:</b>						
From ICI	112.5		99.7		85.1	
From other activities	13.7		15.5		26.0	
	126.2		115.2		111.1	
<b>Income before income tax expense</b>	377.6		482.2		608.2	
<b>Income tax expense</b>	68.1		94.9		120.8	
<b>Net income</b>	\$ 309.5		\$ 387.3		\$ 487.4	
<b>Net income attributable to:</b>						
SNC-Lavalin shareholders	\$ 309.1		\$ 378.8		\$ 476.7	
Non-controlling interests	0.4		8.5		10.7	
<b>Net income</b>	\$ 309.5		\$ 387.3		\$ 487.4	
<b>Earnings per share (\$)</b>						
Basic	\$ 2.05		\$ 2.51		\$ 3.16	
Diluted	\$ 2.04		\$ 2.49		\$ 3.13	
<b>Supplementary information</b>						
Net income attributable to SNC-Lavalin shareholders:						
From ICI	\$ 156.9		\$ 131.2		\$ 134.9	
Excluding ICI	152.2		247.6		341.8	
<b>Net income attributable to SNC-Lavalin shareholders</b>	\$ 309.1		\$ 378.8		\$ 476.7	

## 6.1 NET INCOME ANALYSIS

The analysis that follows is for 2012, 2011 and 2010.

**Net income attributable to SNC-Lavalin shareholders decreased in 2012** compared to 2011, reflecting lower net income attributable to SNC-Lavalin shareholders excluding ICI, partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI. The decrease in net income in 2011 compared to 2010 was mainly reflective of a lower net income attributable to SNC-Lavalin shareholders excluding ICI.

**Net income attributable to SNC-Lavalin shareholders excluding ICI decreased in 2012** compared to 2011. The decrease mainly reflected higher selling, general and administrative expenses partially offset by a higher gross margin amount. The increase in gross margin reflected a higher level of activity, partially offset by a lower gross margin-to-revenue ratio, notably in Packages which was impacted particularly by unfavourable cost reforecasts on a major Power project with an adverse impact of \$110.9 million on gross margin in 2012. On a segment basis, with the exception of Mining & Metallurgy, all other segments had lower operating income in 2012 compared to 2011, and Hydrocarbons & Chemicals had an operating loss in 2012. Net income attributable to SNC-Lavalin shareholders excluding ICI decreased in 2011 compared to 2010, excluding a 2010 gain after taxes of \$19.6 million from the disposal of certain technology solution assets, mainly reflecting a lower gross margin-to-revenue ratio, primarily in Packages, partially offset by a higher level of activity.

**Net income attributable to SNC-Lavalin shareholders from ICI increased in 2012** compared to 2011, mainly due to higher dividends received from Highway 407 and higher net income of AltaLink, partially offset by lower net income from SKH. Net income attributable to SNC-Lavalin shareholders from ICI increased in 2011 compared to 2010, excluding the 2010 net gain after taxes of \$26.1 million from the disposal of Trencap and Valener, mainly due to higher dividends received 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.

## 6.2 REVENUE AND GROSS MARGIN ANALYSIS

**Revenues increased in 2012** compared to 2011, primarily reflecting a 30.2% increase in Services. The increase in 2011 compared to 2010 reflected an increase in all the Company's categories of activity, with most of the increase from Packages and Services.

**Gross margin in 2012 increased**, compared to the previous period, reflecting a higher volume of activity, primarily in Services, partially offset by a lower gross margin-to-revenue ratio, notably in Packages. The decrease in gross margin in 2011, compared to 2010, mainly reflected a lower gross margin-to-revenue ratio, partially offset by a higher level of activity.

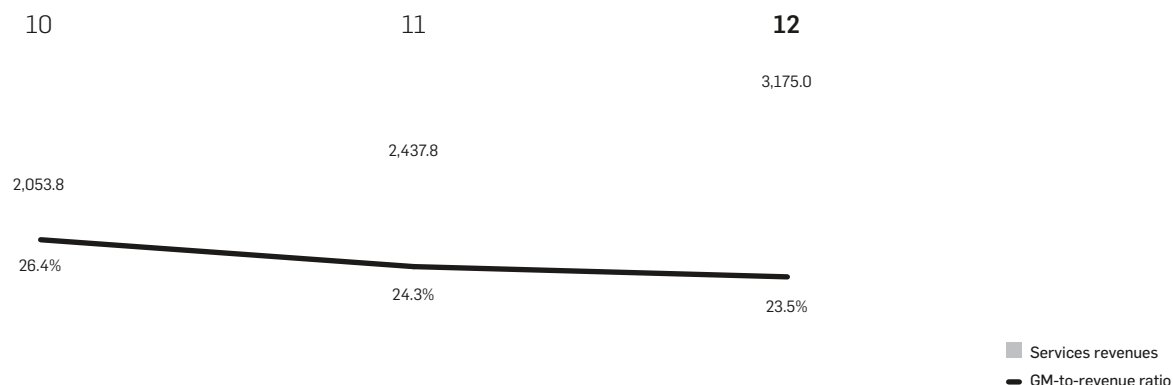
### 6.2.1 SERVICES REVENUES AND GROSS MARGIN

**Services revenues increased in 2012** compared to 2011, reflecting an increase in Mining & Metallurgy, Hydrocarbons & Chemicals, Power and Infrastructure & Environment.

In 2010, Services activities generated a gross margin-to-revenue ratio within the Company's target, ranging from 25% to 29%. In 2011 and 2012, the gross margin-to-revenue ratio was lower, while the revenues increased. The 2011 and 2012 gross margin-to-revenue ratios were below the historical range mainly due to lower gross margins on certain major projects.

**SERVICES REVENUES AND GROSS MARGIN**

(IN MILLIONS CA\$)



**Services gross margin increased in 2012** compared to 2011, primarily reflecting a higher level of activity, partially offset by a lower gross margin-to-revenue ratio, mainly in Infrastructure & Environment and Power.

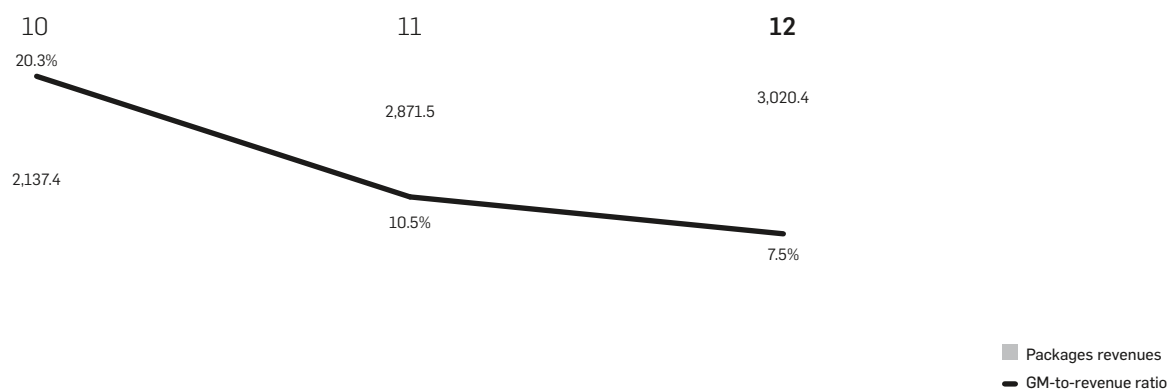
**6.2.2 PACKAGES REVENUES AND GROSS MARGIN**

**Packages revenues increased in 2012** compared to 2011, reflecting an increase in Power and Mining & Metallurgy, partially offset by a decrease mainly in Hydrocarbons & Chemicals.

Packages activities increased in 2011 and 2012, following a higher level of activity. The Company aims to generate a gross margin-to-revenue ratio between 7% and 10% on Packages projects. In 2010, the range was surpassed, mainly due to favourable reforecasts on certain major projects. The gross margin-to-revenue ratio was lower in 2012 compared to 2011, mainly due to unfavourable cost reforecasts on a major Power project.

**PACKAGES REVENUES AND GROSS MARGIN**

(IN MILLIONS CA\$)



**Gross margin for Packages decreased in 2012** compared to 2011. The decrease was mainly due to unfavourable cost reforecasts on a major Power project with an adverse impact of \$110.9 million on gross margin, partially offset by a higher level of activity.



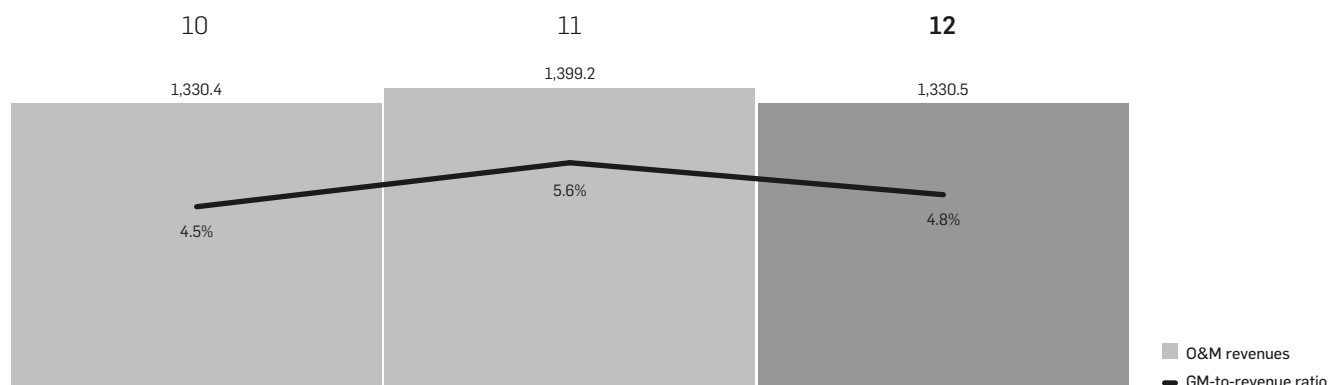
### 6.2.3 O&M REVENUES AND GROSS MARGIN

**O&M revenues decreased in 2012** compared to 2011, mainly due to a lower level of activity on certain ongoing contracts in Canada.

As illustrated in the table below, O&M revenues increased in 2011 compared to 2010, and decreased in 2012. In 2010 and 2012, the gross margin-to-revenue ratio varied between the historical range of 3% to 5%, while it was surpassed in 2011.

#### O&M REVENUES AND GROSS MARGIN

(IN MILLIONS CA\$)



**O&M gross margin decreased in 2012** compared to the previous year, mainly reflecting a lower 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 performance 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.

The Company's **ICI revenues increased in 2012** compared to 2011, mainly due to higher revenues of AltaLink and higher dividends received from Highway 407, partially offset by lower revenues from SKH. Gross margin increased in 2012 compared to 2011, mainly for the same reasons with respect to the revenues increase outlined above.

As illustrated in the table below, the Company's gross margin from ICI steadily increased over the past three years, mainly reflecting the growth from AltaLink and Highway 407.

#### ICI GROSS MARGIN

(IN MILLIONS CA\$)

10	11	12
264.2	279.3	316.6

### 6.3 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

(IN MILLIONS CAS)	2012	2011	CHANGE
Selling costs	\$ 225.5	\$ 191.3	17.9%
General and administrative expenses	625.7	463.4	35.0%
Selling, general and administrative expenses	\$ 851.2	\$ 654.7	30.0%

**Selling, general and administrative expenses increased in 2012** compared to 2011, notably reflecting i) additional selling, general and administrative expenses of \$72.4 million from businesses acquired; ii) a \$16.2 million increase in selling costs, excluding \$18.0 million from businesses acquired, as well as; iii) \$15.6 million of expenses related to compliance and other related costs; iv) \$15.3 million of expenses related to certain retention measures, and; v) an expense of \$5.0 million in connection with the terms of the Former CEO's departure arrangement, which is mainly held in escrow, as well as; vi) a \$72.0 million increase in the other general and administrative expenses which included, amongst others, expenses related to restructuring and reorganisation of certain offices and higher occupancy-related expenses. The additional selling, general and administrative expenses from businesses acquired included expenses of 2012 for which there were no comparative figures in the comparative period.

The above-mentioned expenses related to compliance and other related costs, to certain retention measures and in connection with the terms of the Former CEO's departure arrangement are **corporate** selling, general and administrative expenses. In accordance with the methodology described in Note 4 to the Company's 2012 audited annual consolidated financial statements, **corporate** selling, general and administrative expenses are allocated to each of the Company's segments.

### 6.4 NET FINANCIAL EXPENSES

**Net financial expenses increased in 2012** compared to 2011, reflecting higher net financial expenses from ICI, as net financial expenses from other activities of 2012 remained comparable to 2011.

**Net financial expenses from ICI increased in 2012** compared to 2011, mainly due to a higher interest expense from AltaLink, primarily due to additional non-recourse debt, partially offset by a loss before taxes of \$5.0 million recorded in the third quarter of 2011, in other net financial expenses from ICI, resulting from the acquisition of a subsidiary's debenture related to the AltaLink transaction, as described in Note 5A to the Company's 2012 audited annual consolidated financial statements.

**Net financial expenses from other activities in 2012 remained in line** with the previous year.

(IN MILLIONS CAS)	2012			2011		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (5.0)	\$ (8.4)	\$ (13.4)	\$ (7.1)	\$ (10.2)	\$ (17.3)
Interest on debt:						
Recourse	–	21.9	21.9	–	21.9	21.9
Non-recourse						
AltaLink	104.6	–	104.6	87.9	–	87.9
Other	7.7	–	7.7	7.9	–	7.9
Other	5.2	0.2	5.4	11.0	3.8	14.8
Net financial expenses	\$ 112.5	\$ 13.7	\$ 126.2	\$ 99.7	\$ 15.5	\$ 115.2

## 6.5 INCOME TAXES ANALYSIS

The effective income tax rate from other activities in 2012 remained in line with 2011.

The effective income tax rate from ICI increased in 2012 compared to 2011, mainly reflecting the increase in income before income tax expense from AltaLink and lower non-taxable income from SKH, partially offset by an increase in the non-taxable dividends received from Highway 407.

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

(IN MILLIONS CAS)	2012			2011		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Income before income tax expense	\$ 175.5	\$ 202.1	\$ 377.6	\$ 151.3	\$ 330.9	\$ 482.2
Income tax expense	\$ 18.6	\$ 49.5	\$ 68.1	\$ 12.6	\$ 82.3	\$ 94.9
Effective income tax rate (%)	10.6%	24.5%	18.0%	8.4%	24.9%	19.7%

## 7. REVENUE BACKLOG

# \$10.1 BILLION TOTAL REVENUE BACKLOG

**\$2.2 BILLION  
SERVICES**

**\$5.7 BILLION  
PACKAGES**

**\$2.2 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.

**REVENUE BACKLOG BY SEGMENT, GEOGRAPHIC AREA AND CATEGORY OF ACTIVITY**

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

AT DECEMBER 31 (IN MILLIONS CAS)	2012			
	SERVICES	PACKAGES	O&M	TOTAL
<b>BY SEGMENT</b>				
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 721.3	\$ 2,916.6	\$ –	\$ 3,637.9
Mining & Metallurgy	685.6	320.6	–	1,006.2
Power	434.7	2,151.1	–	2,585.8
Hydrocarbons & Chemicals	215.5	132.7	–	348.2
Other Industries	94.2	226.7	–	320.9
<b>O&amp;M</b>	–	–	2,234.4	2,234.4
<b>Total</b>	<b>\$ 2,151.3</b>	<b>\$ 5,747.7</b>	<b>\$ 2,234.4</b>	<b>\$ 10,133.4</b>
<b>FROM CANADA AND OUTSIDE CANADA</b>				
From Canada	\$ 959.7	\$ 4,228.6	\$ 1,574.5	\$ 6,762.8
Outside Canada	1,191.6	1,519.1	659.9	3,370.6
<b>Total</b>	<b>\$ 2,151.3</b>	<b>\$ 5,747.7</b>	<b>\$ 2,234.4</b>	<b>\$ 10,133.4</b>

AT DECEMBER 31 (IN MILLIONS CAS)	2011			
	SERVICES	PACKAGES	O&M	TOTAL
<b>BY SEGMENT</b>				
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 804.7	\$ 2,051.2	\$ –	\$ 2,855.9
Mining & Metallurgy	646.4	476.6	–	1,123.0
Power	360.8	1,601.1	–	1,961.9
Hydrocarbons & Chemicals	248.9	971.8	–	1,220.7
Other Industries	165.3	382.1	–	547.4
<b>O&amp;M</b>	–	–	2,379.1	2,379.1
<b>Total</b>	<b>\$ 2,226.1</b>	<b>\$ 5,482.8</b>	<b>\$ 2,379.1</b>	<b>\$ 10,088.0</b>
<b>FROM CANADA AND OUTSIDE CANADA</b>				
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
<b>Total</b>	<b>\$ 2,226.1</b>	<b>\$ 5,482.8</b>	<b>\$ 2,379.1</b>	<b>\$ 10,088.0</b>

The Company's revenue backlog at December 31, 2012 remained in line with the end of 2011, as the increase in Packages was offset by a decrease in O&M and Services.

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

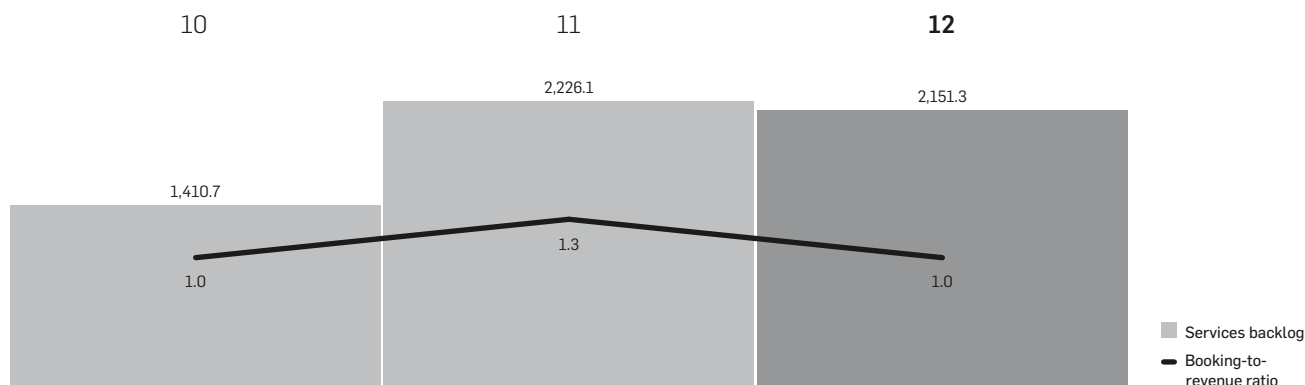
**Backlog from Outside Canada decreased**, primarily due to a decrease in Hydrocarbons & Chemicals and Other Industries, partially offset by an increase in Power and O&M.

## 7.1 SERVICES BACKLOG

Services backlog decreased at the end of 2012 compared to the end of the previous year, reflecting a decrease in Infrastructure & Environment and Other Industries, partially offset by an increase in Power.

### SERVICES BACKLOG

(IN MILLIONS CA\$)



### RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31  
(IN MILLIONS CA\$)

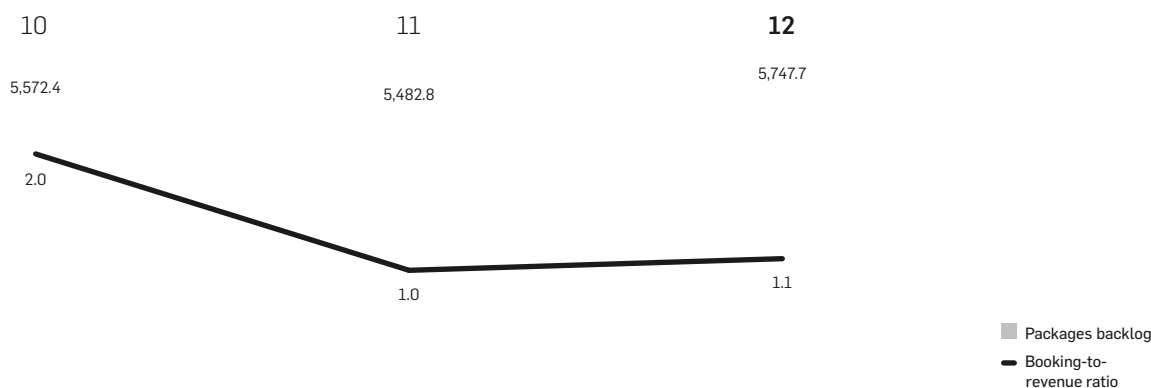
	2012	2011
Opening backlog	\$ 2,226.1	\$ 1,410.7
Add: Contract bookings during the year	3,096.7	3,021.1
Backlog from business acquisitions	3.5	232.1
Less: Revenues recognized during the year	3,175.0	2,437.8
Ending backlog	\$ 2,151.3	\$ 2,226.1

## 7.2 PACKAGES BACKLOG

Packages backlog increased at the end of 2012 compared to 2011, resulting from an increase in Infrastructure & Environment and Power, partially offset by a decrease in Hydrocarbons & Chemicals, Mining & Metallurgy and Other Industries. The decrease in Hydrocarbons & Chemicals was primarily due to debooking of backlog in the fourth quarter of 2012 following the reception of a notice of termination for convenience from its client related to a fixed-price EPC contract awarded in 2011 for a froth treatment plant in Alberta.

### PACKAGES BACKLOG

(IN MILLIONS CA\$)



**RECONCILIATION OF PACKAGES BACKLOG**

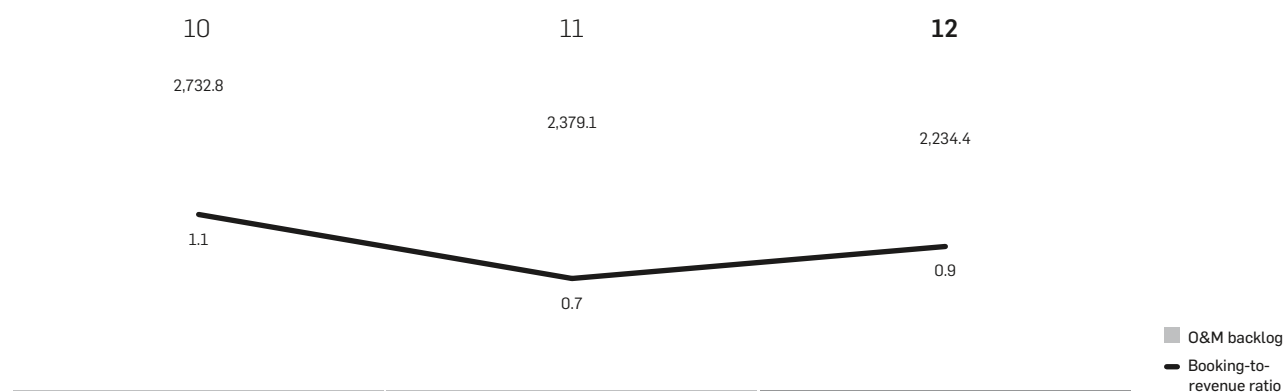
YEAR ENDED DECEMBER 31 (IN MILLIONS CA\$)	2012	2011
Opening backlog	\$ 5,482.8	\$ 5,572.4
Add: Contract bookings during the year	3,883.4	2,764.6
Backlog from business acquisitions	–	17.3
Less: Revenues recognized during the year	3,020.4	2,871.5
Debooking of backlog of an Hydrocarbons & Chemicals project	598.1	–
Ending backlog	\$ 5,747.7	\$ 5,482.8

**7.3 O&M BACKLOG**

O&M backlog at the end of 2012 decreased compared to 2011, reflecting the normal fluctuations in the timing of the long-term contracts, primarily in Canada.

**O&M BACKLOG**

(IN MILLIONS CA\$)

**RECONCILIATION OF O&M BACKLOG**

YEAR ENDED DECEMBER 31 (IN MILLIONS CA\$)	2012	2011
Opening backlog	\$ 2,379.1	\$ 2,732.8
Add: Contract bookings during the year	1,185.8	1,021.7
Backlog from business acquisitions	–	23.8
Less: Revenues recognized during the year	1,330.5	1,399.2
Ending backlog	\$ 2,234.4	\$ 2,379.1

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

(IN MILLIONS CA\$)	INCLUDED IN BACKLOG					NOT INCLUDED IN BACKLOG	
	2013	2014	2015	2016	2017	TOTAL	THEREAFTER
O&M backlog	\$ 1,006.7	\$ 478.5	\$ 271.1	\$ 241.2	\$ 236.9	\$ 2,234.4	\$ 3,032.6

## 8. GEOGRAPHIC BREAKDOWN OF REVENUES BY CATEGORY OF ACTIVITY

YEAR ENDED DECEMBER 31 (IN MILLIONS C\$)	2012					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
<b>Canada</b>	\$ 1,373.0	\$ 1,941.8	\$ 1,133.5	\$ 560.9	\$ 5,009.2	62%
<b>Outside Canada</b>						
Latin America	676.2	110.1	27.3	–	813.6	10%
Europe	338.8	306.5	50.9	2.1	698.3	9%
Africa	253.9	286.1	109.8	–	649.8	8%
Middle East	183.5	171.4	7.7	–	362.6	4%
United States	167.5	134.0	0.7	2.1	304.3	4%
Asia Pacific	145.3	67.2	0.6	–	213.1	2%
Other Regions	36.8	3.3	–	–	40.1	1%
	1,802.0	1,078.6	197.0	4.2	3,081.8	38%
<b>Total</b>	\$ 3,175.0	\$ 3,020.4	\$ 1,330.5	\$ 565.1	\$ 8,091.0	100%

YEAR ENDED DECEMBER 31 (IN MILLIONS C\$)	2011					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
<b>Canada</b>	\$ 981.2	\$ 1,344.7	\$ 1,195.9	\$ 480.7	\$ 4,002.5	56%
<b>Outside Canada</b>						
Latin America	443.4	37.5	45.8	–	526.7	7%
Europe	319.5	252.5	49.7	2.4	624.1	9%
Africa	237.6	798.2	85.6	19.3	1,140.7	16%
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%
<b>Total</b>	\$ 2,437.8	\$ 2,871.5	\$ 1,399.2	\$ 501.4	\$ 7,209.9	100%

## 8.1 REVENUES IN CANADA

Revenues in Canada increased in 2012 compared to 2011, primarily due to a higher level of Packages and Services activities.

Services activities in Canada for 2012 increased compared to 2011, primarily reflecting a higher level of activity in Mining & Metallurgy, Power and Infrastructure & Environment.

Packages activities in Canada increased in 2012 compared to the previous year, reflecting mainly a higher level of activity from Mining & Metallurgy, Infrastructure & Environment and Power.

O&M activities in Canada decreased in 2012 compared to the previous year, mainly due to a lower level of activity on certain ongoing contracts.

The increase in ICI revenues in Canada for 2012 compared to 2011 was mainly due to higher revenues of AltaLink and higher dividends received from Highway 407.

## 8.2 REVENUES FROM OUTSIDE CANADA

The Company's revenue from outside Canada decreased in 2012 compared to 2011. The decrease was primarily from Africa, partially offset by an increase mainly in Latin America. The variance is analyzed as follows:

- > **Revenues in Latin America increased in 2012** compared to the previous year, mainly reflecting increased Services activities, in Hydrocarbons & Chemicals, Mining & Metallurgy and Power, as well as increased Packages activities, primarily in Power.
- > **Revenues from Europe increased in 2012** compared to 2011, primarily due to an increase in Packages activities, mainly in Other Industries and Power, partially offset by Hydrocarbons & Chemicals, as well as a higher level of Services activity, mainly in Infrastructure & Environment, partially offset by Other Industries.
- > **Revenues from Africa decreased in 2012** compared to 2011, primarily due to a decrease in Packages activities, mainly from a lower level of activities in Hydrocarbons & Chemicals and Infrastructure & Environment, partially offset by an increase in Power.
- > **Revenues from the Middle East decreased in 2012** compared to 2011, due to a decrease in Packages activities, mainly from Infrastructure & Environment, partially offset mainly by a higher level of Services activity, primarily in Mining & Metallurgy and Hydrocarbons & Chemicals.
- > **United States revenues increased in 2012** compared to 2011, due to increased Services activities, mainly in Mining & Metallurgy and Power, and a higher level of Packages activity, mainly in Power.
- > **In Asia Pacific, revenues decreased in 2012** compared to the previous year, mainly reflecting a decrease in Mining & Metallurgy, as well as a lower level of O&M activity, partially offset by an increase mainly in Power.
- > **In Other Regions, revenues of 2012 remained in line with 2011.**



## 9. OPERATING RESULTS BY SEGMENT

# \$425.2 MILLION TOTAL OPERATING INCOME

**\$225.0 MILLION  
SERVICES  
AND PACKAGES**

**\$43.3 MILLION  
O&M**

**\$156.9 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.

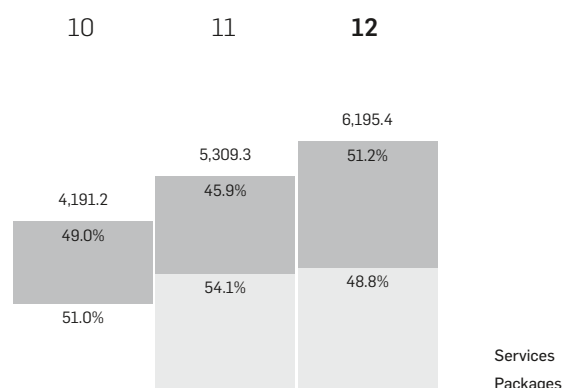
The following discussion reviews the Company's revenues and operating income by segment. Refer to Note 4 to its 2012 audited annual consolidated financial statements to obtain information on the way the Company determines operating income.

YEAR ENDED DECEMBER 31 (IN MILLIONS C\$)	2012			2011		
	REVENUES	OPERATING INCOME (LOSS)	OPERATING INCOME (LOSS) OVER REVENUES	REVENUES	OPERATING INCOME	OPERATING INCOME OVER REVENUES
<b>Services and Packages</b>						
Infrastructure & Environment	\$ 2,070.9	\$ 22.5	1.1%	\$ 1,945.1	\$ 46.8	2.4%
Mining & Metallurgy	1,519.2	98.7	6.5%	1,022.0	80.6	7.9%
Power	1,388.5	80.2	5.8%	894.1	119.7	13.4%
Hydrocarbons & Chemicals	840.4	(11.0)	(1.3%)	1,075.6	33.8	3.1%
Other Industries	376.4	34.6	9.2%	372.5	43.2	11.6%
<b>O&amp;M</b>	1,330.5	43.3	3.3%	1,399.2	50.1	3.6%
<b>ICI</b>	565.1	156.9	27.8%	501.4	131.2	26.2%
<b>Total</b>	<b>\$ 8,091.0</b>	<b>\$ 425.2</b>	<b>5.3%</b>	<b>\$ 7,209.9</b>	<b>\$ 505.4</b>	<b>7.0%</b>

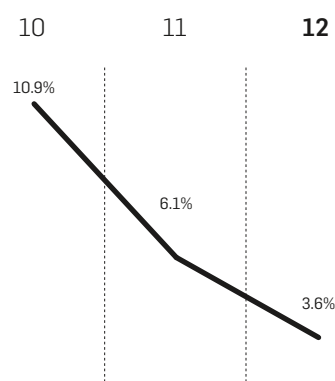
## 9.1 SERVICES AND PACKAGES ACTIVITIES

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.

**REVENUES BY CATEGORY OF ACTIVITY**  
(IN MILLION CA\$)



**OPERATING INCOME OVER REVENUES**

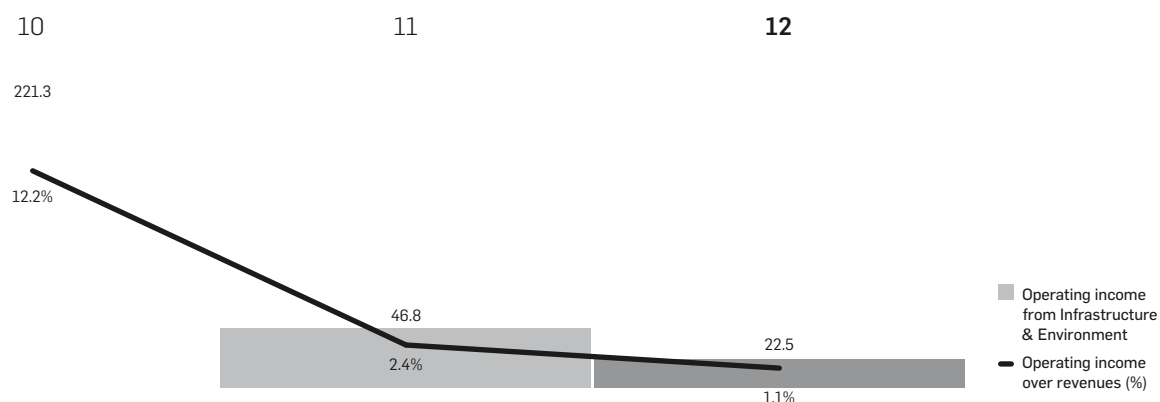


The proportion of Services activities in the Services and Packages mix increased from 49.0% in 2010 to 51.2% in 2012, favourably impacting the operating income-to-revenue ratio. The higher operating income-to-revenue ratio for 2010 is explained by the proportion of Services in the Services and Packages mix combined with favourable reforecasts on certain major Packages projects. The decrease in 2011 and 2012 was mainly due to higher selling, general and administrative expenses as well as a lower gross margin-to-revenue ratio.

### 9.1.1 INFRASTRUCTURE & ENVIRONMENT

**Infrastructure & Environment** includes a full range of infrastructure projects for the public and private sectors including airports, buildings, health 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. The Company also provides environmental services worldwide, and has specialized expertise in the power, infrastructure, hydrocarbons & chemicals, mining, industrial, rural development and climate change sectors.

**OPERATING INCOME FROM INFRASTRUCTURE & ENVIRONMENT**  
(IN MILLIONS CA\$)



(IN MILLIONS CAS)	2012	2011	CHANGE
Revenues from Infrastructure & Environment			
Services	\$ 868.8	\$ 708.7	22.6%
Packages	1,202.1	1,236.4	(2.8%)
<b>Total</b>	<b>\$ 2,070.9</b>	<b>\$ 1,945.1</b>	<b>6.5%</b>
Operating income from Infrastructure & Environment	\$ 22.5	\$ 46.8	(51.9%)
Operating income over revenues from Infrastructure & Environment (%)	1.1%	2.4%	N/A
Revenue backlog at year end	\$ 3,637.9	\$ 2,855.9	27.4%

**Revenues from Infrastructure & Environment increased in 2012** compared to 2011, mainly reflecting a higher level of Services activity, including the impact from the acquisition of Interfleet Technology in October 2011.

The **major revenue contributors in 2012** included work on highways and mass transit systems in Western Canada, healthcare centres in Eastern Canada, district cooling plants in the Middle East, as well as on a cog railway project in Europe.

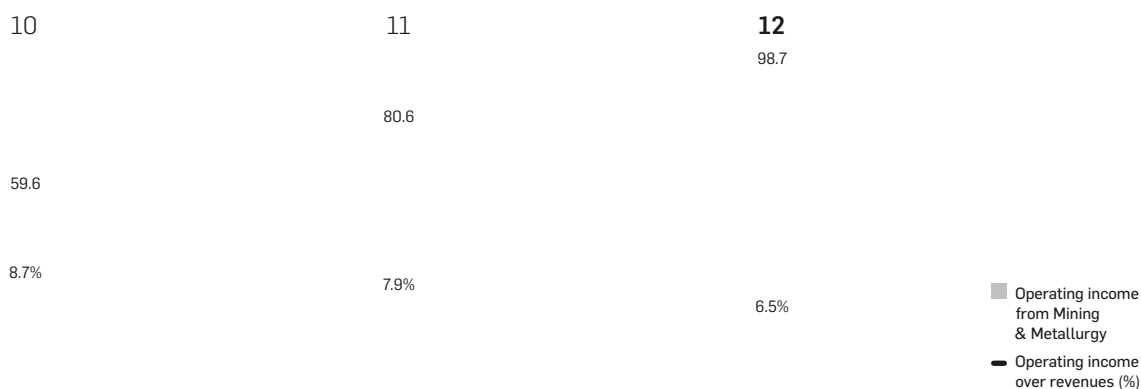
The Company's **operating income from Infrastructure & Environment decreased in 2012** compared to 2011, mainly due to higher selling, general and administrative expenses, partially offset by a higher gross margin. The increase in gross margin was mainly due to the unfavourable impact of the Libyan events in 2011, as well as to a gain before taxes of \$7.0 million from the disposal of a subsidiary in the third quarter of 2012.

### 9.1.2 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, as well as production of fertilizers.

#### OPERATING INCOME FROM MINING & METALLURGY

(IN MILLIONS CAS)



(IN MILLIONS CAS)	2012	2011	CHANGE
Revenues from Mining & Metallurgy			
Services	\$ 1,096.4	\$ 869.2	26.1%
Packages	422.8	152.8	176.8%
<b>Total</b>	<b>\$ 1,519.2</b>	<b>\$ 1,022.0</b>	<b>48.6%</b>
Operating income from Mining & Metallurgy	\$ 98.7	\$ 80.6	22.5%
Operating income over revenues from Mining & Metallurgy (%)	6.5%	7.9%	N/A
Revenue backlog at year end	\$ 1,006.2	\$ 1,123.0	(10.4%)

**Mining & Metallurgy revenues increased in 2012** compared to 2011, primarily due to a higher level of activity in both categories of activity. The higher level of activities in Packages mainly related to a potash project in Western Canada awarded in 2009 on which procurement and construction activities have ramped up in 2012, while the increase in Services was a result of activities on various projects.

The **major revenue contributors in 2012** included projects related to potash in Western Canada, aluminium-related projects in Canada and the Middle East, an iron ore mine expansion in Quebec, the development of a copper mine in Latin America, an atmospheric emissions reduction project in Ontario, as well as a mineral sands extraction and processing project in West Africa.

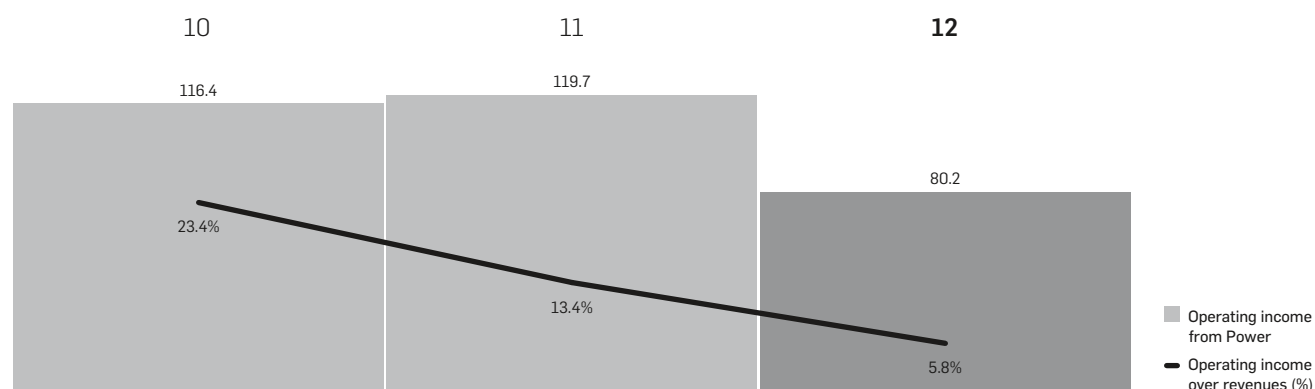
The Company's **operating income from Mining & Metallurgy increased in 2012** compared to 2011, mainly due to a higher volume of activity, partially offset by higher selling, general and administrative expenses.

### 9.1.3 POWER

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

#### OPERATING INCOME FROM POWER

(IN MILLIONS CA\$)



(IN MILLIONS CA\$)	2012	2011	CHANGE
Revenues from Power			
Services	\$ 487.5	\$ 322.2	51.3%
Packages	901.0	571.9	57.5%
<b>Total</b>	<b>\$ 1,388.5</b>	<b>\$ 894.1</b>	<b>55.3%</b>
Operating income from Power	\$ 80.2	\$ 119.7	(33.0%)
Operating income over revenues from Power (%)	5.8%	13.4%	N/A
Revenue backlog at year end	\$ 2,585.8	\$ 1,961.9	31.8%

**Power revenues increased in 2012** compared to 2011, reflecting a higher volume of activity from both categories of activity, mainly from Packages. The increase in revenues in 2012 mainly reflected the steady growth in revenue backlog since the end of 2010 and the acquisition of certain assets of Atomic Energy of Canada Limited's commercial reactor division in October 2011.

The **major revenue contributors in 2012** included work on hydroelectric power facilities in Western and Eastern Canada, a nuclear generating station in Latin America, a dam rehabilitation project in Southern Africa, CO<sub>2</sub> compressor and dehydration packages in Canada, a natural gas fired combined cycle power plant in United States, a geothermal plant project in New Zealand, as well as a thermal power plant in North Africa.

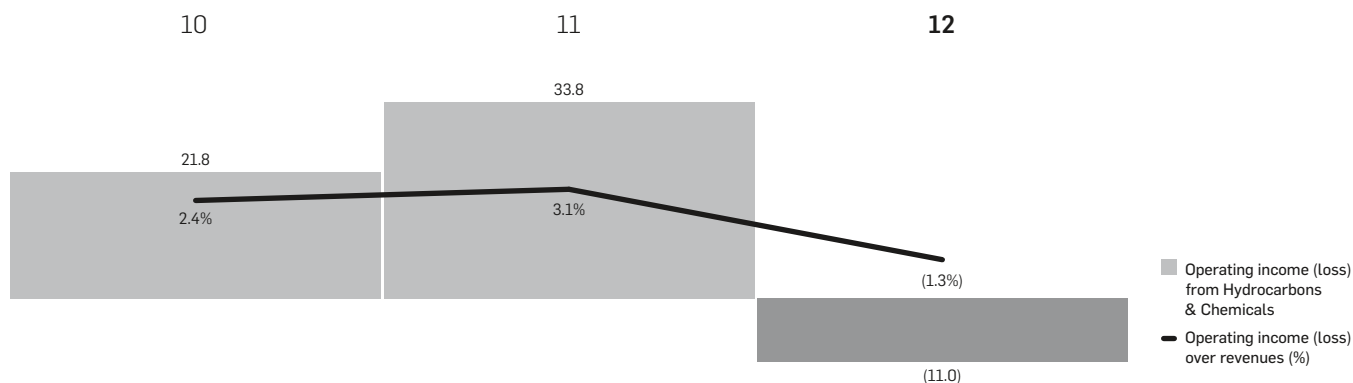
The Company's **operating income from Power decreased in 2012** compared to 2011, mainly reflecting unfavourable cost reforecasts on a major Packages project, with an adverse impact of \$110.9 million on gross margin, as well as higher selling, general and administrative expenses in 2012, partially offset by a higher volume of activity.

### 9.1.4 HYDROCARBONS & CHEMICALS

**Hydrocarbons & Chemicals** includes projects in the areas of bitumen production, heavy oil production, onshore and offshore oil and gas, upgrading and refining, petrochemicals, specialty chemicals, biofuels, 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\$)



(IN MILLIONS CA\$)

	2012	2011	CHANGE
Revenues from Hydrocarbons & Chemicals			
Services	\$ 562.1	\$ 375.2	49.8%
Packages	278.3	700.4	(60.3%)
<b>Total</b>	<b>\$ 840.4</b>	<b>\$ 1,075.6</b>	<b>(21.9%)</b>
Operating income (loss) from Hydrocarbons & Chemicals	\$ (11.0)	\$ 33.8	(132.5%)
Operating income (loss) over revenues from Hydrocarbons & Chemicals (%)	(1.3%)	3.1%	N/A
Revenue backlog at year end	\$ 348.2	\$ 1,220.7	(71.4%)

**Hydrocarbons & Chemicals revenues decreased in 2012** compared to the previous year, reflecting a lower level of Packages activities, mainly due to certain major projects nearing completion, partially offset by a higher level of Services activities.

The **major revenue contributors in 2012** included work on a refinery and chemical complex in United States, a froth treatment plant in Western Canada, project management services contracts for various types of facilities and infrastructure in Latin America, and a natural gas treatment and process facility in North Africa.

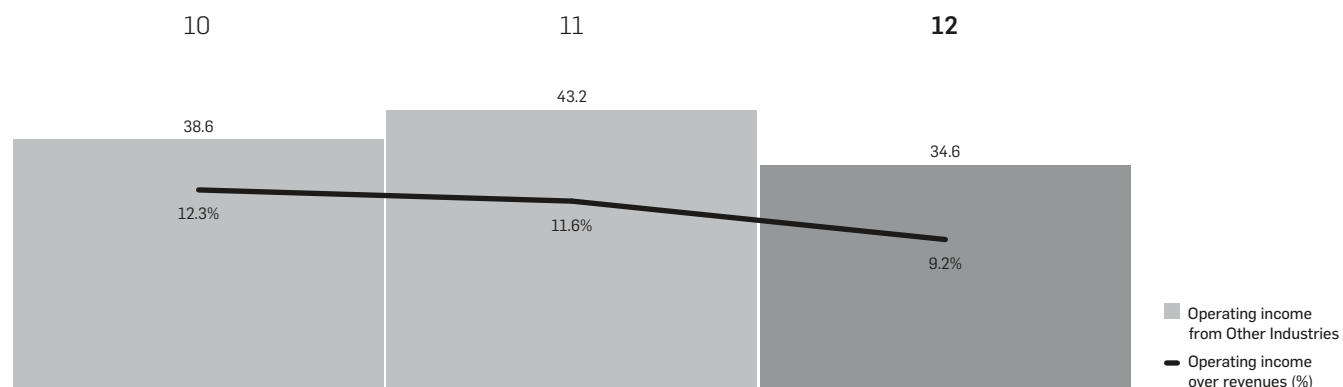
**There was an operating loss from Hydrocarbons & Chemicals in 2012** compared to an operating income in 2011, mainly reflecting a lower level of activity, mainly in Packages, as well as a lower gross margin-to-revenue ratio, also mainly in Packages. There were unfavourable cost reforecasts in both 2012 and 2011, on certain major Packages and Services projects, as well as \$35 million of period expenses relating to certain payments 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 fourth quarter of 2011, and which were subject to an independent investigation initiated by SNC-Lavalin's Board of Directors and led by its Audit Committee in the first quarter of 2012.

### 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.

#### OPERATING INCOME FROM OTHER INDUSTRIES

(IN MILLIONS CA\$)



(IN MILLIONS CA\$)	2012	2011	CHANGE
Revenues from Other Industries			
Services	\$ 160.2	\$ 162.5	(1.3%)
Packages	216.2	210.0	2.9%
<b>Total</b>	<b>\$ 376.4</b>	<b>\$ 372.5</b>	<b>1.1%</b>
Operating income from Other Industries	\$ 34.6	\$ 43.2	(20.0%)
Operating income over revenues from Other Industries (%)	9.2%	11.6%	N/A
Revenue backlog at year end	\$ 320.9	\$ 547.4	(41.4%)

Other Industries revenues remained in line in 2012 compared to 2011.

Operating income derived from Other Industries in 2012 decreased compared to 2011, mainly due to 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:

- > **Integrated Real Estate Solutions:** 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, oil and gas facilities, 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, strategic airlift 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 9,000 facilities that include buildings, workforce lodges, light rail transit systems, bridges, power plants, oil and gas facilities, ships, highways and airports, spread across approximately 15 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, and a service provider in Brazil, the Middle East and North Africa.

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 CAS)	2012	2011	CHANGE
Revenues from O&M			
Integrated Real Estate Solutions	\$ 865.8	\$ 939.9	(7.9%)
Industrial	187.2	161.7	15.8%
Transportation	118.5	109.5	8.3%
Defence & logistics	159.0	188.1	(15.5%)
<b>Total</b>	<b>\$ 1,330.5</b>	<b>\$ 1,399.2</b>	<b>(4.9%)</b>
Operating income from O&M	\$ 43.3	\$ 50.1	(13.6%)
Operating income over revenues from O&M (%)	3.3%	3.6%	N/A
Revenue backlog at year end	\$ 2,234.4	\$ 2,379.1	(6.1%)

**O&M revenues decreased in 2012** compared to 2011, mainly due to a lower level of activity on certain ongoing contracts in Canada.

**Operating income decreased in 2012** compared to 2011, mainly reflecting a lower gross margin-to-revenue ratio.

### 9.3 INFRASTRUCTURE CONCESSION INVESTMENTS ("ICI")

As mentioned previously, SNC-Lavalin makes investments in infrastructure concessions in certain infrastructure for public services, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water. As at December 31, 2012, SNC-Lavalin held equity investments in 20 infrastructure concessions.

It is the Company's view that the aggregate fair value of its ICI is much higher than their net book value of \$1.7 billion. Highway 407 and AltaLink are considered to represent the most significant portion of the total fair value of the Company' ICI portfolio.

The following is a brief description of these two investments:

- > SNC-Lavalin owns a 16.77% ownership interest in 407 International Inc. ("Highway 407"). 407ETR, which is a wholly-owned subsidiary of Highway 407, operates, maintains and manages highway 407, which is a 108 km all-electronic toll highway in the Greater Toronto Area ("GTA") with a 99-year concession agreement that expires in 2098.
- > SNC-Lavalin also owns a 100% ownership interest in AltaLink Holdings L.P. ("AltaLink"). Through AltaLink L.P., AltaLink is a rate-regulated entity that owns and operates approximately 12,000 km of transmission lines and over 280 substations in Alberta. AltaLink is undertaking the construction of additional transmission lines that will increase its revenue base.

The ICI net book value, as at December 31, 2012 and 2011, can be summarized as followed:

(IN MILLIONS CAS)	NET BOOK VALUE	
	DECEMBER 31 2012	DECEMBER 31 2011
Highway 407 <sup>(1)</sup>	\$ –	\$ –
AltaLink	820.4	602.0
Others	844.4	763.3
<b>Total</b>	<b>\$ 1,664.8</b>	<b>\$ 1,365.3</b>

(1) The net book value is \$nil as the Company had previously stopped recognizing its share of the losses of Highway 407 when the recognition of such losses resulted in a negative balance for the Company's investment in Highway 407.

The Company provides, in this section, additional information on Highway 407 and AltaLink due to the significance that these ICI could have on the Company's share price and net income. The following information is intended to provide the reader with a general understanding of the operations and key metrics of these ICIs. As 407 International Inc. and AltaLink L.P. issue public debt, 407 International Inc. and AltaLink L.P. financial statements, MD&A and other relevant financial materials can be found on [www.sedar.com](http://www.sedar.com), which is the website maintained by the Canadian Securities regulators. The following snapshots are only intended to provide the reader with a general understanding of the operations and key metrics of these two ICIs, for full financial disclosure, the reader should refer to 407 International and AltaLink L.P. official documents.

### 9.3.1 ICI SNAPSHOTS

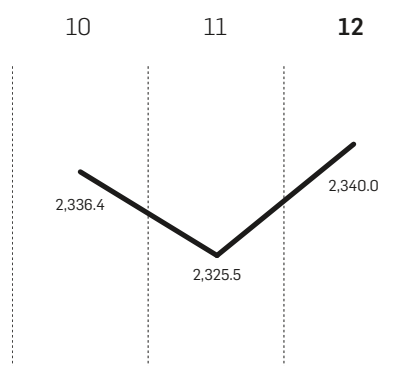
#### HIGHWAY 407–SNAPSHOT

The Company's investment in Highway 407 is accounted for by the equity method, however the Company recognized in its 2012, 2011 and 2010 income statement the dividends from Highway 407 instead of its share of Highway 407's net income because the carrying amount of its investment was \$nil at the end of each of these years. The dividends received by SNC-Lavalin are not taxable.

#### 407 INTERNATIONAL INC.–KEY HISTORICAL INDICATORS

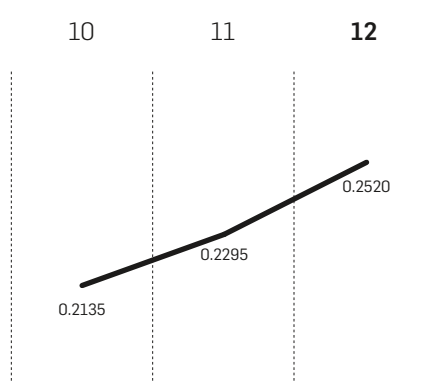
##### GROSS VEHICLE KILOMETRES TRAVELLED

(IN MILLIONS)



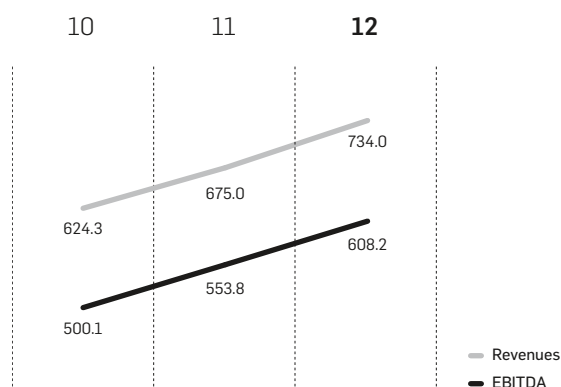
##### TOLL RATE PER KM

(LIGHT VEHICLE - PEAK HOURS - REGULAR ZONE)



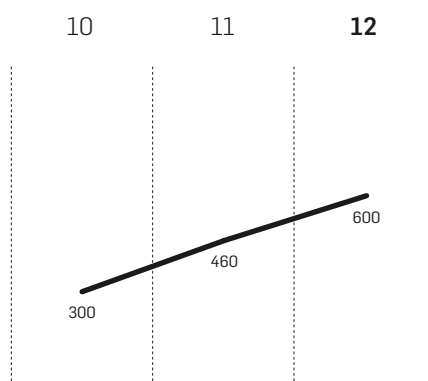
##### REVENUES/EBITDA<sup>(1)</sup>

(IN MILLIONS CA\$)



##### DIVIDENDS PAID

(IN MILLIONS CA\$)



(1) EBITDA: Earnings before interest, taxes, depreciation and amortization.

#### 407 INTERNATIONAL INC. 2012 FINANCIAL HIGHLIGHTS

(IN MILLIONS CA\$)

	2012	2011
Revenues	\$ 734.0	\$ 675.0
Operating expenses	125.8	121.2
EBITDA	608.2	553.8
Depreciation and amortization	60.6	58.4
Interest and other expenses	304.0	325.5
Deferred income tax expense	69.2	41.6
<b>Net income</b>	<b>\$ 174.4</b>	<b>\$ 128.3</b>



**407 INTERNATIONAL INC. 2012 TRAFFIC RESULTS**

	2012	2011
Traffic/trips (in millions)	114.8	114.7
Average Workday Number of Trips (in thousands)	380.8	381.5
Vehicle Kilometres Travelled ("VKTs" in millions)	2,340.0	2,325.5
Average Trip Length ("ATL" in kilometres)	20.4	20.3
Unbillable traffic (percent)	2.4	2.7
Transponder Penetration Rate (percent)	80.7	80.3
Transponders in Circulation at December 31	1,103,455	1,076,013

407 International Inc. is owned by Cintra Infraestructuras S.A., a wholly owned subsidiary of Ferrovial S. A. (43.23%), by indirectly owned subsidiaries of Canada Pension Plan Investment Board (total 40%), and by SNC-Lavalin (16.77%). 407 International Inc., through its wholly-owned subsidiary, 407 ETR, operates, maintains and owns the right to toll an all-electronic, open-access toll highway which is situated just north of Toronto.

Based on Government of Ontario reports, the population of the GTA and Hamilton-Wentworth exceeds six million and is projected to exceed eight million by the year 2031. Future growth in the GTA and Hamilton-Wentworth will spread further north, north-west and northeast past the Highway 407 corridor, as Lake Ontario prevents growth to the south. What makes Highway 407 particularly attractive is that unlike many other toll roads, Highway 407 is an "urban highway", i.e. the majority of users make it an integral part of their daily routine, providing stable and recurring revenues. Another attractive factor is that the GTA road network is already congested and this situation will only worsen over time. Highway 401, QEW and several other main arteries are already running at full capacity. The Province has few alternatives to add capacity on the existing road network and is limited to initiating minor projects that provide little relief. Highway 407 is therefore a convenient alternative in the region, with minimal congestion during peak hours of the day, and a growing capacity to provide further congestion relief. What also differentiates Highway 407 from most private toll highways in the world is that the concession agreement provides the operator of the highway flexibility in setting toll rates. No approval is required from the province of Ontario before increasing rates, however the concession needs to ensure traffic volume remain above a certain threshold, failing to do so oblige the concession to pay a financial penalty. The concession continues to improve the Highway through construction projects designed to improve traffic flow and customer convenience.

The concession is investing in widening bridge structures and adding new lanes to the highway to increase capacity and improve traffic flow.

407 International Inc.'s acquisition of 407 ETR in May 1999 was, and the development of Highway 407 is, partially financed with debt. In conjunction with its financial advisors, 407 International Inc. developed a financing plan referred as the "Capital Markets Platform". This financing plan encompasses an ongoing program capable of accommodating a variety of corporate debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly issued and privately placed debt securities, commercial paper, medium-term notes, interest rate and currency swaps and other hedging instruments. Standard & Poor's Ratings Services ("S&P") has assigned "A", "A-" and "BBB" ratings to 407 International Inc.'s Senior Debt, Junior Debt and Subordinated Debt, respectively. DBRS Limited ("DBRS") has assigned "A", "A low" and "BBB" ratings to 407 International Inc.'s Senior Debt, Junior Debt and Subordinated Debt, respectively.

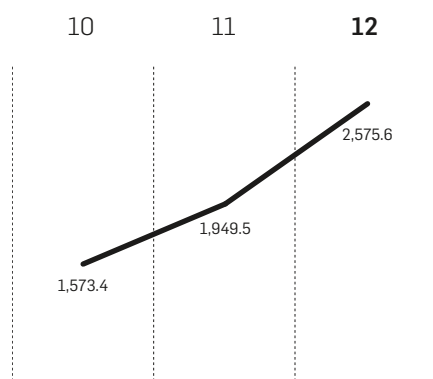
**ALTALINK-SNAPSHOT**

SNC-Lavalin's investment in AltaLink is accounted for by the full consolidation method. Consequently, the statements of financial position, income statements and cash flow of SNC-Lavalin include AltaLink's corresponding line by line items.

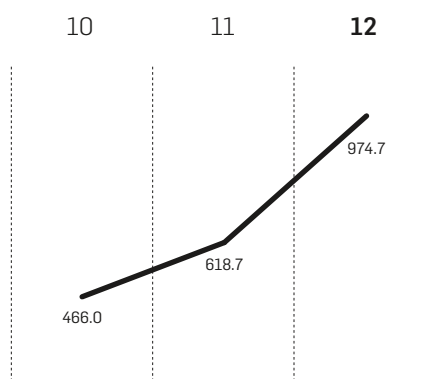
AltaLink, L.P. ("ALP") was formed as a limited partnership under the laws of Alberta on July 3, 2001 pursuant to the provisions of the Limited Partnership Agreement. AltaLink Investments, L.P., ("AILP"), is the sole limited partner of ALP under the Limited Partnership Agreement. The sole limited partner of AILP is AltaLink Holdings, L.P., ("AHL" or "AltaLink"). The limited partners of AHL are subsidiaries of SNC-Lavalin. In February 2011, SNC-Lavalin announced that it had accepted an offer from Macquarie Essential Assets Partnership ("MEAP"), formerly an indirect owner of ALP, to sell the entire indirect interest of MEAP in ALP, subject to regulatory approval from the Alberta Utilities Commission ("AUC"). The AUC approved the proposed purchase and sale transaction on September 14, 2011. The transaction was completed as of September 20, 2011 and as a result SNC-Lavalin holds an ownership interest of 100% in AHL, and ultimately owns 100% of all of its subsidiaries, including ALP, the owner and operator of transmission lines and substations subject to rate regulation.

**ALP-KEY HISTORICAL INDICATORS****MID-YEAR RATE BASE AND CONSTRUCTION  
WORK IN PROGRESS (ALP)<sup>(1)</sup>**

(IN MILLIONS CA\$)

**CAPITAL EXPENDITURES  
(ALP)**

(IN MILLIONS CA\$)



(1) Rate base and construction work in progress are part of AltaLink's regulated capital assets.

**ALP 2012 FINANCIAL HIGHLIGHTS**

(IN MILLIONS CA\$)

	2012	2011
Revenues	\$ 406.6	\$ 365.6
Operating expenses, property taxes and other	124.1	118.4
Depreciation and amortization	99.2	93.1
Finance costs	73.0	62.4
Other	2.1	5.9
<b>Net income</b>	<b>\$ 108.2</b>	<b>\$ 85.8</b>

**ALP 2012 DEEMED CAPITAL STRUCTURE AND GENERIC RETURNS**DEEMED CAPITAL STRUCTURE AND GENERIC RETURNS  
APPROVED BY THE ALBERT UTILITIES COMMISSION

	2012	2011	2010
<b>Deemed Capital Structure</b>			
Approved common equity ratio	37.00%	37.00%	36.00%
Approved debt ratio	63.00%	63.00%	64.00%
<b>Generic returns</b>			
Approved return on equity	8.75%	8.75%	9.00%

Under the Electric Utilities Act, ALP must prepare and file applications with the AUC for approval of tariffs to be paid by the Alberta Electric System Operator (AESO) for the use of ALP's transmission facilities, and the terms and conditions governing the use of those facilities. The AUC reviews and approves such tariff applications based on a cost of service regulatory model under a forward test year basis. Under this model, the AUC provides ALP with a reasonable opportunity to (i) earn a fair return on equity; and (ii) recover their forecast costs, including operating expenses, depreciation, borrowing costs and taxes (including deemed income taxes of the partner) associated with their regulated transmission business. The AUC must approve tariffs that are just, reasonable, and not unduly preferential, arbitrary or unjustly discriminatory. ALP transmission tariffs are not dependent on the price or volume of electricity transmitted through their transmission system. ALP receives their annual transmission tariffs from the AESO in equal monthly installments, based on the revenue requirement approved by the AUC for the applicable year.

The increasing reliability risks of Alberta's aging transmission system, combined with limited capacity within the system to support the province's economic growth, requires the development of new transmission infrastructure. For more than 30 years there has been limited expansion of the main backbone of the transmission grid in Alberta (transmission lines operating at 240 kV and higher). This lack of expansion, together with an increased demand for electricity and the construction of new generation facilities, has resulted in increased loading and congestion on the transmission system. To cope with these increased demands, ALP expects that the AESO will direct ALP and other transmission facility owners to upgrade and expand the transmission system, consistent with:

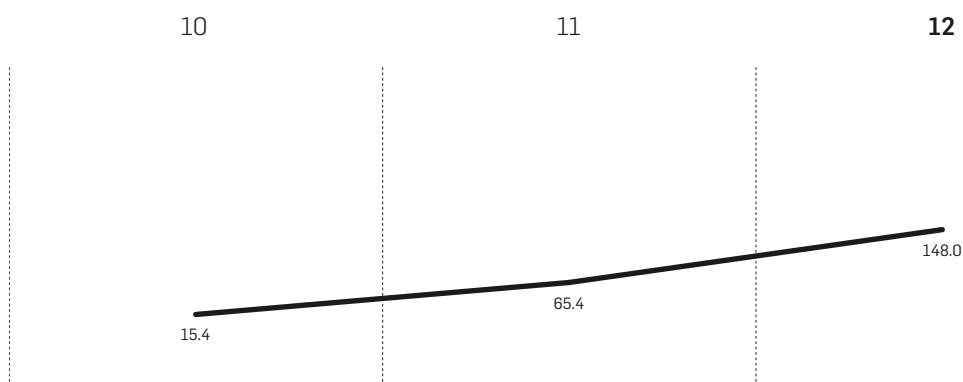
- > The Alberta Government energy strategy, which includes commitments to strengthen Alberta's transmission system;
- > The Transmission Regulation, which among other things, requires the expansion and enhancement of the Alberta Integrated Electric System to allow for a congestion free transmission system that enables the transmission of all anticipated in merit electricity under normal conditions;
- > The Electric Statutes Amendment Act, 2009, as amended; and
- > The AESO's Long Term Transmission System Plans.

The AESO's 2011 Long Range Transmission System Plan identified the potential for \$13.5 billion in existing and proposed transmission development projects over the next 10 years, to ensure a reliable supply of electricity in Alberta. In addition to the transmission projects for which the AESO has filed a need application, the 10 year transmission system plan also identified additional transmission facilities that could be required depending on how power generation and demand scenarios unfold, including a number of regional upgrades. ALP expects to develop a portion of the plan, as either or both of the AESO's need applications and ALP facility applications have been filed with the AUC. After the AUC approves ALP's facility applications, ALP is responsible for constructing and operating the related transmission facilities.

ALP is committed to maintaining its existing financing formula to finance future capital expenditures, which consists of cash flow generated by the current rate base, contributions from customers, medium term notes issued by ALP (63% debt ratio), and equity capital provided by AILP. AILP's equity capital is provided by the issuance of AILP bonds (72.5% consolidated debt ratio), the reinvestment of earnings, as well as SNC-Lavalin's cash equity contributions to AHLP. The table below summarizes SNC-Lavalin's cash equity contributions over the last three years:

#### SNC-LAVALIN'S EQUITY CONTRIBUTIONS

(IN MILLIONS CA\$)



#### ALTALINK 2012 CREDIT RATINGS

ENTITY	CREDIT RATINGS (AS AT DECEMBER 31, 2012)		
	LONG-TERM DEBT (IN MILLIONS CA\$)	S&P	DBRS
AHLP	\$ 90.0	Non-rated	Non-rated
AILP	350.0	BBB-	BBB
ALP	1,801.7	A-	A
Total	\$ 2,241.7		

### 9.3.2 ICI ACCOUNTING METHODOLOGY

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 4.1.4.2 for details). The revenues included in the Company's consolidated income statement are influenced by the consolidation method applied to an ICI, as described below:

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

In evaluating the performance of the segment, the relationship between revenues and net income (which equals operating 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.

### 9.3.3 REVENUES, NET INCOME AND DIVIDENDS OF THE ICI SEGMENT

As at December 31, 2012, the ICI net income represented approximately 50% of SNC-Lavalin's total net income, compared to 35% in 2011 and 28% in 2010. Net income from Highway 407, which correspond to the dividends paid to SNC-Lavalin (see explanations below), increased to \$100.6 million in 2012 from \$77.2 million in 2011, while net income from AltaLink increased to \$54.5 million from \$33.8 million in 2011.

(IN MILLIONS CAS)	2012	2011	2010
Revenues from ICI	\$ 565.1	\$ 501.4	\$ 472.3
Net income attributable to SNC-Lavalin shareholders from ICI:			
From Highway 407	\$ 100.6	\$ 77.2	\$ 50.3
From AltaLink <sup>(1)</sup>	54.5	33.8	22.9
From a net gain on disposal of Trencap and Valener	–	–	26.1
From other ICI <sup>(2)</sup>	1.8	20.2	35.6
<b>Total</b>	<b>\$ 156.9</b>	<b>\$ 131.2</b>	<b>\$ 134.9</b>
Dividends and distributions received by SNC-Lavalin:			
From Highway 407	\$ 100.6	\$ 77.2	\$ 50.3
From other ICI	11.8	12.2	1.6
<b>Total</b>	<b>\$ 112.4</b>	<b>\$ 89.4</b>	<b>\$ 51.9</b>

(1) Prior to the acquisition of MEAP's 23.08% ownership interest in AltaLink, completed in September 2011, the Company held an ownership interest of 76.92% in AltaLink.

(2) Net income from other ICI is net of divisional and allocated corporate selling, general and administrative expenses, as well as from selling, general and administrative expenses from all other ICI accounted for by the full consolidation method.

Note that historically AltaLink has not made distributions, because it is a capital intensive business in a growing phase, investing significant amounts in capital expenditures.

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 the net income of the Company.

The Company recognized in its income statement dividends received from Highway 407 of \$100.6 million in 2012 (2011: \$77.2 million) and did not recognize its share of Highway 407's net income of \$29.3 million (2011: \$21.5 million) in the same period, as the carrying amount of its investment in Highway 407 was \$nil at December 31, 2012 and December 31, 2011.

The **Company's ICI revenues increased in 2012** compared to 2011, mainly due to higher revenues of AltaLink and higher dividends received from Highway 407, while partially offset by lower revenues from SKH. Gross margin increased in 2012 compared to 2011, mainly for the same reasons with respect to the revenues increase outlined above.

**Net income from the ICI segment increased in 2012** compared to 2011, mainly due to higher dividends received from Highway 407 and higher net income of AltaLink. The increase was partially offset by lower net income from other ICI, which amounted to \$1.8 million in 2012, compared to \$20.2 million in 2011, primarily reflecting lower net income from SKH.

### 9.3.4 ICI PORTFOLIO

Two new investments were added during 2012.

- > In May 2012, the Company announced that 407 EDGGP, 50%-owned by SNC-Lavalin, was awarded a contract by the Province of Ontario, in Canada, to design, build, finance, and maintain Phase 1 of the new highway 407 East, which will add 32 kilometres to the existing highway. The 407 EDGGP subcontracted the design and build as well as the operation and maintenance portions to two partnerships that are 50%-owned by SNC-Lavalin. Once construction is completed, the 407 EDGGP will maintain and rehabilitate the road until 2045.
- > In June 2012, the Company acquired from India Infrastructure Fund an equivalent to 10% of the issued and paid up capital of Piramal Roads Infra Private Limited, an entity that engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure, in the roads sector of India, for a total cash consideration of approximately \$10 million.

The following table presents a list of all SNC-Lavalin's ICI.

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	STATUS	DESCRIPTION OF ACTIVITIES
407 East Development Group General Partnership ("407 EDGGP")	50%	Equity	Yes	2012	2045	Under construction	Upon completion of the design and construction, it will operate, maintain and rehabilitate Phase 1 of the new highway 407 East.
Chinook Roads Partnership ("Chinook")	50%	Equity	Yes	2010	2043	Under construction	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%	Equity	Yes	2010	2044	Under construction	Once construction is completed, it will operate and maintain the McGill University Health Centre's new Glen Campus.
Rainbow Hospital Partnership ("Rainbow")	100%	Full consolidation	Yes	2011	2044	Under construction	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%	Equity	Yes	2010	2040	Under construction	Builds and will operate a 189-kilometre section of a toll highway in India, under a 30-year concession agreement.
Société d'Exploitation de l'Aéroport de Mayotte S.A.S. ("Mayotte")	100%	Full consolidation	Yes	2011	2026	Under construction	Upgrades the infrastructure, builds a new terminal building, manages and maintains the airport under a 15-year concession agreement.
Ambatovy Nickel Project ("Ambatovy") (see section 9.3.4.1 for more details on the investment in Ambatovy)	5%	Cost	N/A	2007	N/A	In operation	An open-pit mine operation, and a hydrometallurgical processing plant in Madagascar that produces mainly nickel and cobalt.
Astoria Project Partners LLC ("Astoria")	21.0%	Equity	No	2004	N/A	In operation	Owns and operates a 500 MW natural gas-fired combined cycle power plant in Queens, New York.

N/A: not applicable

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	STATUS	DESCRIPTION OF ACTIVITIES
Astoria Project Partners II LLC ("Astoria II")	18.5%	Equity	No	2008	N/A	In operation	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").
407 International Inc. ("Highway 407")	16.77%	Equity	No	1999	2098	In operation	Operates, maintains and manages highway 407, a 108 km all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement.
InTransit BC Limited Partnership ("InTransit BC")	33.3%	Equity	Yes	2005	2040	In operation	InTransit BC operates and maintains the Canada Line, a 19-kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport in British Columbia under a 35-year concession agreement.
Malta International Airport p.l.c.	15.5%	Equity	No	2002	2067	In operation	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%	Equity	No	2008	N/A	In operation	Myah Tipaza owns, operates and maintains a 120,000 m <sup>3</sup> /pd 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%	Full consolidation	Yes	2005	2035	In operation	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%	Full consolidation	Yes	2009	2038	In operation	Operates and maintains a 2,100-seat concert hall in downtown Montreal, under a 29-year concession agreement.
Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH")	26%	Equity	No	2006	N/A	In operation	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 Vatry Europort ("SEVE")	51.1%	Equity	No	1999	2020	In operation	Manages and operates a cargo airport under a 20-year concession agreement.
TC Dôme S.A.S. ("TC Dôme")	51%	Equity	Yes	2008	2043	In operation	Operates a 5.3 -km electric cog railway in France.
AltaLink Holdings, L.P. ("AltaLink")	100%	Full consolidation	No	2002	N/A	Ongoing activities (construction and operation)	Owns and operates approximately 12,000 km of transmission lines and over 280 substations in Alberta on a rate-regulated basis.
Piramal Roads Infra Private Limited ("PRIPL")	10%	Cost	N/A	2012	N/A	Ongoing activities (construction and operation)	Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India.

N/A: not applicable

### 9.3.4.1 AMBATOVY

SNC-Lavalin has a 5% ownership interest in Ambatovy, in Madagascar, on which it was awarded an EPCM contract in 2007. In March 2008, Ambatovy obtained senior debt project financing whereupon each shareholder concurrently provided the Ambatovy senior lenders with a financial guarantee in proportion to their respective ownership interests. Also, to support the portion of the financial guarantee issued by one of the shareholders who is also the project operator of Ambatovy ("Project Operator"), the remaining shareholders ("Other Shareholders"), including SNC-Lavalin, provided cross guarantees to the Ambatovy senior lenders. Until completion of construction and commissioning of the project and the satisfaction of certain legal, financial and operating conditions (the "Completion Date"), the financial guarantee of US\$105 million and cross-guarantee of US\$70 million will remain outstanding. The guarantees were initially recognized at their fair value of approximately \$9 million in the Company's consolidated statement of financial position, and not at their aggregated nominal value of US\$175 million. Both guarantees could be called by the lenders if such conditions are not met by September 2013.

The Other Shareholders also entered into a limited recourse subordinate loan agreements to finance a portion of the Project Operator's equity contribution in Ambatovy (the "Loans to Project Operator").

Upon Completion Date, a put/call arrangement between SNC-Lavalin and two shareholders of Ambatovy, including the Project Operator, will be exercisable. Under this put/call arrangement, SNC-Lavalin will have, for a period of two years after the Completion Date, the option ("put option") to divest from its 5% ownership interest in Ambatovy and the balance of its Loans to Project Operator, and the two shareholders will have the option ("call option") to acquire SNC-Lavalin's 5% ownership interest in Ambatovy and repay to SNC-Lavalin the outstanding balance of its Loans to Project Operator. Upon the exercise of the put or call option, the amount to be received by SNC-Lavalin will provide for a specific return (a higher return for the call option than for the put option) on its equity investment and for the repayment of principal and accrued interest on its Loans to Project Operator.

The following table summarizes SNC-Lavalin's disbursements and remaining commitments at December 31, 2012 related to the Ambatovy project, presented in "ICI accounted for by the cost method":

(IN MILLIONS CA\$)	DECEMBER 31 2012
Equity contributions in Ambatovy <sup>(1)</sup>	
Amount disbursed	\$ 245.9
Remaining commitments	13.2
Loans to Project Operator <sup>(1)(2)</sup>	70.0
Net book value of SNC-Lavalin's investment in Ambatovy	\$ 329.1

(1) SNC-Lavalin's total equity contributions, disbursed and committed, and Loans to Project Operator are presented as "ICI accounted for by the cost method". The remaining commitment to invest in Ambatovy, representing the amount of commitment not yet disbursed, is presented in "Other current financial liabilities" on the Company's consolidated statement of financial position.

(2) This interest-bearing variable-rate loans have a 15-year term and will be repaid from a portion of the Project Operator's share of the project's future distributions.

### 9.3.5 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, 2012, SNC-Lavalin recognized revenues of \$763.6 million (2011: \$559.5 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized its share of net income from these ICI accounted for by the equity method of \$114.5 million for the year ended December 31, 2012 (2011: \$102.8 million). Intragroup revenues generated from transactions with AltaLink, which amounted to \$784.7 million for the year ended December 31, 2012 (2011: \$419.6 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 \$23.3 million as at December 31, 2012 (2011: \$43.7 million). SNC-Lavalin's other current financial assets receivables from these ICI accounted for by the equity method amounted to \$172.4 million as at December 31, 2012 (2011: \$83.0 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was \$141.5 million at December 31, 2012 (2011: \$129.0 million).

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

## 10. FOURTH QUARTER RESULTS

**For the fourth quarter of 2012, net income attributable to SNC-Lavalin shareholders was \$94.6 million (\$0.63 per share on a diluted basis),** compared to \$76.0 million (\$0.50 per share on a diluted basis) for the comparable quarter in 2011, mainly reflecting an increase in net income attributable to SNC-Lavalin shareholders from ICI, partially offset by a lower net income attributable to SNC-Lavalin shareholders excluding ICI.

For the fourth quarter of 2012, **net income attributable to SNC-Lavalin shareholders excluding ICI decreased to \$24.2 million**, compared to \$36.5 million for the same period last year, mainly reflecting a higher level of selling, general and administrative expenses, partially offset by a higher gross margin amount, due to a higher level of activity. The fourth quarter 2012 gross margin included unfavourable cost reforecasts on two major Packages projects outside Canada, one in Power and one in Hydrocarbons & Chemicals, with adverse impacts of \$49.0 million and \$27.6 million, respectively. The 2011 gross margin included unfavourable cost reforecasts on certain projects in Infrastructure & Environment and Hydrocarbons & Chemicals, 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.

**Net income attributable to SNC-Lavalin shareholders from ICI increased to \$70.4 million**, compared to \$39.5 million for the fourth quarter of 2011, mainly due to higher dividends received from Highway 407.

**Revenues for the fourth quarter of 2012 increased by 14.3% to \$2.4 billion**, compared to \$2.1 billion for the fourth quarter of 2011, mainly due to increases of 15.8% and 21.7% in Services and Packages, respectively.



The Company's backlog increased to \$10.1 billion as at December 31, 2012, compared to \$9.9 billion as at the end of the third quarter of 2012, primarily reflecting an increase in Packages, mainly in Power and Infrastructure & Environment, partially offset by a decrease in Hydrocarbons & Chemicals. The increase in Packages was partially offset by a decrease in O&M.

At the end of December 2012, the Company's cash and cash equivalents were \$1.2 billion, compared to \$1.1 billion at the end of September 2012, mainly reflecting net cash generated from operating activities, as well as net cash generated from financing activities, partially offset by net cash used for investing activities, mainly reflecting an increase in property and equipment from AltaLink, to reinforce and expand the transmission system.

## 11. LIQUIDITY AND CAPITAL RESOURCES

This Liquidity and Capital Resources section has been prepared to provide the reader with a better understanding of the major components of the Company's liquidity and financial position 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 statements of financial position in 2012 and 2011;
- > A review of the **net cash position** 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**;
- > 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 three years.

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.

The Company's liquidity is generally provided by available cash and cash equivalents, cash generated from operations, credit facilities and access to capital markets, as needed, which are all elements specifically discussed in the following section. While liquidity remains subject to numerous risks and limitations, including but not limited to the risks described under Section 14—"Risks and Uncertainties" and in this section, the Company believes that its current liquidity position, including its cash position, unused credit capacity and cash generated from its operations will be sufficient to fund its operations for the foreseeable future.

The Company's liquidity strategy is driven by two key objectives:

- i) the maintenance of an investment grade credit rating; and
- ii) the maintenance of adequate available cash and/or credit facilities to a) meet ongoing working capital requirements, in particular for Packages projects, and b) meet ongoing commitments to invest in, or self-finance, ICI projects.

### 11.1 FINANCIAL POSITION ANALYSIS

YEAR ENDED DECEMBER 31 (IN MILLIONS CAS)	2012	2011	2010
Current assets	\$ 3,794.1	\$ 3,546.3	\$ 3,566.5
Non-current assets	5,816.8	4,807.7	3,954.3
<b>Total assets</b>	<b>9,610.9</b>	<b>8,354.0</b>	<b>7,520.8</b>
Current liabilities	3,958.2	3,514.3	2,886.6
Non-current liabilities	3,574.3	2,953.0	2,714.7
<b>Total liabilities</b>	<b>7,532.5</b>	<b>6,467.3</b>	<b>5,601.3</b>
<b>Equity attributable to SNC-Lavalin shareholders</b>	<b>2,075.4</b>	<b>1,883.1</b>	<b>1,816.8</b>
<b>Non-controlling interests</b>	<b>3.0</b>	<b>3.6</b>	<b>102.7</b>
<b>Total liabilities and equity</b>	<b>\$ 9,610.9</b>	<b>\$ 8,354.0</b>	<b>\$ 7,520.8</b>

### 11.1.1 TOTAL CURRENT ASSETS

Total current assets increased by \$247.8 million between December 31, 2011 and December 31, 2012, reflecting primarily:

FROM ICI	FROM OTHER ACTIVITIES
<p>An increase of <b>\$60.6 million</b> mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; An increase of \$113.4 million in trade receivables, mainly due to AltaLink; partially offset by</li> <li>&gt; A decrease of \$30.3 million in Other current financial assets; and</li> <li>&gt; A decrease of \$13.3 million in cash and cash equivalents.</li> </ul>	<p>An increase of <b>\$187.2 million</b> mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; An increase of \$207.3 million in contracts in progress, due to various ongoing projects;</li> <li>&gt; An increase of \$62.6 million in other current financial assets, primarily due to an increase in retentions on client contracts, mainly from MIHG, partially offset mainly by a decrease in advances to suppliers, subcontractors and employees and deposits on contracts; and</li> <li>&gt; An increase of \$60.5 million in other current assets; partially offset by</li> <li>&gt; A decrease of \$93.8 million in trade receivables, due to various ongoing projects; and</li> <li>&gt; A decrease of \$42.9 million in cash and cash equivalents.</li> </ul>

Current assets decreased by \$20.2 million between December 31, 2010 and December 31, 2011, reflecting primarily:

FROM ICI	FROM OTHER ACTIVITIES
<p>An increase of \$45.4 million mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; An increase of \$30.6 million in trade receivables; and</li> <li>&gt; An increase of \$14.1 million in cash and cash equivalents.</li> </ul>	<p>A decrease of \$65.6 million mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; A decrease of \$148.6 million in trade receivables; and</li> <li>&gt; A decrease of \$50.9 million in contracts in progress; partially offset by</li> <li>&gt; An increase of \$101.7 million in other current financial assets; and</li> <li>&gt; An increase of \$44.4 million in other current assets.</li> </ul>

### 11.1.2 TOTAL NON-CURRENT ASSETS

Total non-current assets increased by \$1,009.1 million from December 31, 2011 to December 31, 2012, mainly due to:

FROM ICI	FROM OTHER ACTIVITIES
<p>An increase of <b>\$891.7 million</b> mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; An increase of \$832.3 million in property and equipment, from AltaLink, to reinforce and expand the transmission system; and</li> <li>&gt; An increase of \$76.5 million in other non-current assets, primarily reflecting an increase in intangible assets from AltaLink.</li> </ul>	<p>An increase of <b>\$117.4 million</b> mainly reflecting:</p> <ul style="list-style-type: none"> <li>&gt; An increase of \$45.7 million in ICI accounted for by the cost method, mainly reflecting an increase in the investment in Ambatovy;</li> <li>&gt; An increase of \$33.2 million in property and equipment; and</li> <li>&gt; An increase of \$23.2 million in ICI accounted for by the equity method.</li> </ul>

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

### 11.1.3 TOTAL CURRENT LIABILITIES

Total current liabilities increased by \$443.9 million between December 31, 2011 and **December 31, 2012**, reflecting the following items:

FROM ICI	FROM OTHER ACTIVITIES
An increase of <b>\$210.7 million</b> mainly reflecting:	An increase of <b>\$233.2 million</b> mainly reflecting:
> An increase of \$157.2 million in non-recourse short-term debt and current portion of non-recourse long-term debt, primarily from AltaLink; and	> An increase of \$79.6 million in trade payables;
> An increase of \$49.8 million in trade payables.	> An increase of \$61.3 million in deferred revenues; and
	> An advance under contract financing arrangement of \$43.3 million; and
	> An increase of \$30.1 million in downpayments in contracts.

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 \$235.1 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 \$171.1 million in deferred revenues; and
> An increase of \$97.9 million in trade payables.	> An increase of \$147.9 million in trade payables; partially offset by
	> A decrease of \$106.2 million in downpayments in contracts.

### 11.1.4 TOTAL NON-CURRENT LIABILITIES

Total non-current liabilities increased by \$621.3 million from December 31, 2011 to **December 31, 2012**, mainly reflecting:

FROM ICI	FROM OTHER ACTIVITIES
An increase of <b>\$511.1 million</b> mainly reflecting:	An increase of <b>\$110.2 million</b> mainly reflecting:
> An increase of \$439.3 million in the non-recourse long-term debt, primarily relating to AltaLink mainly to finance its capital expenditures; and	> An increase of \$96.8 million in provisions, mainly reflecting increased provisions for losses on projects.
> An increase of \$107.5 million in other non-current liabilities, primarily to an increase in third party contributions of AltaLink; partially offset by	
> A decrease of \$37.4 million in other non-current financial liabilities, mainly reflecting a decrease in third party deposits of AltaLink.	

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

### 11.1.5 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 27A to the 2012 audited annual consolidated financial statements, were \$5.3 billion as at December 31, 2012, compared to \$4.5 billion and \$4.1 billion as at December 31, 2011 and 2010, respectively.

### 11.1.6 TOTAL EQUITY

Equity attributable to SNC-Lavalin shareholders increased by \$192.3 million as at December 31, 2012, compared to December 31, 2011, mainly reflecting net income attributable to SNC-Lavalin shareholders for 2012, partially offset by dividends declared to SNC-Lavalin shareholders.

The increase of \$66.3 million from December 31, 2010 to December 31, 2011 mainly reflected 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.

## 11.2 NET CASH POSITION

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:

YEAR ENDED DECEMBER 31 (IN MILLIONS CAS)	2012	2011	2010
Cash and cash equivalents	\$ 1,174.9	\$ 1,231.0	\$ 1,235.1
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	17.6	30.9	16.8
Recourse debt	348.6	348.4	348.2
Net cash position	\$ 808.7	\$ 851.7	\$ 870.1

The net cash position as at December 31, 2012 was \$808.7 million, compared to \$851.7 million as at December 31, 2011.

In previous periods, the Company reported an estimated "freehold cash" position, which was a non-IFRS measure and was based on certain management estimates and assumptions. Following a review of the Company's disclosure and of other North-American reporting issuers and Company peers, which do not use or report this measure, the Company will no longer disclose or report on "freehold cash" position, but will continue to disclose its cash and cash equivalents and net cash position. The Company believes that its current liquidity position, including the Company's cash position and unused credit capacity, will be sufficient to fund its operations over the foreseeable future.

The Company's net cash position as at December 31, 2012 included \$12.8 million of cash and cash equivalents held in a Libyan bank (2011: \$22.9 million). 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.

## 11.3 CASH FLOWS ANALYSIS

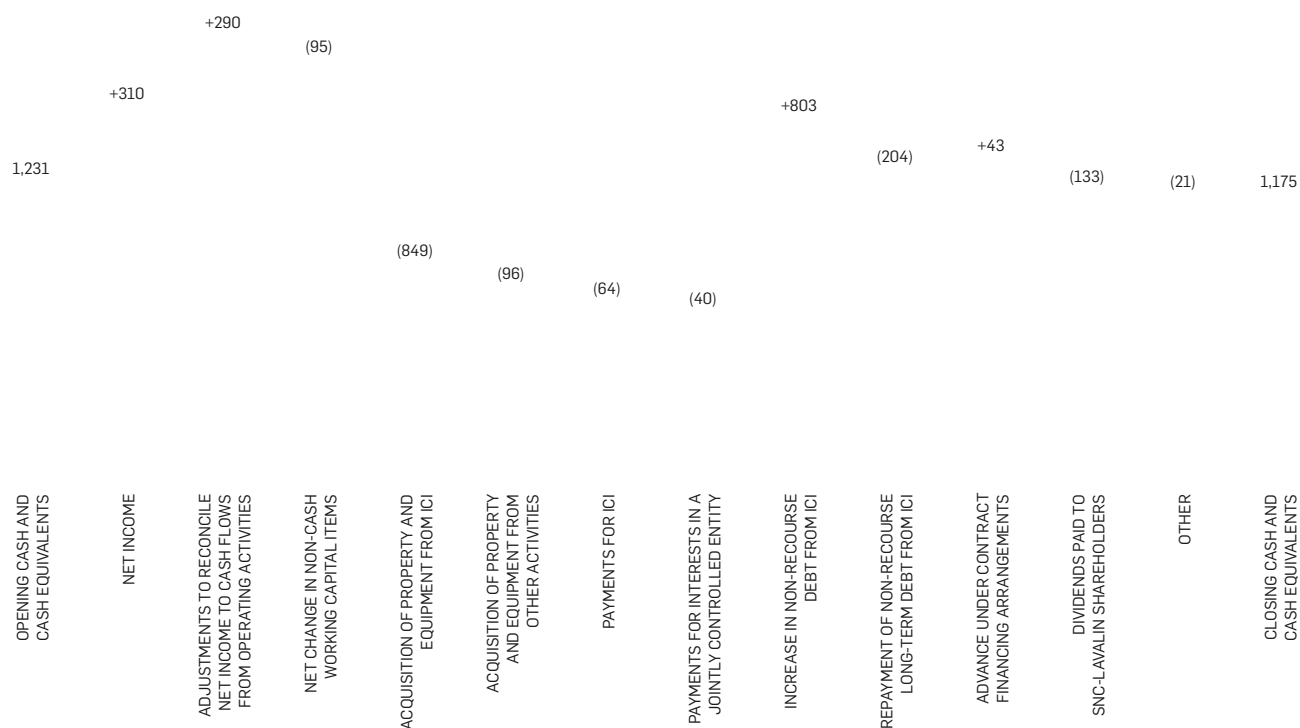
### SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA\$)	2012	2011
Cash flows generated from (used for):		
Operating activities	\$ 504.3	\$ 919.6
Investing activities	(1,062.9)	(863.6)
Financing activities	505.1	(56.8)
Decrease from exchange differences on translating cash and cash equivalents held in foreign operations	(2.6)	(3.3)
Net decrease in cash and cash equivalents	(56.1)	(4.1)
Cash and cash equivalents at beginning of year	1,231.0	1,235.1
Cash and cash equivalents at end of year	\$ 1,174.9	\$ 1,231.0

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, 2012. These items are further explained in this section.

### 2012 VARIATION OF CASH AND CASH EQUIVALENTS

(IN MILLIONS CA\$)



Operating Activities	<p><b>Cash generated from operating activities decreased to \$504.3 million in 2012</b> compared to cash generated of \$919.6 million in 2011, mainly reflecting cash used by the net change in non-cash working capital items, which totalled \$95.2 million in 2012, compared to cash generated of \$341.8 million in 2011, primarily reflecting higher working capital requirements.</p>
Investing Activities	<p><b>Cash used for investing activities increased to \$1,062.9 million in 2012</b> compared to cash used of \$863.6 million in 2011. The major investing activities were as follows:</p> <ul style="list-style-type: none"> <li>&gt; The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of \$849.2 million in 2012 compared to \$545.8 million in 2011, due to AltaLink in both years, mainly relating to capital expenditures for transmission projects;</li> <li>&gt; Payments of \$40.3 million in the second quarter of 2012 for interests in SNC-Lavalin Fayez Engineering, a jointly controlled entity in Saudi Arabia;</li> <li>&gt; The acquisition of businesses for a total cash outflow of \$17.8 million in 2012 compared to \$140.4 million in 2011;</li> <li>&gt; The cash outflow of \$64.1 million relating to payments for ICI in 2012, reflecting payments mainly for Ambatovy and PRIPL, compared to \$101.1 million in 2011, reflecting payments for Ambatovy, Astoria II and REPL; and</li> <li>&gt; The acquisition of property and equipment from other activities used a total cash outflow of \$96.2 million in 2012 compared to \$67.2 million in 2011. Approximately 46% and 47%, in 2012 and 2011 respectively, of the acquisitions of property and equipment from these activities were related to information technology.</li> </ul>
Financing Activities	<p><b>Cash generated from financing activities totalled \$505.1 million in 2012</b> compared to cash used for financing activities of \$56.8 million in 2011. The major financing activities were as follows:</p> <ul style="list-style-type: none"> <li>&gt; An increase in non-recourse long-term debt from ICI totaling \$802.9 million in 2012 compared to \$374.8 million in 2011, primarily due to AltaLink in both years;</li> <li>&gt; An increase in repayment of non-recourse long-term debt from ICI totaling \$203.6 million in 2012, primarily due to AltaLink, compared to \$7.7 million in 2011;</li> <li>&gt; An advance under contract financing arrangements of \$43.3 million in 2012;</li> <li>&gt; The acquisition of Macquarie Essential Assets Partnership's 23.08% ownership interest in AltaLink in the third quarter of 2011, 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;</li> <li>&gt; Dividends paid to SNC-Lavalin shareholders amounted to \$132.9 million in 2012 compared to \$126.8 million in 2011, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of \$0.88 per share in 2012 compared to \$0.84 per share for 2011;</li> <li>&gt; Under its normal course issuer bid, the Company repurchased shares for a total amount of \$6.9 million in 2012 (175,700 shares at an average redemption price of \$39.12), compared to \$44.3 million in 2011 (819,400 shares at an average redemption price of \$54.03). The Company expects to repurchase some of its shares in 2013, based on the general practice that the Company tries to repurchase its common shares under its normal course issuer bid mainly to offset the dilutive effect of stock issuance under its stock option programs;</li> <li>&gt; The issuance of shares pursuant to the exercise of stock options generated \$6.9 million of cash in 2012 (210,140 stock options at an average price of \$32.98), compared to \$26.9 million in 2011 (820,216 stock options at an average price of \$32.84). In 2012, 664,908 stock options expired, compared to none in 2011, mainly because their exercise price exceeded the market price of the Company's common share at the end of the life of the options. As at February 27, 2013, there were 4,984,596 stock options outstanding with exercise prices varying from \$31.59 to \$57.07 per common share. At that same date there were 151,346,737 common shares issued and outstanding.</li> </ul>

## 11.4 WORKING CAPITAL

### WORKING CAPITAL

AT DECEMBER 31  
(IN MILLIONS CA\$, EXCEPT CURRENT RATIO)

	2012	2011
Current assets	\$ 3,794.1	\$ 3,546.3
Current liabilities	3,958.2	3,514.3
Working Capital	\$ (164.1)	\$ 32.0
Current Ratio	0.96	1.01

The working capital and current ratio decreased as at December 31, 2012 compared to the previous year, reflecting the increase in property and equipment from AltaLink, and dividends paid to SNC-Lavalin shareholders, partially offset by additional non-recourse long-term debt from AltaLink, and 2012 net income attributable to SNC-Lavalin shareholders.

## 11.5 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. As at December 31, 2012, \$123.4 million of these lines of credit remained unused, while the balance of \$466.6 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 Ratings	On September 14, 2012, DBRS confirmed the credit rating of the Company's debentures at <b>BBB (high) with Stable trend</b> . On April 20, 2012, S&P affirmed the credit rating of SNC-Lavalin's debentures at <b>BBB+ and revised the outlook to negative from stable</b> . The negative outlook reflects S&P concerns regarding a potential impact on the Company's competitive position following its disclosure of the results of a voluntary independent review in the Company's 2011 MD&A. Refer to the "Risks and Uncertainties" section for more details of the potential impact of a deterioration of the Company's debentures' credit ratings.
	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, 2012 and 2011, the Company's recourse debt-to-capital ratio was <b>14:86</b> and 15:85, 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 by the full or equity consolidation methods may, however, be at risk if such investments were unable to repay their non-recourse long-term debt.	

## 11.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

### 11.6.1 CONTRACTUAL OBLIGATIONS

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

(IN MILLIONS CAS)	2013	2014-2015	2016-2017	THEREAFTER	TOTAL
Short-term debt and long-term debt repayments:					
Recourse	\$ –	\$ –	\$ –	\$ 350.0	\$ 350.0
Non-recourse from ICI	484.6	52.8	158.9	1,805.5	2,501.8
Commitments to invest in ICI	154.7	–	–	–	154.7
Rental obligations under long-term operating leases	111.0	176.5	104.4	80.0	471.9
Total	\$ 750.3	\$ 229.3	\$ 263.3	\$ 2,235.5	\$ 3,478.4

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 2012 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 5C to its 2012 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, Chinook, 407 EDGGP and Ambatovy. 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 2012 audited annual consolidated financial statements.

### 11.6.2 FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 27 to its 2012 audited annual consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS	FINANCIAL ARRANGEMENT
<p>SNC-Lavalin enters into derivative financial instruments, namely:</p> <ul style="list-style-type: none"> <li>i. forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and</li> <li>ii. interest-rate swaps to hedge the variability of interest rates relating to financing arrangements.</li> </ul>	<p>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 2012 audited annual consolidated financial statements).</p>
<p>All financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.</p>	

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.

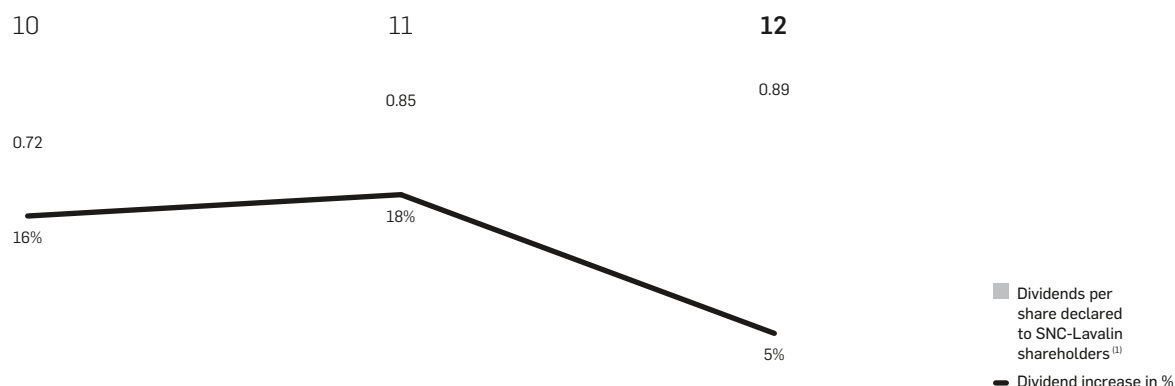


## 11.7 DIVIDENDS DECLARED

The Board of Directors has decided to increase the quarterly cash dividend payable to shareholders from \$0.22 per share to \$0.23 per share for the fourth quarter of 2012, resulting in total cash dividends declared of \$0.89 per share relating to 2012. The table below summarizes the dividends declared for each of the past three years:

### DIVIDENDS DECLARED PER SHARE

(IN CA\$)



(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 2012 were \$132.9 million, compared to \$126.8 million in 2011. The Company has paid quarterly dividends for 23 consecutive years and has increased its yearly dividend paid per share for each of the past 12 years.

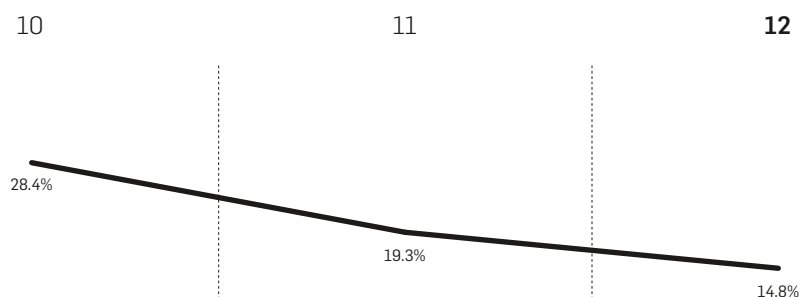
## 11.8 RETURN ON AVERAGE SHAREHOLDERS EQUITY

ROASE is a non-IFRS financial measure of 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 this element results mainly from the accounting treatment of cash flow hedges, and is not representative of the way the Company evaluates the management of its foreign currency exchange risk. Accordingly, the "other components of equity" are not representative of the Company's financial position.

For 2012, ROASE was 14.8%, compared to 19.3% for 2011.

### ROASE



## 12. 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 2012 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 underlying 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.

Critical accounting judgments and 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 2012 audited annual consolidated financial statements.

## 13. ACCOUNTING POLICIES AND CHANGES

### 13.1 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 consolidation requirements in 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") replaces 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*, ("IAS 19") to eliminate the corridor method that defers the recognition of gains and losses, to eliminate the concept of the expected return on assets, 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 International Accounting Standards Board also issued a collection of amendments to IFRS as follows:
  - Amendments to IFRS 1, *First-Time Adoption of IFRS*, ("IFRS 1") related to repeated application of IFRS 1 and to borrowing costs.
  - Amendments to IAS 1, *Presentation of Financial Statements*, related to clarification of the requirements for comparative information.
  - Amendments to IAS 16, *Property, Plant and Equipment*, related to classification of servicing equipment.
  - Amendments to IAS 32, *Financial Instruments: Presentation*, related to tax effect of distribution to holders of equity instruments.
  - Amendments to IAS 34, *Interim Financial Reporting*, related to interim financial reporting and segment information for total assets and liabilities.

The amendments to IAS 19 are expected to result in an increase (decrease) in the net defined benefit pension cost recognized in the income statement and in an equivalent decrease (increase) in actuarial losses recognized in the statement of comprehensive income arising from defined benefit pension plans and other post-employment benefits, with a \$nil impact to the Company's retained earnings. The adoption of these amendments would have resulted in a decrease in net income of \$3.2 million for the year ended December 31, 2012 (2011: \$1.4 million) and in an equivalent decrease in actuarial losses recognized in the statement of comprehensive income for the years ended December 31, 2012 and 2011, with a \$nil impact to the Company's retained earnings as at December 31, 2012 and 2011. This change relates mainly to the elimination of the expected return on plan assets, which will be replaced by a discount rate applied to the net accrued defined pension benefit liability under the amended IAS 19.

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

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 this standard on its financial statements.

## 14. 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.

### RISKS RELATED TO LITIGATION, REGULATORY MATTERS AND INVESTIGATIONS

*The outcome of pending and future claims and litigation could have a material adverse impact on the Company's business, financial condition and results of operation.*

SNC-Lavalin and its ICI are or can be party to litigation in the normal course of business. Since the Company engages in engineering and construction, and O&M activities for facilities and projects where design, construction or systems failures can result in substantial injury or damage to employees or others, the Company is exposed to substantial claims and litigation if there is a failure at any such project. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and be brought by clients or third parties, such as those who use or reside near clients' projects. SNC-Lavalin can also be exposed to claims if it agreed that a project will achieve certain performance standards or satisfy certain technical requirements and those standards or requirements are not met. In many contracts with clients, subcontractors, and vendors, the Company agrees to retain or assume potential liabilities for damages, penalties, losses and other exposures relating to projects that could result in claims that greatly exceed the anticipated profits relating to those contracts. In addition, while clients and subcontractors may agree to indemnify the Company against certain liabilities, such third parties may refuse or be unable to pay.

Moreover, on March 1, 2012, a "Motion to Authorize the Beginning of a Class Action and to Obtain the Status of Representative" (the "Quebec Motion") 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 Quebec Motion raises both statutory and negligent misrepresentation claims.

On May 9, 2012, two proposed class actions were commenced in the Ontario Superior Court on behalf of all persons who acquired SNC-Lavalin securities during different time periods. These two actions were consolidated into a single action (the "Ontario Action") on June 29, 2012. The Ontario Action seeks damages on behalf of all persons who acquired securities of SNC-Lavalin between November 6, 2009 and February 27, 2012 (the "Class Period"). The Ontario Action raises, among other things, both statutory and common law misrepresentation claims.

The Quebec Motion and the Ontario Action (collectively, the "Actions") allege that certain documents filed by SNC-Lavalin contained misrepresentations concerning, among other things, SNC-Lavalin's corporate governance practices, adequacy of controls and procedures, reported net income for the year ended December 31, 2010, and adherence to SNC-Lavalin's Code of Ethics.

The Actions each seek damages based on the decline in market value of the securities purchased by proposed class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as other damages and costs. The Ontario Action seeks additional damages based on a further drop in share price on June 25, 2012.

On September 19, 2012, the Ontario judge agreed to the discontinuance of the plaintiffs' claims other than the statutory misrepresentation claims under securities legislation in accordance with an agreement with the plaintiffs. The judge granted the plaintiffs leave to proceed with those statutory claims and has certified a class action covering shareholders who bought SNC-Lavalin shares during the Class Period except for Quebec residents. On January 24, 2013, a judge of the Quebec Superior Court rendered a similar judgement covering Quebec residents.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of these lawsuits or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class action lawsuit or other litigation. While SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacities as directors and officers, the Company does not maintain any other insurance in connection with the Actions. The amount of coverage under the directors' and officers' policy is limited and such coverage may be an insignificant portion of any amounts the Company is required or determines to pay in connection with the Actions. In the event the Company is required or determines to pay amounts in connection with these lawsuits or other litigation, such amounts could be significant and may have a material adverse impact on SNC-Lavalin's liquidity and financial results.

SNC-Lavalin maintains insurance coverage for various aspects of its business and operations. The Company's insurance programs have varying coverage limits and maximums, and insurance companies may seek to deny claims the Company might make. In addition, SNC-Lavalin has elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under these programs. As a result, the Company may be subject to future liability for which it is only partially insured, or completely uninsured.

In addition, the nature of the Company's business sometimes results in clients, subcontractors, and vendors presenting claims for, among other things, recovery of costs related to certain projects. Similarly, SNC-Lavalin occasionally presents change orders and other claims to clients, subcontractors, and vendors. If the Company fails to document properly the nature of claims and change orders or are otherwise unsuccessful in negotiating reasonable settlements with clients, subcontractors and vendors, the Company could incur cost overruns, reduced profits or, in some cases, a loss for a project. A failure to promptly recover on these types of claims could have a material adverse impact on SNC-Lavalin's liquidity and financial results. Additionally, irrespective of how well the Company documents the nature of its claims and change orders, the cost to prosecute and defend claims and change orders can be significant.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavourable rulings can and do occur. Pending or future claims against SNC-Lavalin could result in professional liability, product liability, criminal liability, warranty obligations, and other liabilities which, to the extent the Company is not insured against a loss or its insurer fails to provide coverage, could have a material adverse impact on the Company's business, financial condition and results of operations.

***The Company is subject to ongoing investigations which could adversely affect its business, results of operations or reputation and which could subject it to sanctions, fines or monetary penalties, some of which may be significant.***

In February 2012, the Board of Directors initiated an independent investigation (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 and provided information to the appropriate authorities. The Company understands that investigations by authorities remain ongoing in connection with this information. The Company also continues to review compliance matters (including matters beyond the scope of the Independent Review), including to assess whether amounts may, directly or indirectly, have been improperly paid to persons owing fiduciary duties to the Company.

The Royal Canadian Mounted Police (the "RCMP") is investigating the Company's involvement in projects in Bangladesh and certain countries in Africa and this investigation has led to charges being laid against two former employees of a subsidiary of the Company under the *Corruption of Foreign Public Officials Act* (Canada) in regard to the Bangladesh project. The World Bank is also investigating the project in Bangladesh and certain other World Bank projects and, in March 2012, it temporarily suspended the subsidiary of the Company from new World Bank projects pending a final conclusion and decision on this matter.

The Company understands that there are also investigations by various authorities ongoing in various jurisdictions with respect to the above and other matters, including an investigation by the securities regulator in Quebec, the *Autorité des marchés financiers*, and investigations by the RCMP and Swiss authorities (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012). In addition, the Former CEO of the Company and a former Executive Vice-President of the Company have been charged by authorities in the Province of Quebec with various fraud offences allegedly in connection with a Company project in the Province of Quebec and the same former Executive Vice-President has been detained by Swiss authorities since April 2012 in connection with potential criminal charges, including fraud-related matters.

The Company's senior management and Board of Directors have been required to devote significant time and resources to these investigations and ongoing related matters which have distracted and may continue to distract from the conduct of the Company's daily business, and significant expenses have been and may continue to be incurred in connection with these investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or other matters which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

The Company is currently unable to determine when these investigations will be completed, whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. While the Company continues to cooperate with authorities in connection with ongoing investigations, if regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise, the consequences of any such sanctions or other actions, whether actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties including temporary or permanent debarment from participating in projects by certain administrative organizations or governments, each of which could, materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities. In addition, these investigations and any negative publicity associated with these investigations, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of these investigations may affect the course of the Class Action (described above).

***Further regulatory developments could have a significant adverse impact on the Company's results, and employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm the Company's reputation, reduce its revenues and net income, and subject the Company to criminal and civil enforcement actions.***

The Company is subject to various rules, regulations, laws, and other legal requirements, enforced by governments or other authorities. Further regulatory developments, namely abrupt changes in foreign government policies and regulations, could have a significant adverse impact on the Company's results.

In addition, misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of the Company's employees, agents or partners could have a significant negative impact on SNC-Lavalin's business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labour and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal control over financial reporting, environmental laws and any other applicable laws or regulations. For example, Canada's *Corruption of Foreign Public Officials Act* and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. In addition, SNC-Lavalin provides services that may be highly sensitive or that could relate to critical national security matters; if a security breach were to occur, the Company's ability to procure future government contracts could be severely limited.

SNC-Lavalin's policies mandate compliance with these regulations and laws, and the Company takes precautions intended to prevent and detect misconduct. However, since internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, SNC-Lavalin cannot assure that its controls will protect the Company from reckless or criminal acts committed by employees, agents or partners. Failure to comply with applicable laws or regulations or acts of misconduct could subject SNC-Lavalin to fines and penalties, loss of security clearances, and suspension or debarment from contracting, any or all of which could harm the Company's reputation, subject the Company to criminal and civil enforcement actions and have a negative impact on SNC-Lavalin's business.

***A negative impact on the Company's public image could influence its ability to obtain future projects.***

The consequence of reputational risk is a negative impact on the Company's public image, which may cause the cancellation of current projects and influence the Company's 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, alleged or proven non-compliance with laws or regulations by the Company's employees, agents, subcontractors, suppliers and/or partners, and creation of pollution and contamination.

## RISKS RELATING TO THE COMPANY'S OPERATIONS

***Fixed-price contracts or the Company's failure to meet contractual schedule or performance requirements may increase the volatility and unpredictability of its revenue and profitability.***

A significant portion of the Company's business and revenues is dependent on fixed-price contracts. The Company 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 the Company's employees 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. Cost overruns may also occur when unforeseen circumstances arise.

If cost overruns occur, the Company could experience reduced profits or, in some cases, a loss for that project. A significant cost overrun can occur on both large and smaller contracts or projects. If a large cost overrun occurs, or if cost overruns occur on multiple projects, such cost overruns could increase the unpredictability and volatility of the Company's profitability as well as have a material adverse impact on its business.

In addition, 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 completion date or performance standards. A project's revenues could also be reduced in the event the Company is required to pay liquidated damages or in connection with contractual penalty provisions, which can be substantial and can accrue on a daily basis.

***The Company's revenue and profitability are largely dependent on the awarding of new contracts, which it does not directly control, and the uncertainty of contract award timing could have an adverse effect on the Company's ability to match its workforce size with its contract needs.***

Obtaining new contract awards, which is a key component for the sustainability of net income, is a risk factor in a competitive environment. A substantial portion of SNC-Lavalin's revenue and profitability is generated from large-scale project awards. The timing of when project awards will be made is unpredictable and outside of the Company's control. SNC-Lavalin operates in highly competitive markets where it is difficult to predict whether and when it will receive awards since these awards and projects often involve complex and lengthy negotiations and bidding processes. These processes can be impacted by a wide variety of factors including governmental approvals, financing contingencies, commodity prices, environmental conditions and overall market and economic conditions. In addition, the Company may not win contracts that it has bid upon due to price, a client's perception of the Company's reputation, ability to perform and/or perceived technology or other advantages held by competitors. SNC-Lavalin's competitors may be more inclined to take greater or unusual risks or accept terms and conditions in a contract that the Company might not otherwise deem market or acceptable. Because a significant portion of the Company's revenue is generated from large projects, the Company's results of operations can fluctuate from quarter to quarter and year to year depending on whether and when project awards occur and the commencement and progress of work under awarded contracts. As a result, SNC-Lavalin is subject to the risk of losing new awards to competitors or the risk that revenue may not be derived from awarded projects as quickly as anticipated.

In addition, fluctuating demand cycles are common in the engineering and construction industries and can have a significant impact on the degree of competition for available projects and the awarding of new contracts. As such, fluctuations in the demand for engineering and construction services or the ability of the private and/or public sector to fund projects in a depressed economic climate could adversely affect the awarding of new contracts and margin and thus SNC-Lavalin's results. Given the cyclical nature of the engineering and construction industries, the financial results of SNC-Lavalin, like others in such industries, may be impacted in any given period by a wide variety of factors beyond its control, and as a result there may, from time to time, be significant and unpredictable variations in the Company's quarterly and annual financial results.

SNC-Lavalin's estimates of future performance depend on, among other matters, whether and when the Company will receive certain new contract awards, including the extent to which the Company utilizes its workforce. The rate at which SNC-Lavalin utilizes its workforce is impacted by a variety of factors including: the Company's ability to manage attrition; the Company's ability to forecast its need for services which in turn allows the Company to maintain an appropriately sized workforce; the Company's ability to transition employees from completed projects to new projects or between internal business groups; and the Company's need to devote resources to non-chargeable activities such as training or business development. While SNC-Lavalin's estimates are based upon its good faith judgment, these estimates can be unreliable and may frequently change based on newly available information. In the case of large-scale domestic and international projects where timing is often uncertain, it is particularly difficult to predict whether and when the Company will receive a contract award. The uncertainty of contract award timing can present difficulties in matching the Company's workforce size with its contract needs. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, the Company could incur costs resulting from reductions in staff or redundancy of facilities that would have the effect of reducing the Company's operational efficiency, margins and profits.

***The Company's backlog is subject to unexpected adjustments and cancellations, including under "termination for convenience" provisions, and does not represent a guarantee of the Company's future revenues or profitability.***

The Company's revenue backlog is derived from contract awards that are considered firm thus an indication of expected future revenues. Project delays, suspensions, terminations, cancellations or reductions in scope do occur from time to time in the Company's industry due to considerations beyond the control of SNC-Lavalin and may have a material impact on the amount of reported backlog with a corresponding adverse impact on future revenues and profitability. In addition, many of the Company's contracts contain "termination for convenience" provisions, which permit the client to terminate or cancel the contract at its convenience upon providing the Company with notice a specified period of time before the termination date and/or paying the Company equitable compensation, depending on the specific contract terms. In the event a significant number of the Company's clients were to avail themselves of such "termination for convenience" provisions, or if one or more significant contracts were terminated for convenience, the Company's reported backlog would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

***SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting.***

SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting. SNC-Lavalin's failure to comply with the terms of one or more government contracts or government statutes and regulations could result in the Company's contracts with government agencies being terminated or the Company being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties and the risk of public scrutiny of the Company's performance, and potential harm to its reputation, each of which could have a material adverse effect on SNC-Lavalin's business. Other remedies that the Company's government clients may seek for improper activities or performance issues include sanctions such as forfeiture of profits and suspension of payments. In addition, virtually all of the Company's contracts with governments contain "termination for convenience" provisions, as described in the risk factor above entitled *"The Company's backlog is subject to unexpected adjustments and cancellations, including under 'termination for convenience' provisions, and does not represent a guarantee of the Company's future revenues or profitability."*

Government contracts present SNC-Lavalin with other risks as well. Legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, the Company's contracts with government agencies may be only partially funded or may be terminated, and the Company may not realize all of its potential revenues and profits from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

***The Company's international operations are exposed to various risks and uncertainties, including unfavourable political environments, weak foreign economies and the exposure to foreign currency risk.***

A significant portion of SNC-Lavalin's revenues are attributable to projects in international markets outside of Canada. SNC-Lavalin's business is dependent on the continued success of its international operations, and the Company expects its international operations to continue to account for a significant portion of total revenues. The Company's international operations are subject to a variety of risks, including:

- > recessions and other economic crises in other regions, such as Europe, or specific foreign economies and the impact on the Company's costs of doing business in those countries;
- > difficulties in staffing and managing foreign operations, including logistical, security and communication challenges;
- > changes in foreign government policies, laws, regulations and regulatory requirements, or the interpretation, application and/or enforcement thereof;
- > difficulty or expense in enforcing contractual rights due to a lack of a developed legal system or otherwise;
- > renegotiation or nullification of existing contracts;
- > the adoption of new, and the expansion of existing, trade or other restrictions;
- > difficulties, delays and expense that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- > embargoes;
- > acts of war, civil unrest, force majeure and terrorism;
- > social, political and economic instability;
- > expropriation of property;
- > tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof; and
- > limitations on the Company's ability to repatriate cash, funds or capital invested or held in jurisdictions outside Canada.



To the extent SNC-Lavalin's international operations are affected by unexpected or adverse economic, political and other conditions, the Company's business, financial condition and results of operations may be adversely affected.

In addition, the Company's activities outside Canada expose SNC-Lavalin to foreign currency exchange risks, which could adversely impact its operating results. The Company is particularly vulnerable to fluctuations in Euros and U.S. dollars. While SNC-Lavalin has a hedging strategy in place to mitigate the effects of certain foreign currency exposures, there can be no assurance that such hedging strategy will be effective. Furthermore, the Company does not have hedging strategies in place with respect to all currencies in which it does business. The Company's hedging strategy includes the use of forward foreign exchange contracts, which also contain an inherent credit risk related to default on obligations by the counter-parties to such contracts.

***There are risks associated with the Company's ownership interests in ICI that could adversely affect it.***

In accordance with its business strategy, SNC-Lavalin makes investments in ICI. When SNC-Lavalin holds an ownership interest in an ICI, it assumes a degree of risk associated with the financial performance of the ICI. The value of the Company's investment in such ICI is dependent on the ability of the ICI to attain its revenue and cost projections as well as the ability to secure initial and ongoing financing, which can be influenced by numerous factors, some partially beyond the ICI's control, including, but not limited to, political or legislative changes, lifecycle maintenance, operating revenues, collection success, cost management and the general state of the capital and/or credit markets. In addition, the Company is sometimes required to guarantee the obligations of the ICI or partners in such ICI, which may result in a liability for the Company in the event such guarantee is enforced or applied. See, for example, the discussion on the guarantee given by SNC-Lavalin in connection with its investment in Ambatovy (see section 9.3.4.1).

The Company makes investments in ICI where it does not hold a controlling interest. These ICI may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling entity makes decisions that negatively impact the ICI or internal control problems arise within the ICI, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company's non-recourse debt from ICI can be affected by fluctuations in interest rates.

In addition, many of the Company's ICI investments are governed by shareholder, partnership or similar joint venture agreements or arrangements, many of which restrict the Company's ability or right to freely sell or otherwise dispose of its ICI and/or that affect the timing of any such sale or other disposition. Consequently, the Company's ability to efficiently or timely dispose of or monetize one or more of its ICI could be limited by such contractual arrangements, which could in turn have an adverse impact on SNC-Lavalin's liquidity or capital resources.

***The Company is dependent on third parties to complete many of its contracts.***

SNC-Lavalin undertakes contracts wherein it subcontracts a portion of the project or the supply of material and equipment to third parties. If the amount the Company is required to pay for subcontractors or equipment and supplies exceeds what was estimated, the Company may suffer losses on these contracts. If a supplier or subcontractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, or provides supplies, equipment or services that are not of an acceptable quality, the Company may be required to source those supplies, equipment or services on a delayed basis or at a higher price than anticipated, which could impact contract profitability. In addition, faulty equipment or materials could impact the overall project, resulting in claims against SNC-Lavalin for failure to meet required project specifications. These risks may be intensified during an economic downturn if these suppliers or subcontractors experience financial difficulties or find it difficult to obtain sufficient financing to fund their operations or access to bonding, and are not able to provide the services or supplies necessary for the Company's business. In addition, in instances where SNC-Lavalin relies on a single contracted supplier or subcontractor or a small number of subcontractors, there can be no assurance that the marketplace can provide these products or services on a timely basis, or at the costs the Company had anticipated. A failure by a third-party subcontractor or supplier to comply with applicable laws, rules or regulations could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company.

***The Company's use of joint ventures and partnerships exposes it to risks and uncertainties, many of which are outside of the Company's control.***

SNC-Lavalin undertakes certain contracts with joint venture partners, as a member of partnerships, and under other similar arrangements. This situation exposes the Company to a number of risks, including the risk that its partners may be unable to fulfill their obligations to the Company or its clients. SNC-Lavalin's partners may also be unable or unwilling to provide the required levels of financial support to the partnerships. If these circumstances occur, the Company may be required to pay financial penalties or liquidated damages, provide additional services, or make additional investments to ensure adequate performance and delivery of the contracted services. Under agreements with joint and several (or solidary) liabilities, SNC-Lavalin could be liable for both its obligations and those of its partners. These circumstances could also lead to disputes and litigation with the Company's partners or clients, all of which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.



SNC-Lavalin participates in joint ventures and similar arrangements in which it is not the controlling partner. In these cases, the Company has limited control over the actions or decisions of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling partner makes decisions that negatively impact the joint venture or internal control problems arise within the joint venture, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The failure by a joint venture partner to comply with applicable laws, rules or regulations, or client requirements, could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company, which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.

***The competitive nature of the markets in which the Company does business could adversely affect it.***

SNC-Lavalin operates businesses in highly competitive industry segments and geographic markets both in Canada and internationally. SNC-Lavalin competes with both large as well as many mid-size and smaller companies across a range of industry segments. In addition, an increase in international companies entering into the Canadian marketplace has also made such market more competitive. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which the Company operates. Fluctuations in demand in the segments in which the Company operates may impact the degree of competition for work. Competitive position is based on a multitude of factors, including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, availability of partners, suppliers and workforce, and reputation for quality, timeliness and experience. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may also result in increased competition in certain market segments, price or margin reductions or decreased demand which may adversely affect results.

***The Company's project execution activities may result in professional liability or liability for faulty services.***

The Company's failure to act or to make judgments and recommendations in accordance with applicable professional standards could result in large monetary damages awards against the Company. The Company's business involves making professional judgments regarding the planning, design, development, construction, operations and management of industrial facilities and public infrastructure projects. A failure or event at one of SNC-Lavalin's project sites or completed projects resulting from the work it has performed could result in significant professional or product liability, warranty or other claims against the Company as well as reputational harm, especially if public safety is impacted. These liabilities could exceed the Company's insurance limits or the fees it generates, or could impact the Company's ability to obtain insurance in the future. In addition, clients or subcontractors who have agreed to indemnify SNC-Lavalin against any such liabilities or losses might refuse or be unable to pay. An uninsured claim, either in part or in whole, if successful and of a material magnitude, could have a material adverse impact on the Company's financial condition and results of operations.

In some jurisdictions where the Company does business, it may be held jointly and severally liable for both its obligations and those of other parties working on a particular project, notwithstanding the absence of a contractual relationship between the Company and such other parties.

***The Company could be subject to monetary damages and penalties in connection with professional and engineering reports and opinions that it provides.***

SNC-Lavalin issues reports and opinions to clients based on its professional engineering expertise, as well as its other professional credentials. The Company's reports and opinions are often required to comply with professional standards, licensing requirements, securities regulations and other laws, regulations, rules and standards governing the performance of professional services in the jurisdiction where the services are performed. In addition, the Company could be liable to third parties who use or rely upon the Company's reports or opinions even if it is not contractually bound to those third parties, which may result in monetary damages or penalties.

***The Company may not have in place sufficient insurance coverage to satisfy its needs.***

As part of SNC-Lavalin's business operations, the Company maintains insurance coverage. There can be no assurance that the Company has in place sufficient insurance coverage to satisfy its needs, or that it will be able to secure all necessary or sufficient insurance coverage in the future. The Company's insurance is purchased from a number of third-party insurers, often in layered insurance arrangements. If any of its third-party insurers fail, refuse to renew or revoke coverage or otherwise cannot satisfy their insurance requirements to SNC-Lavalin, then the Company's overall risk exposure and operational expenses could be increased and its business operations could be interrupted.

SNC-Lavalin has obtained directors' and officers' liability insurance insuring directors and officers against liability for acts or omissions in their capacities as directors and officers, subject to certain exclusions. Such insurance also insures SNC-Lavalin against losses which the Company may incur in indemnifying officers and directors. In addition, SNC-Lavalin may enter into indemnification agreements with key officers and directors and such persons also have indemnification rights under applicable laws and the Company's constating documents. SNC-Lavalin's obligations to indemnify directors and officers may pose substantial risks to the Company's financial condition as the Company may not be able to maintain its insurance or, even if the Company is able to maintain its insurance, claims in excess of the Company's insurance coverage could materially deplete its assets.

***The Company's employees work on projects that are inherently dangerous and a failure to maintain a safe work site could result in significant losses and/or an inability to obtain future projects.***

The nature of SNC-Lavalin's work places employees and others near large equipment, dangerous processes or highly regulated materials, and in challenging environments. Many clients require that the Company meet certain safety standards or criteria to be eligible to bid on contracts, and the payment of a portion of the Company's contract fees or profits may be subject to satisfying safety standards or criteria. Unsafe work conditions also have the potential of increasing employee turnover, increasing project and operating costs and could negatively impact the awarding of new contracts. If SNC-Lavalin fails to implement appropriate safety procedures and/or if its procedures fail, employees or others may suffer injuries. Failure to comply with such procedures, client contracts or applicable regulations could subject SNC-Lavalin to losses and liability and adversely impact the Company's business, financial condition and operating results as well as its ability to obtain future projects.

***The Company's failure to attract and retain qualified personnel could have an adverse effect on its activities.***

The success of SNC-Lavalin heavily 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.

***Work stoppages, union negotiations and other labour matters could adversely affect the Company.***

A portion of the Company's workforce and employees working for various subcontractors are unionized. A lengthy strike or other work stoppages, caused by unionized or non-unionized employees, in connection with any of the Company's projects could have a material adverse effect on the Company. There is an inherent risk that on-going or future negotiations relating to collective bargaining agreements or union representation may not be favourable to the Company. From time to time, the Company has also experienced attempts to unionize the Company's non-unionized employees. Such efforts can often disrupt or delay work and present risk of labour unrest.

***The Company relies on information systems and data in its operations. Failure in the availability or security of the Company's information systems or in data security could adversely affect its business and results of operations.***

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.

***Any acquisition or other investment may present risks or uncertainties.***

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.

## **RISKS RELATED TO THE COMPANY'S LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION**

***A deterioration or weakening of the Company's financial position, including its net cash position, would have a material adverse effect on its business and results of operations.***

The Company relies both on its cash position as well as on the credit and capital markets to provide some of its capital requirements and it is, in certain instances, required to obtain bank guarantees as a means to secure its various contractual obligations. Significant instability or disruptions of the capital markets, including the credit markets, or a deterioration in or weakening of its financial position, including its net cash position, due to internal or external factors, could restrict or prohibit the Company's access to, or significantly increase the cost of one or more of these financing sources, including credit facilities, the issuance of long-term debt, or the availability of letters of credit to guarantee its contractual and project obligations. There can be no assurance that the Company will maintain an adequate net cash position and generate sufficient cash flow from operations in an amount to enable itself to fund its operations and liquidity needs, service its debt and/or maintain its ability to obtain and secure bank guarantees.

A deterioration in the Company's financial condition could also result in a reduction or downgrade of its credit ratings, including to below investment grade, which could prohibit or restrict the Company from utilizing letters of credit or performance guarantees or accessing external sources of short- and long-term debt financing or could significantly increase the costs associated with utilizing such letters of credit and performance guarantees, bank credit facilities and issuing long-term debt, which would in turn have a material adverse effect on the Company's business, financial condition and results of operations.

A draw on letters of credit or bank guarantees by one or more third parties could, among other things, significantly reduce the Company's cash position and have a material adverse effect on its business and results of operations.

***The Company may have significant working capital requirements, which if unfunded could negatively impact its business, financial condition and cash flows.***

In some cases, SNC-Lavalin may require significant amounts of working capital to finance the purchase of materials and/or the performance of engineering, construction and other work on certain projects before it receives payment from clients. In some cases, the Company is contractually obligated to its clients to fund working capital on projects. Increases in working capital requirements could negatively impact SNC-Lavalin's business, financial condition and cash flows.

Additionally, the Company could temporarily experience a liquidity shortfall if it is unable to access its cash balances and short-term investments to meet the Company's working capital requirements. SNC-Lavalin's cash balances and short-term investments are in accounts held by banks and financial institutions, and some of the Company's deposits exceed available insurance. There is a risk that such banks and financial institutions may, in the future, go into bankruptcy or forced receivership, or be seized by governments, which may cause the Company to experience a temporary liquidity shortfall or fail to recover its deposits in excess of available insurance.

Further significant deterioration of the current global economic and credit market environment, particularly in the Eurozone countries, could challenge SNC-Lavalin's efforts to maintain a diversified asset allocation with creditworthy financial institutions.

In addition, SNC-Lavalin may invest some of its cash in longer-term investment opportunities, including the acquisition of other entities or operations, the reduction of certain liabilities such as unfunded pension liabilities and/or repurchases of the Company's outstanding shares. To the extent the Company uses cash for such other purposes, the amount of cash available for the working capital needs described above would be reduced.

***An inability of SNC-Lavalin's clients to fulfill their obligations on a timely basis could adversely affect the Company.***

SNC-Lavalin is subject 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. A client's inability to fulfill such obligations could have an adverse impact on the Company's financial condition and profitability.

***The Company may be required to impair certain of its goodwill, and it may also be required to write down or write off the value of certain of its assets and investments, either of which could have a material adverse impact on the Company's results of operations and financial condition.***

In accordance with IFRS, goodwill is assessed for impairment at least annually by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are inherently subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cashflows growth rate and the discount rate. The determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets.

The Company cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Company's results of operations and financial condition.

Financial assets, including the Company's investments, other than those accounted for at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Company may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Company's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Company's investments could also have a material adverse effect on its financial condition or results of operations.

## GLOBAL/MACROECONOMIC RISKS

*Global economic conditions could affect the Company's client base, partners, subcontractors and suppliers and could materially affect its backlog, revenues, net income and ability to secure and maintain financing.*

Fluctuations in global economic conditions may have an impact on clients' willingness and ability to fund their projects. These conditions could make it difficult for the Company's clients to accurately forecast and plan future business trends and activities, thereby causing clients to slow or even curb spending on the Company's services, or seek contract terms more favourable to them. SNC-Lavalin's government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate contracts with little or no prior notice. Furthermore, any financial difficulties suffered by the Company's partners, subcontractors or suppliers could increase cost or adversely impact project schedules. These economic conditions continue to reduce the availability of liquidity and credit to fund or support the continuation and expansion of industrial business operations worldwide. Volatile financial market conditions and adverse credit market conditions could adversely affect clients', partners' or the Company's own borrowing capacity, which support the continuation and expansion of projects worldwide, and could result in contract cancellations or suspensions, project delays, payment delays or defaults by the Company's clients. SNC-Lavalin's ability to operate or expand its business would be limited if, in the future, the Company is unable to access sufficient credit capacity, including capital market funding, bank credit, such as letters of credit, and surety bonding on favourable terms or at all. These disruptions could materially impact the Company's backlog, revenues and net income.

*Fluctuations in commodity prices may affect clients' investment decisions and therefore subject the Company to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards, and may affect the costs of the Company's projects.*

Commodity prices can affect SNC-Lavalin's clients in a number of ways. For example, for those clients that produce commodity products, fluctuations in price can have a direct effect on their profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. To the extent commodity prices decline and the Company's clients defer new investments or cancel or delay existing projects, the demand for the Company's services decreases, which may have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

Commodity prices can also strongly affect the costs of projects. Rising commodity prices can negatively impact the profitability of future projects as well as those in progress, and could have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

## RISKS RELATING TO COMPLIANCE AND FINANCIAL REPORTING

*Inherent limitations to the Company's control framework could result in a material misstatement of financial information.*

SNC-Lavalin maintains accounting systems and internal controls over its 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. Also, projections of any evaluation of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

*Environmental laws and regulations expose the Company to certain risks, could increase costs and liabilities and impact demand for the Company's services.*

SNC-Lavalin 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.

## 15. CONTROLS AND PROCEDURES

The Company's CEO and the CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures as well as its 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.

### 15.1 DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO have supervised an evaluation of the effectiveness of the Company's disclosure controls and procedures as at December 31, 2012. In making this evaluation, the CEO and the CFO considered, among other things:

- > the remedial measures that the Company has implemented to address the previously identified material weaknesses in the Company's internal control over financial reporting as well as the other measures that have been or are being implemented to strengthen the Company's financial controls and procedures (as described in section 15.3);
- > their conclusion that those material weaknesses no longer existed as at December 31, 2012; and
- > the results of the evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012 (as described in section 15.2).

Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures, as at December 31, 2012, were effective to provide reasonable assurance that (i) material information relating to the Company is made known to the CEO and the 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.

### 15.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

As disclosed in the Company's 2011 "Management's Discussion and Analysis", the Company's then Interim CEO and the CFO, in carrying out their evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011, which included consideration of the findings of the Independent Review, 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:

1. management override of internal controls contained in the Company's Policy on Commercial Agents/Representatives ("Agents Policy"); and
2. non-compliance with, and ineffective controls over compliance with, the Company's Code of Ethics and the Agents Policy.

As disclosed in the Company's "Management Discussion and Analysis" for the first, second and third quarters of 2012, the Interim CEO and the CFO (in respect of the first and second quarters) and the CEO and the CFO (in respect of the third quarter) concluded that the above material weaknesses continued to exist as at March 31, June 30 and September 30, 2012, respectively.

At the recommendation of the Company's Audit Committee, the Board of Directors of the Company adopted the recommendations for remedial measures resulting from the Independent Review. These recommendations were directed at reinforcing standards of conduct, strengthening and improving internal controls and processes, and reviewing the compliance environment. In addition, the Company's management had identified and implemented a number of measures to address the material weaknesses referred to above and to continue to strengthen the Company's financial controls and procedures. The Board of Directors directed management to develop a plan and timetable for the implementation of all of these measures and has been monitoring their implementation.

The CEO and the CFO have supervised an evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012. Based on this evaluation, including an assessment of the remedial measures that have been implemented by the Company during 2012 (as described in section 15.3), the CEO and the CFO have concluded that (i) the previously identified material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting no longer existed as at December 31, 2012, and (ii) the Company's internal control over financial reporting, as at December 31, 2012, was 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.

At the request of the Company's Audit Committee, its independent auditor, Deloitte, conducted an audit of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012 based on the COSO Framework. Deloitte has issued an audit report dated March 8, 2013 which concludes that, in Deloitte's opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2012, in accordance with criteria established in the COSO Framework. This report is reproduced in section 16 of this MD&A and should be read in its entirety.

## 15.3 REMEDIAL MEASURES

### REMEDIAL MEASURES TO ADDRESS PREVIOUSLY IDENTIFIED MATERIAL WEAKNESSES

A summary of the remedial measures that were adopted and implemented to address the above-mentioned material weaknesses is set out below:

- > A "Management Override Policy" was approved by the Board of Directors providing procedures to be followed (i) in cases of acceptable management departures from the Company's policies and procedures, and (ii) anytime a person in a managerial or supervisory position or other employee requests or directs that Company policies or procedures be disregarded. The new policy was communicated to all employees in May 2012, was posted on the Company's intranet and is available to all employees. A training program on the new policy has been provided;
- > The Code of Ethics was amended to include a duty to report violations or proposed violations of the Code of Ethics, subject to applicable law. These amendments were approved by the Board of Directors, communicated to all employees in May 2012, posted on the Company's intranet and are available to all employees. A training program on the amended Code of Ethics, and certification thereon, was completed by substantially all of the Company's employees; and
- > Various changes to the Agents Policy that were approved by the Board of Directors in March 2012 have been implemented, including:
  - an Agent Review Committee was created to review and approve the entering into of any agent agreement meeting certain criteria;
  - an annual review of the Agents Policy by the Governance Committee of the Board of Directors was added to the Governance Committee's mandate;
  - an annual confirmation of compliance with the Agents Policy by the Executive Vice-President responsible for this policy was added to the Audit Committee's mandate. The first annual confirmation was completed in the third quarter of 2012;
  - enhanced due diligence procedures were adopted in connection with all potential agent agreements, including completion of a "red flags" warning checklist and integrity certification by senior management following completion of due diligence performed by a third party; and
  - a requirement was adopted for formal training of the Company's commercial agents on the Code of Ethics.

### MEASURES TO CONTINUE TO STRENGTHEN FINANCIAL CONTROLS AND PROCEDURES

A number of other measures have been adopted and implemented, or are in the process of being implemented, to continue to strengthen the Company's financial controls and procedures, including the following:

- > a communication plan has been launched emphasizing compliance with the Code of Ethics as a core value in all aspects of the Company's business and an enhanced training program around the Code of Ethics have been implemented throughout the organization;
- > the scope of complaints and reporting under the Company's Whistleblowing Policy was expanded to include all violations of the Code of Ethics;
- > the specific monitoring of compliance with the Code of Ethics and administration of the Whistleblowing Policy by the Company's Ethics and Compliance Committee was approved and is reflected in the charter of the Ethics and Compliance Committee, which is required to report on its activities quarterly to the Audit Committee and the Human Resources Committee of the Board of Directors;
- > the existing practice of the internal auditors reporting directly to the Audit Committee and the mandate of the internal audit function of the Company have been formally documented;
- > the primary reporting relationship of all business unit vice presidents of finance has been changed such that they now report directly to the CFO;
- > reinforcement of procedures and approvals regarding the levels of authority;
- > the hiring of a Chief Compliance Officer, a new position created following the approval by the Board of Directors; and
- > the development and implementation of a comprehensive ethics and compliance program has been initiated with the assistance of independent global risk management firms.

## 15.4 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The remedial measures described above that were implemented in the fourth quarter of 2012 to address the previously identified material weaknesses have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to implement in its different business units a new financial management solution as part of its integrated platform. With the conversion of additional divisions during the fourth quarter of 2012, the overall implementation of this financial management solution is considered to have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting in the fourth quarter of 2012 in that several new automated controls have been introduced to complement or replace certain existing controls.

## 16. QUARTERLY INFORMATION

YEAR ENDED DECEMBER 31 (IN MILLIONS \$, EXCEPT PER SHARE AMOUNTS)	2012					2011				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues by activity:										
Services	669.1	787.0	797.7	921.2	3,175.0	480.2	564.4	598.0	795.2	2,437.8
Packages	619.0	701.2	745.5	954.7	3,020.4	634.9	693.9	758.2	784.5	2,871.5
O&M	383.3	293.3	304.5	349.4	1,330.5	426.7	281.7	308.3	382.5	1,399.2
ICI	116.5	124.8	127.6	196.2	565.1	101.8	128.7	115.0	155.9	501.4
	1,787.9	1,906.3	1,975.3	2,421.5	8,091.0	1,643.6	1,668.7	1,779.5	2,118.1	7,209.9
Gross margin	297.2	280.9	389.1	387.8	1,355.0	276.2	316.6	340.4	318.9	1,252.1
Selling, general and administrative expenses	183.1	212.7	207.2	248.2	851.2	153.0	166.1	150.7	184.9	654.7
Net financial expenses:										
From ICI	25.8	26.1	30.0	30.6	112.5	23.2	20.1	25.6	30.8	99.7
From other activities	4.5	3.8	5.9	(0.5)	13.7	4.0	6.3	5.4	(0.2)	15.5
	30.3	29.9	35.9	30.1	126.2	27.2	26.4	31.0	30.6	115.2
Income before income tax expense	83.8	38.3	146.0	109.5	377.6	96.0	124.1	158.7	103.4	482.2
Income tax expense:										
From ICI	3.3	5.6	5.4	4.3	18.6	2.2	1.5	3.3	5.6	12.6
From other activities	13.2	–	25.9	10.4	49.5	15.0	17.7	27.9	21.7	82.3
	16.5	5.6	31.3	14.7	68.1	17.2	19.2	31.2	27.3	94.9
Net income	67.3	32.7	114.7	94.8	309.5	78.8	104.9	127.5	76.1	387.3
Net income attributable to:										
SNC-Lavalin shareholders	67.1	32.5	114.9	94.6	309.1	76.1	102.2	124.5	76.0	378.8
Non-controlling interests	0.2	0.2	(0.2)	0.2	0.4	2.7	2.7	3.0	0.1	8.5
Net income	67.3	32.7	114.7	94.8	309.5	78.8	104.9	127.5	76.1	387.3
Basic earnings per share (\$)	0.44	0.22	0.76	0.63	2.05	0.50	0.68	0.83	0.50	2.51
Diluted earnings per share (\$)	0.44	0.21	0.76	0.63	2.04	0.50	0.67	0.82	0.50	2.49
Dividend declared per share (\$)	0.22	0.22	0.22	0.23	0.89	0.21	0.21	0.21	0.22	0.85
Depreciation of property and equipment and amortization of other non-current assets:										
From ICI	24.1	24.5	19.3	31.3	99.2	19.7	21.2	20.9	31.3	93.1
From other activities	13.6	14.3	16.5	17.2	61.6	10.0	10.6	11.4	13.4	45.4
	37.7	38.8	35.8	48.5	160.8	29.7	31.8	32.3	44.7	138.5
Net income attributable to SNC-Lavalin shareholders from ICI:										
From Highway 407	14.6	14.7	14.7	56.6	100.6	13.8	32.3	13.9	17.2	77.2
From other ICI	10.5	15.8	16.2	13.8	56.3	10.6	9.4	11.7	22.3	54.0
Net income attributable to SNC-Lavalin shareholders excluding ICI	42.0	2.0	84.0	24.2	152.2	51.7	60.5	98.9	36.5	247.6
Net income attributable to SNC-Lavalin shareholders	67.1	32.5	114.9	94.6	309.1	76.1	102.2	124.5	76.0	378.8
Revenue backlog (at end of quarter)										
Services	2,377.4	2,348.1	2,125.7	2,151.3		1,396.0	1,679.9	2,196.6	2,226.1	
Packages	5,580.6	5,988.3	5,453.6	5,747.7		5,558.1	5,331.2	4,852.3	5,482.8	
O&M	2,558.4	2,357.3	2,346.3	2,234.4		2,429.2	2,343.5	2,393.2	2,379.1	
	10,516.4	10,693.7	9,925.6	10,133.4		9,383.3	9,354.6	9,442.1	10,088.0	



## APPENDIX

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING

To the Audit Committee of SNC-Lavalin Group Inc.

We have audited the effectiveness of SNC-Lavalin Group Inc.'s internal control over financial reporting as at December 31, 2012.

**MANAGEMENT'S RESPONSIBILITY**

Management is responsible for establishing and maintaining effective internal control over financial reporting.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion based on our audit, on whether internal control over financial reporting was effectively maintained in accordance with criteria's established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework").

We conducted our audit in accordance with Standards for Assurance Engagements other than Audits of Financial Statements and Other Historical Financial Information (Handbook Section 5025). These standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

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

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**OPINION**

In our opinion, SNC-Lavalin Group Inc. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2012, in accordance with criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework").



MARCH 8, 2013  
MONTREAL, CANADA

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(1) CPA auditor, CA, public accountancy permit No. A114871