2013 Management's Discussion and Analysis

March 6, 2014

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, 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 arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

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

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain totals, subtotals and percentages may not reconcile due to rounding. Not applicable ("N/A") is used to indicate that the percentage change between the current and prior year figures is not meaningful, or if the percentage change exceeds 1,000%.

COMPARATIVE FIGURES

As disclosed in Note 2 to the Company's 2013 audited annual consolidated financial statements, the Company applied retrospectively the amendments to IAS 19, *Employee Benefits*, ("IAS 19"). The change relates mainly to the elimination of the expected rate of return on plan assets, which is replaced by a discount rate applied to the net defined benefit pension liability under the amendments to IAS 19 as described in section 12.1. The Company also made a retrospective change to the presentation of its statement of financial position to present a portion of its provisions as current liability. This change mainly results from the increase of forecasted losses on certain contracts, which were not significant as at December 31, 2012 and January 1, 2012. The comparative figures have been adjusted in this MD&A to reflect the abovementioned changes.

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 6, 2014. 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 subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant, which, in turn, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business; (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 administrative enforcement actions and civil actions; (d) if the Company is not able to successfully execute on its new strategic plan, its business and results of operations would be adversely affected; (e) a negative impact on the Company's public image could influence its ability to obtain future projects; (f) 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; (g) 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; (h) 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; (i) SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting; (j) 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; (k) there are risks associated with the Company's ownership interests in ICI that could adversely affect it; (l) the Company is dependent on third parties to complete many of its contracts; (m) 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; (n) the competitive nature of the markets in which the Company does business could adversely affect it; (o) the Company's project execution activities may result in professional liability or liability for faulty services; (p) the Company could be subject to monetary damages and penalties in connection with professional and engineering reports and opinions that it provides; (q) the Company may not have in place sufficient insurance coverage to satisfy its needs; (r) 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; (s) the Company's failure to attract and retain qualified personnel could have an adverse effect on its activities; (t) work stoppages, union negotiations and other labour matters could adversely affect the Company; (u) 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; (v) any acquisition or other investment may present risks or uncertainties; (w) a deterioration or weakening of the Company's financial position, including its cash net of recourse debt, would have a material adverse effect on its business and results of operations; (x) the Company may have significant working capital requirements, which if unfunded could negatively impact its business, financial condition and cash flows; (y) an inability of SNC-Lavalin's clients to fulfill their obligations on a timely basis could adversely affect the Company; (z) 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; (aa) 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; (bb) 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; (cc) inherent limitations to the Company's control framework could result in a material misstatement of financial information, and; (dd) 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 herein reflect the Company's expectations as at March 6, 2014, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTENTS

1. 2013 EXECUTIVE SUMMARY

1.1 EXECUTIVE SUMMARY – FINANCIAL INDICATORS

NET INCOME

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT EARNINGS PER SHARE)	2013	2012[(1)]	CHANGE (%)
Net income (loss) excluding ICI (From Engineering & Construction and Operations & Maintenance)	**$ (245.8)**	$ 149.0	N/A
SNC-Lavalin's net income from ICI	**281.6**	156.9	79.5%
Net income attributable to SNC-Lavalin shareholders	**$ 35.8**	$ 305.9	(88.3%)
Earnings per share - diluted (in $)	**$ 0.24**	$ 2.02	(88.1%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

> For the year ended December 31, 2013, net income attributable to SNC-Lavalin shareholders was $35.8 million ($0.24 per share on a diluted basis), compared to $305.9 million ($2.02 per share on a diluted basis) for the comparable period in 2012. Net income attributable to SNC-Lavalin shareholders decreased in 2013 compared to 2012, mainly due to a net loss from engineering and construction activities.

> There was a net loss attributable to SNC-Lavalin shareholders excluding ICI in 2013 compared to a net income attributable to SNC-Lavalin shareholders excluding ICI in 2012. The net loss in 2013 mainly reflected operating losses in Infrastructure & Environment and Oil & Gas, a $123.5 million ($112.1 million after taxes) charge for restructuring costs and goodwill impairment relating mainly to Europe, as well as a lower contribution from Mining & Metallurgy, partially offset by a higher contribution from Power. The operating loss in Infrastructure & Environment in 2013 was mainly due to unfavourable cost reforecasts and additional costs on certain unprofitable legacy fixed-price contracts, particularly in the hospital and road sectors, as well as a risk provision recorded on a Libyan project. The operating loss in Oil & Gas in 2013 was mainly due to a loss recorded in the second quarter of 2013 and an unfavourable cost reforecast in the third quarter of 2013, both of which are related to a fixed-price project in Algeria.

> Net income attributable to SNC-Lavalin shareholders from ICI increased in 2013 compared to 2012, mainly due to higher net income from AltaLink and Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), a net gain of $36.2 million on partial disposal of Astoria Project Partners II LLC ("Astoria II"), and higher dividends received from Highway 407.

REVENUES

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013	2012	CHANGE (%)
Revenues	**$ 7,913.2**	$ 8,091.0	(2.2%)

> Revenues for the year ended December 31, 2013 were in line with 2012, as the decrease in Services was offset by an increase in ICI and Packages.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013	2012[(1)]	CHANGE (%)
Selling costs	**$ 216.2**	$ 225.5	(4.1%)
General and administrative expenses	**620.4**	630.0	(1.5%)
Selling, general and administrative expenses	**$ 836.6**	$ 855.5	(2.2%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

> Selling, general and administrative expenses in 2013 were lower, compared to 2012, and amounted to $836.6 million, thus attaining the objective not to exceed the 2012 level. The decrease mainly reflected new initiatives and programs that the Company is currently implementing.

CASH NET OF RECOURSE DEBT

AT DECEMBER 31 (IN MILLIONS CA$)	2013	2012	CHANGE (%)
Cash and cash equivalents	$ 1,108.7	$ 1,174.9	(5.6%)
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	17.8	17.6	1.1%
Recourse debt	348.7	348.5	0.1%
Cash net of recourse debt	$ 742.2	$ 808.7	(8.2%)

> Cash net of recourse debt (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) decreased as at December 31, 2013 compared to December 31, 2012, mainly due to the decrease in cash and cash equivalents.

REVENUE BACKLOG

AT DECEMBER 31 (IN MILLIONS CA$)	2013	2012
Services	$ 1,629.6	$ 2,151.3
Packages	4,429.7	5,747.7
Operations & Maintenance (“O&M”)	2,228.5	2,234.4
Total	$ 8,287.8	$10,133.4

> The Company’s revenue backlog decreased at December 31, 2013 compared to 2012, as there was a decrease in both Packages and Services.

DIVIDEND INCREASE

> On March 6, 2014, the Company’s Board of Directors approved a quarterly dividend of $0.24 per share, a 4.3% increase over the previous quarterly dividend declared.

1.2 EXECUTIVE SUMMARY – OTHER ITEMS

CORPORATE STRATEGY

On May 2, 2013, the Company announced its five year strategic plan designed to increase long-term stability and profitability and maximizing shareholder value. SNC-Lavalin’s new strategy outlines key sectors and geographic markets that the Company will target. It also outlines the integrated solutions for its Infrastructure Concessions Investments ("ICI") and its disciplined approach to employing capital.

SNC-Lavalin’s strategy contains the following three pillars, explained in section 2.2, which are designed to work together to enhance performance on multiple levels and across the organization:

> Growth platforms;

> Enhances ICI management approach; and

> Growth enablers.

CHANGES TO THE BOARD OF DIRECTORS

On May 2, 2013 the election of the members of the Company's Board of Directors resulted in the following changes:

Elected members who were not previously directors of the Company

> Jacques Bougie;

> Lise Lachapelle; and

> Alain Rhéaume.

Members who did not stand for re-election

> David Goldman;

> Pierre H. Lessard;

> Edythe (Dee) A. Marcoux; and

> Gwyn Morgan.

CHANGES IN MANAGEMENT TEAM

> In 2013 and early 2014, the Company appointed certain key executives including:

- Neil Bruce, Senior Executive Vice-President (Group President), Resources, Environment and Water, effective January 21, 2013;
- Andreas Pohlmann, Chief Compliance Officer, effective March 1, 2013;
- Alain-Pierre Raynaud, Executive Vice-President and Chief Financial Officer ("CFO"), effective June 1, 2013;
- Gerry Grigoropoulos, Acting Executive Vice-President, Infrastructure Concession and Investments, effective August 9, 2013;
- Terrance N. Ivers, Executive Vice-President, Oil & Gas, effective September 16, 2013;
- Hisham Mahmoud, Senior Executive Vice-President (Group President), Infrastructure, effective October 21, 2013;
- Erik J. Ryan, Executive Vice-President, Marketing, Strategy and External Relations, effective November 1, 2013;
- Preston D. Swafford, Chief Nuclear Officer, President and CEO, Candu Energy, effective March 1, 2014;
- Alexander (Sandy) Taylor, Senior Executive Vice-President (Group President), Power, effective March 1, 2014. Following this appointment, Scott Thon, who assumed the role of Acting Executive Vice-President, Power since January 2013, returned to his previous role of President and CEO of AltaLink, effective March 1, 2014; and
- David G. Wilkins, Chief Compliance Officer, effective March 1, 2014. Mr. Wilkins will succeed SNC-Lavalin's current Chief Compliance Officer, Andreas Pohlmann, effective June 1, 2014, following a comprehensive transition period.

ICI PORTFOLIO

> In February 2013, the Company announced that the Rideau Transit Group Partnership, a consortium of which SNC-Lavalin is a partner at 40%, has finalized an agreement with the City of Ottawa to design, build, finance and maintain the Confederation Line, the city's first-ever light rail transit system.

> On September 30, 2013, the Company announced that its Board of Directors has authorized it to initiate a process to sell an equity stake in AltaLink.

> In December 2013, SNC-Lavalin announced that it reached financial close on the sale of 66% of its ownership interest in Astoria II, the owner of the legal entity that owns and operates the Astoria II power plant in New York City, for an agreed price of US$82.4 million (CA$87.6 million), resulting in net cash proceeds of $86.3 million after certain adjustments. Prior to financial close, SNC-Lavalin had an 18.5% ownership interest in Astoria II.

AUTORITÉ DES MARCHÉS FINANCIERS

> On February 5, 2014, the Company announced that the *Autorité des marchés financiers* ("AMF") authorized it to contract with public authorities in the Province of Quebec. SNC-Lavalin has made tremendous and on-going efforts in 2012 and 2013 to implement an effective ethics and compliance framework across and at all levels of its operations and management. The rigorous application by the AMF of the *Loi sur l'intégrité en matière de contrats publics* was one element that encouraged the Company to continue making changes in 2013.

2. OVERVIEW OF OUR BUSINESS AND STRATEGY

2.1 OUR BUSINESS

SNC-Lavalin is one of the leading engineering and construction ("E&C") groups in the world, and is a major player in the ownership of infrastructure and in the provision of operations and maintenance ("O&M") services.

SNC-LAVALIN CONSISTS OF:
A network of offices located across Canada and in over 40 other countries with
30,000 EMPLOYEES active 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
- Power
- Mining & Metallurgy
- Oil & Gas (previously referred to as 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
- Highways
- Mass transit systems
- Power
- Water treatment facilities

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

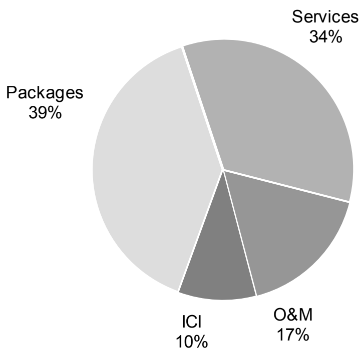
SNC-Lavalin has ongoing projects in multiple geographic regions and for multiple segments, showing the diversity of the Company's operations. The Company's geographic and industry diversification is one of the key factors that allows SNC-Lavalin to differentiate itself from its competitors.

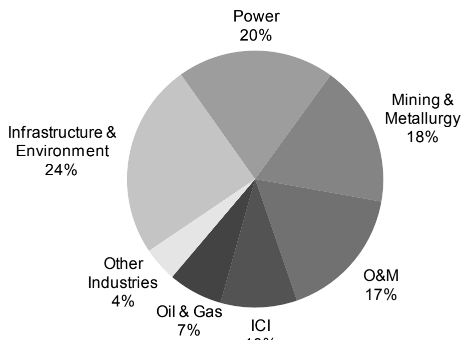
The **diversity of the Company's revenue base** and its capacity to operate in different categories of activity, industry segments and geographic areas are illustrated in the following 2013 revenue charts.

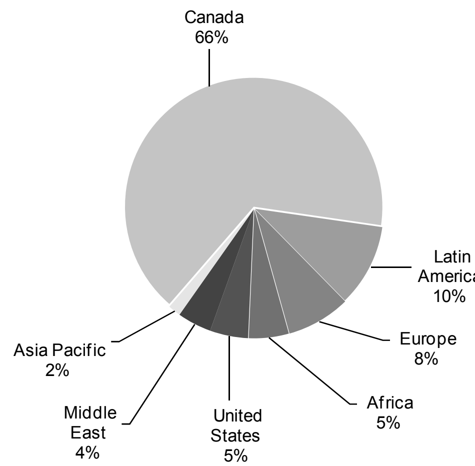
DIVERSITY OF THE COMPANY'S REVENUE BASE

2013 Revenues
($7.9 billion)

CATEGORIES OF ACTIVITY	SEGMENTS	GEOGRAPHIC AREAS







Four activities that are complimentary... **...serving multiple industry segments...** **...with good geographic coverage and Canada as its largest base**

2.2 OUR BUSINESS STRATEGY

On May 2, 2013, the Company announced its five year strategic plan designed to increase long-term stability and profitability and maximizing shareholder value. SNC-Lavalin's new strategy outlines key sectors and geographic markets that the Company will target. It also outlines the integrated solutions for its Infrastructure Concessions Investments ("ICI") and its disciplined approach to employing capital.

SNC-Lavalin's strategy contains three pillars, which are designed to work together to enhance performance on multiple levels and across the organization. They are:

GROWTH PLATFORMS:

SNC-Lavalin is putting renewed focus on strengthening its position in certain key sectors and geographic markets.

The Company has determined an accelerated growth path for its Resources, Environment and Water Group. In Oil & Gas, SNC-Lavalin is aiming for transformational growth that will allow it to attain scale and have the capabilities to compete in high value projects. For the Mining & Metallurgy practice, SNC-Lavalin wants to solidify its tier 1 status and position for higher long-term profitability. With the Environment and Water sectors, the Company envisages multiple opportunities to generate growth, including synergies with the Oil & Gas and Mining & Metallurgy sectors. The Company is committed to a global platform, however the initial geographic focus will be the Americas.

The Clean Power and Infrastructure markets represent a sustained growth platform for the Company. In Clean Power, SNC-Lavalin intends to focus on high growth and margin subsectors such as transmission & distribution, nuclear, and hydro. The Company has a strong and mature position in these key sectors. In the Infrastructure sector, the Company will focus on growing the transportation market by leveraging its Public-Private Partnership ("P3") and transit experience. The Group will be centered around major, complex projects, building on its strong capabilities in airports, ports, major bridges and highways. The Company will emphasize expanding its strong footprint in Canada and the rest of the Americas.

SNC-Lavalin expects to make strategic acquisitions to support its growth strategy as described above.

Regarding its offering mix, the Company intends to leverage the full spectrum of its capabilities which include: Services; Packages; O&M and Sustaining Services. Services is an area of core strength for the firm and will be key to its growth strategy as it intends to increase the percentage of Services revenues as a percentage of total revenues. SNC-Lavalin will reposition its offering for increased project and technical complexity to deliver higher margins. Packages expertise will be key to access key sectors of growth such as in situ oil sands and infrastructure. The Company will proactively manage portfolio risk through tight governance mechanisms. O&M and Sustaining Services also constitute a key growth lever. It will allow the Company to pursue services with technical complexity in Oil & Gas, mining, nuclear power and transportation. It will also create opportunities in capital asset management, operations, maintenance, commissioning and training.

ENHANCED ICI MANAGEMENT APPROACH:

SNC-Lavalin is continuing to reinforce its ICI business, which has historically been a source of project work for its engineering and construction units, as well as a significant contributor to the strength of its earnings. ICI is an important element of building a successful engineering and construction company. Going forward, the Company will employ an ever more disciplined and balanced approach to managing its portfolio of assets, which includes exiting investments at maturity, unless strategic considerations justify otherwise. The Company is actively looking at the potential disposal of non-core ICI assets and reducing its equity stakes in its two principal large investments. The Company is currently in a process of selling an equity stake in AltaLink, while its Highway 407 stake is expected to be reduced over the medium term. The Company will also seek financing solutions and partnering opportunities to unlock value as it proactively manages the portfolio.

As SNC-Lavalin looks at new opportunities, it will continue to prioritize greenfield (new-build) ICIs that it believes should provide its engineering, construction and operations and maintenance units with significant project opportunities. Brownfield (existing) ICIs will be considered mainly as a means of extending SNC-Lavalin's investment résumé into new markets and providing an additional platform for engineering and construction opportunities.

SNC-Lavalin's key geographical focus for major ICIs and public-private partnerships will continue to be the Americas.

GROWTH ENABLERS:

SNC-Lavalin is improving how it shares resources, promoting greater interaction between its business units and developing more coordinated approaches to client management and business development in its offices worldwide through the execution of a Global Operations model.

The further globalization of the Company's operations also involves making better and more efficient company-wide use of its systems and processes. SNC-Lavalin is planning investments in several of these systems, including its enterprise management system, its Human Resources Management System, and its proprietary project management suite, PM+, which the Company believes provide a strategic advantage when bidding on and carrying out medium- and large-scale projects.

Underlying all of this will be a continuing, relentless focus on maintaining world-class ethics, governance and health and safety performance, as well as developing and retaining the best talent the industry has to offer.

3. HOW WE ANALYZE AND REPORT OUR RESULTS

3.1 RESULTS BY CATEGORY OF ACTIVITY

The Company reports its results under **four categories of activity**, which are **Services** and **Packages** (together these regroup activities from **engineering and construction**), **O&M** and **ICI**. The Company's management regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles.

3.1.1 SERVICES ACTIVITIES

Services revenues are derived primarily from cost-plus reimbursable contracts and include contracts wherein SNC-Lavalin provides **engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning**. Services revenues from individual contracts are typically lower than those of Packages activities, which are discussed below, as they 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.

3.1.2 PACKAGES ACTIVITIES

Packages activities are different from Services activities in that the Company is **responsible not only for providing one or more Services activities, but also undertakes the responsibility for providing materials and equipment, and 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.

3.1.3 O&M ACTIVITIES

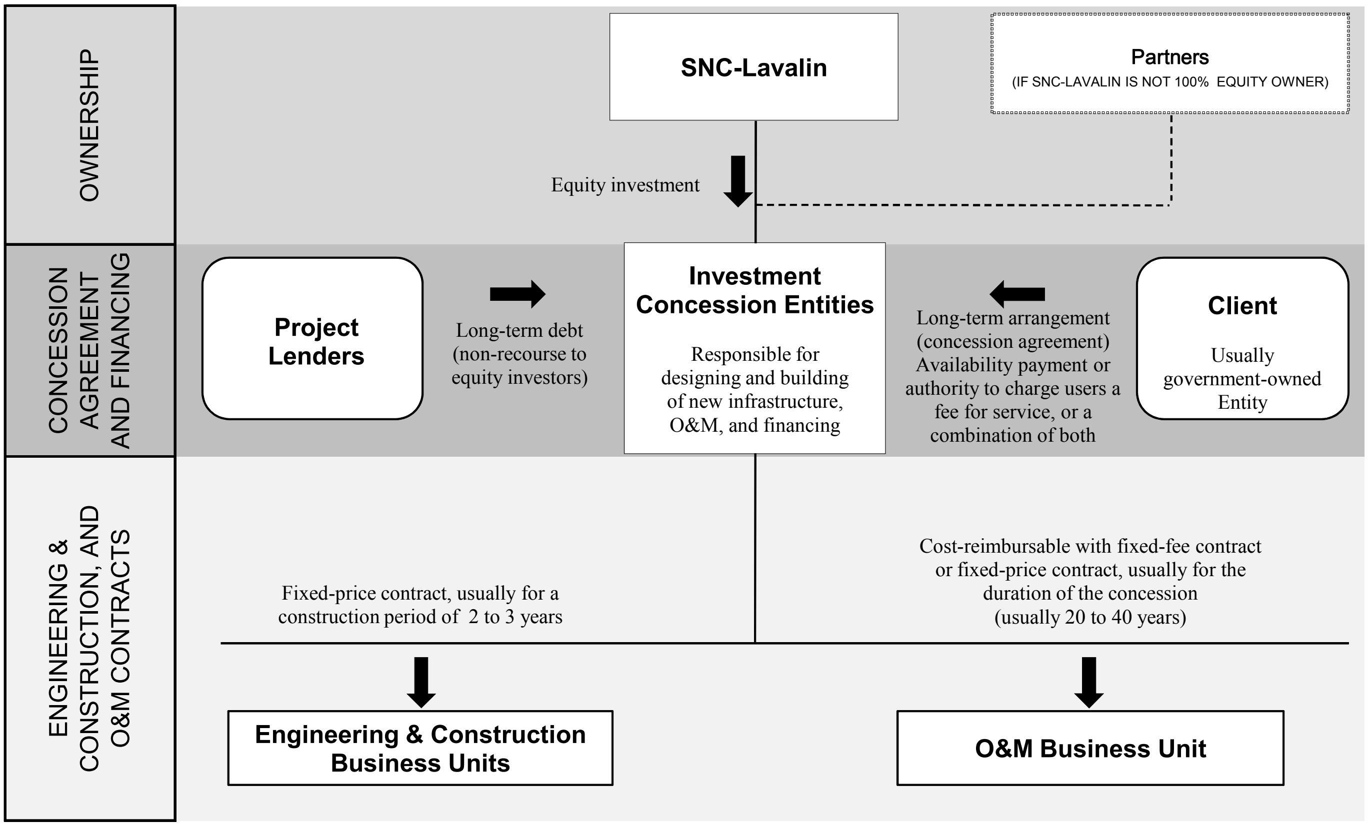
The Company provides **operations, maintenance and logistics solutions** for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, telecommunications infrastructure, highways, bridges, light rail transit systems, airports, ships, oil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

3.1.4 ICI ACTIVITIES

The Company's ICI are typically infrastructure for public services, such as **airports, bridges, cultural and public service buildings, highways, mass transit systems, power and water treatment facilities**. 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.

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:



3.1.5 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	• Property and equipment from ICI controlled by the Company • The net book value of ICI accounted for by the equity and cost methods, distinctively • Non-recourse debt from ICI controlled by the Company
Consolidated statement of cash flows	For ICI controlled by the Company: • Depreciation and amortization from ICI, and acquisition of property and equipment from ICI • Repayment and increase of non-recourse debt from ICI
Notes to the annual consolidated financial statements	• Main accounts of the statement of financial position impacted by ICI controlled by the Company are shown on separate lines in Note 5 • Net income attributable to SNC-Lavalin shareholders from ICI • Certain other notes provide information regarding ICI separately from E&C and O&M

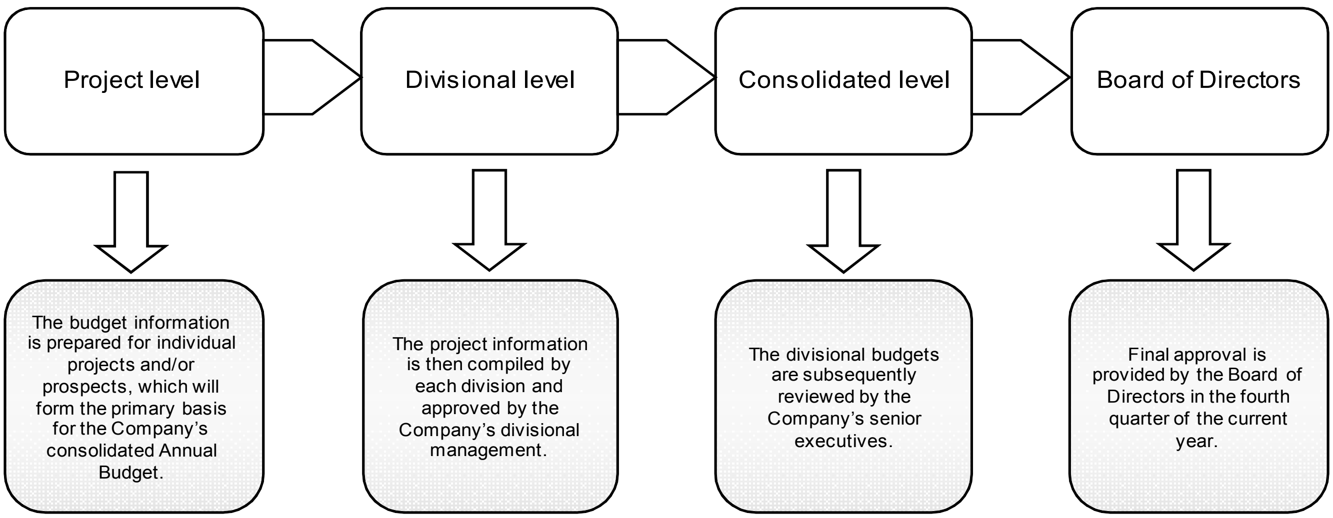
Section 8.3 of the current MD&A also presents specific information on the Company's ICI, including snapshots on Highway 407 and AltaLink, which are considered to represent the most significant portion of the total fair value of the Company's ICI portfolio.

3.2 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) Power; iii) Mining & Metallurgy; iv) Oil & Gas; and v) Other Industries. The O&M and ICI segments correspond to the O&M and ICI categories of activity.

3.3 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 in accordance with the Company's strategic plan. 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 group president, the CFO and the Chief Executive Officer ("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 has 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.
Restructuring costs	Changes made to the way the Company operates, closure of certain locations where it conducts business and modifications to its offerings might result in restructuring costs, having an impact on actual and future results.
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.

3.4 NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

Some of the indicators used by the Company's management to analyze and evaluate its results represent non-IFRS financial measures and additional IFRS 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 OR ADDITIONAL IFRS MEASURE	REFERENCE	NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE	REFERENCE
Earnings before interests and income taxes ("EBIT")	Sections 4 & 5.2	Cash net of recourse debt	Section 10.2
Gross margin by category of activity	Section 5.3	Working capital	Section 10.4
Revenue backlog	Section 6	Recourse debt-to-capital ratio	Section 10.5
Booking-to-revenue ratio	Section 6		
Operating income (loss) by segment	Section 8		
Earnings before interests, income taxes, depreciation and amortization ("EBITDA")	Section 8.3.1		
Return on invested capital ("ROIC")	Section 10.8		
Return on average shareholders equity ("ROASE")	Section 10.9		

Definitions of all non-IFRS financial measures and additional IFRS 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.

4. OUR KEY FINANCIAL PERFORMANCE INDICATORS

To enable the Company to continuously strive to create value for its shareholders it regularly evaluates its overall performance using key financial indicators, namely:

> **Net income attributable to SNC-Lavalin shareholders,** which is used by the Company to evaluate its profitability;

> **Earnings before interest and income taxes ("EBIT")**, which is a key indicator of the Company's operational performance;

> **Operating cash flow**, which corresponds to the net cash generated from operating activities as presented in the Company's consolidated statements of cash flow, is a key indicator of the Company's ability to generate cash from its operations including how it manages its working capital; and

> **Cash net of recourse debt**, which is a key indicator of the Company's financial capability.

The following table presents a summary of the Company's key financial performance indicators and outlines the results achieved as at or for the years ended December 31, 2013, 2012 and 2011.

KEY FINANCIAL PERFORMANCE INDICATORS

FINANCIAL INDICATOR ACUAL RESULTS	**2013**	2012[(1)]	2011[(1)]
Net income attributable to SNC-Lavalin shareholders	**$ 35.8M**	$ 305.9M	$ 377.4M
Decrease in net income attributable to SNC-Lavalin shareholders	**(88.3%)**	(18.9%)	(20.6%)
Earnings before interest and income taxes ("EBIT")	**$ 228.8M**	$ 499.5M	$ 595.6M
Operating cash flow	**$ 333.2M**	$ 504.3M	$ 919.7M
Cash net of recourse debt (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt)	**$ 742.2M**	$ 808.7M	$ 851.7M

(1) Refer to section 12.1 for explanations relating to comparative figures.

Net income attributable to SNC-Lavalin shareholders in 2013 decreased by 88.3% to $35.8 million ($0.24 per share on a diluted basis), compared to $305.9 million ($2.02 per share on a diluted basis) in 2012. Net income attributable to SNC-Lavalin shareholders of the past three years is discussed in section 5.1.

EBIT decreased to $228.8 million in 2013, compared to 499.5 million in 2012. The Company's EBIT is discussed in section 5.2.

Operating cash flow generated $333.2 million in 2013, compared to $504.3 million in 2012. Cash generated from operating activities is discussed in section 10.3.

The **Company's cash net of recourse debt of $742.2 million as at December 31, 2013** 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 10.2.

5. BREAKDOWN OF INCOME STATEMENT

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT EARNINGS PER SHARE)	2013		2012[(1)]		2011[(1)]	
Revenues by activity:						
Services	**$ 2,697.6**		$ 3,174.9		$ 2,437.8	
Packages	**3,113.4**		3,020.4		2,871.5	
O&M	**1,338.3**		1,330.5		1,399.2	
ICI	**763.8**		565.1		501.4	
	$ 7,913.2		$ 8,091.0		$ 7,209.9	
Gross margin by activity:						
Services	**$ 554.0**	**20.5%**	$ 747.3	23.5%	$ 592.5	24.3%
Packages	**19.8**	**0.6%**	227.1	7.5%	301.9	10.5%
O&M	**77.1**	**5.8%**	64.1	4.8%	78.4	5.6%
ICI	**464.9**	**60.9%**	316.6	56.0%	279.3	55.7%
	$ 1,115.8	**14.1%**	$ 1,355.0	16.7%	$ 1,252.1	17.4%
Selling, general and administrative expenses:						
From ICI	**53.1**		28.6		28.3	
From E&C and O&M	**783.4**		826.8		628.3	
	836.6		855.5		656.6	
Restructuring costs and goodwill impairment	**123.5**		–		–	
Gain from partial disposal of Astoria II	**(73.0)**		–		–	
Earnings before interest and income taxes	**$ 228.8**	**2.9%**	$ 499.5	6.2%	$ 595.6	8.3%
Net financial expenses:						
From ICI	**131.2**		112.5		99.7	
From E&C and O&M	**19.5**		13.7		15.5	
	150.7		126.2		115.2	
Income before income taxes	**78.1**		373.4		480.3	
Income taxes	**41.7**		67.0		94.4	
Net income	**$ 36.4**		$ 306.3		$ 385.9	
Net income attributable to:						
SNC-Lavalin shareholders	**$ 35.8**		$ 305.9		$ 377.4	
Non-controlling interests	**0.6**		0.4		8.5	
Net income	**$ 36.4**		$ 306.3		$ 385.9	
Earnings per share ($)						
Basic	**$ 0.24**		$ 2.03		$ 2.50	
Diluted	**$ 0.24**		$ 2.02		$ 2.48	
Supplementary information						
Net income (loss) attributable to SNC-Lavalin shareholders:						
From ICI	**$ 281.6**		$ 156.9		$ 131.2	
Excluding ICI	**(245.8)**		149.0		246.2	
Net income attributable to SNC-Lavalin shareholders	**$ 35.8**		$ 305.9		$ 377.4	

(1) Refer to section 12.1 for explanations relating to comparative figures.

5.1 NET INCOME (LOSS) ANALYSIS

The analysis that follows is for 2013, 2012 and 2011.

Net income attributable to SNC-Lavalin shareholders decreased in 2013 compared to 2012, reflecting a net loss attributable to SNC-Lavalin shareholders excluding ICI compared to a net income in 2012, partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI. The decrease in net income in 2012 compared to 2011 was reflective of a lower net income attributable to SNC-Lavalin shareholders excluding ICI, partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI.

There was a net loss attributable to SNC-Lavalin shareholders excluding ICI in 2013 compared to a net income attributable to SNC-Lavalin shareholders excluding ICI in 2012. The net loss in 2013 mainly reflected operating losses in Infrastructure & Environment and Oil & Gas, a $123.5 million ($112.1 million after taxes) charge for restructuring costs and goodwill impairment relating mainly to Europe, as well as a lower contribution from Mining & Metallurgy, partially offset by a higher contribution from Power. The operating loss in Infrastructure & Environment in 2013 was mainly due to unfavourable cost reforecasts and additional costs on certain unprofitable legacy fixed-price contracts, particularly in the hospital and road sectors, as well as a risk provision recorded on a Libyan project. The operating loss in Oil & Gas in 2013 was mainly due to a loss recorded in the second quarter of 2013 and an unfavourable cost reforecast in the third quarter of 2013, both of which are related to a fixed-price project in Algeria.

Net income attributable to SNC-Lavalin shareholders excluding ICI decreased in 2012 compared to 2011, mainly reflecting 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.

Net income attributable to SNC-Lavalin shareholders from ICI increased in 2013 compared to 2012, mainly due to higher net income from AltaLink and SKH, a net gain on partial disposal of Astoria II, and higher dividends received from Highway 407. 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.

5.2 EARNINGS BEFORE INTERESTS AND INCOME TAXES ANALYSIS

EBIT is a non-IFRS financial measure which is an indicator of the entity's capacity to generate income from operations before taking into account management's financing decisions. Accordingly, EBIT is defined herein as income before net financial expenses and income taxes.

RECONCILIATION OF EBIT TO NET INCOME (LOSS)

(IN MILLIONS CA$)	2013			2012(1)		
	FROM ICI	FROM E&C AND O&M	TOTAL	FROM ICI	FROM E&C AND O&M	TOTAL
Net income (loss)	**$ 281.6**	**$ (245.2)**	**$ 36.4**	$ 156.9	$ 149.4	$ 306.3
Net financial expenses	**131.2**	**19.5**	**150.7**	112.5	13.7	126.2
Income taxes	**72.0**	**(30.3)**	**41.7**	18.6	48.5	67.0
EBIT	**$ 484.7**	**$ (255.9)**	**$ 228.8**	$ 288.0	$ 211.6	$ 499.5

(1) Refer to section 12.1 for explanations relating to comparative figures.

In 2013, EBIT from E&C and O&M was negative $255.9 million, compared to a positive EBIT of $211.6 million in 2012. The negative EBIT in 2013 mainly reflected negative EBIT in Infrastructure & Environment and Oil & Gas, as well as a lower contribution from Mining & Metallurgy, partially offset by a higher contribution from Power.

EBIT from ICI increased in 2013, compared to 2012, mainly due to higher EBIT from AltaLink and SKH, a gain on partial disposal of Astoria II, and higher dividends received from Highway 407.

5.3 REVENUE AND GROSS MARGIN ANALYSIS

Revenues in 2013 were in line with 2012 as the decrease in Services was offset by an increase in ICI and Packages. The increase in revenues in 2012 compared to 2011 primarily reflected a 30.2% increase in Services.

Gross margin in 2013 decreased compared to the previous period, reflecting a lower gross margin from both Packages and Services, partially offset by a higher gross margin from ICI. The lower gross margin from Packages was primarily due to a lower gross margin-to-revenue ratio, particularly in Infrastructure & Environment, while the lower gross margin in Services was mainly due to Mining & Metallurgy and Infrastructure & Environment. The increase in gross margin in 2012, compared to 2011, mainly reflected a higher volume of activity, primarily in Services, partially offset by a lower gross margin-to-revenue ratio, notably in Packages.

5.3.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues decreased in 2013 compared to 2012, reflecting a decrease in Mining & Metallurgy, Infrastructure & Environment, Oil & Gas and Power.

Services gross margin decreased in 2013 compared to 2012, mainly due to a lower level of activity, mainly in Mining & Metallurgy and Infrastructure & Environment, as well as a lower gross margin-to-revenue ratio, mainly in Infrastructure & Environment and Mining & Metallurgy. The Services gross margin was negatively impacted by losses on certain Venezuelan Services projects in Oil & Gas due to an increase in counterparty credit risk, and a provision for costs of approximately $17 million recognized in the first quarter of 2013 in Mining & Metallurgy, following the receipt of a notice of suspension by the Company in March 2013 in connection with a major mining contract.

From 2011 to 2013, the gross margin-to-revenue ratio was lower than the Company's target, ranging from 25% to 29%, mainly due to a lower gross margin on certain major projects.

5.3.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues increased in 2013 compared to 2012, mainly reflecting an increase in Power and Mining & Metallurgy, partially offset by lower revenues in Oil & Gas.

Gross margin for Packages decreased in 2013 compared to 2012, mainly due to the lower gross margin-to-revenue ratio explained below.

Packages activities increased in 2012 and 2013, following a higher level of activity. The Company aims to generate a gross margin-to-revenue ratio between 7% and 10% on Packages projects. The gross margin-to-revenue ratio decreased in 2013, compared to 2012, mainly due to unfavourable cost reforecasts on certain unprofitable legacy fixed-price contracts in North Africa and in Infrastructure & Environment, particularly in the hospital and road sectors, notably from additional costs on a major hospital project recognized in the first quarter of 2013, as well as to a risk provision recorded on a Libyan project and a loss relating to the confirmation of a claim on a project in Algeria in the second quarter of 2013. The gross margin-to-revenue ratio was lower in 2012 compared to 2011, mainly due to unfavourable cost reforecasts on a major Power project.

5.3.3 O&M REVENUES AND GROSS MARGIN

O&M revenues in 2013 were in line with 2012.

O&M gross margin increased in 2013 compared to the previous year, reflecting a higher gross margin-to-revenue ratio.

The gross margin-to-revenue ratio surpassed the historical range of 3% to 5% in 2013 and 2011 while the gross margin-to-revenue ratio in 2012 was within the historical range.

5.3.4 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 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 2013** compared to 2012, mainly due to higher revenues from AltaLink and SKH, and higher dividends received from Highway 407. **Gross margin increased in 2013** compared to 2012, mainly for the same reasons with respect to the revenues increase outlined above.

5.4 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

(IN MILLIONS CA$)	2013	2012[1]	CHANGE (%)
Selling costs	$ **216.2**	$ 225.5	(4.1%)
General and administrative expenses	**620.4**	630.0	(1.5%)
Selling, general and administrative expenses	$ **836.6**	$ 855.5	(2.2%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Selling, general and administrative expenses in 2013 were lower, compared to 2012, and amounted to $836.6 million, thus attaining the objective not to exceed 2012 level. The decrease mainly reflected new initiatives and programs that the Company is currently implementing.

The Company is evaluating additional longer term measures to manage its level of selling, general and administrative expenses more efficiently in subsequent years as part of its profit improvement initiatives as described in section 5.5.

In 2013 and 2012, the Company's **corporate** selling, general and administrative expenses included, amongst others, the following expenses:

(IN MILLIONS CA$)	2013	2012
Investigations and related matters, as well as other measures, mainly relating to retention	$ **14.8**	$ 35.9
Expenses related to new information technology systems	**22.9**	11.9
Implementation of a new Compliance Program	**12.8**	–
Total	$ **50.5**	$ 47.8

In accordance with the methodology described in Note 4 to the Company's 2013 audited annual consolidated financial statements, **corporate** selling, general and administrative expenses are allocated to each of the Company's segments.

5.5 PROFIT IMPROVEMENT INITIATIVES

In 2013, the Company launched a new company-wide profit improvement program. The program aims to enhance the Company's efficiency and effectiveness, improving its competitiveness and its ability to build a stronger backlog. The program also identified short- and long-term, cross-company initiatives which will cover many aspects of the Company's work, from streamlining its organizational structure to simplifying day-to-day tasks, in order to improve project performance and eliminate unnecessary bureaucracy. The program team is dedicated to ensuring that SNC-Lavalin becomes an industry leader in project execution, as well as a Tier-1 Engineering & Construction firm.

5.6 RESTRUCTURING COSTS AND GOODWILL IMPAIRMENT

As part of the reorganization of its activities intended to implement its strategic plan and to increase efficiency and competitiveness, the Company incurred restructuring costs totalling $67.0 million ($55.6 million after taxes) in 2013 (2012: $nil). These costs represent amounts paid in 2013 for a total of $50.2 million (2012: $nil), as well as provisions for costs for a total of $16.8 million as at December 31, 2013 (2012: $nil). These accrued restructuring costs are expected to be disbursed within the next 12 months.

The restructuring costs recognized were mainly for severances, the disposal of certain activities and closure of certain offices, mainly in Europe. Such reorganization, the lack of profitability on certain activities and a decrease in the overall level of activities in certain Services and Packages cash-generating units resulted in a goodwill impairment totalling $56.5 million in 2013 (2012: $nil).

5.7 NET FINANCIAL EXPENSES

Net financial expenses increased in 2013 compared to 2012, reflecting an increase from ICI as well as from E&C and O&M.

Net financial expenses from ICI increased in 2013 compared to 2012, mainly due to a higher interest expense on additional non-recourse debt from AltaLink.

Net financial expenses from E&C and O&M increased in 2013 compared to 2012, mainly reflecting an increase in other financial expenses.

(IN MILLIONS CA$)	2013			2012		
	FROM ICI	FROM E&C AND O&M	TOTAL	FROM ICI	FROM E&C AND O&M	TOTAL
Interest revenues	**$ (6.3)**	**$ (6.6)**	**$ (12.9)**	$ (5.0)	$ (8.4)	$ (13.4)
Interest on debt:						
Recourse	**–**	**21.9**	**21.9**	–	21.9	21.9
Non-recourse						
AltaLink	**124.9**	**–**	**124.9**	104.6	–	104.6
Other	**7.6**	**–**	**7.6**	7.7	–	7.7
Other	**5.0**	**4.2**	**9.2**	5.2	0.2	5.4
Net financial expenses	**$ 131.2**	**$ 19.5**	**$ 150.7**	$ 112.5	$ 13.7	$ 126.2

5.8 INCOME TAXES ANALYSIS

The effective income tax rate from E&C and O&M decreased in 2013 compared to 2012, mainly reflecting losses recognized in 2013 that do not generate an income tax benefit, non-deductible restructuring costs and goodwill impairment, as well as the geographic mix of income (loss) before taxes.

The effective income tax rate from ICI increased in 2013 compared to 2012, mainly reflecting an increase in income taxes resulting from the gain on partial disposal of Astoria II and a higher income before income taxes from AltaLink, partially offset by higher non-taxable income from SKH and higher 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 E&C and O&M.

(IN MILLIONS CA$)	2013			2012(1)		
	FROM ICI	FROM E&C AND O&M	TOTAL	FROM ICI	FROM E&C AND O&M	TOTAL
Income before income taxes	**$ 353.6**	**$ (275.5)**	**$ 78.1**	$ 175.5	$ 197.9	$ 373.4
Income taxes	**$ 72.0**	**$ (30.3)**	**$ 41.7**	$ 18.6	$ 48.5	$ 67.0
Effective income tax rate (%)	**20.4%**	**11.0%**	**53.4%**	10.6%	24.5%	18.0%

(1) Refer to section 12.1 for explanations relating to comparative figures.

6. REVENUE BACKLOG

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 6.3.

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 3.3, 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 CA$)	2013			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Services and Packages				
Infrastructure & Environment	$ 606.7	$ 2,720.4	$ –	$ 3,327.1
Power	383.6	1,403.4	–	1,787.0
Mining & Metallurgy	293.9	124.6	–	418.6
Oil & Gas	219.4	50.8	–	270.2
Other Industries	126.0	130.4	–	256.4
O&M	–	–	2,228.5	2,228.5
Total	$ 1,629.6	$ 4,429.7	$ 2,228.5	$ 8,287.8
FROM CANADA AND OUTSIDE CANADA				
From Canada	$ 801.3	$ 3,559.1	$ 1,458.5	$ 5,819.0
Outside Canada	828.2	870.6	770.1	2,468.8
Total	$ 1,629.6	$ 4,429.7	$ 2,228.5	$ 8,287.8

AT DECEMBER 31 (IN MILLIONS CA$)	2012			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Services and Packages				
Infrastructure & Environment	$ 721.3	$ 2,916.6	$ –	$ 3,637.9
Power	434.7	2,151.1	–	2,585.8
Mining & Metallurgy	685.6	320.6	–	1,006.2
Oil & Gas	215.5	132.7	–	348.2
Other Industries	94.2	226.7	–	320.9
O&M	–	–	2,234.4	2,234.4
Total	$ 2,151.3	$ 5,747.7	$ 2,234.4	$10,133.4
FROM CANADA AND OUTSIDE CANADA				
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
Total	$ 2,151.3	$ 5,747.7	$ 2,234.4	$10,133.4

The Company's revenue backlog decreased at December 31, 2013 compared to 2012, as there was a decrease in both Packages and Services.

Backlog from Canada decreased, due to a decrease in Power, Mining & Metallurgy, Infrastructure & Environment and O&M, partially offset by an increase in Oil & Gas.

Backlog from Outside Canada decreased, primarily due to a decrease in Power, Mining & Metallurgy, Oil & Gas and Infrastructure & Environment, partially offset by an increase in O&M.

6.1 SERVICES BACKLOG

Services backlog decreased at the end of 2013 compared to the end of the previous year, reflecting a decrease, mainly in Mining & Metallurgy, including the debooking of a major mining contract in the first quarter of 2013 for which the value of the suspended and terminated work included in the backlog at that time was $120.9 million in anticipated Services revenues. In addition, in 2013, the segment is being affected by the softening of the commodity markets.

RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2013**	2012
Opening backlog	**$ 2,151.3**	$ 2,226.1
Add: Contract bookings during the year	**2,296.8**	3,096.7
Backlog from business acquisitions	**–**	3.4
Less: Revenues recognized during the year	**2,697.7**	3,174.9
Debooking of backlog of a major mining contract	**120.9**	–
Ending backlog	**$ 1,629.6**	$ 2,151.3
Booking-to-revenue ratio	**0.8**	1.0

6.2 PACKAGES BACKLOG

Packages backlog decreased at the end of 2013 compared to 2012, resulting from a decrease in all segments mainly due to revenues recognized during the year, partially offset by additions, notably of a Light Rail Transit project in Canada in the first quarter of 2013.

RECONCILIATION OF PACKAGES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2013**	2012
Opening backlog	**$ 5,747.7**	$ 5,482.8
Add: Contract bookings during the year	**1,795.4**	3,883.4
Less: Revenues recognized during the year	**3,113.4**	3,020.4
Debooking of backlog of an Oil & Gas project	**–**	598.1
Ending backlog	**$ 4,429.7**	$ 5,747.7
Booking-to-revenue ratio	**0.6**	1.1

6.3 O&M BACKLOG

O&M backlog at the end of 2013 remained in line with the end of 2012.

RECONCILIATION OF O&M BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2013**	2012
Opening backlog	**$ 2,234.4**	$ 2,379.1
Add: Contract bookings during the year	**1,332.4**	1,185.8
Less: Revenues recognized during the year	**1,338.3**	1,330.5
Ending backlog	**$ 2,228.5**	$ 2,234.4
Booking-to-revenue ratio	**1.0**	0.9

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.

	INCLUDED IN BACKLOG						NOT INCLUDED IN BACKLOG
(IN MILLIONS CA$)	2014	2015	2016	2017	2018	TOTAL	THEREAFTER
O&M backlog	$ 913.2	$ 446.5	$ 298.5	$ 294.5	$ 275.9	$ 2,228.5	$ 3,325.3

7. GEOGRAPHIC BREAKDOWN OF REVENUES BY CATEGORY OF ACTIVITY

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	**$ 1,191.6**	**$ 2,173.7**	**$ 1,128.7**	**$ 708.1**	**$ 5,202.2**	**66%**
Latin America	**553.8**	**215.1**	**48.7**	**–**	**817.5**	**10%**
Europe	**318.0**	**263.8**	**49.9**	**2.5**	**634.1**	**8%**
Africa	**161.4**	**98.9**	**93.5**	**42.1**	**396.0**	**5%**
United States	**132.6**	**234.8**	**1.4**	**11.1**	**379.9**	**5%**
Middle East	**210.2**	**112.9**	**16.0**	**–**	**339.1**	**4%**
Asia Pacific	**112.4**	**13.1**	**–**	**–**	**125.5**	**2%**
Other Regions	**17.7**	**1.2**	**–**	**–**	**18.8**	**0%**
Total	**$ 2,697.6**	**$ 3,113.4**	**$ 1,338.3**	**$ 763.8**	**$ 7,913.2**	**100%**

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2012					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	$ 1,373.0	$ 1,941.8	$ 1,133.5	$ 560.9	$ 5,009.2	62%
Latin America	676.2	110.1	27.3	–	813.6	10%
Europe	338.8	306.5	51.0	2.1	698.4	9%
Africa	253.8	286.1	109.8	–	649.7	8%
United States	167.5	134.0	0.7	2.1	304.3	4%
Middle East	183.5	171.4	7.7	–	362.6	4%
Asia Pacific	145.3	67.2	0.6	–	213.1	2%
Other Regions	36.8	3.3	–	–	40.1	1%
Total	$ 3,174.9	$ 3,020.4	$ 1,330.5	$ 565.1	$ 8,091.0	100%

Revenues in Canada increased in 2013 compared to 2012, mainly due to a higher level of Packages activity mainly in Power and Mining & Metallurgy, as well as higher revenues in ICI, mainly due to higher revenues from AltaLink and higher dividends received from Highway 407, partially offset by a lower level of Services activity mainly in Mining & Metallurgy and Infrastructure & Environment.

Revenues in Latin America in 2013 remained in line with the previous year, as the lower level of Services activity mainly in Mining & Metallurgy, and Oil & Gas, was offset by a higher level of Packages activity mainly in Power.

Revenues from Europe decreased in 2013 compared to 2012, mainly due to a lower level of Packages activity mainly in Other industries.

Revenues from Africa decreased in 2013 compared to 2012, primarily due to a lower level of Packages activity mainly in Oil & Gas, and a lower level of Services activity, mainly in Mining & Metallurgy. These lower levels of activity were partially offset by higher revenues from SKH in the ICI category.

United States revenues increased in 2013 compared to 2012, mainly reflecting a higher level of Packages activity, particularly in Power, partially offset by a lower level of Services activity.

Revenues from the Middle East decreased in 2013 compared to 2012, due to a lower level of Packages activity, partially offset by a higher level of Services activity mainly in Mining & Metallurgy.

In Asia Pacific, revenues decreased in 2013 compared to the previous year, mainly reflecting a lower level of Packages activity in Power, and a decrease in Services activities.

In Other Regions, revenues decreased in 2013 compared to 2012, primarily reflecting a lower level of Services activity, mainly in Oil & Gas.

8. OPERATING RESULTS BY SEGMENT

As mentioned previously, the Company's results are analyzed by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is evaluated. The Company presents the information in the way management performance is evaluated, and regroups its projects within the related industries.

As the Company moved forward in the implementation of its business strategy announced in 2013, the Company intends to make certain changes to the way activities are regrouped and segments are presented and analyzed, over the course of 2014.

Also, it was decided during the 2014 budget exercise that imputed interest, which was allocated to segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, would no longer be used internally starting January 2014. Therefore, the Company's operating income (loss) by segment will no longer include imputed interest and, accordingly, will correspond to earnings before interest and taxes ("EBIT"). The Company believes that the use of EBIT will improve the quality of its segment disclosures as this financial measure is more often used by its peers than the previous measure.

The following discussion reviews the Company's revenues and operating income (loss) by segment. Refer to Note 4 to its 2013 audited annual consolidated financial statements to obtain information on the way the Company determines operating income (loss).

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013			2012[1]		
	REVENUES	OPERATING INCOME (LOSS)	OPERATING INCOME (LOSS) OVER REVENUES	REVENUES	OPERATING INCOME (LOSS)	OPERATING INCOME (LOSS) OVER REVENUES
Services and Packages						
Infrastructure & Environment	**$ 1,947.1**	**$ (286.5)**	**(14.7%)**	$ 2,070.9	$ 21.2	1.0%
Power	**1,570.3**	**135.8**	**8.7%**	1,388.5	79.3	5.7%
Mining & Metallurgy	**1,408.5**	**38.8**	**2.8%**	1,519.1	97.4	6.4%
Oil & Gas	**541.0**	**(68.1)**	**(12.6%)**	840.4	(11.5)	(1.4%)
Other Industries	**344.2**	**26.6**	**7.7%**	376.4	34.2	9.1%
O&M	**1,338.3**	**57.3**	**4.3%**	1,330.5	43.3	3.3%
ICI	**763.8**	**281.6**	**36.9%**	565.1	156.9	27.8%
Total	**$ 7,913.2**	**$ 185.6**	**2.4%**	$ 8,091.0	$ 420.9	5.2%

(1) Refer to section 12.1 for explanations relating to comparative figures.

8.1.1 SERVICES AND PACKAGES ACTIVITIES

Engineering and construction expertise is provided by the Company's employees to clients as either Services or Packages activities. The table below summarizes 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.

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	**2013**		2012[1]		2011[1]	
		PROPORTION		PROPORTION		PROPORTION
Services revenues	**$ 2,697.6**	**46.4%**	$ 3,174.9	51.2%	$ 2,437.8	45.9%
Packages revenues	**3,113.4**	**53.6%**	3,020.4	48.8%	2,871.5	54.1%
Services & Packages revenues	**$ 5,811.0**	**100.0%**	$ 6,195.3	100.0%	$ 5,309.3	100.0%
Operating income (loss)	**$ (153.3)**		$ 220.7		$ 322.1	
Operating income (loss) over revenues	**(2.6%)**		3.6%		6.1%	

(1) Refer to section 12.1 for explanations relating to comparative figures.

The operating loss in 2013 was mainly due to operating losses in Infrastructure & Environment and Oil & Gas, as well as a lower contribution from Mining & Metallurgy, partially offset by a higher contribution from Power, which are discussed in sections 8.1.2 to 8.1.5. The proportion of Services activities in the Services and Packages mix decreased from 51.2% in 2012 to 46.4% in 2013, unfavourably impacting the operating income-to-revenue ratio. The decrease in operating income in 2011 and 2012 was mainly due to higher selling, general and administrative expenses as well as a lower gross margin-to-revenue ratio.

8.1.2 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, oil & gas, mining, industrial, rural development and climate change sectors.

(IN MILLIONS CA$)	**2013**	2012[1]	CHANGE (%)
Revenues from Infrastructure & Environment			
Services	**$ 753.0**	$ 868.8	(13.3%)
Packages	**1,194.1**	1,202.1	(0.7%)
Total	**$ 1,947.1**	$ 2,070.9	(6.0%)
Operating income (loss) from Infrastructure & Environment	**$ (286.5)**	$ 21.2	N/A
Operating income (loss) over revenues from Infrastructure & Environment (%)	**(14.7%)**	1.0%	N/A
Revenue backlog at year end	**$ 3,327.1**	$ 3,637.9	(8.5%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Revenues from Infrastructure & Environment decreased in 2013 compared to 2012, principally reflecting a lower level of Services activity.

The **major revenue contributors in 2013** included work on hospitals in Eastern Canada, as well as highways and mass transit systems in Western and Central Canada.

There was an operating loss of $286.5 million in Infrastructure & Environment in 2013 compared to an operating income of $21.2 million in 2012, mainly due to unfavourable cost reforecasts recorded by the Company in the third quarter of 2013, with an adverse impact of $142.3 million on gross margin on certain unprofitable legacy fixed-price contracts, particularly in the hospital and road sectors. With regards to the abovementioned projects in the road sector, while traffic availability was achieved in the fourth quarter of 2013, there was a further loss having an $18.0 million adverse impact on gross margin following cost reforecasts on these projects, reflecting additional work needed to complete the projects.

In addition, the Company recorded a risk provision of $47.0 million in the second quarter of 2013, following an unexpected attempt to draw this amount under letters of credit, covering advance payment and performance, previously issued in favour of a client on a Libyan project. The project has been halted since the civil unrest began in Libya in 2010. There has been no significant development on this situation following this attempt. Also included in the operating loss was approximately $32 million recognized in the first quarter of 2013 from additional costs on a major hospital project, which the Company believes were not contemplated by the relevant project agreement and for which the Company intends to take steps to recover the value of these additional costs. When excluding the effect of the cost reforecasts, risk provision and other losses described above, the Infrastructure & Environment segment would still be in an operating loss position for 2013 despite the decrease in selling, general and administrative expenses, as the gross margin continued to be negatively impacted by projects with insufficient gross margin.

8.1.3 POWER

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

(IN MILLIONS CA$)	2013	2012[1]	CHANGE (%)
Revenues from Power			
Services	**$ 435.5**	$ 487.5	(10.7%)
Packages	**1,134.8**	901.0	25.9%
Total	**$ 1,570.3**	$ 1,388.5	13.1%
Operating income from Power	**$ 135.8**	$ 79.3	71.3%
Operating income over revenues from Power (%)	**8.7%**	5.7%	N/A
Revenue backlog at year end	**$ 1,787.0**	$ 2,585.8	(30.9%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Power revenues increased in 2013 compared to 2012, reflecting a higher level of Packages activity, partially offset by a lower level of Services activity.

The **major revenue contributors in 2013** included work on hydroelectric power facilities in Western and Eastern Canada, a nuclear generating station in Latin America, CO_2 compressor and dehydration packages on a coal-fired power station in Western Canada, a gas fired combined cycle power plant in the United States, a dam rehabilitation project in Southern Africa, and a thermal power plant in North Africa.

The Company's **operating income from Power increased in 2013** compared to 2012 mainly reflecting an increase in the gross margin-to-revenue ratio combined with a higher volume of activities. The higher gross margin-to-revenue ratio in 2013 reflected in part a higher level of unfavourable cost reforecast in 2012 compared to 2013 on certain major projects. As such, there were unfavourable cost reforecasts in both 2013 and 2012 on certain major contracts with an adverse impact of $67.2 million on gross margin in 2013, including on an unprofitable legacy fixed-price contract in North Africa, for which the negative impact was $110.9 million in 2012. The North African project was impacted, in the fourth quarter of 2013, by a cost reforecast, mainly due to lower than anticipated productivity that impacted advancement on the project.

8.1.4 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.

(IN MILLIONS CA$)	2013	2012(1)	CHANGE (%)
Revenues from Mining & Metallurgy			
Services	**$ 828.8**	$ 1,096.4	(24.4%)
Packages	**579.7**	422.8	37.1%
Total	**$ 1,408.5**	$ 1,519.1	(7.3%)
Operating income from Mining & Metallurgy	**$ 38.8**	$ 97.4	(60.1%)
Operating income over revenues from Mining & Metallurgy (%)	**2.8%**	6.4%	N/A
Revenue backlog at year end	**$ 418.6**	$ 1,006.2	(58.4%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Mining & Metallurgy revenues decreased in 2013 compared to 2012, reflecting a lower level of Services activity, partially offset by a higher level of Packages activity.

The **major revenue contributors in 2013** included projects related to potash in Western Canada, an aluminium-related project in the Middle East, the development of copper mines and a thickened mine tailings disposal system on an iron ore project in Latin America, an atmospheric emissions reduction project for a nickel smelter complex in Ontario, and the development of a gold mine as well as the expansion of an iron ore mine in Quebec.

The Company's **operating income from Mining & Metallurgy decreased in 2013** compared to 2012, mainly due to a lower gross margin-to-revenue ratio, partially offset by lower selling, general and administrative expenses. The lower gross margin-to-revenue ratio included the change in revenue mix from Services and Packages activities, as well as a provision for costs of approximately $17 million recognized in the first quarter of 2013, following the receipt of a notice of suspension by the Company in March 2013 in connection with a major mining contract.

8.1.5 OIL & GAS

Oil & Gas (previously 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.

(IN MILLIONS CA$)	2013	2012(1)	CHANGE (%)
Revenues from Oil & Gas			
Services	**$ 506.4**	$ 562.0	(9.9%)
Packages	**34.5**	278.3	(87.6%)
Total	**$ 541.0**	$ 840.4	(35.6%)
Operating loss from Oil & Gas	**$ (68.1)**	$ (11.5)	492.8%
Operating loss over revenues from Oil & Gas (%)	**(12.6%)**	(1.4%)	N/A
Revenue backlog at year end	**$ 270.2**	$ 348.2	(22.4%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Oil & Gas revenues decreased in 2013 compared to the previous year, mainly due to the reduction of Packages revenues, notably resulting from the recognition of a $70.1 million loss explained below, as well as to certain major projects nearing completion or completed during 2013.

The **major revenue contributors in 2013** included project management services contracts for various types of facilities and infrastructure in Latin America, work on a refinery and chemical complex in United States, and on steam-assisted gravity drainage central processing facilities in Western Canada.

There was an operating loss of $68.1 million in Oil & Gas in 2013, compared to an operating loss of $11.5 million in 2012. The operating loss in 2013 was mainly due to an unfavourable cost reforecast in the third quarter of 2013, as well as a loss of $70.1 million recognized by the Company in the second quarter of 2013 relating to a confirmation of claim received in July of 2013 alleging late penalties, both related to a legacy fixed-price project in North Africa, more specifically in Algeria. The Company continues to deploy all necessary actions to challenge these penalties, including taking further actions to recover the additional costs incurred by the Company. Further explaining the higher operating loss in 2013, compared to 2012, were losses on certain Venezuelan Services projects due to an increase in counterparty credit risk, combined with a lower volume of Packages activity, partially offset by a favourable final outcome on certain fixed-price EPC contracts. The operating loss in 2012 was mainly due to unfavourable cost reforecasts on certain major Packages and Services contracts.

8.1.6 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.

(IN MILLIONS CA$)	2013	2012[1]	CHANGE (%)
Revenues from Other Industries			
Services	**$ 173.9**	$ 160.3	8.5%
Packages	**170.3**	216.2	(21.2%)
Total	**$ 344.2**	$ 376.4	(8.6%)
Operating income from Other Industries	**$ 26.6**	$ 34.2	(22.3%)
Operating income over revenues from Other Industries (%)	**7.7%**	9.1%	N/A
Revenue backlog at year end	**$ 256.4**	$ 320.9	(20.1%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

Other Industries revenues decreased in 2013 compared to 2012, due to a lower level of Packages activity.

Operating income from Other Industries in 2013 decreased compared to 2012, mainly due to a lower volume of Packages activity combined with a lower gross margin-to-revenue ratio.

8.2 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, advisory services, 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;

> **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 USA, 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 CA$)	2013	2012[1]	CHANGE (%)
Revenues from O&M			
Integrated Real Estate Solutions	**$ 854.1**	$ 865.8	(1.4%)
Industrial	**201.4**	187.2	7.6%
Transportation	**118.2**	118.5	(0.3%)
Defence & logistics	**164.6**	159.0	3.6%
Total	**$ 1,338.3**	$ 1,330.5	0.6%
Operating income from O&M	**$ 57.3**	$ 43.3	32.4%
Operating income over revenues from O&M (%)	**4.3%**	3.3%	N/A
Revenue backlog at year end	**$ 2,228.5**	$ 2,234.4	(0.3%)

(1) Refer to section 12.1 for explanations relating to comparative figures.

O&M revenues in 2013 were in line with 2012.

Operating income increased in 2013 compared to 2012, mainly reflecting a higher gross margin-to-revenue ratio.

8.3 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, highways, mass transit systems, power and water treatment facilities.

It is the Company's view that the aggregate fair value of its ICI is much higher than their net book value of $2.0 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"). 407 ETR, 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% indirect ownership interest in AltaLink, L.P., a rate-regulated entity that owns and operates approximately 12,000 km of transmission lines and over 280 substations in Alberta. AltaLink, L.P. is undertaking the construction of additional transmission lines that will increase its revenue base.

The ICI net book value, as at December 31, 2013 and 2012, can be summarized as followed:

AT DECEMBER 31 (IN MILLIONS CA$)	NET BOOK VALUE	
	2013	2012
Highway 407[1]	**$ –**	$ –
AltaLink	**1,019.5**	820.4
Others	**988.3**	844.4
Total	**$ 2,007.8**	$ 1,664.8

(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.

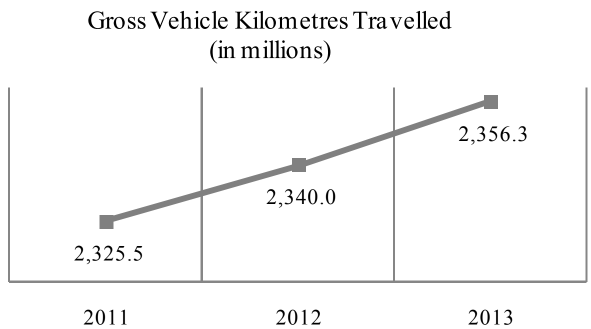
The Company provides, in this section, additional information on Highway 407 and AltaLink due to the significance that these ICI have on the Company's share price and net income. The following information is intended to provide the reader with a general understanding of the operations and key metrics 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, 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 Inc. and AltaLink, L.P. official documents.

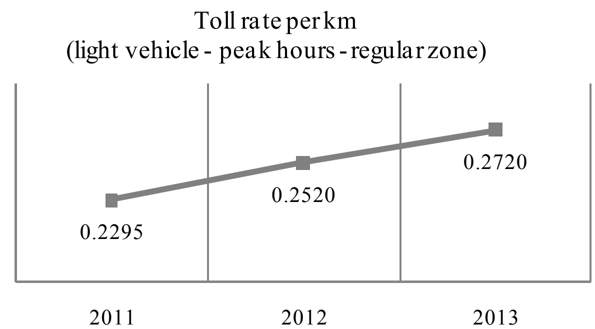
8.3.1 ICI SNAPSHOTS

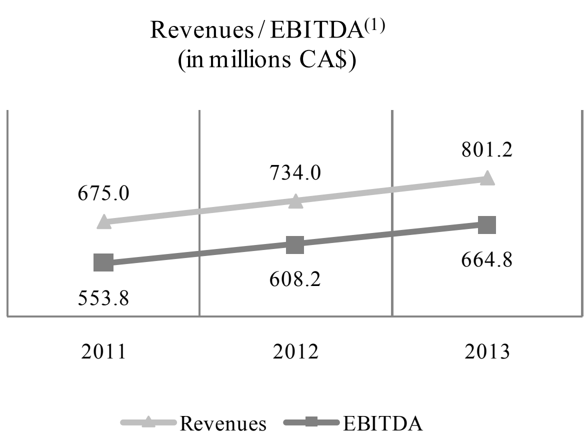
HIGHWAY 407 - SNAPSHOT

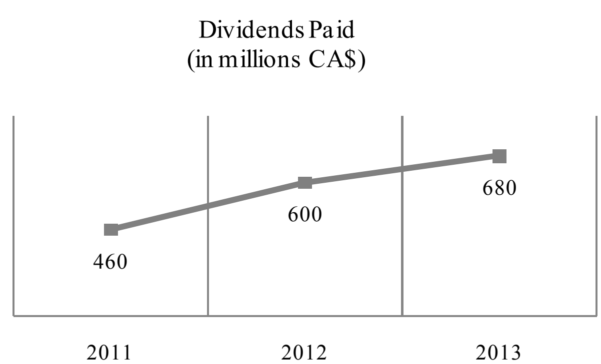
The Company's investment in Highway 407 is accounted for by the equity method, however the Company recognized in its 2013, 2012 and 2011 income statement the dividends from Highway 407 instead of its share of Highway 407's net income because the carrying amount of its investment was $nil at the end of each of these years. The dividends received by SNC-Lavalin are not taxable.

407 INTERNATIONAL INC.– KEY HISTORICAL INDICATORS









(1) EBITDA: Earnings before interest and other expenses, deferred income tax expense, depreciation and amortization.

407 INTERNATIONAL INC. FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013	2012
Revenues	$ 801.2	$ 734.0
Operating expenses	136.4	125.8
EBITDA	664.8	608.2
Depreciation and amortization	62.6	60.6
Interest and other expenses	264.7	304.0
Deferred income tax expense	88.8	69.2
Net income	$ 248.7	$ 174.4

407 INTERNATIONAL INC. TRAFFIC RESULTS

YEAR ENDED DECEMBER 31 (EXCEPT TRANSPONDERS IN CIRCULATION)	2013	2012
Traffic/Trips (in millions)	**114.9**	114.8
Average Workday Number of Trips (in thousands)	**381.3**	380.8
Vehicle Kilometres Travelled (“VKT”, in millions)	**2,356.3**	2,340.0
Average Trip Length (“ATL”, in kilometres)	**20.5**	20.4
Unbillable traffic (percent)	**2.3**	2.4
Transponder Penetration rate (percent)	**81.5**	80.7
Transponders in Circulation at December 31	**1,157,830**	1,103,455

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, northwest 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 iniating 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 certain thresholds. Failing to do so obliges the concession to pay a financial penalty to the Province of Ontario. 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.

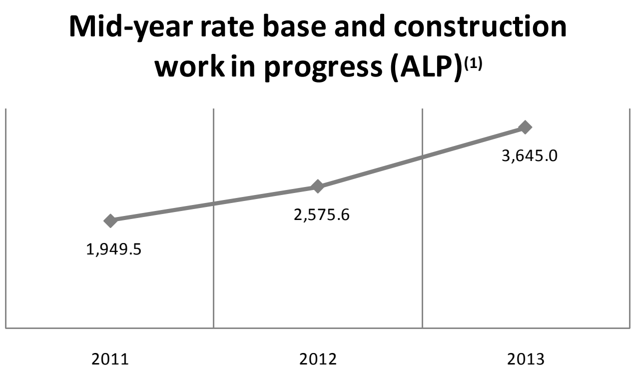
407 International Inc.’s acquisition of 407 ETR in May 1999 was, and the development of Highway 407 is, partially financed with debt. In conjunction with its financial advisors, 407 International Inc. developed a financing plan referred as the “Capital Markets Platform”. This financing plan encompasses an ongoing program capable of accomodating 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.

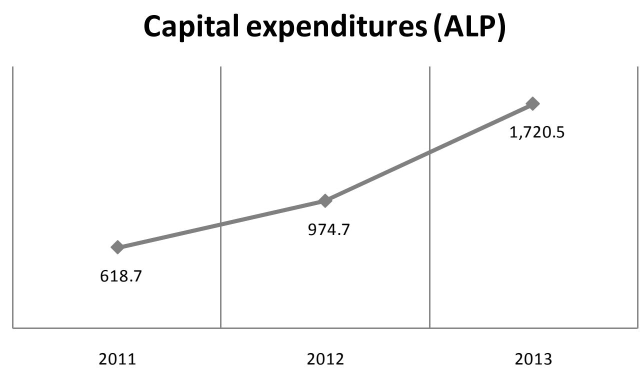
ALTALINK - SNAPSHOT

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., ("AHLP"). The limited partners of AHLP are subsidiaries of SNC-Lavalin. AILP, AHLP, ALP and all other related holding entities held by the Company are referred to as "AltaLink". 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 AHLP, 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





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

ALP FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	**2013**	2012
Revenues	**$ 534.1**	$ 406.6
Operating expenses	**142.3**	124.1
Depreciation and amortization	**133.1**	99.2
Finance costs	**91.3**	73.0
Other	**5.8**	2.1
Net income	**$ 161.6**	$ 108.2

ALP DEEMED CAPITAL STRUCTURE AND GENERIC RETURNS

	Interim	Approved	
DEEMED CAPITAL STRUCTURE AND GENERIC RETURNS	**2013**	2012	2011
Deemed Capital Structure			
Common equity ratio	**37.00%**	37.00%	37.00%
Debt ratio	**63.00%**	63.00%	63.00%
Generic returns			
Return on equity	**8.75%**	8.75%	8.75%

Under the Electric Utilities Act, ALP must prepare and file applications with the Alberta Utilities Commission (“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-Term 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 indirect cash equity contributions, in part from the issuance of debt instruments at holding entities level.

The table below summarizes SNC-Lavalin’s cash equity contributions over the last three years:

(IN MILLIONS CA$)	**2013**	2012	2011
SNC-Lavalin’s equity contributions	**$ 261.5**	$ 148.0	$ 65.4

ALTALINK 2013 CREDIT RATINGS

As at December 31, 2013, ALP long-term debt was rated “A-” by S&P and “A” by DBRS. At the same date, AILP long-term debt was rated “BBB-” by S&P and “BBB” by DBRS. The other debt instruments issued by other related holding entities were not rated by rating agencies.

8.3.2 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. 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	**Revenues** that are recognized and reported by the ICI
Equity method	SNC-Lavalin's **share of net results** of the ICI or **dividends** from its ICI for which the carrying amount is $nil
Cost method	**Dividends and distributions** 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.

8.3.3 REVENUES, NET INCOME AND DIVIDENDS OF THE ICI SEGMENT

For the year ended December 31, 2013, the ICI net income continued to increase to $281.6 million, compared to $156.9 million in 2012 and $131.2 million in 2011. Net income from Highway 407, which corresponds to the dividends paid to SNC-Lavalin (see explanations below), increased to $114.1 million in 2013 from $100.6 million in 2012, while net income from AltaLink increased to $91.8 million in 2013 from $54.4 million in 2012.

(IN MILLIONS CA$)	2013	2012(1)	2011(1)
Revenues from ICI	**$ 763.8**	$ 565.1	$ 501.4
Net income attributable to SNC-Lavalin shareholders from ICI:			
From Highway 407	**$ 114.1**	$ 100.6	$ 77.2
From AltaLink (2)	**91.8**	54.4	33.8
From other ICI (3)	**39.5**	1.8	20.2
From a net gain on partial disposal of Astoria II	**36.2**	–	–
Total	**$ 281.6**	$ 156.9	$ 131.2
Dividends and distributions received by SNC-Lavalin:			
From Highway 407	**$ 114.1**	$ 100.6	$ 77.2
From other ICI	**44.8**	11.8	12.2
Total	**$ 158.9**	$ 112.4	$ 89.4

(1) Refer to section 12.1 for explanations relating to comparative figures.
(2) 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.
(3) 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 joint venture 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 joint venture when the recognition of such losses results in a negative balance for its investment, or where dividends payable by the joint venture 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 joint venture. In these situations, the Company no longer recognizes its share of net income of ICI based on its ownership, but rather recognizes the excess amount of dividends payable by a joint venture in its net income.

The Company recognized in its income statement dividends received from Highway 407 of $114.1 million in 2013 (2012: $100.6 million) and did not recognize its share of Highway 407's net income of $41.7 million (2012: $29.3 million) in the same period, as the carrying amount of its investment in Highway 407 was $nil at December 31, 2013 and December 31, 2012.

The **Company's ICI revenues increased in 2013** compared to 2012, mainly due to higher revenues from AltaLink and SKH, and higher dividends received from Highway 407. **Gross margin increased in 2013** compared to 2012, mainly for the same reasons with respect to the revenues increase outlined above.

Net income from the ICI segment increased in 2013 compared to 2012, mainly due to higher net income from AltaLink and SKH, a net gain on partial disposal of Astoria II, and higher dividends received from Highway 407.

As described in Note 5 to the Company's 2013 audited consolidated financial statements, uncertainties on dividend collection from one of the Company's ICI accounted for by the equity method were resolved in 2013, positively impacting net income from ICI.

8.3.4 ICI PORTFOLIO

The following table presents a list of SNC-Lavalin's main 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.
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.
Rideau Transit Group Partnership	40.0%	Equity	Yes	2013	2043	Under construction	Designs, builds, finances and, once construction is completed, will maintain the Confederation Line, City of Ottawa's light rail transit system.
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 8.3.4.1 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.
Astoria Project Partners II LLC ("Astoria II")	6.2%	Cost	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").
Chinook Roads Partnership ("Chinook")	50%	Equity	Yes	2010	2043	In operation	Operates and maintains the southeast Stoney Trail, being the southeast leg of the Ring Road for the City of Calgary.
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.

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	STATUS	DESCRIPTION OF ACTIVITIES
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^3pd seawater desalination plant in Algeria and will sell the total capacity of treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year take-or-pay agreement.
Okanagan Lake Concession Limited Partnership ("Okanagan Lake Concession")	100%	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.
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 (1)	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.

(1) 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., ("AHLP"). The limited partners of AHLP are subsidiaries of SNC-Lavalin. AILP, AHLP, ALP and all other related holding entities held by the Company are referred to as "AltaLink".

N/A: not applicable

On September 30, 2013, the Company announced that its Board of Directors authorized a process to sell an equity stake in AltaLink.

In December 2013, SNC-Lavalin announced that it has reached financial close on the sale of 66% of its ownership interest in Astoria II, the owner of the legal entity that owns and operates the Astoria II power plant in New York City, for an agreed price of US$82.4 million (CA$87.6 million), resulting in net cash proceeds of $86.3 million after certain adjustments. Prior to financial close, SNC-Lavalin had an 18.5% ownership interest in Astoria II. This transaction resulted in the recognition of a gain before taxes of $73.0 million (gain net of taxes of $36.2 million) in the consolidated income statement from the partial disposal of this ICI, including the gain on remeasurement at fair value of the Company's remaining ownership interest upon the loss of significant influence on this ICI.

Both announcements are an important step forward in the implementation of the Company's strategic plan, announced at its Annual General Meeting on May 2, 2013, which involves exiting investments at maturity, unless strategic considerations justify otherwise, and to consider the reconfiguration and reduction of its ownership in principal assets within its ICI portfolio.

In February 2013, the Company announced that the Rideau Transit Group Partnership, a consortium of which SNC-Lavalin is a partner at 40%, has finalized an agreement with the City of Ottawa to design, build, finance and maintain the Confederation Line, the city's first-ever light rail transit system. The Rideau Transit Group Partnership will be responsible for the construction of 12.5 km of guideway, 10 above-ground stations, three underground stations and a 2.5-km tunnel beneath the downtown core. The consortium will also widen a portion of Highway 417, supply the light rail transit vehicles, build a maintenance and storage facility, and provide ongoing maintenance of the system for a 30-year period. The Company committed to invest in this ICI an amount of $30 million in equity.

8.3.4.1 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 certain legal, financial and operating conditions are satisfied upon completion of construction and commissioning of the project (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 the Completion Date. In July, 2013, lenders to the Ambatovy project agreed to extend the Completion Date from September 2013 to September 2015.

The Other Shareholders also entered into 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.

In January 2014, the Project Operator announced that commercial production has been achieved at Ambatovy. Commercial production is defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuit on average over a thirty-day period and is the point at which all revenue and operating costs cease to be capitalized in the project.

The following table summarizes SNC-Lavalin's disbursements and remaining commitments at December 31, 2013 related to the Ambatovy project, presented in "ICI accounted for by the cost method":

(IN MILLIONS CA$)	December 31 2013
Equity contributions in Ambatovy [(1)]	
Amount disbursed	$ 273.2
Remaining commitments	32.0
Loans to Project Operator [(1)(2)]	79.7
Net book value of SNC-Lavalin's investment in Ambatovy	$ 385.0

(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.

8.3.5 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, 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.

The accounting treatment of intragroup profits is summarized below:

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

For the year ended December 31, 2013, SNC-Lavalin recognized revenues of $734.8 million (2012: $763.6 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 $183.9 million for the year ended December 31, 2013 (2012: $114.5 million). Intragroup revenues generated from transactions with AltaLink, which amounted to $1,529.9 million for the year ended December 31, 2013 (2012: $784.7 million), were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to $35.3 million as at December 31, 2013 (2012: $23.3 million). SNC-Lavalin's other current financial assets receivables from these ICI accounted for by the equity method amounted to $300.0 million as at December 31, 2013 (2012: $172.4 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was $155.2 million as at December 31, 2013 (2012: $141.5 million).

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

9. FOURTH QUARTER RESULTS

For the fourth quarter of 2013, net income attributable to SNC-Lavalin shareholders was $92.5 million ($0.61 per share on a diluted basis), compared to $93.8 million ($0.62 per share on a diluted basis) for the comparable quarter in 2012, mainly reflecting a net loss attributable to SNC-Lavalin shareholders excluding ICI, partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI.

For the fourth quarter of 2013, there was a net loss attributable to SNC-Lavalin shareholders excluding ICI of $31.3 million, compared to a net income of $23.5 million for the same period last year, mainly reflecting an operating loss in Infrastructure & Environment and a lower contribution from Mining & Metallurgy, which continued to be affected by the softening of the commodity markets, partially offset by a higher contribution from Oil & Gas, mainly due to a favourable final outcome on a fixed-price EPC contract. The operating loss in the Infrastructure & Environment segment was mainly due to unfavourable cost reforecasts on certain unprofitable legacy fixed-price contracts in the road sector with an adverse impact of $18.0 million on gross margin. The contribution from Power was slightly better in the fourth quarter of 2013, compared to the same quarter of 2012, as unfavourable cost reforecasts on a major Packages project in Tunisia recorded in the fourth quarter of 2013 had an adverse impact of $28.0 million, compared to $49.0 million in the fourth quarter of 2012.

In addition, the Company recorded an additional charge for restructuring costs and goodwill impairment in the fourth quarter of 2013. This charge totalled $55.2 million ($49.7 million after taxes) in the quarter and was mainly related to the Company's European reorganization. The reorganization is intended to increase efficiency and competitiveness for that region and related service offerings by sector of activity.

Net income attributable to SNC-Lavalin shareholders from ICI increased to $123.8 million, compared to $70.4 million for the fourth quarter of 2012, mainly due to a net gain of $36.2 million on partial disposal of Astoria II and a higher net income from AltaLink, partially offset by a lower dividend received from Highway 407.

Revenues for the fourth quarter of 2013 decreased compared to 2012, mainly reflecting a decrease in both Services and Packages, partially offset by an increase in ICI revenues.

The Company's backlog decreased to $8.3 billion as at December 31, 2013, compared to $9.0 billion as at the end of the third quarter of 2013, primarily reflecting a decrease in Packages, mainly in Infrastructure & Environment and Power.

At the end of December 2013, the Company's cash and cash equivalents were $1.1 billion, compared to $0.8 billion at the end of September 2013, mainly reflecting net cash generated from financing activities, mainly from an increase in non-recourse debt from ICI, as well as net cash generated from operating 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.

10. 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 2013 and 2012;

> A review of the **cash net of recourse debt** 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, ROIC** 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 13 "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.

10.1 FINANCIAL POSITION ANALYSIS

AT DECEMBER 31 (IN MILLIONS CA$)	2013	2012(1)	2011(1)
Current assets	**$ 3,915.8**	$ 3,794.1	$ 3,546.3
Non-current assets	**7,856.9**	5,816.8	4,807.7
Total assets	**11,772.6**	9,610.9	8,354.0
Current liabilities	**4,442.7**	4,062.0	3,514.3
Non-current liabilities	**5,289.7**	3,470.5	2,953.0
Total liabilities	**9,732.4**	7,532.5	6,467.3
Equity attributable to SNC-Lavalin shareholders	**2,036.7**	2,075.4	1,883.1
Non-controlling interests	**3.6**	3.0	3.6
Total liabilities and equity	**$ 11,772.6**	$ 9,610.9	$ 8,354.0

(1) Refer to Note 2B to the Company's 2013 audited annual consolidated financial statements for explanations relating to comparative figures.

10.1.1 TOTAL CURRENT ASSETS

Total current assets increased by $121.7 million between December 31, 2012 and **December 31, 2013,** reflecting primarily:

From ICI	From E&C and O&M
An increase of **$22.5 million** mainly reflecting: > An increase of $14.3 million in trade receivables, mainly due to AltaLink; and > An increase of $8.0 million in restricted cash.	An increase of **$99.2 million** mainly reflecting: > An increase of $332.0 million in other current financial assets, mainly due to an increase in retentions on client contracts, mainly from MIHG and the Evergreen line rapid transit project, and an increase in advances to suppliers, subcontractors and employees and deposits on contracts; partially offset by > A decrease of $118.5 million in contracts in progress due to various ongoing projects; and > A decrease of $83.1 million in trade receivables, due to various ongoing projects.

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

From ICI	From E&C and O&M
An increase of $60.6 million mainly reflecting: > An increase of $113.4 million in trade receivables, mainly due to AltaLink; partially offset by > A decrease of $30.3 million in other current financial assets; and > A decrease of $13.3 million in cash and cash equivalents.	An increase of $187.2 million mainly reflecting: > An increase of $207.3 million in contracts in progress, due to various ongoing projects; > 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 > An increase of $60.5 million in other current assets; partially offset by > A decrease of $93.8 million in trade receivables, due to various ongoing projects; and > A decrease of $42.9 million in cash and cash equivalents.

10.1.2 TOTAL NON-CURRENT ASSETS

Total non-current assets increased by $2,040.0 million from December 31, 2012 to **December 31, 2013**, mainly due to:

From ICI	From E&C and O&M
An increase of **$2,020.2 million** mainly reflecting: > An increase of $1,662.0 million in property and equipment, from AltaLink, to reinforce and expand the transmission system; > An increase of $87.9 million in ICI accounted for by the cost method, mainly reflecting an increase in the investment in Ambatovy and the remaining ownership interest in Astoria II being accounted for as an available-for-sale financial asset following its partial disposal in December 2013; > An increase of $86.9 million in non-current financial assets, mainly from third party deposits from AltaLink; and > An increase of $75.2 million in ICI accounted for by the equity method, mainly reflecting an increase in the investments in, Rideau Transit Group Partnership and InTransit BC.	An increase of **$19.8 million** mainly reflecting: > An increase of $77.1 million in deferred income tax asset; partially offset by > A decrease in Goodwill, mainly reflecting a $56.5 million goodwill impairment charge in 2013;

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

From ICI	From E&C and O&M
An increase of $960.6 million mainly reflecting: > An increase of $832.3 million in property and equipment, from AltaLink, to reinforce and expand the transmission system; > An increase of $76.5 million in other non-current assets, primarily reflecting an increase in intangible assets from AltaLink; > An increase of $45.7 million in ICI accounted for by the cost method, mainly reflecting an increase in the investment in Ambatovy; and > An increase of $23.2 million in ICI accounted for by the equity method.	An increase of $48.5 million mainly reflecting an increase of $33.2 million in property and equipment

10.1.3 TOTAL CURRENT LIABILITIES

Total current liabilities increased by $380.7 million between December 31, 2012 and **December 31, 2013,** mainly due to:

From ICI	From E&C and O&M
An increase of **$16.7 million** mainly reflecting: > An increase of $171.5 million in trade payables. > An increase of $32.5 million in commitments to invest in ICI accounted for by the equity and cost methods; and > An increase of $20.0 million in deferred revenues; partially offset by > A decrease of $207.2 million in non-recourse short term debt and current portion of non-recourse long-term debt, primarily from AltaLink.	An increase of **$364.0 million** mainly reflecting: > An increase of $324.5 million in trade payables mainly due to certain major Packages projects; > An increase of $76.4 million in other current financial liabilities, mainly from an increase in retentions on supplier contracts > An increase of $55.9 million in current portion of provisions; and > An increase of $43.9 million in advances under contract financing arrangements, primarily from the Evergreen line rapid transit project; partially offset by > A decrease of $120.8 million in downpayments on contracts.

Current liabilities increased by $547.7 million between December 31, 2011 and December 31, 2012, reflecting the following items:

From ICI	From E&C and O&M
An increase of $210.7 million 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 $49.8 million in trade payables.	An increase of $337.0 million mainly reflecting: > An increase of $103.8 million in current portion of provisions; > An increase of $79.6 million in trade payables; > An increase of $61.3 million in deferred revenues; > An advance under contract financing arrangement of $43.3 million; and > An increase of $30.1 million in downpayments on contracts.

10.1.4 TOTAL NON-CURRENT LIABILITIES

Total non-current liabilities increased by $1,819.2 million from December 31, 2012 to **December 31, 2013**, mainly reflecting:

From ICI	From E&C and O&M
An increase of **$1,715.4 million** mainly reflecting: > An increase of $1,536.2 million in the non-recourse long-term debt, primarily relating to AltaLink, mainly to finance its capital expenditures; and > An increase of $143.2 million in other non-current liabilities, mainly due to an increase in third party contributions of AltaLink.	An increase of **$103.8 million** mainly reflecting: > An increase of $61.3 million in deferred tax liability; and > An increase of $38.8 million in provisions.

Total non-current liabilities increased by $517.5 million from December 31, 2011 to December 31, 2012, mainly reflecting:

From ICI	From E&C and O&M
An increase of $511.1 million 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 $107.5 million in other non-current liabilities, primarily due 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.	An immaterial increase of $6.4 million.

10.1.5 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 29A to the 2013 audited annual consolidated financial statements, **were $7.2 billion as at December 31, 2013**, compared to $5.3 billion and $4.5 billion as at December 31, 2012 and 2011, respectively.

10.1.6 TOTAL EQUITY

Equity attributable to SNC-Lavalin shareholders decreased by $38.8 million as at December 31, 2013, compared to December 31, 2012, mainly reflecting dividends declared to SNC-Lavalin shareholders, partially offset by total comprehensive income and shares issued under stock option plans in 2013.

The increase of $192.3 million from December 31, 2011 to December 31, 2012 mainly reflected net income attributable to SNC-Lavalin shareholders for 2012, partially offset by dividends declared to SNC-Lavalin shareholders.

10.2 CASH NET OF RECOURSE DEBT

The Company's cash net of recourse debt, 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:

AT DECEMBER 31 (IN MILLIONS OF CA$)	2013	2012	2011
Cash and cash equivalents	$ 1,108.7	$ 1,174.9	$ 1,231.0
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	17.8	17.6	30.9
Recourse debt	348.7	348.5	348.4
Cash net of recourse debt	$ 742.2	$ 808.7	$ 851.7

The Company's cash net of recourse debt as at December 31, 2013 was $742.2 million, compared to $808.7 million as at December 31, 2012, mainly reflecting a decrease in cash and cash equivalents.

In December 2013, the Company entered into an unsecured revolving credit agreement with a syndicate of financial institutions, totalling $3,500.0 million which it may use for the issuance of performance and financial letters of credit as well as cash draws, subject to a limit of $1,650.0 million applicable to financial letters of credit and cash draws.

Management continues to believe, subject to the risks and limitations described herein, that its current liquidity position, including its cash position and unused capacity under its credit facility should be sufficient to fund its operations over the foreseeable future. Management remains focused on maintaining appropriate cash balances and intends to manage its working capital more efficiently.

The Company's cash net of recourse debt as at December 31, 2013 included $14.1 million of cash and cash equivalents held in a Libyan bank (2012: $12.8 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. The Company will continue to assess the risks associated with the political conditions in Libya as developments occur or the circumstances otherwise warrant.

10.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013	2012
Cash flows generated from (used for):		
Operating activities	$ 333.2	$ 504.3
Investing activities	(1,670.9)	(1,062.9)
Financing activities	1,269.5	505.1
Increase (Decrease) in exchange differences on translating cash and cash equivalents held in foreign operations	2.0	(2.6)
Net decrease in cash and cash equivalents	(66.2)	(56.1)
Cash and cash equivalents at beginning of year	1,174.9	1,231.0
Cash and cash equivalents at end of year	$ 1,108.7	$ 1,174.9

The section below explains the major cash flow items that impacted the movement of the Company's cash and cash equivalents for the year ended December 31, 2013.

OPERATING ACTIVITIES	**Cash generated from operating activities decreased to $333.2 million in 2013** compared to cash generated of $504.3 million in 2012. The major elements impacting operating activities were as follows: > Net cash generated from operating activities before net change in non-cash working capital items, totalling $203.5 million in 2013, compared to $599.5 million in 2012, mainly reflecting: • A net income of $36.4 million in 2013, compared to $306.3 million in 2012; • A non-cash gain from partial disposal of Astoria II of $73.0 million in 2013, compared to $nil in 2012; • A non-cash goodwill impairment of $56.5 million in 2013, compared to $nil in 2012; and • A non-cash change in provisions related to forecasted losses on certain contracts of $29.6 million in 2013, compared to $71.8 million in 2012. > Cash generated from the net change in non-cash working capital items, which totalled $129.7 million, compared to cash used by the net change in non-cash working capital items of $95.2 million in 2012.
INVESTING ACTIVITIES	**Cash used for investing activities increased to $1,670.9 million in 2013** compared to cash used of $1,062.9 million in 2012. The major investing activities were as follows: > The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of $1,545.9 million in 2013 compared to $849.2 million in 2012, both due to AltaLink, mainly relating to capital expenditures to reinforce and expand the transmission system; > The acquisition of property and equipment for Services, Packages & O&M activities amounted to a total cash outflow of $55.5 million, compared to $96.2 million in 2012; > The cash outflow of $43.6 million relating to payments for ICI in 2013, primarily reflecting payments for Ambatovy and Chinook, compared to $64.1 million in 2012, reflecting payments mainly for Ambatovy and PRIPL; > The net investment in short term investments of a portion of proceeds, representing $28.9 million, from the refinancing by Rainbow described below; > Proceeds of $86.3 million from partial disposal of Astoria II in 2013; and > 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.
FINANCING ACTIVITIES	**Cash generated from financing activities totalled $1,269.5 million in 2013** compared to cash generated from financing activities of $505.1 million in 2012. The major financing activities were as follows: > An increase in non-recourse debt from ICI totaling $1,744.8 million in 2013, primarily relating to AltaLink and Rainbow compared to $802.9 million in 2012, which related primarily to AltaLink. Rainbow, in which the Company holds a 100% ownership interest, completed, in 2013, an agreement with external lenders to refinance its project debt, which was initially financed by the Company, for Restigouche Hospital Center for psychiatric care in New Brunswick. The agreement refinanced an aggregate principal amount of $122.9 million. This project debt is non-recourse to SNC-Lavalin; > An increase in repayment of non-recourse long-term debt from ICI totalling $410.2 million in 2013, compared to $203.6 million in 2012, both mainly due to AltaLink; > An increase in advances under contract financing arrangements of $159.5 million and repayment of advances under contract financing arrangements of $117.1 million in 2013, compared to an advance under contract financing arrangements of $43.3 million in 2012; > Dividends paid to SNC-Lavalin shareholders amounted to $139.4 million in 2013 compared to $132.9 million in 2012, reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of $0.92 per share in 2013 compared to $0.88 per share for 2012; > Under its normal course issuer bid, the Company has not repurchased shares in 2013, compared to $6.9 million in 2012 (175,700 shares at an average redemption price of $39.12); > The issuance of shares pursuant to the exercise of stock options generated $26.5 million of cash in 2013 (737,876 stock options at an average price of $35.89), compared to $6.9 million in 2012 (210,140 stock options at an average price of $32.98). As at February 25, 2014, there were 4,333,606 stock options outstanding with exercise prices varying from $31.59 to $57.07 per common share. At that same date there were 151,881,673 common shares issued and outstanding.

10.4 WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS CA$, EXCEPT CURRENT RATIO)	2013	2012(1)	2011(1)	CHANGE FROM 2012 TO 2013	CHANGE FROM 2011 TO 2012
Current assets	**$ 3,915.8**	$ 3,794.1	$ 3,546.3	$ 121.7	$ 247.8
Current liabilities	**4,442.7**	4,062.0	3,514.3	380.7	547.7
Working Capital	**$ (527.0)**	$ (267.9)	$ 32.0	$ (259.0)	$ (299.9)
Current Ratio	**0.88**	0.93	1.01	(0.05)	(0.08)

(1) Refer to Note 2B to the Company's 2013 audited annual consolidated financial statements for explanations relating to comparative figures.

The working capital and current ratio decreased as at December 31, 2013 compared to the previous year, as the cash generated from operating activities and short-term financing activities was used, in part, to finance a portion of the investing activities in non-current assets, such as property and equipment from ICI, and payments for ICI, that exceeded the cash generated from long-term financing activities.

10.5 RECOURSE DEBT AND NON-RECOURSE DEBT

10.5.1 RECOURSE DEBT

10.5.1.1 RECOURSE REVOLVING CREDIT FACILITY

In December 2013, the Company entered into an unsecured revolving credit agreement (the "Facility") with a syndicate of financial institutions, totalling $3,500.0 million which it may use for the issuance of performance and financial letters of credit as well as cash draws, subject to a limit of $1,650.0 million applicable to financial letters of credit and cash draws but not to performance letters of credit. Amounts drawn under the Facility bear interest at variable rates plus an applicable margin. The Facility matures in December 2016, with an annual extension option for a one-year period upon lenders' approval.

The Facility is committed and subject to affirmative, negative and financial covenants, including the requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio, as defined in the Facility, not exceeding a certain limit.

If the covenants of the Facility are not met, the lenders may, among others, terminate the right of the Company to use the Facility and demand immediate payment of the whole or part of all indebtedness outstanding under the Facility.

As at December 31, 2013, $1,807.2 million of this credit facility remained unused, while the balance of $1,692.8 million was exclusively used for the issuance of letters of credit, including $321.7 million of financial letters of credit.

In addition, the Facility contemplates the issuance of bilateral letters of credit on a non-committed basis for a maximum of $2,000.0 million, which are subject to the covenants of the Facility. As at December 31, 2013, $212.1 million was used for the issuance of bilateral letters of credit.

As at December 31, 2012, the Company had access to long-term revolving lines of credit with banks, totalling $590.0 million, upon which the Company was able either to 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 had other lines of credit specifically available for the issuance of letters of credit. These lines of credit were unsecured and subject to negative pledge clauses.

10.5.1.2 RECOURSE DEBENTURE – CREDIT RATING

On May 22, 2013, Standard & Poor's lowered the credit rating of the Company's debenture one notch to BBB with a negative outlook. On August 28, 2013, DBRS changed the trend on the credit rating of the Company's debenture to negative from stable. On October 17, 2013, DBRS downgraded the credit rating of the Company's debenture to BBB from BBB (high), maintaining the negative trend. The Company retains its investment grade status from both rating agencies.

10.5.1.3 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, 2013 and 2012, the Company's recourse debt-to-capital ratio was 14:86, below the Company's objective, which is not to surpass a ratio of 30:70.

10.5.2 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.

10.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

10.6.1 CONTRACTUAL OBLIGATIONS

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

(IN MILLIONS CA$)	2014	2015-2016	2017-2018	THEREAFTER	TOTAL
Short-term debt and long-term debt repayments:					
Recourse	$ –	$ –	$ –	$ 350.0	$ 350.0
Non-recourse from ICI	283.1	250.4	211.1	3,102.6	3,847.2
Commitments to invest in ICI	187.2	–	–	–	187.2
Rental obligations under operating lease arrangements	92.8	131.0	80.8	83.7	388.3
Total	$ 563.1	$ 381.4	$ 291.9	$ 3,536.3	$ 4,772.7

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 18D to the Company's 2013 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 2013 audited annual consolidated financial statements. The commitments to invest in ICI are recognized for investments accounted for by the equity or cost methods and mainly relate to MIHG, Ambatovy, Rideau and 407 EDGGP. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 33 to its 2013 audited annual consolidated financial statements. AltaLink also has contractual commitments to acquire property and equipment from third parties totalling $253.3 million as at December 31, 2013.

10.6.2 FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 29 to its 2013 audited annual consolidated financial statements.

Derivative financial instruments	Financial arrangement
SNC-Lavalin enters into derivative financial instruments, namely: i) forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements.	The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of its cash-settled share-based payment arrangements caused by fluctuations in its share price (refer to Note 22C to the 2013 audited annual consolidated financial statements).
All financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.	

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

10.7 DIVIDENDS DECLARED

The Board of Directors has decided to increase the quarterly cash dividend payable to shareholders from $0.23 per share to $0.24 per share for the fourth quarter of 2013, resulting in total cash dividends declared of $0.93 per share relating to 2013.

The table below summarizes the dividends declared for each of the past three years:

YEAR ENDED DECEMBER 31 (IN CA$)	**2013**	2012	2011
Dividends per share declared to SNC-Lavalin shareholders (1)	**$ 0.93**	$ 0.89	$ 0.85
Dividend increase (%)	**4%**	5%	18%

(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 2013 were $139.4 million compared to $132.9 million in 2012. The Company has paid quarterly dividends for 24 consecutive years and has increased its yearly dividend paid per share for each of the past 13 years.

10.8 RETURN ON INVESTED CAPITAL ("ROIC")

ROIC is a non-IFRS financial measure of the Company's return on invested capital. ROIC, as calculated by the Company, corresponds to its operating income before net financial expenses and after taxes, divided by the total book value of the Company's debt and equity.

For 2013, **ROIC was 2.8%**, compared to 8.9% for 2012 and 12.0% for 2011.

10.9 RETURN ON AVERAGE SHAREHOLDERS EQUITY ("ROASE")

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 2013, **ROASE was 1.6%**, compared to 14.6% for 2012 and 19.3% for 2011.

11. 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 2013 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 2013 audited annual consolidated financial statements.

12. ACCOUNTING POLICIES AND CHANGES

12.1 STANDARDS AND AMENDMENTS ADOPTED IN 2013

The following standards and amendments to existing standards have been adopted by the Company on January 1, 2013:

> 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 joint ventures.

> 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*, ("IFRS 13") 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 plan 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 ("IASB") 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.

Except for IFRS 12, which only had an impact on disclosures of the Company's interests in other entities, and for the amendments to IAS 19, the standards and amendments listed above did not have a significant impact on the Company's financial statements. The initial application of the amendments to IAS 19 was made in accordance with its transitional provisions and resulted in a retrospective application in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. For the year ended December 31, 2012, the amendments to IAS 19 resulted in an increase in the net defined benefit pension cost included in "selling, general and administrative expenses" on the income statement and in an equivalent decrease 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. This change relates mainly to the elimination of the expected rate of return on plan assets, which is replaced by a discount rate applied to the net defined benefit pension liability under the amendments to IAS 19. The adjustments made to the comparative figures for the year ended December 31, 2012 resulted in an increase in selling, general and administrative expenses of $4.2 million (2011: $1.9 million) and a decrease in income taxes of $1.0 million (2011: $0.5 million), resulting in a decrease in net income of $3.2 million (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.

For the year ended December 31, 2013, the application of the amendments to IAS 19 increased the net defined benefit pension cost included in "selling, general and administrative expenses" on the income statement by approximately $5.0 million ($3.8 million after income taxes), with an equivalent decrease in actuarial losses recognized in the statement of comprehensive income arising from defined benefit pension plans and other post-employment benefits and a $nil impact to the Company's retained earnings.

12.2 STANDARD, AMENDMENTS AND INTERPRETATION ISSUED TO BE ADOPTED AT A LATER DATE

The following interpretation and amendments to existing standards have been issued and are applicable to the Company for its annual periods beginning on January 1, 2014 and thereafter, with an earlier application permitted:

> IFRIC Interpretation 21, *Levies*, considers how an entity should account for levies imposed by governments, other than income taxes, in its financial statements.

> *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36, *Impairment of Assets*) address the disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

The following amendments and collections of amendments to the standards has been issued by the IASB and are applicable to the Company for its annual periods beginning on January 1, 2015 and thereafter, with an earlier application permitted:

> *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19, *Employee Benefits*) apply to contributions from employees or third parties to defined benefit plans, which objective is to simplify the accounting for contributions that are independent of the number of years of employee service.

> Annual improvements to IFRS (2010-2012 Cycle), which include among others:

- Amendments to IFRS 2, *Share-based Payments*, relate to the definitions of "vesting condition" and "market condition" and add definitions for "performance condition" and "service condition".
- Amendments to IFRS 3, *Business Combinations*, ("IFRS 3") clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument or a non-financial asset or liability.
- Amendments to IFRS 8, *Operating Segments*, require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets and to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

- Amendments to IFRS 13, *Fair Value Measurement*, clarify that the issuance of IFRS 13 did not remove the ability to measure current receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

> Annual improvements to IFRS (2011-2013 Cycle), which include among others:

- Amendments to IFRS 3, *Business Combinations*, clarify that the scope of IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

- Amendments to IFRS 13, *Fair Value Measurement*, clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, even if those contracts do not meet the definition of financial assets or financial liabilities.

The following standard has been issued and is applicable at a later date to be determined by the IASB, with earlier application permitted:

> IFRS 9, *Financial Instruments*, covers mainly i) the classification and measurement of financial assets and financial liabilities; and ii) the new hedge accounting model.

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

13. 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 defendants in the Québec Motion are SNC-Lavalin and certain of its current and former directors and officers. 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 defendants in the Ontario Action are SNC-Lavalin and certain of its current and former directors and officers. 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.

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.

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 further drops in share price on April 13, June 25, November 26, 28, and 29, 2012 and on July 3, 2013 allegedly related to the release of information concerning, among other things, developments in investigations being carried out by Canadian and Swiss law enforcement authorities (described below), pursuant to amendments made to the Ontario Action granted by the Court on January 29, 2014.

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 lawsuits 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 subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant, which, in turn, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business.

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) 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 law enforcement and securities regulatory authorities remain ongoing in connection with this information, which are described in greater detail below. 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, and as additional information, if any, arises as a result thereof, the Company will continue to investigate and review such information as it has in the past.

RCMP Investigations

The Royal Canadian Mounted Police (the "RCMP") is conducting a formal investigation into whether improper payments were made or offered to government officials in Bangladesh to influence the award of a proposed construction supervision consulting contract to a subsidiary of the Company in violation of the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA") and its involvement in projects in certain North African countries. This investigation has led to criminal charges being laid against three former employees of a subsidiary of the Company pursuant to the anti-bribery provisions of the CFPOA.

The RCMP is also conducting a formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts in violation of the CFPOA, the *Criminal Code* (Canada) (the "Criminal Code") and the *Regulations Implementing the United Nations Resolutions on Libya* in Canada (the "UN Resolution"). This investigation has led to criminal charges being laid against two additional former employees of the Company. The Company understands that the charges laid against one or both of these former employees include bribery under the CFPOA, fraud, laundering the proceeds of crime and possession of property obtained by crime under the Criminal Code, and contravention of the UN Resolution.

Although, to date, the Company has not been charged in connection with the subject matter of the RCMP investigations and continues to cooperate with the RCMP in its investigation of these events, these investigations ultimately may result in criminal charges being laid against the Company and/or certain of its subsidiaries under the CFPOA, the Criminal Code and/or the UN Resolution and could result in a conviction on one or more of such charges. The RCMP investigations and potential outcomes thereof, and any negative publicity associated therewith, could adversely affect the Company's business, results of operations and reputation and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the RCMP investigations could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments (such as the Government of Canada and/or Canadian provincial governments) or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue (and an even larger percentage of its annual Canadian revenue) from government and government-related contracts. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and government-related contracts (in Canada, Canadian provinces or elsewhere) would have a material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

AMF Investigation; AMF Certification under the Quebec Public Contracts Act

The Company understands that there is an ongoing investigation being conducted in the context of applicable securities laws and regulations by the securities regulator in the Province of Quebec, the Autorité des marchés financiers (the "AMF").

In addition, as announced on February 5, 2014, the Company and certain of its subsidiaries obtained the requisite certification from the AMF to contract with public bodies in the Province of Quebec, as required pursuant to the *Act Respecting Contracting With Public Bodies*. In the event an entity or any of its affiliates is convicted of certain specified offences under the Criminal Code or the CFPOA, AMF certification can be automatically revoked. In addition, the AMF has the discretionary power to refuse to grant an authorization or revoke an authorization if it determines that the enterprise concerned fails to meet the high standards of integrity that the public is entitled to expect from a party to a public contract or subcontract.

World Bank Settlement

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to the project in Bangladesh referred to above and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the "World Bank Settlement"). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, certain of the Company's other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement does not include a financial penalty. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

Other Investigations

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 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 is currently unable to determine when any of the above 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 and communicate with authorities in connection with all ongoing investigations as noted above (including with respect to the RCMP 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, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain administrative organizations (such as those provided for in the World Bank Settlement) or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices, 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.

The outcomes of the above investigations could also result in, among other things, (i) covenant defaults under various project contracts, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company's ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities. In addition, these investigations and outcomes of these investigations (including the World Bank Settlement) and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of these investigations (including the World Bank Settlement) may affect the course of the class action lawsuits (described above).

Due to the uncertainties related to the outcome of each of the above investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with any of these investigations.

The Company's senior management and Board of Directors have been required to devote significant time and resources to the investigations described above, the World Bank Settlement 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.

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 administrative enforcement actions and civil 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, the CFPOA 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, prohibition or debarment from contracting, any or all of which could harm the Company's reputation, subject the Company to criminal and administrative enforcement actions and civil 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

If the Company is not able to successfully execute on its new strategic plan, its business and results of operations would be adversely affected.

On May 2, 2013, the Company announced a new strategic plan designed to strengthen its core operations with a view to increasing long-term profitability. The strategic plan, described earlier in this MD&A, outlines the sectors and geographies which the Company will target, and the integrated solutions for Infrastructure Concessions model with a disciplined approach to employing capital for its ICI portfolio. Implementation of this plan presents various managerial, organizational, administrative, operational and other challenges. Implementing the new strategic plan may require, among other things, recruiting, developing, motivating and retaining talented employees, and executing on dispositions of certain ICI assets at the appropriate time as well as potentially making strategic acquisitions to support the Company's growth strategy. If the Company is unable to successfully execute on any or all of the initiatives contained in the new strategic plan, the Company's revenues, operating results and profitability may be adversely affected. Even if the Company successfully implements its new strategic plan, there can be no guarantee that its revenues, operating results and profitability will improve.

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 counterparties 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 8.3.4.1).

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. In addition, there are risks associated with the acquisition of a business where certain liabilities including, but not limited to, contingent liabilities, legal claims and environmental exposures, were unknown at the time the acquisition was negotiated and concluded.

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

A deterioration or weakening of the Company's financial position, including its cash net of recourse debt, 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 cash net of recourse debt, 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 cash net of recourse debt 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. In particular, the Company's credit facility is subject to affirmative, negative and financial covenants, including the requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio, as defined in the agreement, not exceeding a certain limit. If the covenants of the facility are not met, the lenders may, among others, terminate the right of the Company to use the facility and demand immediate payment of the whole or part of all indebtedness outstanding under the facility, which could have a material adverse effect on the Company's business and financial position.

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 cash flows 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.

14. 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.

14.1 DISCLOSURE CONTROLS AND PROCEDURES

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

> Material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and

> Information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Based on their evaluation carried out to assess the effectiveness of the Company's disclosure controls and procedures, the CEO and the CFO have concluded that the disclosure controls and procedures were designed and operated effectively as at December 31, 2013.

14.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Based on their evaluation carried out to assess the effectiveness of the Company's internal control over financial reporting, the CEO and the CFO have concluded that the internal control over financial reporting was designed and operated effectively as at December 31, 2013, using the *Internal Control - Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

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, 2013 based on the COSO 2013 Framework. Deloitte has issued an audit report dated March 6, 2014 which concludes that, in Deloitte's opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2013, in accordance with criteria established in the COSO 2013 Framework. The Independent Auditor's Report on the effectiveness of the Company's internal control over financial reporting as at December 31, 2013 is included with the Company's 2013 audited annual consolidated financial statements and should be read in its entirety.

14.3 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period and year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. QUARTERLY INFORMATION

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT PER SHARE AMOUNTS)	2013					2012(1)				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues by activity:										
Services	650.7	723.1	626.8	697.1	2,697.6	669.1	787.0	797.7	921.2	3,174.9
Packages	723.4	736.9	819.8	833.2	3,113.4	619.0	701.2	745.5	954.7	3,020.4
O&M	382.9	298.4	318.8	338.2	1,338.3	383.4	293.2	304.5	349.4	1,330.5
ICI	143.3	185.0	179.7	255.9	763.8	116.5	124.9	127.5	196.2	565.1
	1,900.3	1,943.4	1,945.2	2,124.3	7,913.2	1,787.9	1,906.3	1,975.2	2,421.5	8,091.0
Gross margin	306.5	231.7	180.3	397.3	1,115.8	297.2	280.9	389.1	387.8	1,355.0
Selling, general and administrative expenses	207.1	228.7	175.7	225.1	836.6	184.2	213.7	208.2	249.3	855.5
Restructuring costs and goodwill impairment	-	-	68.2	55.2	123.5	-	-	-	-	-
Gain from partial disposal of an ICI	-	-	-	(73.0)	(73.0)	-	-	-	-	-
EBIT	99.4	3.1	(63.7)	190.0	228.8	113.0	67.2	180.8	138.6	499.5
Net financial expenses:										
From ICI	31.6	31.3	30.5	37.8	131.2	25.8	26.1	30.0	30.6	112.5
From E&C and O&M	1.6	3.8	11.5	2.7	19.5	4.5	3.8	5.9	(0.5)	13.7
	33.2	35.0	41.9	40.5	150.7	30.2	29.9	35.9	30.1	126.2
Income (Loss) before income taxes	66.2	(32.0)	(105.6)	149.4	78.1	82.7	37.3	144.9	108.5	373.4
Income taxes:										
From ICI	6.6	5.0	7.8	52.6	72.0	3.3	5.6	5.3	4.3	18.6
From E&C and O&M	5.9	0.5	(41.0)	4.2	(30.3)	12.9	(0.3)	25.6	10.2	48.5
	12.5	5.5	(33.1)	56.8	41.7	16.2	5.4	31.0	14.5	67.0
Net income (loss)	53.7	(37.5)	(72.5)	92.6	36.4	66.5	31.9	113.9	94.0	306.3
Net income (loss) attributable to:										
SNC-Lavalin shareholders	53.6	(37.7)	(72.7)	92.5	35.8	66.3	31.7	114.1	93.8	305.9
Non-controlling interests	0.1	0.2	0.3	0.1	0.6	0.2	0.2	(0.1)	0.1	0.4
Net income (loss)	53.7	(37.5)	(72.5)	92.6	36.4	66.5	31.9	113.9	94.0	306.3
Basic earnings (loss) per share ($)	0.35	(0.25)	(0.48)	0.61	0.24	0.44	0.21	0.76	0.62	2.03
Diluted earnings (loss) per share ($)	0.35	(0.25)	(0.48)	0.61	0.24	0.44	0.21	0.75	0.62	2.02
Dividend declared per share ($)	0.23	0.23	0.23	0.24	0.93	0.22	0.22	0.22	0.23	0.89
Depreciation of property and equipment and amortization of other non-current assets:										
From ICI	28.6	30.6	30.9	43.0	133.1	24.1	24.5	19.4	31.3	99.2
From E&C and O&M	15.5	16.5	16.2	19.7	67.9	13.6	14.3	16.4	17.1	61.6
	44.1	47.0	47.1	62.7	201.0	37.8	38.8	35.8	48.4	160.8
Net income (loss) attributable to SNC-Lavalin shareholders from ICI:										
From Highway 407	16.8	21.8	33.5	41.9	114.1	14.7	14.7	14.7	56.6	100.6
From AltaLink	13.7	17.5	21.3	39.3	91.8	11.3	12.9	13.6	16.7	54.4
From other ICI	4.6	27.7	0.8	42.6	75.7	(0.9)	2.9	2.7	(2.9)	1.8
Net income (loss) attributable to SNC-Lavalin shareholders excluding ICI	18.6	(104.7)	(128.4)	(31.3)	(245.8)	41.2	1.2	83.1	23.5	149.0
Net income (loss) attributable to SNC-Lavalin shareholders	53.6	(37.7)	(72.7)	92.5	35.8	66.3	31.7	114.1	93.8	305.9
Revenue backlog (at end of quarter)										
Services	1,889.2	1,848.6	1,672.5	1,629.6		2,377.4	2,348.1	2,125.7	2,151.3	
Packages	5,954.2	5,553.4	5,050.2	4,429.7		5,580.6	5,988.3	5,453.6	5,747.7	
O&M	2,392.4	2,250.4	2,272.7	2,228.5		2,558.4	2,357.3	2,346.3	2,234.4	
	10,235.8	9,652.4	8,995.4	8,287.8		10,516.4	10,693.7	9,925.6	10,133.4	

(1) Refer to section 12.1 for explanations relating to comparative figures.