2019 Management's Discussion and Analysis

February 27, 2020

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 Company's 2019 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 associates, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements or associates. Unless otherwise specified, references herein to "Sections" means to Sections of this MD&A.

The Company's quarterly and annual financial information, its Annual Information Form, its Management Proxy Circular, other financial documents and additional information relating to the Company are available on both the Company's website at **www.snclavalin.com** and through SEDAR at **www.sedar.com**. SEDAR is the electronic system for the official filing of documents by public companies with the Canadian securities regulatory authorities. None of the information contained on, or connected to the SNC-Lavalin website is incorporated by reference or otherwise part of this MD&A.

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%.**

Non-IFRS Financial Measures and Additional IFRS Measures

Certain indicators used by the Company to analyze and evaluate its results, which are listed in the table below, are non-IFRS financial measures or 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, in addition to conventional measures prepared in accordance with IFRS, these non-IFRS financial measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period. However, these non-IFRS financial measures have limitations and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE
Performance
◦ Adjusted diluted earnings per share from Engineering & Construction ("**E&C**") ("**Adjusted diluted EPS from E&C**")
◦ Adjusted earnings before interest, income taxes, depreciation and amortization ("**Adjusted EBITDA**")
◦ Adjusted net income from E&C
◦ Booking-to-revenue ratio
◦ Diluted earnings per share from E&C and Diluted earnings per share from Capital
◦ Earnings before interest and income taxes ("**EBIT**")
◦ Earnings before interest, income taxes, depreciation and amortization ("**EBITDA**")
◦ Return on average shareholders' equity ("**ROASE**")
◦ Segment EBIT
Liquidity
◦ Current ratio
◦ Net recourse debt (or Cash net of recourse debt)
◦ Working capital

Definitions of all non-IFRS financial measures and additional IFRS measures are provided in Section 14 to give the reader a better understanding of the indicators used by management. In addition, 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, refer to Section 14 for references to the sections of this MD&A where these reconciliations are provided.

Comparative figures

Effective January 1, 2019, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the negative contribution attributable to non-controlling interests before income taxes in segment EBIT of $0.3 million for the year ended December 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of $23.3 million for the year ended December 31, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

At the same time, given the Company's aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company's reportable segments, which were: i) Engineering, Design and Project Management ("EDPM"); ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. The Company's new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same. As such, the Company's reportable segments are now EDPM, Nuclear, Infrastructure Services and Capital, all part of SNCL Engineering Services, and Resources and Infrastructure EPC projects, which form SNCL Projects.

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the restatement of prior figures.

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", "cost savings", "estimates", "expects", "goal", "intends", "may", "plans", "projects", "should", "synergies", "target", "vision", "will", or the negative thereof or other variations thereon. Forward-looking statements also include any other statements that do not refer to historical facts. Forward-looking statements also include statements relating to the following: i) future capital expenditures, revenues, expenses, earnings, economic performance, indebtedness, financial condition, losses and future prospects; and ii) business and management strategies and the expansion and growth of the Company's operations. 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 February 27, 2020. 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) results of the new 2019 strategic direction coupled with a corporate reorganization; (b) fixed-price contracts or the Company's failure to meet contractual schedule, performance requirements or to execute projects efficiently; (c) contract awards and timing; (d) remaining performance obligations; (e) being a provider of services to government agencies; (f) international operations; (g) Nuclear liability; (h) ownership interests in Capital investments; (i) dependence on third parties; (j) joint ventures and partnerships; (k) information systems and data; (l) competition; (m) professional liability or liability for faulty services; (n) monetary damages and penalties in connection with professional and engineering reports and opinions; (o) insurance coverage; (p) health and safety; (q) qualified personnel; (r) work stoppages, union negotiations and other labour matters; (s) extreme weather conditions and the impact of natural or other disasters and global health crises; (t) intellectual property; (u) divestitures and the sale of significant assets; (v) impact of operating results and level of indebtedness on financial situation; (w) liquidity and financial position; (x) indebtedness; (y) security under the SNC-Lavalin Highway Holdings Loan; (z) dependence on subsidiaries to help repay indebtedness; (aa) dividends; (bb) post-employment benefit obligations, including pension-related obligations; (cc) working capital requirements; (dd) collection from customers; (ee) impairment of goodwill and other assets; (ff) outcome of pending and future claims and litigations; (gg) ongoing and potential investigations; (hh) settlements; (ii) further regulatory developments as well as employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations; (jj) reputation of the Company; (kk) inherent limitations to the Company's control framework; (ll) environmental laws and regulations; (mm) Brexit; (nn) global economic conditions; and (oo) fluctuations in commodity prices.

The Company cautions that the foregoing list of factors is not exhaustive. For more information on risks and uncertainties, and assumptions that could 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 February 27, 2020, when the Company's Board of Directors approved this document, and are subject to change after this date. The Company does not undertake 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.

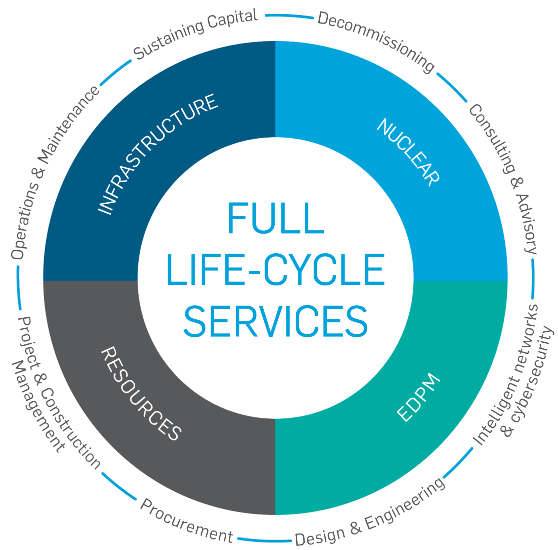
Management's Discussion and Analysis – Table of Contents

1 Our Business

1.1 OUR BUSINESS

Founded in 1911, SNC-Lavalin is a fully integrated professional services and project management company with offices around the world.

SNC-Lavalin connects people, technology and data to help shape and deliver world-leading concepts and projects, while offering comprehensive innovative solutions across the asset lifecycle. Our expertise is wide-ranging – consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, operations & maintenance ("O&M"), decommissioning and sustaining capital.



SNC-Lavalin maintains exceptionally high standards for health and safety, ethics and compliance, and environmental protection. The Company is committed to delivering quality projects on budget and on schedule to the complete satisfaction of its clients.

The Company presents its results separately for its two business lines, SNCL Engineering Services and SNCL Projects. In certain parts of this MD&A, activities from Engineering and Construction are collectively referred to as “E&C” to distinguish them from “Capital” activities.

1.2 NEW STRATEGIC DIRECTION FOR SNC-LAVALIN

On July 22, 2019, SNC-Lavalin announced its new strategic direction to enable the Company to focus more effectively on its most profitable work: engineering, design, project management and construction management services, O&M and Capital. The Company’s new strategic direction is centered around:

- Creating a simplified and more predictable business;
- Generating more consistent earnings, increased cash flow, and profitability;
- Lowering the Company’s risk profile; and
- Enabling an improved strategic focus on better margin markets in which the Company has clearly differentiated capabilities.

SNC-Lavalin’s new strategic direction has two main focal points. The first is a focus on the high-performing and growth areas of the business and exiting LSTK construction contracting. The second is to reorganize into two separate business lines:

- SNCL Engineering Services
- SNCL Projects

SNC-Lavalin believes that this simplified business model will allow it to generate increased profitability while minimizing its exposure to downside risk, subject to the risks and limitations described in Section 15.

Simplify, Focus, Grow

The Company's strategic review was led by its President and CEO, Ian L. Edwards, and builds upon the actions first announced in March 2019 to simplify, focus, and sustainably grow the business. SNC-Lavalin's new strategic direction involves focusing on what the Company does best – providing world-class services and integration of large, complex projects – while reducing its risk profile, and growing from this position of strength.

Simplify

SNC-Lavalin's new, more simplified, focused business approach reduces the Company's risk profile by no longer bidding on LSTK construction projects. This is due to the challenges in executing such contracts, which typically transfer many risks (known and unknown, manageable or not) from the project owner to the Company.

The Company will, however, continue its repetitive Engineering, Procurement and Construction ("EPC") offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The Company may also continue to work on projects based on risk-sharing contracts between the project owner and suppliers, where the Company can limit its downside exposure.

Focus & Grow

SNC-Lavalin has been reorganized into and operates as two distinct businesses that are reported on and managed separately.

SNCL Engineering Services

SNC-Lavalin intends to continue growing where it is strongest and has a differentiated market position, which is the focus of its SNCL Engineering Services business line. The SNCL Engineering Services business line consists of the Company's EDPM and Nuclear segments, Linxon, the services portions of the Company's previous Infrastructure segment (namely O&M, District Cooling and Clean Power services), and Capital. The former Infrastructure segment is shifting its focus toward becoming a program integrator with a greater emphasis on Program and Project Management and Construction Management services.

SNC-Lavalin's objectives for the Engineering Services business are:

A. Become recognized as a market leader, or expand its market leadership, in the following areas:
   - Advisory, design and project management services for infrastructure projects globally.
   - Nuclear services, including life extension, decontamination and decommissioning ("D&D"), and remediation.
   - Project Management / Construction Management / Operations & Management / Project integration in transportation, especially in rail and transit.
   - Capital – Ownership and management of infrastructure assets.
   - Clean power – Global electrical AC substation projects and renewables engineering services.
   - Linxon (supplier of power substations).

B. Establish more predictable and strong financial performance and restore investor confidence by delivering:
   - Industry leading EBITDA margins.
   - Strong cash flow results to build a sustainable future.

SNC-Lavalin will continue to be a strong player in the advisory, engineering and design space with EDPM, and expects to maintain its global market-leading position in rail and transit. Rail and transit remains a key focus area for the Company's infrastructure business, where market growth is expected to be above GDP growth levels in the Company's core markets, creating ongoing opportunities for SNC-Lavalin's revised offering.

The Company also has a well-established position in nuclear plant life extension, including a leading position in CANDU-related services and products, and a demonstrated ability to successfully act as a Project Manager/ Construction Manager and to provide O&M for complex transportation projects and social infrastructure. Sustained concerns of climate change are also driving the need for clean energy, and thus a need for life extension in nuclear power plants. Directly and through Comprehensive Decommissioning International, LLC, its joint venture company with Holtec International, the Company is addressing a growing need for nuclear decommissioning along with sustained need for nuclear clean-up services.

SNCL Projects

The SNCL Projects business consists of the Company's current Resources segment and the EPC portion of its former Infrastructure segment. The focus of this business is very straightforward:

- Complete the Company's obligations to our customers;
- Work to mitigate risks of future losses;
- Aggressively pursue resolution of the Company's claims collection and recoveries; and
- Assess the Company's future options for the services part of Oil & Gas and Mining & Metallurgy.

SNC-Lavalin believes that accelerating the pace of risk reduction and organizational effectiveness activities will result in the Company delivering stronger operational and financial performance on a more consistent basis.

Further, SNC-Lavalin will continue to right-size the Company and concentrate on streamlining its overhead costs. SNC Lavalin is also reducing its geographic footprint to reduce risk and complexity by focusing on its core growth regions: Canada, the U.S., and the U.K., along with regional markets such as the Middle East and Asia Pacific and exiting unprofitable operations in certain countries.

1.3 NEW STRATEGIC DIRECTION PROGRESS - SCORECARD

We began implementation of our new strategic direction in the third quarter of 2019 and have seen progress toward meeting our objectives from various perspectives, for example:

Objectives	Progress
Exit LSTK construction contracting	◦ The Company's backlog from LSTK focused projects businesses in Resources and Infrastructure declined by 28% and 1%, respectively, year over year, representing a reduction of approximately $543.6 million. The Company expects to consume a significant portion of the remaining LSTK construction projects backlog by the end of 2021 and the rest by the end of 2024.
Focus on the high-performing and growth areas of the business	◦ Overall Engineering Services revenue (excluding Capital) growth of 9% in 2019 compared with the corresponding period of 2018 with increased profitability. ◦ The PMO (Programme Management Office) award by Inland Rail in Australia supports our focus on advisory and related services in the rail and transit market and our intention to grow our project management services business. ◦ The Washington River Protection Solutions ("WRPS") contract extension by the US Department of Energy for our nuclear waste remediation activities is an example of our ability to address the need for nuclear clean-up services. ◦ The Company's backlog now comprises $11.3 billion reimbursable and engineering services, or 74% of total backlog, which percentage is expected to continue to increase.
Assess the Company's future options for the services part of Oil & Gas and Mining & Metallurgy	◦ The assessment is ongoing. For reference, backlog of Resources now comprises $973.8 million in reimbursable engineering services.
Deliver industry leading EBIT margins in our Engineering Services business	◦ EBIT margins in EDPM and Nuclear businesses were 9.2% and 13.7%, respectively, in 2019.

Work to mitigate risks of future losses	◦ In addition to exiting LSTK construction contracting:
	  ◦ Exiting the unprofitable midstream fabrication business, including our compression and production equipment product lines, which were also known under the Valerus brand.
	  ◦ Continued the right-sizing of the Company and streamlining of overhead costs.

2 How We Analyze and Report Our Results

2.1 HOW WE REPORT OUR RESULTS

In accordance with its new strategy, the Company carries out its business through two broad lines of business, SNCL Engineering Services and SNCL Projects, which are in turn comprised of six operating and reportable segments as described below.

We report and break down the results of our SNCL Engineering Services line of business through four operating and reportable segments, namely: (i) EPDM; (ii) Nuclear; (iii) Infrastructure Services; and (iv) Capital; while we report and break down the results of our SNCL Projects line of business through two operating and reportable segments, namely: (v) Resources; and (vi) Infrastructure EPC Projects.

In addition, we further report certain results and provide certain financial information separately for (i) engineering and construction ("**E&C**") activities across our lines of business, which is thus comprised of five of our six operating and reportable segments, namely EDPM, Nuclear, Infrastructure Services, Resources and Infrastructure EPC Projects, and (ii) Capital.

E&C

What we report in **E&C** includes contracts generating revenues related mainly to consulting & advisory, intelligent networks & cybersecurity, design & engineering, procurement, project & construction management, O&M, decommissioning and sustaining capital. It also includes revenues from LSTK construction contracts, for which the Company ceased to bid in July 2019, except for certain repetitive EPC offerings that are lower-risk, standardized solutions.

Contracts that provide for engineering, procurement and construction management services are often referred to as "EPCM" contracts. Contracts that include engineering services, providing materials and providing or fabricating equipment, and construction activities are often referred to as "EPC" contracts.

While our contracts are negotiated using a variety of contracting options, E&C revenues are derived primarily from three major types of contracts: Reimbursable and engineering services contracts, EPC Fixed-price contracts, and Standardized EPC contracts. E&C contracts can be found in the following segments and lines of business (excluding Capital):

E&C Breakdown

	SNCL Engineering Services [1]			SNCL Projects	
	EDPM	Nuclear	Infrastructure Services	Infrastructure EPC	Resources
Reimbursable and engineering service	✓	✓	✓	N/A	✓
EPC Fixed-Price contracts	N/A	N/A [2]	N/A	✓	✓
Standardized EPC Contracts	N/A	N/A	✓	N/A	N/A

(1) The SNCL Engineering Services business line also includes Capital activities, which segment is excluded from E&C.
(2) Nuclear includes certain legacy EPC Fixed-Price contracts.

CAPITAL

Capital is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as **bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).** The Capital segment includes SNC-Lavalin's 20% ownership interest in and management of SNCL IP Partnership. Also, as mentioned above, although Capital is a segment forming part of the Company's SNCL Engineering Services line of business, it is excluded from E&C.

Capital's business model incorporates new project creation in the Company's E&C segments, as well as the Company's geographical regions. Furthermore, many countries are turning to the private sector to take ownership, finance, operate and maintain their assets, usually for a defined period of time.

These 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 client 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); or ii) authorize the infrastructure concession entity to charge users of the infrastructure for a defined period of time; or iii) a combination of both.

All investments are structured to earn a return on capital adequate for the risk profile of each individual project. **Capital investment 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 revenues or net results, depending on the accounting method required by IFRS.

2.2 HOW WE BUDGET AND FORECAST OUR RESULTS

The Company prepares a formal annual budget ("Annual Budget") in the fourth quarter of each year.

PROJECT
The budget information is prepared for individual projects and/or prospects, which will form the primary basis for the Company's consolidated Annual Budget.

SECTOR LEVEL
The projects and prospects information is then compiled by each sector and approved by the Company's sector management.

CONSOLIDATED LEVEL
The sector budgets are subsequently reviewed by the Company's senior executives.

BOARD OF DIRECTORS
Final Approval is provided by the Board of Directors as part of the year end process of the current year.

The Annual Budget is a key tool used by management to monitor the Company's performance and progress against key financial objectives in accordance with the Company's strategic plan. The Company updates its annual expected results in the first, second and third quarters ("Quarterly Forecasts"), which are also 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, amongst others, key management personnel, including the divisional manager, the business unit executive vice-president, the sector president, the Chief Financial Officer ("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 E&C 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. Management selects specific prospects, which are deemed representative of its upcoming activities, to include in the budget together with other sources of revenues such as recurring business from known clients and expected service orders under master service agreements.
Execution and expected performance	Revenues and costs (or execution) of projects are determined on an individual project basis for major projects or by groups of projects and take into consideration assumptions on risks and uncertainties that can have an impact on the progress and/or profitability of that project. This includes, but is 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.

Regarding its **Capital** budget and forecast, the Company establishes the expected results based on assumptions specific to each investment.

One of the key management tools for monitoring the Company's performance is the monthly and quarterly evaluation and analysis of actual results compared with the Annual Budget or the Quarterly Forecasts, for revenues 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	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.
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 and contract assets may impact the financial results of the Company.
Changes in the results of its Capital investments	Variation in the financial results of each Capital investment accounted for under the consolidation or equity methods will impact the financial results of the Company. Additions to the Company's Capital investments 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.
Acquisition-related costs and integration costs	Business acquisitions might require the Company to incur significant acquisition-related costs and integration costs, which have an impact on actual and future results.
Restructuring costs, goodwill and other intangible assets impairment	Changes made to the way the Company operates, closure of certain locations where it conducts business, modifications to its offerings and changes in market perspectives might result, amongst other factors, in restructuring costs, goodwill and other intangible assets impairment, 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, such as 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.
Finance expense	Variation in interest rates could have an impact on the Company's results, as some of its financing bears interest at a variable rate.
Foreign exchange	As the Company operates in many countries, foreign currency exchange rates can cause variances to estimates as the budgets and forecasts are prepared at specific rates. It should be noted that the Company has a foreign exchange hedging policy that limits the volatility in results caused by foreign exchange fluctuations.

3 2019 Executive Summary

3.1 EXECUTIVE SUMMARY – KEY FINANCIAL INDICATORS

FINANCIAL HIGHLIGHTS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018	CHANGE (%)
Income Statements					
Revenues	$	9,515.6	$	10,084.0	(5.6%)
Net income (loss) attributable to SNC-Lavalin shareholders		328.2		(1,316.9)	N/A
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C [(1)]		(70.3)		43.1	N/A
Earnings (loss) per share diluted (“Diluted EPS”) (in $)		1.87		(7.50)	N/A
Adjusted diluted EPS from E&C (in $) [(1)]		(0.40)		0.25	N/A
EBIT [(1)]		741.4		(1,160.4)	N/A
EBITDA [(1)]		3,017.5		404.6	645.8%
Adjusted E&C EBITDA (% of revenues) [(1)]		3.0 %		3.9 %	(23.1%)
Financial Position & Cash Flows					
Cash and cash equivalents (at December 31)	$	1,188.6	$	634.1	87.4%
Cash net of recourse debt (net recourse debt) (at December 31) [(1)]		7.7		(1,657.2)	N/A
Net cash used for operating activities		(355.3)		(303.5)	17.1%
Additional Indicator					
Revenue backlog (at December 31)	$	15,262.5	$	14,885.0	2.5%

(1) Non-IFRS financial measures or additional IFRS measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

The Company's financial highlights reflect the following major items:

2019

- The disposal by the Company of 10.01% of the shares of 407 International Inc. (“Highway 407 ETR”) resulting in:
  - $3.0 billion of cash proceeds collected at closing in August 2019 and up to $250 million contingently payable over a period of 10 years;
  - A gain before taxes of $3.0 billion; and
  - The ability to repay some recourse and limited recourse debt.
- The settlement of the federal charges (PPSC), resulting in an expense of $257.3 million.
- An impairment of goodwill and intangible assets related to Resources totaling $1.9 billion largely attributable to the Company's decision to cease bidding on LSTK construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the backlog;
- A Segment EBIT of $802.1 million from SNCL Engineering Services and a negative Segment EBIT of $448.0 million from SNCL Projects;
- Restructuring costs of $182.8 million.

2018

- An impairment of goodwill related to Resources totaling $1.2 billion;
- A Segment EBIT of $776.5 million from SNCL Engineering Services, and a negative Segment EBIT of $237.3 million from SNCL Projects;
- The settlement of 2012 class action lawsuits resulting in a $89.4 million net expense;
- Restructuring costs of $68.6 million.

3.2 EXECUTIVE SUMMARY – OTHER ITEMS

APPOINTMENT OF CHIEF EXECUTIVE OFFICER

Effective October 31, 2019, Ian L. Edwards was appointed as President and Chief Executive Officer of the Company. Mr. Edwards was previously appointed as SNC-Lavalin's Interim President and Chief Executive Officer on June 11, 2019, after spending approximately five months in the role of Chief Operating Officer.

NEW STRATEGIC DIRECTION WITH CORPORATE REORGANIZATION

On July 22, 2019, the Company announced that it would be focusing on the high-performing and growth areas of the business and that it was exiting LSTK construction contracting.

The Company also announced a reorganization into two separate business lines:

- SNCL Engineering Services which includes EDPM, Nuclear, Infrastructure Services (including Linxon) and Capital.
- SNCL Projects which includes Resources (Oil & Gas and Mining & Metallurgy) and the then existing Infrastructure LSTK construction projects.

The Company also announced that it was exploring all options for its Resources activities, particularly its Oil & Gas business, including transition to a services-based business or divestiture. At the end of 2019, the Company decided to exit the unprofitable midstream fabrication business, including its compression and production equipment product lines, which were also known under the Valerus brand.

The reorganization and exit from LSTK construction contracting are aligned with the new strategic direction of the Company that is focused on de-risking the business and generating more consistent earnings and cash flow. The Company's goal is to strengthen the balance sheet and enhance financial flexibility, while removing volatility. While the Company is exiting the LSTK construction activity, it will fulfil the contractual obligations of its current projects. It may be necessary for the Company to accept change orders under existing LSTK construction contracts, which may temporarily extend the performance timeframe of such contracts.

APPOINTMENT OF EXECUTIVE VICE-PRESIDENT, PROJECT OVERSIGHT

On June 18, 2019, the Company appointed Nigel W.M. White as Executive Vice-President, Project Oversight, effective August 1, 2019. Mr. White reports to Mr. Edwards and leads the newly created Project Oversight function. Project Oversight is an operational function that focuses on assisting all operating segments in achieving timely delivery and on-budget project execution. The objective is to drive consistency and assess risk for the Company in a way that enhances its ability to foresee and fix project-related issues in a timely fashion.

APPOINTMENT OF CHIEF TRANSFORMATION OFFICER

On January 22, 2020, the Company announced the appointment of Louis G. Véronneau to the newly created role of Chief Transformation Officer (CTO), charged with rapidly simplifying the Company's structure and processes, while supporting the new strategic direction with a focus on Information Technology (IT) and divestitures.

APPOINTMENT OF CHIEF FINANCIAL OFFICER

On February 10, 2020, the Company announced the appointment of Jeff Bell as Chief Financial Officer (CFO), effective April 14, 2020. His appointment follows a number of recent appointments that is a part of the ongoing strengthening process of the Company's leadership team focused on supporting the execution of the Company's new strategic direction.

FEDERAL CHARGES SETTLEMENT (PPSC)

On December 18, 2019, the Company announced that the federal charges arising from legacy activities in Libya between 2001 and 2011 had been settled with the Public Prosecution Service of Canada (“PPSC”). The Court of Quebec accepted a guilty plea from SNC-Lavalin Construction Inc. (a subsidiary of the Company) to a single charge of fraud. All other charges against the Company, SNC-Lavalin International Inc., and SNC-Lavalin Construction Inc. have been withdrawn by the PPSC. As part of the settlement, SNC-Lavalin Construction Inc. will pay a fine in the amount of $280 million, payable in equal installments over 5 years, and will be subject to a three-year probation order.

DISPOSAL OF 10.01% INTEREST IN HIGHWAY 407 ETR

On August 15, 2019 SNC-Lavalin announced that it completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by Canada Pension Plan Investment Board (“CPPIB”). At closing and in accordance with the terms and conditions of the agreement, SNC-Lavalin received the base purchase price proceeds of $3.0 billion, with up to an additional $250 million contingently payable over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR and recognized a net gain of $2.6 billion on this transaction. A portion of the $2.9 billion net proceeds from this transaction was used to repay borrowings made under the Company's second amended and restated credit agreement dated as of April 30, 2018 ("the Credit Agreement"), a portion of the Company's limited recourse loan and a bridge credit facility in full.

SNC-Lavalin’s remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

OTHER CHANGES TO THE MANAGEMENT TEAM

Effective April 2019, the Company appointed Craig Muir as President, Resources.

On September 18, 2019, the Company appointed Charlene A. Ripley to the role of Executive Vice-President and General Counsel, effective October 15, 2019.

Effective February 3, 2020, the Company appointed Jonathan Wilkinson, previously President, Infrastructure, to the newly created role of President of Infrastructure Projects, charged with overseeing the rapid and successful run-off of the Company’s LSTK backlog. At the same time, the Company has appointed, on an interim basis, Dale Clarke, previously Executive Vice-President, Strategy and Growth, Infrastructure, to the newly created role of Executive Vice-President Infrastructure Services, responsible for growing the high-performing services business in North America.

SETTLEMENT WITH CODELCO ON ACID PLANT PROJECT

On October 11, 2019, the Company announced that it had reached a full and final settlement with Codelco, following the latter's decision to terminate its Mining & Metallurgy contract, as announced on March 25, 2019. This settlement eliminated the potential for any and all future risk stemming from the disputes related to the contract termination.

4 Financial Performance Analysis

4.1 SELECTED ANNUAL FINANCIAL INFORMATION

The selected annual financial information presented in the table below has been derived from the Company's audited annual consolidated financial statements prepared in accordance with IFRS for each of the three most recently completed financial years, with the exception of the non-IFRS financial measures specifically identified in the "Additional selected financial information" section below.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT EARNINGS (LOSS) PER SHARE, ADJUSTED DILUTED EPS FROM E&C AND DIVIDENDS PER SHARE DECLARED TO SNC-LAVALIN SHAREHOLDERS)		2019		2018		2017
Revenues:						
From E&C	**$**	**9,252.9**	$	9,819.3	$	9,096.7
From Capital		**262.7**		264.7		238.0
Total Revenue	**$**	**9,515.6**	$	10,084.0	$	9,334.7
Net income (loss) attributable to SNC-Lavalin shareholders:						
From E&C	**$**	**(2,444.6)**	$	(1,563.0)	$	176.0
From Capital		**2,772.8**		246.1		206.0
Net income (loss) attributable to SNC-Lavalin shareholders	**$**	**328.2**	$	(1,316.9)	$	382.0
Earnings (loss) per share (in $):						
Basic	**$**	**1.87**	$	(7.50)	$	2.35
Diluted:						
From E&C	**$**	**(13.93)**	$	(8.90)	$	1.08
From Capital		**15.80**		1.40		1.26
Diluted earnings (loss) per share	**$**	**1.87**	$	(7.50)	$	2.34
Additional selected financial information:						
Backlog (at December 31)	**$**	**15,262.5**	$	14,885.0	$	10,406.4
Adjusted EBITDA from E&C [(1)]	**$**	**279.1**	$	385.6	$	629.0
Total assets (at December 31)	**$**	**11,644.7**	$	12,939.7	$	13,762.5
Non-current financial liabilities (at December 31) [(2)]	**$**	**2,378.1**	$	2,551.9	$	2,824.6
Adjusted diluted EPS from E&C (in $) [(1)]	**$**	**(0.40)**	$	0.25	$	2.15
Dividends per share declared to SNC-Lavalin shareholders (in $)	**$**	**0.160**	$	0.961	$	1.106

(1) Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

(2) Non-current financial liabilities include long-term debt (Recourse, Limited recourse and Non-recourse), the financial portion of the Non-current portion of provisions, Other non-current financial liabilities, and the Non-current portion of lease liabilities.

While the variances between 2019 and 2018 are further described in the following sections of the MD&A, the main variances between 2018 and 2017 are explained as follows:

Revenue growth in 2018 is partially explained by the first full year of results of Atkins, acquired in July 2017.

There was a net loss in 2018 compared to a net income in 2017. The variance is mainly attributable to the goodwill impairment of $1,240.4 million recognized in the fourth quarter of 2018. The remaining variance is due to lower Segment EBIT, the increase in amortization of intangible assets related to business combinations, the gain on disposal of the head office building in 2017 and the net expense in 2018 for the 2012 class action lawsuits settlement, partially offset by lower acquisition-related costs and integration costs in 2018.

4.2 STATEMENT OF INCOME

YEARS ENDED DECEMBER 31 (IN MILLIONS OF CA$, EXCEPT EARNINGS (LOSS) PER SHARE)		2019		2018 [2]
Revenues	$	9,515.6	$	10,084.0
Total Segment EBIT	$	354.1	$	539.1
Corporate selling, general and administrative expenses	$	(73.9)	$	(98.0)
Impairment loss arising from expected credit losses		(0.2)		(1.3)
Loss arising on financial assets (liabilities) at fair value		(4.7)		(7.4)
Net 2012 class action lawsuits settlement expense and related legal costs		—		(89.4)
Federal charges settlement (PPSC)		(257.3)		—
Restructuring costs		(182.8)		(68.6)
Acquisition-related costs and integration costs		(8.3)		(54.9)
Amortization of intangible assets related to business combinations		(182.0)		(206.5)
Gain on disposal of a Capital investment		2,970.8		67.6
Loss from adjustment on disposals of E&C businesses		(0.3)		(0.5)
Impairment of intangible assets related to business combinations		(72.8)		—
Impairment of goodwill		(1,801.0)		(1,240.4)
Earnings (loss) before interest and income taxes	$	741.4	$	(1,160.4)
Net financial expenses	$	212.1	$	167.4
Earnings (loss) before income taxes	$	529.3	$	(1,327.8)
Income taxes	$	198.7	$	(11.5)
Net income (loss)	$	330.6	$	(1,316.3)
Net income (loss) attributable to:				
SNC-Lavalin shareholders	$	328.2	$	(1,316.9)
Non-controlling interests		2.4		0.6
Net income (loss)	$	330.6	$	(1,316.3)
Earnings (loss) per share (in $):				
Basic	$	1.87	$	(7.50)
Diluted	$	1.87	$	(7.50)
Additional financial indicators:				
Diluted EPS from E&C (in $) [1]	$	(13.93)	$	(8.90)
Adjusted diluted EPS from E&C (in $) [1]	$	(0.40)	$	0.25
Adjusted EBITDA from E&C [1]	$	279.1	$	385.6

(1) Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

(2) Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

4.2.1 REVENUE ANALYSIS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019	2018
Revenues:		
From E&C		
SNCL Engineering Services (excluding Capital)	**$ 6,017.3**	$ 5,521.7
SNCL Projects	**3,235.6**	4,297.6
Total from E&C	**$ 9,252.9**	$ 9,819.3
From Capital	**262.7**	264.7
Total Revenues	**$ 9,515.6**	$ 10,084.0

REVENUES FROM E&C

E&C revenues decreased to $9.3 billion in 2019, compared with $9.8 billion in 2018. The variance is largely attributable to lower revenues in SNCL Projects, in both Resources and Infrastructure EPC Projects, partially offset by an increase in revenues in SNCL Engineering Services from E&C, mainly in Infrastructure Services and EDPM. The decrease in revenues from SNCL Projects reflects the completion or near completion of certain major projects, combined with the Company's decision in July 2019 to stop bidding on LSTK construction contracts. The increase in revenues from SNCL Engineering Services (excluding Capital) reflects mainly the first full year of operations of Linxon, acquired in September 2018, and an overall growth in activities in EDPM.

REVENUES FROM CAPITAL

Revenues from Capital in 2019 are in line with those of 2018, as the decrease in contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019 was offset by a higher level of activity on certain other investments.

4.2.2 SEGMENT EBIT ANALYSIS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT RATIO IN %)		2019		2018 [(1)]
Total Segment EBIT:				
From E&C				
SNCL Engineering Services (excluding Capital)	**$**	**558.9**	$	551.5
SNCL Projects		**(448.0)**		(237.3)
Total from E&C	**$**	**110.9**	$	314.2
From Capital		**243.2**		225.0
Total Segment EBIT	**$**	**354.1**	$	539.1
Total Segment EBIT-to-revenue ratio (%):				
From E&C				
SNCL Engineering Services (excluding Capital)		**9.3%**		10.0%
SNCL Projects		**(13.8%)**		(5.5%)
Total from E&C		**1.2%**		3.2%
From Capital		**92.6%**		85.0%
Total Segment EBIT-to-revenue ratio (%)		**3.7%**		5.3%

(1) Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

SEGMENT EBIT FROM E&C

E&C total segment EBIT in 2019 was $110.9 million, compared with $314.2 million in 2018. The variance is largely attributable to the increased loss in SNCL Projects, reflecting a loss in Infrastructure EPC Projects in 2019 and the higher level of loss in Resources in 2019 compared to 2018, partially offset by the higher Segment EBIT in SNCL Engineering Services excluding Capital, mainly from Infrastructure Services.

SEGMENT EBIT FROM CAPITAL

The relationship between revenues and EBIT for Capital investments 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 Capital investment's financial results.

Segment EBIT from Capital increased to $243.2 million in 2019, compared with $225.0 million in 2018, mainly due to an increased contribution from certain investments and lower selling, general and administrative expenses in 2019, partly offset by a lower contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

4.2.3 CORPORATE SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019			2018 [1]		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Corporate selling, general and administrative expenses	**$ 45.8**	**$ 28.2**	**$ 73.9**	$ 70.4	$ 27.7	$ 98.0

(1) Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

Corporate selling, general and administrative expenses totaled $73.9 million in 2019, compared with $98.0 million in 2018, mainly reflecting efficiencies obtained from restructuring and right-sizing efforts. The Corporate selling, general and administrative expenses in 2018 included a $16.2 million favorable impact from revised estimates on legacy sites environmental liability and other asset retirement obligations and a $25.1 million Guaranteed Minimum Pension ("GMP") equalization cost recognized by the Company for past service cost.

4.2.4 NET 2012 CLASS ACTION LAWSUITS SETTLEMENT EXPENSE AND RELATED LEGAL COSTS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019	2018
Net 2012 class action lawsuits settlement expense and related legal costs	**$ —**	$ 89.4

On May 22, 2018, the Company reached a settlement agreement in relation to class actions in Quebec and Ontario filed in 2012 on behalf of security holders, resulting in a net expense of $89.4 million, including the related legal costs.

4.2.5 FEDERAL CHARGES SETTLEMENT (PPSC)

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019	2018
Federal charges settlement (PPSC)	**$ 257.3**	$ —

As part of the settlement reached on December 18, 2019, a subsidiary of the Company will pay a fine in the amount of $280 million, payable in equal installments over the next 5 years. The $257.3 million expense recognized in 2019 represents the net present value of these installments.

4.2.6 RESTRUCTURING COSTS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019	2018
Restructuring costs	**$ 182.8**	$ 68.6

Over the past years, the Company has been engaged in restructuring its activities. In 2019, the Company announced a new strategy under which the Company is no longer bidding on LSTK construction contracts. SNC-Lavalin is also reducing its geographic footprint to reduce risk and complexity by focusing on its core growth regions: Canada, the U.S., and the U.K., along with regional markets such as the Middle East and Asia Pacific, which involves exiting unprofitable operations in certain countries. At the end of 2019, the Company decided to exit the midstream fabrication business, including its compression and production equipment product lines, which were also known under the Valerus brand.

The Company incurred $182.8 million of restructuring costs in 2019 (2018: $68.6 million). The restructuring costs recognized in 2019 included approximately $72 million related to Valerus, of which $52.5 million related to non-cash charges, notably $31.2 million of inventory write-down, $11.3 million of impairment of right-of-use assets and $10.0 million of impairment of property and equipment. The remaining balance of restructuring costs recognized in 2019 were mainly for severances. The restructuring costs recognized in 2018 were mainly for severances across the Company's segments and corporate functions.

4.2.7 ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018
Acquisition-related costs and integration costs	**$**	**8.3**	$	54.9

In 2019, the Company incurred acquisition-related costs and integration costs totalling $8.3 million, compared with $54.9 million in 2018, a variance that was largely attributable to lower professional fees, reflecting the completion of the integration of Atkins and Linxon.

4.2.8 AMORTIZATION OF INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018
Amortization of intangible assets related to business combinations	**$**	**182.0**	$	206.5

Amortization of intangible assets related to business combinations amounted to $182.0 million in 2019, and to $206.5 million in 2018, both mainly attributable to the amortization expense of intangible assets related to Atkins.

4.2.9 NET GAIN ON DISPOSAL

In August 2019, SNC-Lavalin completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by CPPIB. SNC-Lavalin recognized a gain before taxes of $2,970.8 million on this transaction.

SNC-Lavalin's remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

4.2.10 IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS RELATED TO BUSINESS COMBINATIONS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018
Impairment of goodwill	**$**	**1,801.0**	$	1,240.4
Impairment of intangible assets related to business combinations		**72.8**		—
Impairment of goodwill and intangible assets related to business combinations	**$**	**1,873.8**	$	1,240.4

Impairment of goodwill has increased in 2019 due to the impairment loss on goodwill of $1.8 billion which was recognized in 2019 for the Resources CGU, largely attributable to the Company's decision to cease bidding on LSTK construction projects, as well as lower than expected performance in Resources in the first half of the year and challenges in replenishing the backlog. At the same time, the intangible assets related to business combinations in the Resources segment were impaired by $72.8 million.

4.2.11 EBIT, EBITDA ANALYSIS

EBIT, EBITDA are non-IFRS financial measures. Definitions and reconciliations of these financial measures to Net Income are presented in Section 14.

In 2019, EBIT from E&C was negative $2,441.9 million, compared with $1,424.5 million in 2018, a variance mainly due to the higher amount of goodwill impairment related to Resources in 2019, combined with a lower Segment EBIT from E&C in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, offset by a higher Segment EBIT from Infrastructure Services. Also explaining the higher loss were the federal charges settlement expense, higher restructuring costs and an impairment of intangible assets related to Resources in 2019, partially offset by the net 2012 class action lawsuits settlement expenses and related legal costs in 2018. This also resulted in an EBITDA from E&C of negative $166.0 million in 2019, compared with $140.5 million in 2018. When adjusting for the charges related to restructuring, right-sizing and other, the acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments, the adjusted EBITDA from E&C amounted to $279.1 million in 2019, compared with $385.6 million in 2018.

EBIT and EBITDA from Capital were favorably impacted in 2019 mainly due to the gain on disposal by the Company of a 10.01% of the shares of Highway 407 ETR.

4.2.12 NET FINANCIAL EXPENSES

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	**2019**			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Interest revenues	**$ (10.8)**	**$ (0.2)**	**$ (11.0)**	$ (7.9)	$ (4.4)	$ (12.3)
Interest on debt:						
Recourse	**85.0**	**—**	**85.0**	78.2	—	78.2
Limited recourse	**45.1**	**—**	**45.1**	85.2	—	85.2
Non-recourse	**5.7**	**18.1**	**23.8**	2.1	15.8	17.9
Net foreign exchange losses	**(2.7)**	**(0.2)**	**(3.0)**	0.2	0.1	0.2
Interest on lease liabilities	**23.4**	**0.2**	**23.6**	—	—	—
Other	**48.5**	**—**	**48.5**	(1.8)	—	(1.8)
Net financial expenses	**$ 194.2**	**$ 17.8**	**$ 212.1**	$ 156.0	$ 11.5	$ 167.4

Net financial expenses from E&C increased to $194.2 million in 2019 compared with $156.0 million in 2018, a variance mainly due to $33.8 million of loss related to the amendments of the SNC-Lavalin Holdings Loan Agreement and $3.7 million related to other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR, both included in “Other” in the table above, combined with the additional financial expenses related to lease liabilities in 2019, following the adoption of IFRS 16 on January 1, 2019 without restatement of comparative figures.

Net financial expenses from Capital were $17.8 million in 2019, compared with $11.5 million in 2018, mainly explained by the decrease in interest revenues.

4.2.13 INCOME TAXES ANALYSIS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Earnings before income	**$ (2,636.1)**	**$ 3,165.5**	**$ 529.3**	$ (1,580.5)	$ 252.6	$ (1,327.8)
Income taxes	**$ (193.9)**	**$ 392.7**	**$ 198.7**	$ (18.1)	$ 6.6	$ (11.5)
Effective income tax rate	**7.4 %**	**12.4 %**	**37.5 %**	1.2 %	2.6 %	0.9 %

In 2019, the Company reported an income tax expense of $198.7 million, compared to an income tax recovery of $11.5 million in 2018.

The effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.5% in 2019, mainly due to the impact of the non-tax deductible portion of the goodwill impairment, the write down of previously recognized deferred income tax assets, the non-tax deductible Federal Charges Settlement and other permanent items. These impacts were partially offset by the recognition of income tax recoveries on capital losses and earnings not affected by tax.

In 2018, the effective income tax recovery rate from E&C was lower than the Canadian statutory income tax rate of 26.7% mainly due to the impact of the non-tax deductible goodwill impairment, net losses that did not generate an income tax benefit and by adjustments to deferred income taxes due to the US tax reform and the net reversal of previously recognized deferred tax assets. These impacts were partially offset by the geographic mix of earnings before income taxes as well as earnings not affected by tax and other permanent items.

The effective income tax rate from Capital investments increased in 2019 compared with 2018, but was lower than the Canadian statutory income tax rate of 26.5%, mainly due to the non-taxable portion of the gain on the disposal of a 10.01% stake in Highway 407 ETR. In 2018, the effective income tax rate was lower than the Canadian statutory income tax rate of 26.7% mainly due to the non-taxable dividends received from Highway 407 ETR and the non-taxable portion of the gain on the disposition of MHIG to the SNCL IP Partnership.

4.2.14 NET INCOME ANALYSIS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018
Net income (loss) attributable to SNC-Lavalin shareholders:				
From E&C	**$**	**(2,444.6)**	$	(1,563.0)
From Capital		**2,772.8**		246.1
Net income (loss) attributable to SNC-Lavalin shareholders	**$**	**328.2**	$	(1,316.9)
Non-controlling interests		**2.4**		0.6
Net income (loss)	**$**	**330.6**	$	(1,316.3)

NET INCOME FROM E&C

Net loss attributable to SNC-Lavalin shareholders from E&C was $2,444.6 million in 2019, compared to a net loss attributable to SNC-Lavalin shareholders from E&C of $1,563.0 million in 2018, a variance mainly due to the higher amount of goodwill impairment related to Resources in 2019, combined with a lower Segment EBIT from E&C in 2019, mainly attributable to losses in Resources and Infrastructure EPC Projects, offset by a higher Segment EBIT from Infrastructure Services. Also explaining the higher loss were the federal charges settlement expense, higher net financial expenses, higher restructuring costs and an impairment of intangible assets related to Resources in 2019, partially offset by the net 2012 class action lawsuits settlement expenses and related legal costs in 2018.

NET INCOME FROM CAPITAL

Net income attributable to SNC-Lavalin shareholders from Capital increased to $2,772.8 million in 2019, compared with $246.1 million in 2018, mainly from a gain on the disposal by the Company of 10.01% of the shares of Highway 407 ETR, an increased contribution from certain other investments and lower selling, general and administrative expenses in 2019.

5 Backlog (Remaining Performance Obligations)

The backlog is defined as a forward-looking indicator of anticipated revenues to be recognized by the Company, determined based on contract awards that are firm and amounting to the transaction price allocated to remaining performance obligations. Management could be required to make estimates regarding the revenue to be generated for certain contracts.

Revenue backlog is derived primarily from three major types of contracts: **Reimbursable and engineering service contracts, Standardized EPC contracts and LSTK construction contracts.**

- **Reimbursable and engineering service contracts**: Under reimbursable contracts, the Company charges the customer for the actual cost incurred plus a mark-up that could take various forms such as a fixed-fee per unit, a percentage of costs incurred or an incentive fee based on achieving certain targets, performance factors or contractual milestones. Reimbursable contracts also include unit-rate contracts for which a fixed amount per quantity is charged to the customer, and reimbursable contracts with a cap. Engineering service contracts include i) time and material agreements based on hourly rates and fixed-price lump-sum contracts with limited procurement or construction risks, and ii) O&M contracts.
- **Standardized EPC contracts**: Under standardized EPC contracts, the Company provides its repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary.
- **LSTK construction contracts**: Under LSTK construction contracts, the Company completes the work required for the project at a lump-sum price. Before entering into such contracts, the Company estimates the total cost of the project, plus a profit margin. The Company's actual profit margin may vary based on its ability to achieve the project requirements at above or below the initial estimated costs.

REVENUE BACKLOG BY SEGMENT AND GEOGRAPHIC AREA

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

AT DECEMBER 31 (IN MILLIONS CA$)		2019		2018[(2)]
BY SEGMENT				
SNCL Engineering Services				
EDPM	**$**	**2,630.0**	$	2,793.1
Nuclear		**1,154.0**		1,202.9
Infrastructure Services		**7,337.0**		6,225.4
Capital [(1)]		**176.9**		155.4
Total SNCL Engineering Services	**$**	**11,297.9**	$	10,376.8
SNCL Projects				
Resources	**$**	**1,380.1**	$	1,907.3
Infrastructure EPC Projects		**2,584.5**		2,600.9
Total SNCL Projects	**$**	**3,964.6**	$	4,508.2
Total	**$**	**15,262.5**	$	14,885.0
From Canada	**$**	**9,152.8**	$	8,560.4
Outside Canada		**6,109.7**		6,324.6
Total	**$**	**15,262.5**	$	14,885.0

(1) Backlog from Capital represents the amount that will be recognized as revenue from contracts with customers in the Capital segment from a concession agreement.

(2) Comparative figures have been restated to reflect a change made to the Company's reporting of its financial results. Please refer to Section 13 for further details.

The Company's revenue backlog increased to $15.3 billion as at December 31, 2019 compared with $14.9 billion as at December 31, 2018, mainly reflecting an increase in Infrastructure Services partially offset by a decrease in Resources.

Backlog from Canada increased in 2019, reflecting an increase mostly in Infrastructure Services explained mainly by major bookings in O&M.

Backlog from Outside Canada decreased in 2019, principally due to a decrease in Resources, mainly due to the completion or near completion of certain major projects in 2019.

BACKLOG RECONCILIATION

In the following section, the Company presents its "booking-to-revenue ratio", a non-IFRS measure, which corresponds to the contract bookings divided 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 2.2, which can be a significant portion of the budgeted and/or forecasted revenues.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	2019	2018
Opening backlog	$ 14,885.0	$ 10,406.4
IFRS 15 opening balance adjustment	—	3,390.5
Plus: Contract bookings during the year	9,623.1	10,362.4
Backlog from a business combination	—	526.1
Less: Revenues from contracts with customers recognized during the year	9,245.6	9,800.4
Ending backlog	**$ 15,262.5**	$ 14,885.0
Booking-to-revenue ratio [(1)]	**1.04**	1.06

(1) Non-IFRS financial measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

MAJOR CONTRACT AWARDS

In 2019, the Company was awarded several contracts in North America, and in the U.K. notably the Trillium Line Extension project awarded in Canada.

In 2018, the Company was awarded several contracts in North America, Africa and in the U.K., notably the contract related to the Réseau express métropolitain ("REM") in Infrastructure EPC Projects. In the Resources segment, the Company was awarded contracts in the Middle East. The backlog from a business combination resulted from Linxon's opening backlog of $526.1 million.

BACKLOG BY TYPES OF CONTRACTS

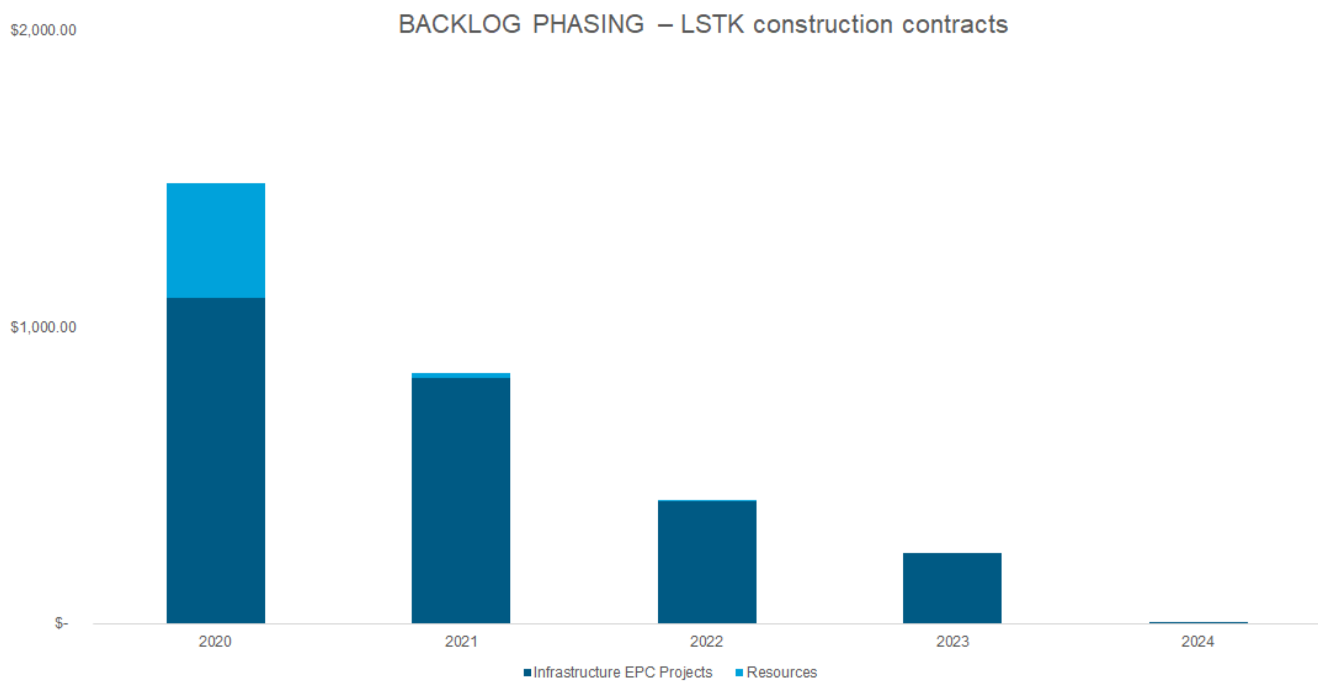
The following table shows the amounts and proportions of reimbursable and engineering service contracts, standardized EPC contracts and LSTK construction contracts included in each segment's backlog as at December 31, 2019:

	REIMBURSABLE & ENGINEERING SERVICES CONTRACTS		STANDARDIZED EPC CONTRACTS		LSTK CONSTRUCTION CONTRACTS	
BY SEGMENT						
SNCL Engineering Services						
EDPM	$ 2,630.0	100 %	$ —	— %	$ —	— %
Nuclear	1,079.0	94 %	—	— %	75.0	6 %
Infrastructure Services	6,444.5	88 %	892.5	12 %	—	— %
Capital	176.9	100 %	—	— %	—	— %
Total SNCL Engineering	**$ 10,330.4**	**91 %**	**$ 892.5**	**8 %**	**$ 75.0**	**1 %**
SNCL Projects						
Resources	$ 973.8	71 %	$ —	— %	$ 406.3	29 %
Infrastructure EPC Projects	—	— %	—	— %	2,584.5	100 %
Total SNCL Projects	**$ 973.8**	**25 %**	**$ —**	**— %**	**$ 2,990.8**	**75 %**
Total	**$ 11,304.2**	**74 %**	**$ 892.5**	**6 %**	**$ 3,065.8**	**20 %**

BACKLOG PHASING

The backlog as at December 31, 2019, is expected to be recognized in revenues as follows: 2020 – $5.6 billion, 2021 – $2.3 billion, 2022 – $1.2 billion, and thereafter – $6.1 billion (2018: 2019 – $5.8 billion, 2020 – $2.3 billion, 2021 – $1.2 billion, and thereafter – $5.6 billion). It should be noted that these amounts exclude any estimated amounts of variable consideration that are excluded from the transaction price.

The LSTK construction contracts included in the backlog of the Resources and Infrastructure EPC Projects segments have expected completions between 2020 and 2024. The Company will fulfill the contractual obligations of its current LSTK construction projects. It may be necessary for the Company to accept change orders under existing LSTK construction contracts, which may temporarily extend the performance timeframe of such contracts.



Most of the backlog from LSTK construction contracts in these sectors is derived from the following projects: Réseau Express Métropolitan (REM), Trillium Line Extension, Eglinton LRT and Husky White Rose.

6 Geographic Breakdown of Revenues

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2019		2018	
	TOTAL	%	TOTAL	%
Americas:				
Canada	**$ 2,813.7**	**30 %**	$ 2,962.6	29 %
United States	**1,825.5**	**19 %**	1,665.6	17 %
Latin America	**181.6**	**2 %**	302.4	3 %
Middle East and Africa:				
Saudi Arabia	**871.1**	**9 %**	1,020.7	10 %
Other Middle East countries	**817.6**	**9 %**	962.5	10 %
Africa	**363.0**	**4 %**	469.1	5 %
Asia Pacific:				
Australia	**173.7**	**2 %**	511.3	5 %
Other	**326.8**	**3 %**	227.6	2 %
Europe:				
United Kingdom	**1,794.1**	**19 %**	1,658.4	16 %
Other	**348.4**	**4 %**	303.8	3 %
Total	**$ 9,515.6**	**100 %**	$ 10,084.0	100 %

AMERICAS:

- **Revenues in Canada in 2019 decreased** from 2018, mainly due to a decrease in Infrastructure EPC and Infrastructure Services.
- **Revenues in the United States increased in 2019** compared with 2018, reflecting an increase in Resources, EDPM and Nuclear, mostly offset by a decrease in Infrastructure EPC Projects, due to the completion or near completion of certain major projects.
- **Revenues in Latin America decreased in 2019** compared with the previous year, principally reflecting a decrease in Resources.

MIDDLE EAST AND AFRICA:

- **Revenues in Saudi Arabia decreased in 2019** compared with 2018, primarily due to Resources.
- **Revenues in other Middle East countries decreased in 2019** compared with 2018, mainly due to Resources, partially offset by activities from the Linxon business in Infrastructure Services.
- **Revenues in Africa in 2019 decreased** compared with 2018, primarily due to a decrease in Resources.

ASIA PACIFIC:

- **Revenues in Australia decreased in 2019** compared with the previous year, mainly attributable to a decrease in Resources due to completion or near completion of certain major projects in 2018, partially offset by an increase in Infrastructure EPC Projects.
- **Revenues in other countries, increased in 2019** compared with the previous year, mainly reflecting incremental activities of the Linxon business in Infrastructure Services as well as those in EDPM.

EUROPE:

- **Revenues in the United Kingdom, increased in 2019** compared with the previous year, mainly due to EDPM and an increase in Infrastructure Services.
- **Revenues in other countries increased in 2019** compared with 2018, mainly due to incremental activities of the Linxon business in Infrastructure Services.

7 Segment Information

The Company evaluates segment performance, using **Segment EBIT**, which is a non-IFRS financial measures defined in Section 14. Effective January 1, 2019, the Company changed the definition of segment EBIT, its measure of profit or loss for its reportable segments, to reflect a change made to its internal reporting. As such, segment EBIT now includes: i) the contribution attributable to non-controlling interests before income taxes, whereas in the past it excluded such contribution attributable to non-controlling interests before income taxes; and ii) an allocation to the segments of certain other corporate selling, general and administrative expenses. As such, these changes resulted in: i) a reclassification of the negative contribution attributable to non-controlling interests before income taxes in segment EBIT of $0.3 million for the year ended December 31, 2018; and ii) a reclassification of certain other corporate selling, general and administrative expenses in segment EBIT of $23.3 million for the year ended December 31, 2018. The Company believes that such inclusions improve the measure of profitability of its reportable segments by better reflecting the overall performance of its reportable segments.

At the same time, given the Company’s aim to continue to simplify and de-risk its business, SNC-Lavalin further simplified its market-facing structure. This simplification became effective January 1, 2019 and resulted in a change to the Company’s reportable segments, which were i) EDPM; ii) Infrastructure; iii) Nuclear; iv) Resources; and v) Capital. As further discussed in Section 2, the Company’s new strategic direction adopted for the second quarter of 2019 resulted in the restructuring of its activities into two distinct business lines, SNCL Engineering Services and SNCL Projects. From a segmented information stand-point, this change resulted in the split of the Infrastructure segment into two segments, Infrastructure Services and Infrastructure EPC Projects, all other segments remaining the same. As such, the Company’s reportable segments are now **EDPM**, **Nuclear**; **Infrastructure Services** and **Capital**, all part of **SNCL Engineering Services**, and **Resources** and **Infrastructure EPC projects**, which form **SNCL Projects**.

These changes were made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* resulting in the restatement of prior figures.

On January 1, 2019, the Company adopted IFRS 16 under the modified retrospective approach. While the impact of this new accounting standard is explained in detail in Note 2 to the Company's 2019 audited annual consolidated financial statements, such change applied without restatement of comparative figures resulted in an increase of Segment EBIT in 2019 due to the presentation of the interest expense on lease liabilities, when such expense is not considered a project cost, in net financial expenses, which are excluded from the measure of Segment EBIT.

The Company derived its revenues from reimbursable and engineering service contracts (2019: 76%; 2018: 73%), standardized EPC contracts (2019: 5%; 2018: 2%) and LSTK construction contracts (2019: 19%; 2018: 25%). The following discussion reviews the Company’s segment revenues and Segment EBIT.

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2019			
BY SEGMENT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT
EDPM	**$ 3,908.9**	**$ 357.8**	**$ —**	$ 357.8
Nuclear	**929.8**	**127.6**	**—**	127.6
Infrastructure Services	**1,178.6**	**73.5**	**—**	73.5
Capital	**262.7**	**—**	**243.2**	243.2
Total SNCL Engineering Services	**$ 6,280.0**	**$ 558.9**	**$ 243.2**	$ 802.1
Resources	**2,158.9**	**(341.5)**	**—**	(341.5)
Infrastructure EPC Projects	**1,076.7**	**(106.5)**	**—**	(106.5)
Total SNCL Projects	**$ 3,235.6**	**$ (448.0)**	**$ —**	$ (448.0)
Total revenues and Segment EBIT	**$ 9,515.6**	**$ 110.9**	**$ 243.2**	$ 354.1

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2018[(1)]			
BY SEGMENT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT
EDPM	$ 3,676.4	$ 354.7	$ —	$ 354.7
Nuclear	932.6	143.9	—	143.9
Infrastructure Services	912.7	52.9	—	52.9
Capital	264.7	—	225.0	225.0
Total SNCL Engineering Services	$ 5,786.4	$ 551.5	$ 225.0	$ 776.5
Resources	3,001.4	(256.6)	—	(256.6)
Infrastructure EPC Projects	1,296.3	19.3	—	19.3
Total SNCL Projects	$ 4,297.7	$ (237.3)	$ —	$ (237.3)
Total revenues and Segment EBIT	$ 10,084.0	$ 314.2	$ 225.0	$ 539.1

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

7.1 SNCL ENGINEERING SERVICES

7.1.1 – EDPM

EDPM incorporates all consultancy, engineering, design and project management services around the world (including the Canadian market, which was previously in the former Infrastructure segment prior to January 1, 2019). It also leads our efforts to transform the global infrastructure sector by leveraging data and technology to improve the delivery of our clients' projects from conception through to eventual operation. EDPM projects are mainly in transportation (including rail, mass transit, roads and airports), civil infrastructure, aerospace, defence and security and technology, including some of the world's most transformational projects. A significant portion of revenues are derived from the public sector, including national, provincial, state and local and municipal authorities. Similar to 2018, the EDPM segment derived all of its 2019 revenues from reimbursable and engineering service contracts.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018 [1]	CHANGE (%)
Revenues from EDPM	**$**	**3,908.9**	$	3,676.4	6.3%
Segment EBIT from EDPM	**$**	**357.8**	$	354.7	0.9%
Segment EBIT over revenues from EDPM (%)		**9.2%**		9.6%	
Backlog at year end	**$**	**2,630.0**	$	2,793.1	(5.8%)

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

EDPM revenues increased to $3,908.9 million in 2019 compared with $3,676.4 million in 2018. The variance was mainly attributable to revenues generated by an increased level of activity in the United Kingdom and Europe, North America and the Middle East.

The major revenue contributors in 2019 included work from the United Kingdom and Europe as a result of a higher volume of rail and infrastructure projects as Governments maintain their spending on critical infrastructure. In addition, EDPM secured an increased volume of work in the defence and security sector.

In North America, EDPM continues to expand its geographic footprint, as well as benefiting from ongoing disaster recovery work with the Federal Emergency Management Agency (FEMA) and ongoing major projects, notably the Purple Line light rail project in Maryland.

In the Middle East, EDPM celebrated its 10-year anniversary of operating in the Kingdom of Saudi Arabia where it continues to expand, supporting local efforts to manoeuvre the economy to be less oil dependent. The United Arab Emirates (UAE) has seen a flatter market following the work on Dubai Expo 2020.

Segment EBIT from EDPM was $357.8 million in 2019 compared with a Segment EBIT of $354.7 million in 2018, primarily due to the increase in the level of activities, partially offset by a lower profitability ratio, mainly due to an unfavorable geographic mix.

7.1.2 – NUCLEAR

Nuclear supports clients across the entire nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors. The Nuclear segment derives its revenues from reimbursable and engineering service contracts (2019: 98%; 2018: 99%), and two legacy LSTK construction contracts (2019: 2%; 2018: 1%).

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	**2019**	2018 [1]	CHANGE (%)
Revenues from Nuclear	**$ 929.8**	$ 932.6	(0.3%)
Segment EBIT from Nuclear	**$ 127.6**	$ 143.9	(11.3%)
Segment EBIT over revenues from Nuclear (%)	**13.7%**	15.4%	
Backlog at year end	**$ 1,154.0**	$ 1,202.9	(4.1%)

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

Nuclear revenues amounted to $929.8 million in 2019, in line with $932.6 million in 2018, mostly driven by higher technology products and services in Asia Pacific, higher volume in the United States operations, offset by slightly lower volume in Europe, the Middle East and in Canada.

The major revenue contributors in 2019 are services for decommissioning, waste management and environmental clean-up projects and services for life extension projects.

In 2019, Segment EBIT from Nuclear decreased to $127.6 million compared with $143.9 million in 2018, attributable to a lower profitability ratio mainly driven by higher forecasted costs on a specific legacy LSTK construction project in Canada nearing completion.

7.1.3 – INFRASTRUCTURE SERVICES

Infrastructure Services includes O&M projects, as well as the Company's repetitive EPC offerings that are lower-risk, standardized solutions for: i) district cooling plants; and ii) power substations executed through its Linxon subsidiary. The segment also includes engineering solutions in hydro, transmission and distribution, renewables, energy storage, and intelligent networks and cybersecurity. As previously mentioned, Segment EBIT now includes the contribution attributable to non-controlling interests. As such, the Segment EBIT of Linxon, a 51% subsidiary, is reported at 100% both in 2019 and 2018. The Infrastructure Services segment derives its revenues from both reimbursable and engineering service contracts (2019: 59%; 2018: 81%) and standardized EPC contracts (2019: 41%; 2018: 19%).

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018 [(1)]	CHANGE (%)
Revenues from Infrastructure Services	**$**	**1,178.6**	$	912.7	29.1%
Segment EBIT from Infrastructure Services	**$**	**73.5**	$	52.9	38.9%
Segment EBIT over revenues from Infrastructure Services (%)		**6.2%**		5.8%	
Backlog at year end	**$**	**7,337.0**	$	6,225.4	17.9%

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

Infrastructure Services revenues were $1,178.6 million in 2019 compared with $912.7 million in 2018, an increase mainly reflecting the activities of Linxon, acquired in September 2018.

The major revenue contributors in 2019 were mainly O&M contracts in Canada and power substation projects from Linxon.

In 2019, Segment EBIT from Infrastructure Services increased to $73.5 million compared with $52.9 million in 2018, mainly attributable to the increased contribution of the Linxon business and the net favorable impact of reforecasts on certain long-term O&M contracts.

7.1.4 – CAPITAL

Capital is SNC-Lavalin's investment, financing and asset management arm, responsible for developing projects, arranging financing, investing equity, undertaking complex financial modeling and managing its infrastructure investments for optimal returns. Its activities are principally concentrated in infrastructure such as **bridges, highways, mass transit systems, power facilities, energy infrastructure, water treatment plants and social infrastructure (e.g. hospitals).** The Capital segment includes SNC-Lavalin's 20% ownership interest in, and management of, SNCL IP Partnership. Also, as mentioned above, although Capital is a segment forming part of the SNCL Engineering Services line of business, it is excluded from E&C.

It is the Company's view that the aggregate fair value of its Capital investments is much higher than their net book value of $356.0 million as at December 31, 2019. Highway 407 ETR represents the most significant portion of the total fair value of the Company's Capital investments portfolio.

Capital investments net book value, as at December 31, 2019 and 2018, can be summarized as follows:

AT DECEMBER 31 (IN MILLIONS CA$)		**2019**		2018
Highway 407 ETR [(1)]	**$**	**—**	$	—
Others		**356.0**		369.1
Total	**$**	**356.0**	$	369.1

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

ACCOUNTING METHODOLOGY FOR CAPITAL INVESTMENTS

The Company's investments are accounted for by either the cost, equity or 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 a Capital investment, as described below:

ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN CAPITAL INVESTMENTS	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Consolidation	**Revenues** that are recognized and reported by the Capital investments
Equity method	SNC-Lavalin's **share of net results** of the Capital investment or **dividends** from its Capital investments for which the carrying amount is $nil, which are recognized when the Company's right to receive payment has been established
Cost method	**Dividends and distributions** from the Capital investments

In evaluating the performance of the segment, the relationship between revenues and EBIT 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 Capital investment's financial results.

REVENUES, SEGMENT EBIT AND DIVIDENDS OF THE CAPITAL SEGMENT

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018 [1]
Revenues from Capital	**$**	**262.7**	$	264.7
Segment EBIT from Capital investments:				
From Highway 407 ETR	**$**	**146.1**	$	154.3
From other Capital investments [2]		**97.1**		70.7
Segment EBIT from Capital	**$**	**243.2**	$	225.0
Dividends and distributions received by SNC-Lavalin from Capital investments accounted for by the equity method:				
From Highway 407 ETR	**$**	**146.1**	$	154.3
From other Capital investments		**14.0**		16.2
Total	**$**	**160.1**	$	170.5

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

(2) Segment EBIT from other Capital investments is net of divisional and allocated corporate selling, general and administrative expenses, as well as from selling, general and administrative expenses from all other capital investments accounted for by the consolidation method.

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 declared 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 a Capital investment based on its ownership, but rather recognizes the excess amount of dividends declared by a joint venture in its net income.

As a result, the Company recognized in its income statement, dividends from Highway 407 ETR of $146.1 million in 2019 (2018: $154.3 million) and did not recognize its share of Highway 407 ETR's net income of $72.0 million (2018: $90.4 million) in the same period, as the carrying amount of its investment in Highway 407 ETR was $nil at December 31, 2019 and 2018. The negative carrying value of the Company's investment in Highway 407 ETR, which is not recognized on the Company's statement of financial position, amounted to $716.2 million as at December 31, 2019 (2018: negative carrying value of $642.0 million).

Revenues from Capital of $262.7 million in 2019 were in line with the level of revenues in 2018.

Segment EBIT from Capital increased to $243.2 million in 2019 compared with $225.0 million in 2018, mainly due to an increased contribution from certain investments and lower selling, general and administrative expenses in 2019, partly offset by a lower contribution from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

CAPITAL INVESTMENTS PORTFOLIO

The following table presents a list of SNC-Lavalin's main Capital investments as at December 31, 2019:

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	In operation	Operates, maintains and rehabilitates Phase 1 of the new highway 407, east of Brock Road.
INPOWER BC GENERAL PARTNERSHIP ("INPOWER BC")	100%	Consolidation	Yes	2014	2033	In operation	Designs, builds, partially finances, maintains and rehabilitates the John Hart Generating Replacement Facility in Canada.
RIDEAU TRANSIT GROUP PARTNERSHIP ("RIDEAU")	40%	Equity	Yes	2013	2043	In operation	Designs, builds, finances and maintains the Confederation Line, City of Ottawa's light rail transit system.
CARLYLE GLOBAL INFRASTRUCTURE OPPORTUNITY FUND L.P.	4.5%	Cost	N/A	2018	N/A	N/A	Holding investments in infrastructure projects related to energy, power and natural resources.
HIGHWAY 407 ETR	6.76%	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.
TRANSITNEXT GENERAL PARTNERSHIP ("TransitNEXT")	100%	Consolidation	Yes	2019	2049	Under construction	Designs, builds, finances and maintains the new Trillium Line extension, and also assumes responsibility for the long-term maintenance of the existing Trillium Line, under a 30-year contract.
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^3/day seawater desalination plant in Algeria and sells the total capacity of treated water to Sonatrach and l'Algérienne des Eaux ("ADE") under a 25-year take-or-pay 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.
HIGHWAY CONCESSIONS ONE PRIVATE LIMITED	10%	Cost	N/A	2012	N/A	N/A	Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India.
SIGNATURE ON THE SAINT-LAURENT GROUP GENERAL PARTNERSHIP ("SSL")	50%	Equity	Yes	2015	2049	In operation	Designs, builds, finances, operates and maintains the New Champlain Bridge Corridor project.
CROSSLINX TRANSIT SOLUTIONS GENERAL PARTNERSHIP ("EGLINTON CROSSTOWN")	25%	Equity	Yes	2015	2051	Under construction	Designs, builds, finances and, once construction is completed, will operate and maintain the Eglinton Crosstown 19-km light rail line.
SNC-LAVALIN INFRASTRUCTURE PARTNERS LP ("PARTNERSHIP")	20%	Equity	No	2017	N/A	N/A	Holds the participations in Rainbow Hospital Partnership, Chinook Roads Partnership, InTransit BC Limited Partnership, Okanagan Lake Concession Limited Partnership and McGill Healthcare Infrastructure Group.

N/A: not applicable

HIGHWAY 407 ETR PERFORMANCE SUMMARY

As Highway 407 ETR issues public debt, Highway 407 ETR 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, under the name of 407 International Inc.

On February 19, 2020, Highway 407 ETR announced (at 100% level) revenues of $1,505.3 million for 2019, compared to $1,390.3 million for 2018 and reported net income of $575.7 million for 2019, compared to net income of $539.0 million for 2018. The Board of Directors of Highway 407 ETR declared an eligible dividend of $0.403 per common share, payable on or about February 19, 2020 to shareholders of record on February 19, 2020, representing approximately $21.1 million for the Company.

ADDITION TO CAPITAL INVESTMENTS IN 2019

2019

TransitNEXT General Partnership ("TransitNEXT")

On March 29, 2019, the Company announced that its wholly-owned subsidiary, TransitNEXT General Partnership ("TransitNEXT"), had finalized an agreement on the Trillium Line Extension project with the City of Ottawa. Through TransitNEXT, SNC-Lavalin will design, build, finance and maintain the new extension, and will also assume long-term maintenance of the existing Trillium line. The project, including the long-term cost to maintain and rehabilitate both the existing Trillium Line and its new extension, was valued at $1.6 billion.

DISPOSALS OF CAPITAL INVESTMENTS IN 2019 AND 2018

2019

Highway 407 ETR

On August 15, 2019 SNC-Lavalin announced that it completed the sale of 10.01% of the shares of Highway 407 ETR to a company controlled by CPPIB. At closing and in accordance with the terms and conditions of the agreement, SNC-Lavalin received the base purchase price proceeds of $3.0 billion, with up to an additional $250 million contingently payable over a period of 10 years, conditional on the attainment of certain financial thresholds related to the ongoing performance of Highway 407 ETR. This contingent consideration receivable was recognized at $56.1 million, its estimated fair value at the date of sale. The Company was also entitled to receive additional consideration based on the dividend to be declared in October 2019, for which the fair value was determined at $12.3 million. SNC-Lavalin recognized a gain before taxes of $2,970.8 million on this transaction.

SNC-Lavalin's remaining 6.76% ownership interest in Highway 407 ETR continues to be accounted for under the equity method of accounting.

2018

McGill Healthcare Infrastructure Group

On June 28, 2018, SNC-Lavalin announced that it had finalized the transfer of its investment in McGill Healthcare Infrastructure Group ("MHIG") and its holding company to SNC-Lavalin Infrastructure Partners LP (the "SNCL IP Partnership"). This transaction completed the transfer of SNC-Lavalin's interest in five mature Canadian P3 assets into the SNCL IP Partnership. This transaction resulted in a gain on disposal of $62.7 million ($58.4 million after taxes) in the second quarter of 2018.

The SNCL IP Partnership is SNC-Lavalin's infrastructure investment vehicle, which was established in 2017 to efficiently redeploy capital back into new development opportunities.

Astoria Project Partners II LLC

On August 28, 2018, SNC-Lavalin announced that it had reached an agreement to sell its remaining ownership interest in Astoria Project Partners II LLC, the legal entity that owned and operated the Astoria II power plant in New York City. The purchaser, NM Harbert Astoria LLC, is a limited liability company, owned by affiliates of

Northwestern Mutual and Harbert Management Corporation. On October 24, 2018, SNC-Lavalin completed the sale of its ownership interest in Astoria Project Partners II LLC in exchange of total consideration received of US $41.4 million (CA$54.1 million), resulting in a gain before taxes of $4.8 million.

ADDITIONAL FINANCIAL INFORMATION ON CAPITAL INVESTMENTS

The Company provides additional financial information on its Capital investments to allow the reader to have a better understanding of the financial position, results of operations and cash flows for E&C activities and Capital investments. As such, the following information on the Company's Capital investments is included in the Company's 2019 audited annual consolidated financial statements:

Consolidated statement of financial position and related notes	The net book value of Capital investments accounted for by the equity and cost methods, distinctively. Non-recourse debt from Capital investments controlled by the Company.
Consolidated statement of cash flows and related notes	For Capital investments controlled by the Company: Repayment and increase of non-recourse debt from Capital investments.
Other notes to the audited annual consolidated financial statements	Net income attributable to SNC-Lavalin shareholders from Capital investments. Certain other notes provide information regarding Capital investments separately from E&C.

7.2 SNCL PROJECTS

7.2.1 – RESOURCES

Resources provides a full suite of delivery services to the oil & gas and mining & metallurgy sectors, covering the project lifecycle from project development through project delivery and support services. Resources have ceased bidding for new EPC projects under the LSTK construction contracting model. Resources is now focused on providing engineering, EPCM, project management consultancy (“PMC”), construction & commissioning and technical support services through a lower risk contracting model. The operational delivery is focused on key regions and global clients. The Resources segment derives its revenues from reimbursable and engineering service contracts (2019: 68%; 2018: 61%) and LSTK construction contracts (2019: 32%; 2018: 39%).

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018 [1]	CHANGE (%)
Revenues from Resources	**$**	**2,158.9**	$	3,001.4	(28.1%)
Segment EBIT from Resources	**$**	**(341.5)**	$	(256.6)	N/A
Segment EBIT over revenues from Resources (%)		**(15.8%)**		(8.5%)	
Backlog at year end	**$**	**1,380.1**	$	1,907.3	(27.6%)

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

Resources revenues were $2,158.9 million in 2019, compared with $3,001.4 million in the previous year, mainly attributable to the challenges in replenishing the revenue backlog in the first half of 2019 and the strategic decision announced on July 22, 2019 to stop bidding on LSTK construction contracts, combined with the completion or near completion of certain major LSTK construction contracts and the termination of a major mining and metallurgy project in 2019.

The major revenue contributors in 2019 included unconventional gas facilities in the Middle East, work on oil and gas infrastructure and processing facilities across the globe, production and processing solutions in the Americas, as well as revenue derived from book and burn service contracts.

Segment EBIT from Resources was negative $341.5 million in 2019, compared with negative $256.6 million in 2018, mainly due to net unfavorable reforecasts on certain major LSTK construction contracts, a lower level of activity and a lower profitability ratio in 2019, coupled with a net positive impact from certain settlements and reforecasts in 2018. The results for 2019 also reflect continuous challenges from production and processing facilities in the Americas and do not yet include the full benefits from an overall ongoing effort to reduce selling, general and administrative expenses.

The Resources segment has recorded in the first half of 2019 $243.0 million of negative Segment EBIT. In July 2019, the Company announced its new strategic direction, which included the cessation of bidding for new EPC projects under the LSTK construction contracting model. Since then, losses have decreased and the Company took a further step at the end of 2019 and decided to exit the unprofitable midstream fabrication business, including the compression and production equipment product lines, which were also known under the Valerus brand. The Company continues to explore other options, such as a combination of closures and divestitures and potential transition to a services-based business.

7.2.2 – INFRASTRUCTURE EPC PROJECTS

Infrastructure EPC Projects includes LSTK construction contracts related to mass transit, heavy rail, roads, bridges, airports, ports and harbours and water infrastructure. In addition, Infrastructure EPC Projects includes the LSTK construction contracts related to the former Clean Power segment, as well as from thermal power activities which the Company exited in 2018. As previously mentioned, the Company decided, in 2019, to cease contracting for new LSTK construction contracts. The Infrastructure EPC Projects segment derives 100% of its revenues from LSTK construction contracts.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018 [1]	CHANGE (%)
Revenues from Infrastructure EPC Projects	**$**	**1,076.7**	$	1,296.3	(16.9%)
Segment EBIT from Infrastructure EPC Projects	**$**	**(106.5)**	$	19.3	(651.8%)
Segment EBIT over revenues from Infrastructure EPC Projects (%)		**(9.9%)**		1.5%	
Backlog at year end	**$**	**2,584.5**	$	2,600.9	(0.6%)

[1] Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

Infrastructure EPC Projects revenues were $1,076.7 million for 2019, compared with $1,296.3 million in 2018, as the higher revenues from certain major construction projects was more than offset by the lower level of activity mainly due to the completion or near completion of certain major construction and clean power projects, coupled with no new bidding by the Company in this market.

The major revenue contributors in 2019 included multiple projects for mass transit systems and general infrastructure projects in Central and Eastern Canada, as well as the construction of a new bridge corridor in Eastern Canada.

In 2019, Infrastructure EPC Projects Segment EBIT decreased to negative $106.5 million, compared with positive $19.3 million for the corresponding period of 2018. The decrease in Segment EBIT of 2019 is mainly attributable to the net unfavorable reforecasts totaling approximately $130 million on certain major projects resulting from higher forecasted costs or increased warranty costs as reported in the second quarter of 2019, primarily on two LSTK construction contracts nearing completion and on smaller clean power projects also nearing completion, combined with a lower level of activity.

8 Fourth Quarter Results

FOURTH QUARTERS ENDED DECEMBER 31 (IN MILLIONS CA$)		2019		2018	CHANGE (%)
Income Statements					
Revenues	**$**	**2,436.1**	$	2,562.5	(4.9%)
Net income (loss) attributable to SNC-Lavalin shareholders:					
From E&C		**(310.4)**		(1,654.3)	(81.2%)
From Capital		**17.5**		55.6	(68.5%)
Net loss attributable to SNC-Lavalin shareholders	**$**	**(292.9)**	$	(1,598.7)	(81.7%)
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C [(1)]		**79.1**		(284.1)	N/A
Diluted loss per share (“Diluted EPS”) (in $)	**$**	**(1.67)**	$	(9.11)	(81.7%)
Adjusted diluted EPS from E&C (in $) [(1)]	**$**	**0.45**	$	(1.62)	N/A
EBIT [(1)]		**(266.6)**		(1,584.7)	(83.2%)
EBITDA [(1)]		**(176.1)**		(256.6)	(31.4%)
Adjusted E&C EBITDA (% of revenues) [(1)]		**6.9%**		(8.2%)	N/A

(1) Non-IFRS financial measure. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

- **Revenues totalled $2,436.1 million in the fourth quarter of 2019,** compared with $2,562.5 million in the fourth quarter of 2018, mainly reflecting lower revenues in Resources, principally due to the completion or near completion of certain major projects, partially offset by higher revenues in Infrastructure Services and EDPM.
- **For the fourth quarter of 2019, net loss attributable to SNC-Lavalin shareholders was $292.9 million ($1.67 per diluted share),** compared with $1,598.7 million ($9.11 per diluted share) for the comparable quarter in 2018, reflecting mainly the impairment of goodwill of $1.2 billion recognized in the fourth quarter of 2018, a higher Segment EBIT from SNCL Engineering Services in 2019 compared to the corresponding period of 2018 combined with the decrease in corporate selling, general and administrative expenses, lower amortization of intangible assets related to business combinations, lower acquisition-related and integration costs, partly offset by the federal charges settlement (PPSC), combined with a negative Segment EBIT from SNCL Projects in 2019 and higher restructuring costs.
- **For the fourth quarter of 2019, adjusted net income attributable to SNC-Lavalin shareholders from E&C was $79.1 million ($0.45 per diluted share),** compared with an adjusted net loss attributable to SNC-Lavalin shareholders from E&C of $284.1 million ($1.62 per diluted share) for the comparable quarter in 2018.
- **EBIT, EBITDA and Adjusted E&C EBITDA (% of revenues) have improved in the fourth quarter of 2019** compared to the fourth quarter of 2018, mainly due to the factors described above.

AS AT (IN MILLIONS CA$)		December 31, 2019		September 30, 2019	CHANGE (%)
Additional Indicator					
Cash and cash equivalents	**$**	**1,188.6**	$	938.9	26.6%
Revenue backlog	**$**	**15,262.5**	$	15,632.7	(2.4%)

- **At the end of December, 2019, the Company’s cash and cash equivalents amounted to $1.2 billion**, compared with $0.9 billion at the end of September, 2019. The increase is mainly attributable to cash generated by operating activities.
- **Revenue backlog was $15.3 billion as at December 31, 2019,** compared with $15.6 billion as at September 30, 2019, mostly reflecting a decrease in Resources and Infrastructure Services. The Company’s contract bookings during the quarter amounted to $2.0 billion.

The following table summarizes the Company's revenues and Segment EBIT and reconciles the Segment EBIT to the Company's net income (loss) for the fourth quarters ended December 31, 2019 and 2018.

FOURTH QUARTERS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019				2018 [(1)]			
BY SEGMENT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT	REVENUES	SEGMENT EBIT FROM E&C	SEGMENT EBIT FROM CAPITAL	TOTAL SEGMENT EBIT
EDPM	**$ 984.0**	**$ 93.4**	**$ —**	**$ 93.4**	$ 970.8	$ 98.7	$ —	$ 98.7
Nuclear	**250.8**	**45.4**	**—**	**45.4**	251.7	38.5	—	38.5
Infrastructure Services	**338.7**	**20.2**	**—**	**20.2**	280.4	19.3	—	19.3
Capital	**36.2**	**—**	**31.5**	**31.5**	77.1	—	62.6	62.6
Total SNCL Engineering Services	**$ 1,609.8**	**$ 159.0**	**$ 31.5**	**$ 190.5**	$ 1,580.0	$ 156.5	$ 62.6	$ 219.1
Resources	**532.5**	**(51.2)**	**—**	**(51.2)**	605.5	(374.3)	—	(374.3)
Infrastructure EPC Projects	**293.8**	**23.4**	**—**	**23.4**	377.0	9.7	—	9.7
Total SNCL Projects	**$ 826.3**	**$ (27.8)**	**$ —**	**$ (27.8)**	$ 982.5	$ (364.6)	$ —	$ (364.6)
Total revenues and Segment EBIT	**$ 2,436.1**	**$ 131.2**	**$ 31.5**	**$ 162.7**	$ 2,562.5	$ (208.1)	$ 62.6	$ (145.5)
Corporate selling, general and administrative expenses and others not allocated to the segments		**(21.4)**	**(6.7)**	**(28.0)**		(54.8)	(7.6)	(62.4)
Reversal of impairment loss (Impairment loss) arising from expected credit losses		**0.5**	**—**	**0.5**		—	—	
Gain (loss) arising on financial assets (liabilities) at fair value through profit or loss		**6.0**	**1.1**	**7.1**		(3.0)	—	(3.0)
Net 2012 class action lawsuits settlement expense and related legal costs		**—**	**—**			(1.4)	—	(1.4)
Restructuring costs		**(111.4)**	**—**	**(111.4)**		(63.8)	(0.3)	(64.1)
Acquisition-related costs and integration costs		**(0.1)**	**—**	**(0.1)**		(20.8)	—	(20.8)
Amortization of intangible assets related to business combinations		**(40.0)**	**—**	**(40.0)**		(51.6)	—	(51.6)
Gain on disposals of Capital		**—**	**—**			—	4.8	4.8
Loss from adjustment on disposals of E&C businesses		**(0.1)**	**—**	**(0.1)**		(0.2)	—	(0.2)
Impairment of goodwill		**—**	**—**			(1,240.4)	—	(1,240.4)
Federal charges settlement (PPSC)		**(257.3)**	**—**	**(257.3)**		—	—	
EBIT		**(292.5)**	**25.9**	**(266.6)**		(1,644.2)	59.6	(1,584.7)
Net financial expenses		**20.2**	**4.4**	**24.6**		40.0	4.3	44.3
Earnings (loss) before income taxes		**(312.7)**	**21.5**	**(291.2)**		(1,684.3)	55.3	(1,629.0)
Income taxes		**(6.3)**	**4.0**	**(2.2)**		(29.9)	(0.3)	(30.2)
Net income (loss)		**$ (306.5)**	**$ 17.5**	**$ (289.0)**		$ (1,654.3)	$ 55.6	$(1,598.8)

(1) Comparative figures have been revised to reflect a change made to the measure of profit or loss for the Company's reportable segments and a change made to the Company's reporting structure. Please refer to Section 13 for further details.

E&C total segment EBIT in the fourth quarter of 2019 was $131.2 million, compared with a negative segment EBIT of $208.1 million in the fourth quarter of 2018. The variance is largely attributable to the lower loss in Resources, and an increased contribution from Infrastructure EPC Projects and Nuclear.

The negative Segment EBIT in Resources in the fourth quarter of 2018 included the impact from the under-performance of a major EPC project in mining & metallurgy having a forecasted loss of approximately $346 million at that time and the unfavorable impact of $46.6 million related to a preliminary decision of an arbitration process connected to an oil & gas project in Australia.

The corporate selling, general and administrative expenses in the fourth quarter of 2018 included $25.1 million of GMP equalization costs related to past services in the U.K.

Segment EBIT from Capital decreased to $31.5 million in the fourth quarter of 2019, compared with $62.6 million in the corresponding period of 2018, mainly due to lower contributions from certain Capital investments, notably from Highway 407 ETR following the disposal of a portion of this investment by the Company in August 2019.

9 Liquidity and Capital Resources

This section has been prepared to provide the reader with a better understanding of the major components of the Company's liquidity and capital resources and has been structured as follows:

- A **cash flow analysis**, providing details on how the Company generated and used its cash and cash equivalents;
- A discussion on the Company's **capital structure management** and its **capital resources**;
- A description of the Company's **debt and financing agreements** and its **capital management indicators**;
- An update on the Company's **credit ratings**;
- A review of the Company's **contractual obligations** and **financial instruments**, which provides additional information for a better understanding of the Company's financial situation; and
- The presentation of the Company's **dividends declared** over the past three years.

9.1 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	2019	2018
Cash flows generated from (used for):		
Operating activities	**$ (355.3)**	$ (303.5)
Investing activities	**2,718.5**	(45.4)
Financing activities	**(1,802.1)**	269.7
Increase (decrease) in exchange differences on translating cash and cash equivalents held in foreign operations	**(6.5)**	6.7
Net increase (decrease) in cash and cash equivalents	**554.6**	(72.5)
Cash and cash equivalents at beginning of year	**634.1**	706.6
Cash and cash equivalents at end of year	**$ 1,188.6**	$ 634.1

Cash and cash equivalents increased by $554.6 million in 2019, compared with a decrease of $72.5 million in 2018, as discussed further below.

OPERATING ACTIVITIES

Net cash used for operating activities totaled $355.3 million in 2019, compared with $303.5 million in 2018, a variance reconciled as follows:

(IN MILLIONS CA$)		
Net cash used from operating activities for the year ended December 31, 2018	$	(303.5)
Changes between the years ended December 31, 2018 and 2019:		
Increase in net income		1,646.9
Decrease in depreciation of property and equipment and amortization of other non-current assets		(34.3)
Depreciation of right-of-use assets		112.0
Increase in income taxes recognized in net income		210.3
Increase in net financial expenses recognized in net income		44.6
Increase in interest paid		(31.3)
Decrease in share-based expense		(29.5)
Net change in provisions related to forecasted losses on certain contracts		(108.7)
Increase in gain on disposal of Capital investments		(2,903.2)
Increase in restructuring costs recognized in net income		114.2
Increase in restructuring costs paid		(70.8)
Impairment of intangible assets related to business combinations		72.8
Increase in impairment of goodwill		560.6
Federal Charges settlement (PPSC)		257.3
Other items		(63.8)
Changes in the net cash generated/used by operating activities before net change in non-cash working capital items		(222.9)
Decrease in cash used by the changes in non-cash working capital items		171.2
Net cash used for operating activities for the year ended December 31, 2019	**$**	**(355.3)**

- **Net cash used for operating activities before net change in non-cash working capital items totalled $20.7 million in 2019,** compared with net cash generated from operating activities before net change in working capital items of $202.2 million in 2018. The variance is mainly explained by the elements in the table above. It should be noted that the net income (loss) of both periods included certain major items that did not have an impact on the Company's operating cash flows, such as the gain on disposal of Capital investments, and the impairment on goodwill.
- As detailed in Note 28B to the Company's 2019 audited annual consolidated financial statements, **changes in non-cash working capital items used net cash of $334.5 million in 2019**, compared with $505.7 million in 2018. This difference reflected mainly a favorable variance in contract assets and in other current non-financial liabilities, partly offset by an unfavorable variance in contract liabilities and in trade payables.
- From a business line perspective, SNCL Engineering Services (excluding Capital) generated $732.6 million of cash from operating activities in 2019 while Capital generated $196.7 million. During the same period, SNCL Projects used $731.7 million of cash for operating activities, with the remaining use of cash being related to Corporate activities and to items not allocated to the Company's segments.

INVESTING ACTIVITIES

Net cash generated from investing activities amounted to $2,718.5 million in 2019, compared with net cash used for investing activities of $45.4 million in 2018, a variance reconciled as follows:

(IN MILLIONS CA$)

Net cash used for investing activities for the year ended December 31, 2018	$	(45.4)
Changes between the years ended December 31, 2018 and 2019:		
Decrease in acquisitions of property and equipment		30.5
Payments for Capital investments in 2019		(40.0)
Change in restricted cash position		(32.7)
Lower increase in receivables under service concession arrangements, net of recovery		39.6
Higher net cash inflow on disposals of Capital investments accounted for by the equity method		2,920.0
Net cash inflow in 2018 on disposal of a Capital investment accounted for by the cost method		(51.3)
Higher payments for disposition-related costs on disposals of Capital investments		(92.9)
Other items		(9.4)
Net cash generated from investing activities for the year ended December 31, 2019	**$**	**2,718.5**

- **In 2019, there was a cash inflow of $3.0 billion** on disposal by the Company of 10.01% of the shares of Highway 407 ETR. In 2018, there was a net cash inflow of $92.2 million on the transfer of the investment in MHIG and its holding company to the SNCL IP Partnership. Both transactions are described in Note 5A to the Company's 2019 audited annual consolidated financial statements.
- In 2018, the Company completed the sale of its ownership in Astoria Project Partners II LLC. This resulted in a cash inflow on disposals of Capital investments accounted for by the cost method of $51.3 million. This transaction is described in Note 5A to the Company's 2019 audited annual consolidated financial statements.
- In 2019 and 2018, a significant portion of the acquisition of property and equipment was related to computer equipment.

FINANCING ACTIVITIES

Net cash used for financing activities totaled $1,802.1 million in 2019, compared with net cash generated from financing activities of $269.7 million in 2018, a variance reconciled as follows:

(IN MILLIONS CA$)

Net cash generated from financing activities for the year ended December 31, 2018	$	269.7
Changes between the years ended December 31, 2018 and 2019:		
Increase in repayment of recourse debt		(1,211.0)
Lower increase in recourse debt		(779.1)
Increase in repayment of limited recourse debt		(100.0)
Repayment of lease liabilities in 2019		(119.1)
Decrease in payment of dividends to SNC-Lavalin shareholders		159.4
Lower increase in other non-current financial liabilities		(6.6)
Other items		(15.4)
Net cash used for financing activities for the year ended December 31, 2019	**$**	**(1,802.1)**

- The changes in cash flows related to financing activities between 2018 and 2019 were primarily explained by the elements in the table above. Notably, the following transactions on recourse debt, limited recourse and non-recourse debt took place during 2019:
    - The repayment of the balance outstanding on the revolving facility under the Credit Agreement;
    - The repayment of $600 million of limited recourse debt;
    - The repayment in full of certain debentures maturing in 2019; and
    - The borrowing and repayment in full of $300 million on a bridge credit facility.
- The repayment of lease liabilities in 2019 results from the change in presentation of a portion of certain lease payments following the adoption of IFRS 16 on January 1, 2019, without restatement of comparative figures.
- The Company also provides a reconciliation between the opening and closing balances in its statement of financial position for liabilities arising from financing activities for the years ended December 31, 2019 and 2018 in Note 28C in its 2019 audited annual consolidated financial statements.
- The Company did not issue and did not repurchase any shares in 2019 (issuance of 66,000 shares under the Company's stock option plan in 2018 for proceeds of $3.3 million). The number of common shares outstanding as at February 19, 2020 was 175,554,252.
- The dividend paid decreased to $42.1 million in 2019, from $201.5 million in 2018, as the Company reduced the amount of dividend per share in order to deleverage and strengthen its balance sheet.

9.2 CAPITAL STRUCTURE MANAGEMENT

The Company's sources of funds stem primarily from its operating cash flows from E&C projects and Capital investments, the divestiture of matured Capital investments and non-core assets, the issuance of debt and the additional financial leverage available through the Credit Agreement. The Company's funds are mainly used to meet working capital requirements and sustain capital expenditures on projects, make equity investments, pay dividends to shareholders and complete mergers and acquisitions activities.

SNC-Lavalin's key objectives for its capital allocation framework are:

- To drive organic and inorganic E&C growth;
- Optimize its balance sheet; and
- Return capital to shareholders.

9.3 CAPITAL RESOURCES

AT DECEMBER 31 (IN MILLIONS CA$)		2019		2018
Cash and cash equivalents	$	1,188.6	$	634.1
Unused portion of committed revolving credit facilities (1), (2)		2,411.9		2,051.4
Available short-term capital resources	**$**	**3,600.5**	$	2,685.5

(1) Including cash draws and letters of credit issued on a committed basis, but excluding bilateral letters of credit that can be issued on a non-committed basis.

(2) Before considering potential limitations resulting from contractual covenants.

As at December 31, 2019, the Company has a committed revolving facility of $2,600 million (December 31, 2018: $2,600 million), of which $2,411.9 million was unused as at December 31, 2019 (December 31, 2018: $2,051.4 million), and uncommitted credit facilities by way of bilateral letters of credit. The increase in cash and cash equivalents as at December 31, 2019 compared with the previous year is explained in Section 9.1.

While liquidity remains subject to numerous risks and limitations, including but not limited to the risks described under Section 15 "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, should be sufficient to fund its operations over the foreseeable future. Due to the nature of the Company's activities and the fact that its operations are conducted through multiple entities and joint arrangements on an international level, the Company's cash and cash equivalents are distributed across numerous locations. In order to manage its cash needs and reserves, the Company is part of various cash pooling agreements with financial institutions and may transfer cash balances between subsidiaries, joint arrangements or investees or use credit facilities to meet the capital requirements of certain projects or other cash disbursements.

9.4 DEBT AND FINANCING AGREEMENTS

NON-RECOURSE AND LIMITED RECOURSE DEBT

The Company does not consider non-recourse and limited recourse debt when monitoring its capital because such debt results from the consolidation of certain Capital investments or holding entities 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 Capital investments or investment in Capital investments they finance. The Company's investments and underlying assets in its Capital investments accounted for by the consolidation or equity methods may be at risk, however, if such investments or holding entities were unable to repay their long-term debt.

AMENDMENTS TO THE SNC-LAVALIN HIGHWAY HOLDINGS LOAN AGREEMENT AND TO THE CREDIT AGREEMENT

On February 1, 2019, the Company amended the Credit Agreement, modifying the definition of EBITDA to provide that losses related to EPC contracts in Mining & Metallurgy, a segment of the Company at that time, be considered as non-recurring items, up to an amount of $310 million. The Credit Agreement was also amended to provide that the net recourse debt to EBITDA ratio calculation be temporarily increased to 4x. It should be noted that the ratio calculation in the Credit Agreement excludes interest and depreciation and amortization resulting from the adoption of IFRS 16, *Leases*. In the third quarter of 2019, the Company and its lenders amended the Credit Agreement to extend the temporary increase in the net recourse debt to EBITDA ratio to 4x from June 30, 2019 to December 31, 2019.

In the second quarter of 2019, the Company and CDPQ Revenu Fixe Inc. ("CDPQ RF") renegotiated certain terms of the SNC-Lavalin Highway Holdings Loan Agreement, which included, among others, the following amendments:

◦ modification to the net recourse debt to EBITDA ratio covenant to align it with the Credit Agreement and extend the application of such covenant from March 31, 2019 to June 30, 2019;
◦ following the then expected disposal by the Company of 10.01% of the shares of Highway 407 ETR, the Company committed to repay an amount of $600 million out of $1 billion outstanding under tranche A of the CDPQ Loan; and
◦ decrease of the margin applicable to the base rate and payment by the Company of fees of $15 million.

On October 15, 2019 and similar to the last amendments to the Credit Agreement, the SNC-Lavalin Highway Holdings Loan Agreement was also amended to extend the temporary increase in the net recourse debt to EBITDA ratio to 4x from June 30, 2019 to December 31, 2019.

As at December 31, 2019, the net recourse debt to EBITDA ratio in accordance with the terms of the Company's Credit Agreement, as amended, was 2.1x.

The terms "net recourse debt" and "EBITDA" are defined in the Credit Agreement and in the SNC-Lavalin Highway Holdings Loan Agreement and do not correspond to the specific terms used in this MD&A. Furthermore, such ratio is calculated using certain financial information not disclosed in the Company's annual audited consolidated financial statements or annual MD&A. For example, the ratio includes the amount of downpayments on contracts totaling $322.4 million as at December 31, 2019 (December 31, 2018: $340.2 million) and the amount of financial letters of credit outstanding totaling $259.6 million as at December 31, 2019 (December 31, 2018: $255.4 million) as part of the net recourse debt calculation.

9.5 CAPITAL MANAGEMENT INDICATORS

The Company periodically monitors capital using certain ratios, which are described further below.

NET RECOURSE DEBT

Net recourse debt (or Cash net of recourse debt) is a non-IFRS financial measure. A definition of this financial measure is provided in Section 14.

AT DECEMBER 31 (IN MILLIONS OF CA$)	2019	2018	2017
Cash and cash equivalents	**$ 1,188.6**	$ 634.1	$ 706.5
Less:			
Cash and cash equivalents of Capital investments accounted for by the consolidation method	**8.3**	3.3	1.8
Recourse debt [(1)]:			
Revolving facility	**—**	466.9	318.8
Term Loan	**499.1**	498.8	—
Series 2 Debentures	**—**	149.9	—
Series 3 Debentures	**174.7**	174.5	—
Series 4 Debentures	**199.3**	199.1	—
Series 5 Debentures	**—**	149.9	—
Term facility	**—**	—	378.4
2019 Debentures	**—**	349.9	349.6
2020 Debentures	**299.5**	299.0	298.8
Cash net of recourse debt (Net recourse debt)	**$ 7.7**	$ (1,657.2)	$ (640.8)

(1) Refer to Note 20 to the Company's 2019 annual audited consolidated financial statements for a description of each debt instrument.

- **Cash net of recourse debt as at December 31, 2019 was $7.7 million,** compared with Net recourse debt of $1,657.2 million as at December 31, 2018, mainly resulting from the receipt of $3.0 billion cash proceeds from the disposal by the Company of 10.01% of the shares of Highway 407 ETR in August 2019. The decrease in recourse debt reflects the repayment of the balance outstanding on the revolving facility under the Credit Agreement, and the repayment in full of certain debentures maturing in 2019.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

ROASE is a non-IFRS financial measure. A definition of this financial measure is provided in Section 14. **ROASE was 9.9% for 2019,** compared with -28.2% for 2018 and 9.5% for 2017.

9.6 CREDIT RATING

On August 19, 2019, S&P downgraded the Company's rating to BB+ from BBB- and maintained its negative outlook. The downgrade primarily reflects the significant losses realized on LSTK construction contracts year-to-date. The negative outlook primarily reflects uncertainty in the Company's ability to recover earnings and cash flow so that the adjusted debt-to-EBITDA ratio, as per S&P's methodology, returns below 3x by 2020.

On July 24, 2019, DBRS issued a rating report downgrading the Company to BBB (low) from BBB and changed the trend to negative from stable. The downgrade reflects considerably weaker than anticipated Q2 2019 results, which DBRS estimated would reduce 2019 forecast earnings resulting in a slower recovery of the Company's financial metrics.

9.7 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

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 Capital investments and lease liabilities:

(IN MILLIONS CA$)	2020	2021-2022	2023-2024	THEREAFTER	TOTAL
Short-term debt, long-term debt repayments, commitments to invest and lease liabilities:					
Recourse	$ 300.0	$ 175.0	$ 700.0	$ —	**$ 1,175.0**
Limited recourse	—	—	400.0	—	**400.0**
Non-recourse	95.2	121.8	65.4	215.2	**497.6**
Commitments to invest in Capital investments	70.7	—	—	—	**70.7**
Lease liabilities	154.4	212.4	134.0	255.6	**756.4**
Total	$ 620.3	$ 509.2	$ 1,299.4	$ 470.8	**$ 2,899.7**

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 20D to the Company's 2019 audited annual consolidated financial statements. The commitments to invest in Capital investments 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 the Company's 2019 audited annual consolidated financial statements. At December 31, 2019, the commitments to invest in Capital investments were related to contributions for SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P. (2018: Rideau, SSL, Eglinton Crosstown and Carlyle Global Infrastructure Opportunity Fund, L.P.) and were presented as "Other current financial liabilities" (see Note 18 to the Company's 2019 audited annual consolidated financial statements) since they are either expected to be paid in the following year or are callable on demand. Information regarding the Company's lease liabilities can be obtained in Note 34 to the Company's 2019 audited annual consolidated financial statements.

In 2016, SNC-Lavalin signed an agreement to support a commitment of US$100 million to a fund focused on global infrastructure investments sponsored by The Carlyle Group (“Carlyle”), subject to certain conditions. The intent of this agreement is for SNC-Lavalin and Carlyle to cooperate with respect to investments in, and work on, infrastructure projects. Such commitment to invest amounted to US$89.3 million (approximately CA$117.2 million) as at December 31, 2019 (2018: US$92.5 million [approximately CA$126.0 million]) and will be recognized as a liability, as a whole or in part, when the accounting conditions will be met.

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 30 to the Company's 2019 audited annual consolidated financial statements.

Derivative financial instruments
SNC-Lavalin enters or may enter into derivative financial instruments, namely: ◦ Forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates; ◦ Interest-rate swaps to hedge the variability of interest rates relating to financing arrangements; ◦ Derivative financial instruments to limit its exposure to the variability of the fair value of the share units awarded as part of share unit plans, which fluctuates according to the Company’s share price; and ◦ Commodity swap agreements for certain contracts to hedge the variability of commodity prices. Refer to Note 30 to the Company's 2019 audited annual consolidated financial statements for further details.
All financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

9.8 DIVIDENDS DECLARED

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

YEARS ENDED DECEMBER 31 (IN CA$)	**2019**	2018	2017
Dividends per share declared to SNC-Lavalin shareholders [(1)]	**$ 0.160**	$ 0.961	$ 1.106
Dividend increase (decrease) (%)	**(83%)**	(13%)	5%

(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 2019 were $42.1 million, compared with $201.5 million in 2018. The Company has paid quarterly dividends for 30 consecutive years. The Board of Directors of the Company determines the dividend policy.

10 Financial Position

10.1 CONSOLIDATED FINANCIAL POSITION ANALYSIS

ASSETS

AT DECEMBER 31 (IN MILLIONS CA$)	2019	2018	CHANGE ($)	EXPLANATIONS
Current Assets				
Cash and cash equivalents	**$ 1,188.6**	$ 634.1	$ 554.6	See discussion in Section 9.1.
Restricted cash	**34.1**	12.7	21.4	Increase in restricted cash mainly from a certain Capital investment.
Trade receivables	**1,533.4**	1,503.8	29.6	Increase is mainly due to variation on multiple projects.
Contract assets	**1,755.3**	1,751.1	4.3	Not a significant change compared with prior year.
Inventories	**84.9**	104.2	(19.3)	Variation mainly due to a $31.7 million write-down of inventories in 2019 (refer to Section 4.2.6).
Other current financial assets	**222.3**	247.3	(25.0)	Decrease is mainly due to a decrease in fair value of favorable derivative financial instruments, partly offset by an increase in advances to suppliers, subcontractors and employees and deposits on contracts.
Other current non-financial assets	**331.4**	404.8	(73.4)	Decrease is due to a decrease in both taxes receivable and prepaid expenses.
Total current assets	**$ 5,150.1**	$ 4,658.0	$ 492.1	
Property and equipment	**$ 470.6**	$ 482.6	$ (12.0)	Property and equipment is in line with prior year.
Right-of-use-assets	**438.8**	—	438.8	Right-of-use assets arising from the implementation of IFRS 16 on January 1, 2019.
Capital investments accounted for by the equity method	**399.5**	357.2	42.3	Increase is due to income exceeding dividends received in 2019, revaluation gain and foreign exchange currency translation.
Capital investments accounted for by the cost method	**8.1**	10.7	(2.6)	Not a significant change compared with prior year.
Goodwill	**3,429.1**	5,369.7	(1,940.6)	Decrease is mainly due to the impairment of goodwill related to the Resources CGU, as well as foreign currency translation.
Intangible assets related to business combinations	**665.6**	920.6	(255.0)	Decrease is primarily due to the amortization expense of 2019 and the impairment of intangible assets related to Resources.
Deferred income tax asset	**520.5**	652.2	(131.7)	Decrease is mainly due to decrease of unused tax losses.
Non-current portion of receivables under service concession arrangements	**353.0**	327.3	25.7	Increase is mainly due to progress of the construction phase of a service concession arrangement.
Other non-current financial assets	**115.9**	30.0	85.9	Increase is mainly due to the contingent consideration receivable related to the sale of 10.01% of the shares of Highway 407 ETR.
Other non-current non-financial assets	**93.5**	131.4	(37.9)	Decrease is mainly due to certain E&C investments accounted for by the equity method.
Total assets	**$ 11,644.7**	$12,939.7	$(1,295.0)	

LIABILITIES

AT DECEMBER 31 (IN MILLIONS CA$)	2019	2018	CHANGE ($)	EXPLANATIONS
Current Liabilities				
Trade payables	**$ 2,153.5**	$ 2,352.9	$ (199.4)	Variation is principally attributable to multiple projects.
Contract liabilities	**890.0**	973.0	(83.0)	Variation is principally attributable to multiple projects.
Other current financial liabilities	**287.7**	298.7	(11.0)	Variation is due to a decrease in liability from derivative financial instruments and in commitments to invest in certain Capital investments, partly offset by the current portion of the federal charges settlement (PPSC) recognized in 2019.
Other current non-financial liabilities	**383.2**	424.9	(41.7)	Variance mainly reflects a decrease in share unit plan liabilities and a decrease in income taxes payable.
Current portion of provisions	**289.2**	381.8	(92.6)	Refer to Note 22 to the 2019 audited annual consolidated financial statements of the Company for details.
Current portion of lease liabilities	**131.1**	—	131.1	Current portion of lease liabilities arising from the implementation of IFRS 16 on January 1, 2019.
Short-term debt and current portion of long-term debt:				
Recourse	**299.5**	1,116.6	(817.1)	Decrease is mainly due to the repayment of borrowings made under the revolving facility, as well as certain debt instruments that were repaid in full at maturity in 2019, partly offset by certain debentures maturing in 2020.
Non-recourse	**93.7**	60.2	33.5	Increase mainly due to the credit facility of InPower BC.
Total current liabilities	**$ 4,527.9**	$ 5,608.1	$ (1,080.2)	
Long-term debt:				
Recourse	**$ 873.1**	$ 1,171.4	$ (298.3)	Decrease mainly due to the maturity of certain debentures in 2020 now presented in the current portion of recourse debt.
Limited recourse	**400.0**	980.3	(580.3)	Decrease mainly due to the $600 million repayment on the CDPQ Loan in 2019.
Non-recourse	**391.5**	339.5	51.9	Increase is mostly due to the credit facility of TransitNext.
Other non-current financial liabilities	**232.6**	53.5	179.1	Increase mainly due to the non-current portion of the federal charges settlement (PPSC) recognized in 2019.
Non-current portion of provisions	**672.1**	706.4	(34.3)	Refer to Note 22 to the 2019 audited annual consolidated financial statements of the Company for details.
Non-current portion of lease liabilities	**480.7**	—	480.7	Non-current portion of lease liabilities arising from the implementation of IFRS 16 on January 1, 2019.
Other non-current non-financial liabilities	**0.6**	61.5	(61.0)	Decrease mainly due to reclassification of non-current deferred lease incentives and deferred rent upon adoption of IFRS 16 on January 1, 2019.
Deferred income tax liability	**348.9**	363.1	(14.2)	Deferred income tax liabilities in line with prior year.
Total liabilities	**$ 7,927.3**	$ 9,283.8	$ (1,356.5)	

EQUITY

AT DECEMBER 31 (IN MILLIONS CA$)	2019	2018	CHANGE ($)	EXPLANATIONS
Share capital	**$ 1,805.1**	$ 1,805.1	$ —	Share capital in line with prior year.
Retained earnings	**1,555.9**	1,346.6	209.2	The increase was mainly attributable to the 2019 results, partially offset by transitional adjustments on adoption of a new accounting standard and by dividends declared.
Other components of equity	**354.1**	499.2	(145.1)	The decrease was largely due to exchange differences on translating foreign operations.
Equity attributable to SNC-Lavalin shareholders	**$ 3,715.0**	$ 3,650.9	$ 64.1	
Non-controlling interests	**2.4**	5.0	(2.5)	Not a significant balance.
Total Equity	**$ 3,717.4**	$ 3,655.9	$ 61.6	

WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS CA$, EXCEPT CURRENT RATIO)	2019	2018	CHANGE ($)	EXPLANATIONS
Working Capital [(1)]	**$ 622.2**	$ (950.1)	$ 1,572.3	Increase is mainly due to the decrease of current liabilities, reflecting a lower level of short-term recourse debt and of the current portion of recourse debt, as well as an increase in cash and cash equivalents.
Current Ratio [(1)]	**1.14**	0.83	0.31	

(1) Additional IFRS financial measures. Please refer to Section 14 for further information on these financial measures.

11 Related Party Transactions

The Company discloses information on its related party transactions, as defined in IAS 24, *Related party disclosures*, in Note 36 to its 2019 annual audited consolidated financial statements.

In addition to its transactions concluded in the normal course of its operations, SNC-Lavalin transferred its investment in MHIG and its holding company to an investment accounted for by the equity method, namely the SNCL IP Partnership, which resulted in a gain on disposal of $62.7 million before income taxes ($58.4 million after income taxes) in 2018. Refer to Section 7.1.4 Capital – Disposals of Capital Investments – 2018 – McGill Healthcare Infrastructure Group.

In the second quarter of 2019, the Company and CDPQ renegotiated certain terms of the CDPQ Loan. Refer to Section 9.4 - Debt and Financing Agreements - Amendments to the SNC-Lavalin Highway Holdings Loan Agreement and to the Credit Agreement.

12 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2 to the Company's 2019 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 2019 audited annual consolidated financial statements.

13 Accounting Policies and Changes

Please refer to Note 2 of the Company's 2019 audited annual consolidated financial statements for more information regarding the Company's significant accounting policies and changes, including the changes made to its segment disclosure in 2019, with restatement of comparative figures.

As supplementary information, in 2019, the Company adopted IFRS 16, *Leases,* using the modified retrospective approach. As such, comparative figures were not restated. Under IFRS 16, the accounting for lease contracts gives rise to depreciation and interest expenses, rather than operating expenses for a portion of the lease payments. Although the total expense recognized under IFRS 16 in a given period is not equal to the expense recognized in the same period under the previous standard on leases, the classification of the expense had the following impact (excluding potential timing differences) on the Company's EBIT and EBITDA:

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$)	**2019**			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
EBIT as reported [(1)]	**$ (2,441.9)**	**$ 3,183.3**	**$ 741.4**	$ (1,424.5)	$ 264.1	$ (1,160.4)
Interest expense on lease liabilities	**23.4**	**0.2**	**23.6**	—	—	—
EBIT excluding presentation impact from IFRS 16 [(1)]	**$ (2,465.3)**	**$ 3,183.1**	**$ 717.8**	$ (1,424.5)	$ 264.1	$ (1,160.4)
EBITDA as reported [(1)]	**(166.0)**	**3,183.5**	**3,017.5**	140.5	264.1	404.6
Interest expense on lease liabilities	**23.4**	**0.2**	**23.6**	—	—	—
Depreciation and amortization of right-of-use assets	**111.8**	**0.2**	**112.0**	—	—	—
EBITDA excluding presentation impact from IFRS 16 [(1)]	**$ (301.3)**	**$ 3,183.1**	**$ 2,881.9**	$ 140.5	$ 264.1	$ 404.6

(1) Non-IFRS financial measures or additional IFRS measures. Please refer to Section 14 for further information on these financial measures and for the reference to the reconciliation from these financial measures to the most directly comparable measure specified under IFRS, when applicable.

14 Non-IFRS Financial Measures and Additional IFRS Measures

The following section provides information regarding non-IFRS financial measures and additional IFRS measures used by the Company to analyze and evaluate its results. Non-IFRS financial measures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. Management believes that, in addition to conventional measures prepared in accordance with IFRS, these non-IFRS measures provide additional insight into the Company's financial results and certain investors may use this information to evaluate the Company's performance from period to period. However, these non-IFRS financial measures have limitations and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

14.1 Performance

Adjusted diluted earnings per share from E&C ("Adjusted diluted EPS from E&C") is defined as adjusted net income from E&C, divided by the diluted weighted average number of outstanding shares for the period. Adjusted diluted EPS from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to **Section 14.3** for the reconciliation of Adjusted diluted EPS from E&C to net income as determined under IFRS.

Adjusted EBITDA is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization, and excludes charges related to restructuring, right-sizing and other, the acquisition-related costs and integration costs, the net expense for the 2012 class action lawsuits settlement, and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, as well as the gains (losses) on disposals of E&C businesses and Capital investments. Refer to **Section 14.3** for a reconciliation of adjusted EBITDA to net income as determined under IFRS.

Adjusted net income (loss) from E&C is defined as net income (loss) attributable to SNC-Lavalin shareholders from E&C, excluding charges related to restructuring, right-sizing and other, acquisition-related costs and integration costs, as well as amortization of intangible assets related to business combinations, impairment of goodwill, impairment of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, the GMP equalization expense, the gains (losses) on disposals of E&C businesses, the impact of U.S corporate tax reform and the incremental financing costs related to the amendments to the CDPQ Loan and other E&C financing arrangements in connection with the sale by the Company of 10.01% of the shares of Highway 407 ETR. Adjusted net income (loss) from E&C is a non-IFRS financial measure that is an indicator of the financial performance of the Company's E&C activities. Refer to **Section 14.3** for a reconciliation of adjusted net income (loss) from E&C to net income as determined under IFRS.

Booking-to-revenue ratio corresponds to contract bookings divided by the revenues, for a given period. This measure provides a basis for assessing the renewal of business.

Diluted earnings per share from E&C and **Diluted earnings per share from Capital** correspond to diluted earnings per share as determined under IFRS, reported separately for E&C and for Capital.

EBIT is an indicator of the entity's capacity to generate earnings from operations before taking into account management's financing decisions. Accordingly, EBIT is defined as earnings before net financial expenses (income) and income taxes. Refer to **Section 14.3** for a reconciliation of EBIT to net income as determined under IFRS.

EBITDA is defined as earnings before net financial expenses (income), income taxes, depreciation and amortization. Refer to **Section 14.3** for a reconciliation of EBITDA to net income as determined under IFRS.

Return on Average Shareholders' Equity ("ROASE") 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 of equity results in part from the translation into Canadian dollars of its foreign operations having a different functional currency, and from the accounting treatment of cash flow hedges, including its accumulated share of other comprehensive income of investments accounted for by the equity method. These amounts are not representative of the way the Company evaluates the management of its foreign currency risk and interest risk. Accordingly, the "other components of equity" are not representative of the Company's financial position.

Segment EBIT consists of revenues less i) direct cost of activities, ii) directly related selling, general and administrative expenses, and iii) corporate selling, general and administrative expenses that are allocated to segments. Expenses that are not allocated to the Company's segments include: certain corporate selling, general and administrative expenses that are not directly related to projects or segments, impairment loss arising from expected credit losses, gain (loss) arising on financial assets (liabilities) at fair value through profit or loss, restructuring costs, impairment of goodwill, impairment of intangible assets related to business combinations, acquisition-related costs and integration costs, amortization of intangible assets related to business combinations, the net expense for the 2012 class action lawsuits settlement and related legal costs, the federal charges settlement (PPSC) expense, and the GMP equalization expense, as well as gains (losses) on disposals of E&C businesses and Capital investments. See reconciliation of Segment EBIT to the most directly comparable IFRS measure in **Section 4.2**.

14.2 Liquidity

Net recourse debt (or Cash net of recourse debt) corresponds to cash and cash equivalents, less cash and cash equivalents from Capital investments accounted for by the consolidation method and the Company's recourse debt. Refer to **Section 9.5** for a reconciliation of net recourse debt (or cash net of recourse debt) to cash and cash equivalents as determined under IFRS.

Working capital corresponds to the amount of the Company's total current assets minus its total current liabilities and the **Current ratio** corresponds to the Company's total current assets divided by its total current liabilities.

14.3 Reconciliations

The tables below provide a quantitative reconciliation between certain non-IFRS measures to the most comparable measure specified under IFRS.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT PER DILUTED SHARE INFORMATION [$])	2019		2018	
		PER DILUTED SHARE		PER DILUTED SHARE
Net income (loss)	**$ 330.6**	**N/A**	$ (1,316.3)	N/A
Less:				
Non-controlling interests	**2.4**	**N/A**	0.6	N/A
Net income attributable to SNC-Lavalin shareholders from Capital	**2,772.8**	**15.79**	246.1	1.40
Net income (loss) attributable to SNC-Lavalin shareholders from E&C / Diluted EPS from E&C	**$ (2,444.6)**	**$ (13.92)**	$ (1,563.0)	$ (8.90)
Adjustments (net of income taxes):				
Restructuring, right-sizing costs and other [(1)]	**$ 154.0**	**$ 0.88**	$ 58.7	$ 0.33
Acquisition-related costs and integration costs	**5.9**	**0.03**	42.8	0.24
Amortization of intangible assets related to business combinations	**148.3**	**0.85**	171.1	0.97
Federal charges settlement (PPSC)	**257.3**	**1.47**	—	—
Net 2012 class action lawsuits settlement expense and related legal costs	**—**	**—**	65.7	0.37
Loss from adjustment on disposals of E&C businesses	**0.3**	**—**	0.5	—
Financing costs related to the agreement to sell shares of Highway 407 ETR	**27.4**	**0.16**	—	—
Impact of U.S corporate tax reform	**—**	**—**	6.0	0.03
GMP equalization	**—**	**—**	20.8	0.12
Impairment of intangible assets related to business combinations	**60.1**	**0.34**	—	—
Impairment of goodwill	**1,720.9**	**9.80**	1,240.4	7.06
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C / Adjusted diluted EPS from E&C	**$ (70.3)**	**$ (0.40)**	$ 43.1	$ 0.25

(1) It should be noted that this adjustment includes a net amount of $6.9 million ($5.6 million after taxes) in 2018 which did not meet the criteria to be classified under restructuring costs as defined in accordance with IFRS.

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT %)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Net income (loss)	**$ (2,442.2)**	**$ 2,772.8**	**$ 330.6**	$ (1,562.4)	$ 246.1	$ (1,316.3)
Net financial expenses	**194.2**	**17.8**	**212.1**	156.0	11.5	167.4
Income taxes	**(193.9)**	**392.7**	**198.7**	(18.1)	6.6	(11.5)
EBIT	**$ (2,441.9)**	**$ 3,183.3**	**$ 741.4**	$ (1,424.5)	$ 264.1	$ (1,160.4)
Depreciation and amortization	**$ 220.0**	**$ 0.2**	**$ 220.3**	$ 118.1	$ —	$ 118.1
Amortization of intangible assets related to business combinations	**182.0**	**—**	**182.0**	206.5	—	206.5
Impairment of goodwill and of intangible assets related to business combinations	**1,873.8**	**—**	**1,873.8**	1,240.4	—	1,240.4
EBITDA	**$ (166.0)**	**$ 3,183.5**	**$ 3,017.5**	$ 140.5	$ 264.1	$ 404.6
(as % of Revenues)	**(1.8)%**	**N/A**	**31.7 %**	1.4 %	N/A	4.0 %
Restructuring, right-sizing costs and other [(1)]	**$ 179.2**	**$ 3.6**	**$ 182.8**	$ 75.2	$ 0.3	$ 75.5
Federal charges settlement (PPSC)	**257.3**	**—**	**257.3**	—	—	—
Net 2012 class action lawsuits settlement expense and related legal costs	**—**	**—**	**—**	89.4	—	89.4
Acquisition-related costs and integration costs	**8.3**	**—**	**8.3**	54.9	—	54.9
Loss from adjustment on disposals of E&C businesses	**0.3**	**—**	**0.3**	0.5	—	0.5
GMP equalization	**—**	**—**	**—**	25.1	—	25.1
Gain on disposal of Capital investments	**—**	**(2,970.8)**	**(2,970.8)**	—	(67.6)	(67.6)
Adjusted EBITDA	**$ 279.1**	**$ 216.3**	**$ 495.5**	$ 385.6	$ 196.8	$ 582.4
(as % of Revenues)	**3.0 %**	**N/A**	**5.2 %**	3.9 %	N/A	5.8 %

(1) It should be noted that this adjustment includes a net amount of $6.9 million ($5.6 million after taxes) in 2018 which did not meet the criteria to be classified under restructuring costs as defined in accordance with IFRS.

The tables below provide a quantitative reconciliation between certain non-IFRS measures to the most comparable measure specified under IFRS.

FOURTH QUARTERS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT PER DILUTED SHARE INFORMATION [$])	2019		2018	
		PER DILUTED SHARE		PER DILUTED SHARE
Net loss	**$ (289.0)**	**N/A**	$ (1,598.7)	N/A
Less:				
Non-controlling interests	**3.9**	**N/A**	—	N/A
Net income attributable to SNC-Lavalin shareholders from Capital	**17.5**	**0.10**	55.6	0.32
Net loss attributable to SNC-Lavalin shareholders from E&C / Diluted EPS from E&C	**$ (310.4)**	**$ (1.77)**	$ (1,654.3)	$ (9.42)
Adjustments (net of income taxes):				
Restructuring, right-sizing costs and other	**$ 99.6**	**$ 0.57**	$ 48.5	$ 0.28
Acquisition-related costs and integration costs	**—**	**—**	16.1	0.09
Amortization of intangible assets related to business combinations	**32.4**	**0.18**	42.9	0.24
Federal charges settlement (PPSC)	**257.3**	**1.47**	—	—
Net 2012 class actions lawsuits settlement expense and related legal costs	**—**	**—**	1.2	—
Loss from adjustment on disposals of E&C businesses	**0.1**	**—**	0.2	—
GMP equalization	**—**	**—**	20.8	0.12
Impairment of goodwill	**—**	**—**	1,240.4	7.07
Adjusted net income (loss) attributable to SNC-Lavalin shareholders from E&C / Adjusted diluted EPS from E&C	**$ 79.1**	**$ 0.45**	$ (284.1)	$ (1.62)

FOURTH QUARTERS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT %)	2019			2018		
	FROM E&C	FROM CAPITAL	TOTAL	FROM E&C	FROM CAPITAL	TOTAL
Net income (loss)	**$ (306.5)**	**$ 17.5**	**$ (289.0)**	$ (1,654.3)	$ 55.6	$ (1,598.7)
Net financial expenses	**20.2**	**4.4**	**24.6**	39.9	4.3	44.1
Income taxes	**(6.3)**	**4.0**	**(2.2)**	(29.9)	(0.3)	(30.2)
EBIT	**$ (292.5)**	**$ 25.9**	**$ (266.6)**	$ (1,644.2)	$ 59.6	$ (1,584.7)
Depreciation and amortization	**$ 50.4**	**$ 0.1**	**$ 50.5**	$ 36.1	$ —	$ 36.1
Amortization of intangible assets related to business combinations	**40.0**	**—**	**40.0**	51.6	—	51.6
Impairment of goodwill	**—**	**—**	**—**	1,240.4	—	1,240.4
EBITDA	**$ (202.1)**	**$ 25.9**	**$ (176.1)**	$ (316.2)	$ 59.6	$ (256.6)
(as % of Revenues)	**(8.4)%**	**N/A**	**(7.2)%**	(12.7)%	N/A	(10.0)%
Restructuring, right-sizing costs and other	**$ 111.4**	**$ —**	**$ 111.4**	$ 63.8	$ 0.3	$ 64.1
Federal charges settlement (PPSC)	**257.3**	**—**	**257.3**	—	—	—
Net 2012 class action lawsuits settlement expense and related legal costs	**—**	**—**	**—**	1.4	—	1.4
Acquisition-related costs and integration costs	**0.1**	**—**	**0.1**	20.8	—	20.8
Loss from adjustment on disposals of E&C businesses	**0.1**	**—**	**0.1**	0.2	—	0.2
GMP equalization	**—**	**—**	**—**	25.1	—	25.1
Gain on disposal of a Capital investment	**—**	**—**	**—**	—	(4.8)	(4.8)
Adjusted EBITDA	**$ 166.8**	**$ 25.9**	**$ 192.7**	$ (204.9)	$ 55.0	$ (149.8)
(as % of Revenues)	**6.9 %**	**N/A**	**7.9 %**	(8.2)%	N/A	(5.8)%

15 Risks and Uncertainties

15.1 PRINCIPAL RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties in carrying out its activities. SNC-Lavalin has measures in place to identify, monitor and, to a certain extent, mitigate such risks and uncertainties. Such measures include, among others, the enterprise risk management program, the work performed by various committees at the Board and management levels, as well as the enforcement of numerous policies and procedures. You should carefully consider the risks and uncertainties below before investing in the Company's 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.

RESULTS OF THE NEW 2019 STRATEGIC DIRECTION COUPLED WITH A CORPORATE REORGANIZATION

On July 22, 2019, the Company announced that it is focusing on the high-performing and growth areas of the business and is exiting lump-sum turnkey construction contracting. The Company has reorganized into two separate business lines:

- SNCL Engineering Services, which includes EDPM, Nuclear, Infrastructure Services (including Linxon) and Capital.
- SNCL Projects, which includes Resources (comprised of the previous Oil & Gas and Mining & Metallurgy segments) and the then existing Infrastructure LSTK construction projects. The Company is exploring all options for its Resources activities, particularly its Oil & Gas business, including transition to a services-based business or divestiture. The Company will fulfill the contractual obligations of its current lump-sum turnkey construction projects. It may be necessary for the Company to accept change orders under existing lump-sum turnkey construction contracts, which may temporarily extend the performance timeframe of such contracts. The Company expects to complete a significant portion of the remaining lump-sum turnkey construction projects by the end of 2021 and the rest by the end of 2024.

There can be no assurance that the new strategic direction will succeed in whole or in part. Implementation of this plan presents various managerial, organizational, administrative, operational and other challenges, and the Company's organizational, administrative and operational systems may require adjustments in order to appropriately implement the new direction.

The new strategic direction may also be affected by various factors, notably that it will take several years for the exit from lump-sum turnkey construction projects to be fully reflected in the Company's backlog. Until that exit is completed by the run-off or transfer of existing lump-sum turnkey construction projects, the Company may experience losses resulting from the risks inherent in such projects.

If the Company is unable to successfully execute on any or all of the initiatives in its new strategic direction announced on July 22, 2019, the Company's revenues, operating results and profitability may be adversely affected. Even if the Company successfully implements its new strategic direction, there can be no guarantee that it will achieve its intended objectives of improved revenues, operating results and/or profitability. Modifications to the new strategic direction may also be required to achieve such objectives.

RISKS RELATING TO THE COMPANY'S OPERATIONS

Fixed-price contracts or the Company's failure to meet contractual schedule, performance requirements or to execute projects efficiently

While the Company has announced a new strategic direction and its expectation is that it will complete a significant portion of its lump-sum turnkey construction projects by 2021 and the rest by the end of 2024, a significant portion of the Company's current business and revenues remains 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, inflation, 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. In addition, reimbursable contracts such as unit-rate contracts for which a fixed amount per quantity is charged to the customer and reimbursable contracts with a cap bear some risks that are similar to those related to fixed-price contracts, as the estimates used to establish the contract unit-rate and/or the contractual cap are also subject to the assumptions listed above.

Furthermore, should the Company experience difficulties in the execution of projects due to various factors, such as a lack of efficiency in the implementation of its processes, failure to estimate accurately project costs and/or conclude strategic transactions pertaining to project resources, such difficulties could have an adverse impact on the Company's financial results from these projects.

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.

Contract awards and timing

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. Furthermore, the Company may incur significant costs in order to bid on certain projects that may not be awarded to the Company, thus resulting in expenses that did not generate any profit for the Company.

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.

Remaining performance obligations

The Company's remaining performance obligations are derived from contract awards that are considered firm or management's estimates of revenues to be generated from firm contract awards for reimbursable contracts, 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 remaining performance obligations 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 remaining performance obligations would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

Being a provider of services to government agencies

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 "Remaining performance obligations".

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.

International operations

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, most of which also apply to its Canadian operations, including:

- recessions and other economic crises in other regions, 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, such as recent retaliatory tariffs between the United States and China;
- 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;
- the risk that inter-governmental relationships may deteriorate such that the Company's operations in a given country may be negatively impacted because the Company is head-quartered in Canada or because we carry on business in another country;
- 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 or Canadian 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 British pounds, in U.S. dollars and in currencies pegged to U.S. dollars. While SNC-Lavalin has a hedging strategy in place to mitigate some of the effects of certain foreign currency exposures, there can be no assurance that such hedging strategy will be effective. Furthermore, the volatility of the Company's financial results and cash flows could increase if certain countries cease to peg their currencies to the U.S. dollar. 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.

Nuclear liability

The Company's Nuclear segment supports clients across the entire Nuclear life cycle with the full spectrum of services from consultancy, EPCM services, field services, technology services, spare parts, reactor support & decommissioning and waste management. As stewards of the CANDU technology, it also provides new-build and full refurbishment services of CANDU reactors. Such services can subject the Company to risks arising out of a nuclear, radiological or criticality incident, whether or not within the Company's control.

Indemnification provisions contained in the domestic legislation of the jurisdictions in which the Company's Nuclear segment operates, such as Canada's Nuclear Liability and Compensation Act, the United Kingdom's Nuclear Installations Act 1965, the United States' Price-Anderson Act, or equivalent protections afforded under international conventions, seek to ensure compensation for the general public, while indemnifying nuclear industry participants against liability arising from nuclear incidents, subject to possible exclusions.

These legislative indemnification provisions may however not apply to all liabilities incurred while performing services as a contractor for the nuclear industry. If an incident or certain damages resulting therefrom are not covered under applicable legislative indemnification provisions, the Company could be held liable for damages which could have a material adverse impact on the Company's financial condition and results of operations. In addition to legislative indemnification provisions, the Company seeks to protect itself from liability associated with nuclear incidents and damages resulting therefrom in its contracts, but there can be no assurance that such contractual limitations on liability will be effective in all cases or that the Company's or its clients' insurance will cover all the liabilities assumed under those contracts. The costs of defending against claims arising out of a nuclear incident, and any damages that could be awarded as a result of such claims, could have a material adverse impact on the Company's financial condition and results of operations.

Ownership interests in Capital investments

SNC-Lavalin holds investments through its investment and asset management arm, Capital. When SNC-Lavalin holds an ownership interest in such an investment, it assumes a degree of risk associated with the financial performance of such investment. The value of the Company's investment is dependent on the ability of the Capital investment 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 Capital '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.

The Company sometimes makes investments in project entities in which it does not hold a controlling interest. These investments 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 such investments or internal controls relating thereto and, consequently, problems arise within such investments, 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 Capital's investments can be affected by fluctuations in interest rates. A hedging strategy is put in place when the management body of the project entity for such investment deems it appropriate. However, the assumptions and estimates inherent to the hedging strategy could be erroneous, thus rendering the hedging strategy ineffective or partially ineffective. Furthermore, the financial instruments associated with the hedging strategy contain an inherent credit risk related to defaults on obligations by the counterparties to such instruments.

In addition, many of the Company's investments made through Capital 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 investments 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 investments could be limited by such contractual arrangements, which could in turn have an adverse impact on SNC-Lavalin's liquidity or capital resources.

Dependence on third parties

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 or the requisite quality or grade of 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.

Joint ventures and partnerships

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 or unwilling to fulfill their contractual 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 contract 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.

Information systems and data

The integrity, reliability and security of information in all forms are critical to the Company's daily and strategic operations.

Cyber-attacks have become more frequent and sophisticated and the Company's information technology and other defences must be adequate to repel them. Cyber-attacks include insertion of malware, hacking, industrial espionage, unauthorized access to confidential or proprietary information, phishing or other security breaches and system disruptions. If the Company is unable to protect its information systems, they could be interrupted or delayed. The Company's information systems and operations could also be interrupted or damaged by natural disasters, failures, acts of war, terrorism or cyber-attacks, among others.

Due to changes in technologies, new laws and regulations governing data privacy and the unauthorized disclosure of confidential information, including the European Union General Data Protection Regulation and the California Consumer Privacy Act, pose increasingly complex compliance challenges and potentially elevate costs, and any failure to comply with these laws and regulations could result in significant penalties and legal liability. Changes in legislation related to the protection of personal information could accelerate in several jurisdictions, including Canada.

A successful cyber-attack could harm the Company's reputation and adversely affect its business, financial condition and results of operations as it may lead to network failures; unauthorized access to confidential or proprietary information about its business, customers or employees; theft, loss, leakage, destruction or corruption of data, including information about its customers or employees; physical damage to network assets; litigation, fines and liability for failure to comply with privacy and information security laws; increased fraud; lost revenues; the potential for loss of customers or impairment of the Company ability to attract new ones; and higher insurance premiums.

In addition, cyber-attacks affecting the Company's suppliers or other business partners could also adversely affect the Company's business, financial condition and results of operations.

The Company relies on industry-accepted security measures and technology to protect the confidential and proprietary information on its computer systems. The Company also seeks to adapt its security policies, procedures and controls to protect its assets. There is no assurance that these measures will prevent the occurrence of cyber-attacks, or that any insurance the Company may have will cover the costs, damages, liabilities or losses that could result therefrom.

Competition

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, remaining performance obligations, 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.

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 statutorily jointly and severally (solidarily) 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.

Monetary damages and penalties in connection with professional and engineering reports and opinions

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.

Insurance coverage

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 of the Company, 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 may 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.

Health & Safety

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.

Qualified personnel

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

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.

Extreme weather conditions and the impact of natural or other disasters and global health crises

The Company's field activities are generally performed outdoors and include professional surveying, resident engineering services, field data surveys and collection, archeology, geotechnical investigations and exploratory drilling, construction oversight and inspection, plant start-up and testing and plant operations. Extreme weather conditions or natural or other disasters, such as earthquakes, fires, floods, epidemics or pandemics (including the current coronavirus) and similar events, may cause postponements in the initiation and/or completion of the Company's field activities and may hinder the ability of its employees to perform their duties, which may result in delays or loss of revenues that otherwise would be recognized while certain costs continue to be incurred. Extreme weather conditions or disasters may also delay or eliminate the start and/or completion of various phases of work relating to other services that commence concurrently with or subsequent to field activities. The Company's financial and/or operating performance could also be adversely affected by the outbreak of epidemics or other public health crises. For example, in late December 2019, a novel coronavirus (2019-nCoV/COVID-19) was identified as originating in Wuhan, the capital of the Hubei Province of China, with cases subsequently confirmed in multiple Provinces throughout China, as well as in other countries throughout the world. The risks to the Company of epidemics and other public health crises, such as the ongoing coronavirus, include risks to employee health and safety. The Company's business could also experience a slowdown or temporary suspension in operations in geographic locations impacted by an outbreak in the short term, including but not limited to China. Any prolonged restrictive measures put in place in order to contain an outbreak of a contagious disease or other adverse public health development, in China or in any other jurisdictions where the Company operates or holds any assets, may have a material and adverse effect on the Company's financial and/or operating performance. Any delay in the completion of the Company's services may require the Company to incur additional non-compensable costs, including overtime work, that are necessary to meet clients' schedules. Due to various factors, a delay in the commencement or completion of a project may also result in penalties or sanctions under contracts or even the cancellation of contracts.

Intellectual property

SNC-Lavalin's success depends, in part, upon its ability to protect its intellectual property. The Company relies on a combination of intellectual property policies and other contractual arrangements to protect much of its intellectual property where it does not believe that trademark, patent or copyright protection is appropriate or obtainable. Trade secrets are generally difficult to protect. Although SNC-Lavalin's employees are subject to confidentiality obligations, this protection may be inadequate to deter or prevent misappropriation of the Company's confidential information and/or the infringement of the Company's patents and copyrights. Further, the Company may be unable to detect unauthorized use of its intellectual property or otherwise take appropriate steps to enforce its rights. Failure to adequately protect, maintain, or enforce the Company's intellectual property rights may adversely limit the Company's competitive position.

Divestitures and the sale of significant assets

The sale of a business unit and/or significant assets is a complex process that involves certain risks, such as failure to properly plan, prepare and execute the transaction and to prepare a contract that protects the Company from post-closing adjustments and additional costs. In addition, the Company is exposed to the risk of the deal falling through, selling at a lower price than the asking price and/or extended deal close times.

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

Impact of operating results and level of indebtedness on financial situation

The Company reported a significantly reduced adjusted EBITDA in 2019 relative to its historical results while reporting negative cash flows from operations during the same period. The Adjusted EBITDA, described in Section 14 of this MD&A, does not exactly correspond to the definition of "adjusted EBITDA" used to calculate the net recourse debt to adjusted EBITDA ratio under the Company's Credit Agreement and the SNC-Lavalin Highway Holdings Loan Agreement. However, it reflects the fact that operating results had an unfavorable impact on such ratio. The Company amended the Credit Agreement and the SNC-Lavalin Highway Holdings Loan Agreement to, among other things, extend the temporary loosening of the net recourse debt to adjusted EBITDA ratio from 3.75x to 4x for the period from June 30, 2019 to December 31, 2019. While the Company met its modified covenant requirements as at December 31, 2019, an increase of net recourse debt due to items such as cash requirements of operating activities or the delay/acceleration of certain investing/divestitures or financing transactions, or an inability to generate sufficient adjusted EBITDA to support the level of indebtedness in the ratio calculation in the future, could have a negative impact on the Company, as further described in the risk factor entitled "Indebtedness" below.

Liquidity and financial position

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

A deterioration in the Company's financial condition could also result in a reduction or downgrade of its credit ratings, which could limit the Company's ability to issue new letters of credit or performance guarantees or accessing external sources of short-term 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.

Indebtedness

The Company had approximately $2.1 billion of consolidated indebtedness as at December 31, 2019 under recourse, limited recourse and non-recourse debt.

The Company will need to refinance or reimburse amounts outstanding under the Company's consolidated indebtedness. There can be no assurance that any indebtedness of the Company will be refinanced or that additional financing on commercially reasonable terms will be obtained, if at all.

The Company's degree of leverage could have other important consequences, including the following:

- it may have a negative effect on the current credit ratings of the Company's rated long-term debt;
- it may limit the Company's ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes on commercially reasonable terms, if at all;
- most of the Company's borrowings are at variable rates of interest and expose the Company to the risk of increased interest rates;
- it may limit the Company's ability to adjust to changing market conditions and place the Company at a competitive disadvantage (including if the Company's credit rating is negatively affected) compared to its competitors that have less debt or greater financial resources;
- it may limit the Company's ability to declare and pay dividends on its Common Shares;
- the Company may be vulnerable in a downturn in general economic conditions; and
- the Company may be unable to make capital expenditures that are important to its growth and strategies.

The credit facilities and instruments governing the Company's consolidated debt contain certain financial covenants requiring the Company, on a consolidated basis, to satisfy net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratios. Such credit facilities and instruments also contain covenants restricting the Company's ability to incur liens on its assets, incur additional debt or effect dispositions of assets or fundamental changes in its business, pay dividends and make certain other disbursements, or use the proceeds from the sale of assets and capital stock of subsidiaries. These covenants limit the Company's discretion and financial flexibility in the operation of its business. Under the terms of these credit facilities and instruments, the Company and its subsidiaries are permitted to incur additional debt only in certain circumstances. However, doing so could increase the risks described above. In addition, if the Company or its subsidiaries incur additional debt in the future, the Company may be subject to additional covenants, which may be more restrictive than those that it is subject to now.

A breach of any of these agreements or the Company's inability to comply with these covenants (as the case may be) could, if not cured or waived, result in an acceleration of the Company's consolidated debt or a cross-default under certain of its debt instruments. If the Company's indebtedness is accelerated, the Company may not be able to service its indebtedness, or borrow sufficient funds to refinance its indebtedness.

The Company's ability to service its consolidated debt will depend upon, among other things, its future financial and operating performance, which will be affected by prevailing economic conditions, interest rate fluctuations and financial, business, legal, regulatory and other factors, some of which are beyond the Company's control. If the Company's operating results or liquidity are not sufficient to service its current or future consolidated indebtedness, the Company may be forced to take actions such as reducing dividends, reducing or delaying business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital.

Security under the SNC-Lavalin Highway Holdings Loan

SNC-Lavalin Highway Holdings Inc. (the "Borrower"), an indirect wholly-owned subsidiary of the Company, has a loan agreement with CDPQ RF, a wholly-owned subsidiary of Caisse de dépôt et placement du Québec, establishing a limited recourse loan (the "CDPQ Loan" and such agreement being the "SNC-Lavalin Highway Holdings Loan Agreement").

The CDPQ Loan is secured by all of the Borrower's assets, excluding the Highway 407 ETR shares held by the Borrower (until such time as the Borrower may elect to grant a pledge thereon), as well as the rights and loan receivables of the Borrower under the intercompany loan agreement, dated July 10, 2017, between the Borrower, as lender, and the Company, as borrower. In addition to this security, SNC-Lavalin Inc. has provided a guarantee (the "Guarantee") in favour of CDPQ RF secured by a pledge given by SNC-Lavalin Inc. to CDPQ RF over 20,900 common shares held by SNC-Lavalin Inc. in the share capital of the Borrower (representing approximately 29.9% of the outstanding common shares of the Borrower). CDPQ RF's sole recourse against SNC-Lavalin Inc. in connection with the Guarantee and any potential breach or default by the Borrower under the SNC-Lavalin Highway Holdings Loan Agreement is limited to enforcement on or against the shares of the capital of the Borrower held by SNC-Lavalin Inc. The Company has a 6.76% ownership interest in Highway 407 ETR through the Borrower. The terms of the SNC-Lavalin Highway Holdings Loan Agreement include various covenants that must be satisfied by the Borrower. There can be no assurance that such covenants will be satisfied. Any event of default under the SNC-Lavalin Highway Holdings Loan Agreement, including in respect of covenants thereunder, could result in, among other things, CDPQ RF demanding immediate payment of all amounts outstanding under the SNC-Lavalin Highway Holdings Loan Agreement, or forcing the sale of the Highway 407 ETR shares held by the Borrower in compliance with the Highway 407 ETR shareholders' agreement at a time, price and in circumstances outside of the Company's control and/or that may not allow for an optimal sale price of such Highway 407 ETR shares, which could have a material adverse effect on the Company's business and financial position.

Dependence on subsidiaries to help repay indebtedness

A significant portion of the Company's assets are the capital stock of its subsidiaries and the Company conducts an important portion of its business through its subsidiaries. Consequently, the Company's cash flow and ability to service its debt obligations are dependent to a great extent upon the earnings of its subsidiaries and the distribution of those earnings to the Company, or upon loans, advances or other payments made by these entities to the Company.

The Company's subsidiaries are separate and distinct legal entities and may have significant liabilities. The ability of these entities to pay dividends or make other loans, advances or payments to the Company will depend upon their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing debt including, for example, the financial covenants set out in the SNC-Lavalin Highway Holdings Loan Agreement pursuant to which the Company's consolidated net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio cannot exceed a certain limit. In addition, certain other deeds and agreements governing certain subsidiaries of the Company contain restrictions on the payment of dividends and distributions, as well as specified liquidity covenants.

The ability of the Company's subsidiaries to generate sufficient cash flow from operations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, including those discussed in this section, many of which are outside of the control of the Company or its subsidiaries. The cash flow and earnings of the Company's operating subsidiaries and the amount that they are able to distribute to the Company as dividends or otherwise may not generate sufficient cash flow from operations to satisfy the Company's debt obligations. Accordingly, the Company may have to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. The Company cannot assure that any such alternatives would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of the Company's various debt instruments then in effect. The Company's inability to generate sufficient cash flow to satisfy its debt obligations, or to refinance its obligations on commercially reasonable terms, would have a material adverse effect on its business, financial condition and results of operations.

Dividends

The declaration and payment of dividends on Common Shares are at the discretion of the board of directors of the Company. The cash available for dividends is a function of numerous factors, including the Company's financial performance, the impact of interest rates, debt covenants and obligations, working capital requirements and future capital requirements. In addition, the Company's ability to pay dividends depends upon the payment of dividends by certain of the Company's subsidiaries or the repayment of funds to the Company by its subsidiaries. The Company's subsidiaries, in turn, may be restricted from paying dividends, making repayments or making other distributions to the Company for financial, regulatory, legal or other reasons. To the extent the Company's subsidiaries are not able to pay dividends or repay funds to the Company, it may adversely affect the Company's ability to pay dividends on common shares.

Post-Employment Benefit Obligations, Including Pension-Related Obligations

The Company operates certain defined benefits plans and provides other post-employment benefits. More specifically, Atkins operates two significant defined benefit plans, namely the Atkins Pension Plan and the Railways Pension Scheme, with combined net significant retirement benefit liabilities. The majority of Atkins' post-employment benefits obligations sits within its U.K. business and is comprised of defined benefit pension obligations. In the U.K., defined benefit pension schemes funding requirements are based on actuarial valuations of the assets and liabilities of each scheme. A scheme's assets are determined by the value of investments held by the scheme and the returns. The valuation of plan liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of key assumptions can have a material impact on the calculation of the liability. There is also some judgement in the measurement of the fair value of pension assets giving rise to a risk of material misstatement in their valuation.

The nature of the funding regime in the U.K. creates uncertainty around the size and timing of cash that Atkins will be required to pay to the pension schemes. The scheduled contribution to the Atkins Pension Plan and the Railways Pension Scheme from Atkins totalled £36.0 million (or approximately CA$61.0 million) for the year ending December 31, 2019, with annual contributions escalating by 2.5% each year until March 31, 2025. If Atkins is required to increase cash funding contributions, this will reduce the availability of such funds for other corporate purposes and limit its ability to invest in growth. Deteriorating economic conditions may result in significant increases in Atkins' funding obligations, which could restrict available cash for Atkins' operations, capital expenditures and other requirements, and have a material adverse effect on Atkins' business, financial condition and results of operations.

The Company's post-employment benefit obligations, including its pension-related liabilities, and its future payment obligations thereunder could restrict cash available for the Company's operations, capital expenditures and other requirements and may materially adversely affect its financial condition and liquidity.

Working capital requirements

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, short- term investments or the Credit Agreement 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 that their assets may be seized by their governments, which may cause the Company to experience a temporary liquidity shortfall or fail to recover its deposits in excess of available insurance, if any.

A significant deterioration of the current global economic and credit market environment 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.

Collection from customers

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 its obligations could have an adverse impact on the Company's financial condition and profitability.

In addition, the Company typically bills clients for engineering services in arrears and is, therefore, subject to its clients delaying or failing to pay invoices after the Company has already committed resources to their projects. If one or more clients delays in paying or fails to pay a significant amount of the Company's outstanding receivables, it could have a material adverse impact on the Company's liquidity, financial condition and results of operations.

Impairment of goodwill and other assets

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 position.

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.

RISKS RELATED TO LITIGATION, INVESTIGATIONS, SETTLEMENTS AND REGULATORY MATTERS

Outcome of pending and future claims and litigation

SNC-Lavalin itself, or the entities through which Capital makes its investments or its other subsidiaries, 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.

<u>Class actions</u>

Ruediger Class Action

On February 6, 2019, a Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act (the "Ruediger Class Action Motion") was filed with the Quebec Superior Court (the "Ruediger Class Action"), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through January 27, 2019 (the "Ruediger Class Period"), and held some or all of such securities as of the commencement of trading on January 28, 2019.

The Ruediger Class Action Motion alleges that certain documents filed by SNC-Lavalin and oral statements made by its then Chief Executive Officer during the Ruediger Class Period contained misrepresentations related to SNC-Lavalin's revenue forecasts and to the financial performance of the Mining & Metallurgy and Oil & Gas segments, which misrepresentations would have been corrected by way of SNC-Lavalin's January 28, 2019 press release.

The Ruediger Class Action Motion seeks leave from the Quebec Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members an unspecified amount for compensatory damages with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On October 15, 2019, the plaintiffs in the Ruediger Class Action Motion delivered an amended "Motion for authorization of a class action and for authorization to bring an action pursuant to section 225.4 of Quebec's Securities Act". The amendments extend the class period for the Ruediger Class Action Motion to July 22, 2019 and broaden the scope of the claim from the Codelco project to the Company's general execution of fixed price contracts for engineering services, materials, equipment or construction.

SNC-Lavalin believes the claims outlined in the Ruediger Class Action Motion are completely without merit.

Drywall Class Action

On June 5, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice (the "Drywall Class Action"), on behalf of persons who acquired SNC-Lavalin securities from February 22, 2018 through May 2, 2019 (the "Drywall Class Period").

The Drywall Class Action claim alleges that disclosures by SNC-Lavalin during the Drywall Class Period contained misrepresentations related to: (i) its IFRS 15 reporting systems and controls compliance; (ii) its revenue recognition in respect of the Mining & Metallurgy segment being non-compliant with IFRS 15; (iii) revenue on the Company's Codelco project in Chile being overstated in 2018 due to non-compliance with IFRS 15; (iv) the failure of the Company's disclosure controls and procedures and its internal controls over financial reporting which led to a $350 million write-down on the Codelco project; (v) when IFRS was applied to the Mining & Metallurgy segment results in 2019, this led to the Company disbanding its Mining & Metallurgy segment; and (vi) the Company's financial statements during the Drywall Class Period being materially non-compliant with IFRS.

The Drywall Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario's Securities Act. The proposed action claims damages and seeks the condemnation of the Defendants to pay the class members $1.2 billion or such other compensatory damages as the court may award, with interest and additional indemnity as well as full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution.

On September 13, 2019, counsel to the plaintiffs in the Ruediger Class Action brought a motion to stay the Drywall Class Action on the grounds that it is duplicative of the Ruediger Class Action Motion. Counsel for the Company filed a companion motion in support of this motion on October 1, 2019. These companion motions were heard together on November 8, 2019 and the Ontario Superior Court of Justice rendered its decision on November 21, 2019, dismissing the motions. On December 6, 2019, the plaintiff in the Ruediger Class Action and the Company brought motions for leave to appeal the dismissal of these motions.

On October 15, 2019, the plaintiffs in the Drywall Class Action delivered a proposed Amended Statement of Claim that contemplates expanding the Drywall Class Period to include SNC-Lavalin's July 22, 2019 and August 1, 2019 press releases and increasing the claim for damages from $1.2 billion to $1.8 billion.

Peters Class Action

On February 25, 2019, a Notice of Action was issued with the Ontario Superior Court of Justice, on behalf of persons who acquired SNC-Lavalin securities from September 4, 2018 through October 10, 2018. On March 25, 2019, a Statement of Claim was filed with the Ontario Superior Court of Justice with respect to the claims set out in the Notice of Action (together, the Notice of Action and the Statement of Claim are the "Peters Class Action").

The Peters Class Action alleges that the defendants, including the Company, its Chairman and certain of its officers, failed to make timely disclosure of a material change in the business, operations or capital of SNC-Lavalin, by failing to disclose that on September 4, 2018, the Director of the PPSC communicated her decision to SNC-Lavalin not to award an opportunity to negotiate a remediation agreement.

The Peters Class Action seeks leave from the Ontario Superior Court of Justice to bring a statutory misrepresentation claim under Ontario's Securities Act and the comparable acts in other provinces. The Peters Class Action claims damages in the sum of $75 million or such other amount as the Superior Court may determine plus interest and costs.

SNC-Lavalin intends to defend the Ruediger Class Action, the Drywall Class Action, and the Peters Class Action vigorously. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, 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. SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacity as directors and officers, and the Company itself has coverage for such claims. The amount of coverage under the directors' and officers' policy is limited and such coverage may be less than any amounts the Company is required or determines to pay in connection with these proceedings. If the Company is required or determines to pay an amount in connection with the Ruediger Class Action, the Drywall Class Action or the Peters Class Action, such amount could have a material adverse effect on SNC-Lavalin's liquidity and financial results.

Other Class Actions

In 2018, the Company reached a settlement agreement in relation to class actions in Quebec and Ontario filed in 2012 on behalf of security holders resulting in a net expense of $89.4 million, including the related legal costs.

Pyrrhotite case

On June 12, 2014, the Quebec Superior Court rendered a decision in "Wave 1" of the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Quebec Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately $168 million in damages apportioned amongst the then-known defendants, on an in solidum basis (the "Wave 1 claims"). SNC-Lavalin, among other parties, filed a Notice to Appeal the Quebec Superior Court decision both on merit and on the apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers (such insurance coverage is itself subject to litigation). The appeal hearing started in October 2017 and was completed during the week of April 30th, 2018. A decision from the Quebec Court of Appeal is expected in early 2020.

In addition to the appeal of the decision, a recourse in warranty was filed against another party seeking its contribution to the damages awarded against SNC-Lavalin in the Wave 1 judgement. This recourse, for which the trial commenced in March 2019 and should be completed in early 2020, may result in a reduction of SNC-Lavalin's share of the damages.

In parallel to the appeal and warranty recourses for Wave 1 claims, additional potential claims were notified and continue to be notified against numerous defendants, including SNC-Lavalin, in "Wave 2" of the Pyrrhotite Case. Wave 2 claims are currently undergoing discovery stage and it is still premature to evaluate SNC-Lavalin's total liability exposure in respect of same, if any. It is currently estimated that a significant portion of the damages claimed are in respect of buildings for which the concrete foundations were poured outside of SNC-Lavalin's liability period, as determined in the Wave 1 judgement. SNC-Lavalin also expects some insurance coverage for Wave 2 claims. In addition, SNC-Lavalin has undertaken a warranty recourse against another party with respect to Wave 2 claims.

Dubai civil case

In November, 2018, WS Atkins & Partners Overseas, a subsidiary of the Company, was named as respondent together with other parties by the subrogated insurers of a property developer in a civil case initiated before the courts of Dubai. The claimant is seeking damages jointly from the respondents on account of the alleged refurbishment costs and loss of income arising from a fire at the property developer's building. WS Atkins & Partners Overseas was a subcontractor in the hotel's design and construction supervision and the claim revolves around alleged negligence in the specification, testing and installation of the building cladding which is claimed to have exacerbated the fire, thereby increasing the damage to the building. The claim is in preliminary stages and the Company is not currently in a position to estimate potential liability or amount of loss, if any.

Australian arbitration

One of the Company's subsidiaries has a 35% interest in a joint operation for a project that has been completed. The construction joint operation is in a dispute with the project owner over labour rates. Under the relevant project contract, the Company's subsidiary is jointly and severally liable with the other joint operator vis-à-vis the project owner for performance and other liabilities. In December 2018, the joint operation received a split award of liability from an arbitration tribunal resulting in an adverse decision on certain aspects of the dispute. A hearing on the quantum of damages to be awarded against the joint operation (if any) is scheduled for 2020. The other joint operator holding the balance of the joint operation interest (65%), CBI Constructors Pty. Ltd., is part of the McDermott International, Inc. ("McDermott"), group, which filed for Chapter 11 bankruptcy protection in January 2020. While the Company's consolidated statement of financial position reflects its share (35%) of the estimated quantum of the damages, such position might need to be adjusted pending the outcome of the quantum decision and/or the McDermott Chapter 11 bankruptcy proceedings in light of the underlying joint and several liability between the parties of the joint operation.

General litigation risk

Due to the inherent uncertainties of litigation, it is not possible to (a) predict the final outcome of these and other related proceedings generally, (b) determine if the amount included in the Company's provisions is sufficient or (c) determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on these matters.

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 in respect of lawsuits or investigations 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 is 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 recover promptly 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 that could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant. These investigations, and potential results thereof, 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.

Ongoing and potential investigations

The Company understands that there are investigations by various authorities which may remain ongoing in connection with certain legacy matters (unrelated to the settlements described below) in various jurisdictions, including, without limitation, Algeria.

The Company also understands that a Royal Canadian Mounted Police (the "RCMP") investigation relating to alleged payments in connection with a 2002 contract for the refurbishment of the Jacques Cartier Bridge by a consortium which included SNC-Lavalin and which led to a guilty plea by the former head of the Canada Federal Bridges Corporation in 2017, continues and its scope may include the Company.

The Company is currently unable to determine when any of these investigations will be completed or whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. The Company continues to cooperate and communicate with authorities in connection with all ongoing investigations.

If regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise as a result of ongoing or future investigations, 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, or the revocation of authorizations or certifications, by certain administrative organizations or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue from government and government-related contracts. Further, public and private sector bid processes in some instances assess whether the bidder, or an affiliate thereof, has ever been the object of any investigations, or sanctions or other actions resulting therefrom. In such instances, if a member of the Company's group must answer affirmatively to a query as to past or current investigations, or sanctions or other actions resulting therefrom, such answer may affect that entity's ability to be considered for the applicable project. In addition, the Company may not win contracts that it has bid upon due to a client's perception of the Company's reputation and/or perceived reputational advantages held by competitors as a result of such investigations, sanctions or other actions. Loss of bidding opportunities resulting from such investigations, sanctions or other actions, whether discretionary (including as a result of reputational factors) or mandatory, from participating in certain government, government-related and private contracts (in Canada, Canadian provinces or elsewhere) 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 ongoing or future 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 and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business.

Due to the uncertainties related to the outcome of ongoing or future 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 and ongoing related matters, as well as the investigations leading to the settlements described below, 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 such 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 below, or other matters, which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

Settlements

<u>PPSC Settlement</u>

On February 19, 2015, the RCMP and the Public Prosecution Service of Canada ("PPSC") laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity was charged with one count of fraud under Section 380 of the Criminal Code (Canada) (the "Criminal Code") and one count of corruption under Section 3(1)(b) of the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA") (the "Charges"). These Charges followed the RCMP's 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 between 2001 and 2011. This investigation also led to criminal charges being laid against two former employees of the Company.

On December 18, 2019, the Company announced it had reached a settlement with the PPSC regarding the Charges (the "PPSC Settlement"). As part of the PPSC Settlement, SNC-Lavalin Construction Inc. has accepted a plea of guilty to a single charge of fraud (the "Plea"). All other Charges against the Company, SNC-Lavalin

International Inc. and SNC-Lavalin Construction Inc. have been withdrawn by the PPSC. Also as part of the PPSC Settlement, SNC-Lavalin Construction Inc. will pay a fine in the amount of $280 million, payable in equal installments over 5 years, and will be subject to a three-year probation order. The Company estimated the net present value of these installments at $257.3 million at the date of settlement. The Company will comply with the probation order for the three-year period.

The Plea may result in, among other things, (i) breaches and/or events of default under various project agreements giving rise to discretionary termination rights in favour of the counterparties thereto, (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 financing, or to continue to 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, potential consequences of the Plea could include, in respect of the Company or one or more of its subsidiaries, suspension, prohibition or debarment from participating in public or private sector projects or bids, or the revocation of authorizations or certifications, by certain governments or by certain administrative organizations. While the Company does not anticipate that the Plea will affect the eligibility of the Company to bid on future projects that are aligned with its newly announced strategic direction, possible suspension, prohibition, debarment or loss of bidding opportunities or the revocation of authorizations or certifications in the short term, as a result of the Plea, could have a short term material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

The Company cannot predict if any other actions may be taken by any other applicable government or authority or the Company's customers or other third parties as a result of the Plea.

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 a project in Bangladesh 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, the Company and certain of its 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 has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

Canada's Integrity Regime

The Canadian government announced the Integrity Regime for procurement and real property transactions on July 3, 2015. The scope of offences which may cause a supplier to be deemed ineligible to carry on business with the federal government is broad and encompasses offences under the Criminal Code, the Competition Act, and the CFPOA, among others. Some of the offences qualifying for ineligibility include: bribery, fraud against Canada, money laundering, falsification of books and documents, extortion, and offences related to drug trafficking. A determination of ineligibility to participate in federal government procurement projects may apply for 10 years for listed offences. However, the Integrity Regime permits the ineligibility period to be reduced by up to five years if a supplier can establish that it has cooperated with law enforcement authorities or addressed the causes of misconduct. The Canadian government is currently considering further revisions to the Integrity Regime.

If a supplier pleads guilty or is charged with a listed offence (which does not currently include the Plea), it and its affiliates may under the Integrity Regime be ineligible to do business with the Canadian government.

If a supplier applies for a reduced ineligibility period, or if a supplier charged with a listed offence is notified that it could be ineligible to do business with the Canadian government, as a condition of granting the reduced ineligibility period or not suspending the supplier an administrative agreement may be imposed to monitor the supplier. Administrative agreements include conditions and compliance measures that the supplier must meet to remain eligible to contract with the federal government. In December 2015, the Company entered into an administrative agreement with the Canadian government under the Integrity Regime in connection with the Charges (the "Administrative Agreement") which, according to its terms, will remain in force for 12 further months from the date of the Plea and will then terminate.

Other Risks Resulting from Settlements

Failure by the Company to abide by the terms of the PPSC Settlement, the World Bank Settlement or the Administrative Agreement could result in serious consequences for the Company, including new sanctions, legal actions and/or suspension from eligibility to carry on business with the government or agency involved or to work on projects funded by them. The Company is taking steps that are expected to mitigate these risks.

Further regulatory developments as well as employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations

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.

Reputation of the Company

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 COMPLIANCE AND FINANCIAL REPORTING

Inherent limitations to the Company's control framework

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

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.

The Company manages several legacy sites for which the Company has potential exposure to the costs of environmental remediation and possible harm to neighbouring properties and communities. While the Company is taking steps to manage this risk and has provisions in its books for the related risk and expense, there can be no assurance that it will not be subject to claims for damages, remediation and other related matters, and its provisions may not fully cover any such future claim or expense.

Growing concerns about climate change may also result in the imposition of additional environmental regulations. Legislation, international protocols, regulation or other restrictions on emissions could result in increased compliance costs for the Company and its clients, including those who are involved in the exploration, production or refining of fossil fuels, emit greenhouse gases through the combustion of fossil fuels or emit greenhouse gases through the mining, manufacture, utilization or production of materials or goods. Such policy changes could increase the costs of projects for clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for the Company's services, which would in turn have a material adverse impact on the Company's business, financial condition and results of operations. However, these changes could also increase the pace of projects, such as carbon capture or storage projects, that could have a positive impact on the Company's business. SNC-Lavalin cannot predict when or whether any of these various proposals may be enacted or what their effect will be on the Company or on its customers.

GLOBAL / MACROECONOMIC RISKS

Brexit

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". Brexit could result in increased geopolitical and economic risks, currency exchange fluctuations, and could cause disruptions to and create uncertainty surrounding the Company's businesses, including affecting the Company's relationships with existing and future customers, suppliers and employees, which could in turn have a material adverse effect on the Company's financial results and operations. There could also be greater restrictions on imports and exports between the U.K. and E.U. countries and could also result in increased regulatory complexities. These changes may adversely affect the Company's operations and financial results.

Global economic conditions

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 remaining performance obligations, revenues and net income.

Fluctuations in commodity prices

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 cost of completing 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.

16 Controls and Procedures

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("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.

16.1 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

i. 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

ii. 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, 2019.

The CEO and the CFO have also evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures, and its internal control over financial reporting, in each case as at December 31, 2019.

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, 2019, using the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

16.2 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, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting other than changes resulting from the remedial measures that were implemented during the first three quarters of 2019 to address the previously identified material weaknesses that no longer exist as at December 31, 2019.

17 Quarterly Information

YEARS ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT PER SHARE AMOUNTS)	2019					2018				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues :										
From E&C	**2,291.0**	**2,209.4**	**2,352.6**	**2,399.9**	**9,252.9**	2,367.2	2,469.9	2,496.8	2,485.4	9,819.3
From Capital	**72.2**	**74.7**	**79.6**	**36.2**	**262.7**	64.2	57.2	66.2	77.1	264.7
	2,363.2	**2,284.2**	**2,432.2**	**2,436.1**	**9,515.6**	2,431.4	2,527.1	2,563.0	2,562.5	10,084.0
EBIT	**13.9**	**(2,113.9)**	**3,108.0**	**(266.6)**	**741.4**	129.8	109.1	185.4	(1,584.7)	(1,160.4)
Net financial expenses	**52.4**	**92.9**	**42.1**	**24.6**	**212.1**	42.0	37.1	44.0	44.3	167.4
Earnings (loss) before income taxes	**(38.5)**	**(2,206.8)**	**3,065.9**	**(291.2)**	**529.3**	87.7	72.0	141.4	(1,629.0)	1,327.8
Income taxes	**(20.2)**	**(88.1)**	**309.3**	**(2.2)**	**198.7**	9.5	(11.2)	20.4	(30.2)	(11.5)
Net income (loss)	**(18.3)**	**(2,118.7)**	**2,756.6**	**(289.0)**	**330.6**	78.3	83.2	121.0	(1,598.8)	(1,316.3)
Net income (loss) attributable to:										
SNC-Lavalin shareholders	**(17.3)**	**(2,118.3)**	**2,756.7**	**(292.9)**	**328.2**	78.1	83.0	120.7	(1,598.7)	(1,316.9)
Non-controlling interests	**(1.0)**	**(0.4)**	**(0.1)**	**3.9**	**2.4**	0.2	0.2	0.2	—	0.6
Net income (loss)	**(18.3)**	**(2,118.7)**	**2,756.6**	**(289.0)**	**330.6**	78.3	83.2	120.9	(1,598.7)	(1,316.3)
Basic earnings (loss) per share ($)	**(0.10)**	**(12.07)**	**15.70**	**(1.67)**	**1.87**	0.44	0.47	0.69	(9.11)	(7.51)
Diluted earnings (loss) per share ($):										
From E&C	**(0.38)**	**(12.44)**	**0.67**	**(1.77)**	**(13.92)**	0.18	(0.10)	0.44	(9.42)	(8.90)
From Capital	**0.29**	**0.37**	**15.04**	**0.10**	**15.79**	0.26	0.56	0.25	0.32	1.40
Diluted earnings (loss) per share ($)	**(0.10)**	**(12.07)**	**15.70**	**(1.67)**	**1.87**	0.44	0.47	0.69	(9.11)	7.50
Dividend declared per share ($)	**0.10**	**0.02**	**0.02**	**0.02**	**0.16**	0.29	0.29	0.29	0.10	0.96
Net income (loss) attributable to SNC-Lavalin shareholders from E&C	**(67.4)**	**(2,183.8)**	**116.9**	**(310.4)**	**(2,444.6)**	31.5	(16.8)	76.6	(1,654.3)	(1,563.0)
Net income (loss) attributable to SNC-Lavalin shareholders from Capital investments:										
From Highway 407 ETR	**41.9**	**41.9**	**41.9**	**20.3**	**146.1**	38.0	38.0	39.3	39.2	154.3
From other Capital investments	**8.1**	**23.5**	**2,597.9**	**(2.8)**	**2,626.7**	8.6	61.9	4.9	16.4	91.8
Net income (loss) attributable to SNC-Lavalin shareholders	**(17.3)**	**(2,118.3)**	**2,756.7**	**(292.9)**	**328.2**	78.1	83.0	120.7	(1,598.7)	(1,316.9)