Management's Discussion and Analysis

First Quarter of 2009 versus
First Quarter of 2008

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May 7th, 2009

All financial information in Canadian dollars, unless otherwise indicated

1 – HIGHLIGHTS OF THE FIRST THREE MONTHS OF 2009

INCREASE IN NET INCOME

- Net income was $77.5 million ($0.51 per share on a diluted basis) in the first quarter of 2009, compared to $70.8 million ($0.47 per share on a diluted basis) in the first quarter of 2008, due mainly to increased contributions from the Infrastructure and Environment, Mining and Metallurgy, and Infrastructure Concession Investments segments, partially offset by a loss in the Chemicals and Petroleum segment.

LOWER REVENUES

- Revenues were $1.6 billion in the first three-month period of 2009, compared to $1.8 billion in the same period of 2008, mainly reflecting lower Packages activities, partially offset by increased revenues from Services, and Operations and Maintenance.

STRONG FINANCIAL POSITION

- The Company's financial position remains strong with cash and cash equivalents of $872.3 million at March 31, 2009.

BACKLOG REMAINS SOLID

- The Company's total backlog for the four revenue categories: Services, Packages, Operations and Maintenance, and Infrastructure Concession Investments, totalled $9.0 billion at the end of March 2009, compared to $9.6 billion at the end of December 2008, and to $10.0 billion at the end of March 2008.
- The backlog for the Company remained solid, as Services backlog, which has the highest gross margin-to-revenue ratio compared to Packages, and Operations and Maintenance activities, totalled $1.5 billion at the end of March 2009, in line with December 31, 2008 and March 31, 2008.

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

- ROASE was 28.2% for the 12-month period ended March 31, 2009, compared to 25.8% for the same period last year, and significantly higher than the Company's performance objective of 600 basis points above the long-term Canada Bond Yield for the period of 9.9%.

Management's Discussion and Analysis is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, the Company's expectations of the future, and how the Company manages risk and capital resources. It is intended to enhance the understanding of the unaudited interim consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents and with the Annual Report for the year ended December 31, 2008. Reference in this Management's Discussion and Analysis to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint ventures, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint ventures.

2 – CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Management's Discussion and Analysis that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions or projections of the future may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "anticipates", "believes", "estimates", "expects", "may", "plans", "projects", "should", "will", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions and/or results could differ materially from those expressed or implied in such forward-looking statements, or could affect the extent to which a particular projection materializes. For more information on risks and uncertainties, and assumptions that would cause the Company's actual results to differ from current expectations, please refer to the section "Risks and Uncertainties" and the section "How We Budget and Forecast Our Results and Basis for Providing Financial Guidance", respectively, in the Company's 2008 Annual Report under "Management's Discussion and Analysis". Unless otherwise mentioned, the forward-looking statements in this document reflect the Company's expectations as of the date of this report and are subject to change after this date.

3 – OUR BUSINESS

The Company provides engineering, project and construction management, construction, and operations and maintenance expertise through its network of offices located across Canada and in over 35 other countries, and is currently working in some 100 countries.

SNC-Lavalin also makes selective investments in infrastructure concessions that are complementary to its other activities, for which its technical, engineering, project and construction management, construction, and operations and maintenance expertise, along with its experience in arranging project financing, represent a distinct advantage.

3.1 – HOW WE ANALYZE AND REPORT OUR RESULTS

SNC-Lavalin reports its results, based on the analysis of its contracts, both **by category of activity** and **by segment**. The Company's revenues are derived from four categories of activity: **Services, Packages, Operations and Maintenance,** and **Infrastructure Concession Investments**. The Services and Packages categories relate to engineering and construction operations and are presented in the way management performance is assessed by regrouping its projects within the industries they are executed for, and are as follows: **Infrastructure and Environment, Chemicals and Petroleum, Power, Mining and Metallurgy,** and **Other Industries**. The **Operations and Maintenance,** and **Infrastructure Concession Investments** segments correspond to the categories of activity of the same name.

3.2 – NON-GAAP FINANCIAL MEASURES

The Company analyzes its performance and financial position primarily based on measures prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company also supplements its analyses using certain measures that do not have any standardized meaning as prescribed by Canadian GAAP, and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful information because they allow for the evaluation of the performance of the Company and its components based on various aspects, such as past, current and expected profitability and financial position. These non-GAAP financial measures include the Company's revenues backlog, net cash position, freehold cash and return on average shareholders' equity ("ROASE"). Definitions of all non-GAAP financial measures are provided throughout this document, as necessary, to give the reader a better understanding of the indicators used by management, and when applicable, the Company provides a clear quantitative reconciliation from the non-GAAP financial measures to the most directly comparable measure calculated in accordance with GAAP. As such, the Company's net cash position is reconciled to GAAP measures in section 8.1.1 of this report.

4 – OVERALL FINANCIAL PERFORMANCE

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)		2009		2008
Net income	**$**	**77.5**	$	70.8
Earnings per share ($)				
Basic	**$**	**0.51**	$	0.47
Diluted	**$**	**0.51**	$	0.47
Dividend declared per share ($)	**$**	**0.15**	$	0.12

4.1 – NET INCOME

- **Net income was $77.5 million ($0.51 per share on a diluted basis) in the first quarter of 2009**, compared to $70.8 million ($0.47 per share on a diluted basis) in the first quarter of 2008, due mainly to increased contributions from the Infrastructure and Environment, Mining and Metallurgy, and Infrastructure Concession Investments segments, partially offset by a loss in the Chemicals and Petroleum segment.

- **SNC-Lavalin maintains its outlook for expected growth in profitability in 2009,** in line with its long-term financial objective of annual growth in net income between 7% and 12%, however the Company remains cautious as the global economic situation is difficult to predict.

5 – BREAKDOWN OF INCOME STATEMENT

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		2009		2008
Revenues by activity:				
Services	**$**	**559.8**	$	477.5
Packages		**566.8**		863.7
Operations and Maintenance		**409.4**		355.5
Infrastructure Concession Investments		**89.7**		78.4
	$	**1,625.7**	$	1,775.1
Gross margin	**$**	**267.8**	$	240.7
Selling, general and administrative expenses		**137.0**		120.3
Interest and capital taxes		**26.6**		25.2
Income before income taxes and non-controlling interest		**104.2**		95.2
Income taxes		**24.7**		23.0
Non-controlling interest		**2.0**		1.4
Net income	**$**	**77.5**	$	70.8

5.1 – REVENUE ANALYSIS

Revenues for the first quarter of 2009 were $1,625.7 million, compared to $1,775.1 million in the first quarter of 2008, reflecting decreased Packages activities, partially offset by increased activities in Services, Operations and Maintenance, and Infrastructure Concession Investments.

Services revenues in the first quarter of 2009 increased to $559.8 million, from $477.5 million in the same quarter of 2008, due to increased activities in Mining and Metallurgy, Infrastructure and Environment, and Power, partially offset by decreased activities mainly in Chemicals and Petroleum.

Packages revenues in the first quarter of 2009 were $566.8 million, compared to $863.7 million in the first quarter of 2008, mainly reflecting a lower level of activities from Chemicals and Petroleum, and Mining and Metallurgy, primarily outside Canada, and from Power, primarily due to the near-completion of certain major projects.

Operations and Maintenance revenues in the first quarter of 2009 increased to $409.4 million, from $355.5 million in the first quarter of 2008, in large part due to increased volume on certain ongoing contracts, mainly inside Canada.

Infrastructure Concession Investments revenues in the first quarter of 2009 increased to $89.7 million, compared to $78.4 million in the first quarter of 2008.

5.2 – GROSS MARGIN ANALYSIS

Gross margin for the first quarter of 2009 was $267.8 million, compared to $240.7 million for the corresponding period last year, mainly reflecting higher gross margin contributions in all four of the Company's categories of activities.

5.3 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

Selling, general and administrative expenses were $137.0 million in the first quarter of 2009, compared to $120.3 million in the corresponding quarter of 2008. The increase is attributable to higher general and administrative costs, coupled with higher proposal costs.

5.4 – INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009			2008		
	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL	FROM INFRASTRUCTURE CONCESSION INVESTMENTS	FROM OTHER ACTIVITIES	TOTAL
Interest revenues:	**$ (0.6)**	**$ (2.0)**	**$ (2.6)**	$ (1.1)	$ (8.3)	$ (9.4)
Interest on long-term debt:						
Recourse	**–**	**2.0**	**2.0**	–	2.1	2.1
Non-recourse:						
AltaLink	**13.1**	**–**	**13.1**	14.5	–	14.5
Highway 407	**12.1**	**–**	**12.1**	13.1	–	13.1
Others	**2.4**	**–**	**2.4**	0.2	0.4	0.6
Capital taxes and other	**(0.7)**	**0.3**	**(0.4)**	2.6	1.7	4.3
Interest (revenues) and capital taxes	**$ 26.3**	**$ 0.3**	**$ 26.6**	$ 29.3	$ (4.1)	$ 25.2

Interest and capital taxes expense totalled $26.6 million for the first quarter of 2009, compared to $25.2 million for the same quarter last year. Interest and capital taxes are analyzed separately for amounts from infrastructure concession investments and from other activities.

Interest and capital taxes expense from infrastructure concession investments decreased to $26.3 million in the first quarter of 2009, from $29.3 million for the same period in 2008, mainly due to lower Capital taxes and other, which mainly reflects the Company's proportionate share of a favourable fair value adjustment of $0.9 million relating to Highway 407's investment in long-term non-bank notes, compared with an unfavourable fair value adjustment of $2.3 million in 2008. Refer to section 8 of the current report for additional information on Highway 407's holdings in long-term non-bank notes.

Interest expenses and capital taxes from other activities were $0.3 million in the first three months of 2009, compared to interest revenues and capital taxes of $4.1 million in the first three months of 2008, mainly due to decreased interest revenues as a result of lower effective yields as well as a lower average cash balance in 2009.

5.5 – INCOME TAXES ANALYSIS

Income taxes expense was $24.7 million in the first three months of 2009, compared with $23.0 million in the first three months of 2008. The effective tax rate for the first quarter of 2009 is in line with that of the corresponding quarter of 2008.

6 – REVENUES BACKLOG

The Company reports revenues backlog, which is a non-GAAP financial measure, for its **categories of activities**: i) **Services**, ii) **Packages**, iii) **Operations and Maintenance**, and iv) **Infrastructure Concession Investments**. Revenues backlog is a **forward-looking indicator of anticipated revenues** that will be recognized by the Company. It is determined based on **contract awards** that are considered **firm**, as well as on a **five-year rolling basis** for recurring revenues from **Infrastructure Concession Investments** accounted for under the **full consolidation** or **proportionate consolidation** methods where the Company exercises control or joint control, respectively. Infrastructure Concession Investments backlog is reported by the Company since the future revenues of these concessions constitute one of the Company's categories of revenue activities. Future revenues from Infrastructure Concession Investments accounted for under the equity or cost methods are not reported in backlog as they represent the Company's expected share of net results or dividends and distributions. In the case of **Operations and Maintenance** activities, the Company **limits** the revenues backlog to **the earlier of**, i) **the contract term awarded**, and ii) **the next five years**.

The following table provides a breakdown of the Company's revenues backlog by category of activity and by segment:

AT MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Services and Packages					
Infrastructure and Environment	$ 710.9	$ 1,949.7	$ –	$ –	$ 2,660.6
Chemicals and Petroleum	177.1	542.5	–	–	719.6
Power	211.7	533.9	–	–	745.6
Mining and Metallurgy	325.8	–	–	–	325.8
Other Industries	94.9	128.4	–	–	223.3
Operations and Maintenance	–	–	1,893.5	–	1,893.5
Infrastructure Concession Investments	–	–	–	2,412.3	2,412.3
Total	$ 1,520.4	$ 3,154.5	$ 1,893.5	$ 2,412.3	$ 8,980.7

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2008				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	INFRASTRUCTURE CONCESSION INVESTMENTS	TOTAL
Services and Packages					
Infrastructure and Environment	$ 676.8	$ 2,174.4	$ –	$ –	$ 2,851.2
Chemicals and Petroleum	179.5	647.9	–	–	827.4
Power	194.7	546.0	–	–	740.7
Mining and Metallurgy	392.0	–	–	–	392.0
Other Industries	102.3	139.7	–	–	242.0
Operations and Maintenance	–	–	2,196.2	–	2,196.2
Infrastructure Concession Investments	–	–	–	2,342.7	2,342.7
Total	$ 1,545.3	$ 3,508.0	$ 2,196.2	$ 2,342.7	$ 9,592.2

At March 31, 2009, revenues backlog was $8,980.7 million, compared to $9,592.2 million at December 31, 2008, mainly reflecting a decrease in the Packages, and Operations and Maintenance categories.

6.1 – SERVICES BACKLOG

Services backlog was $1,520.4 million at the end of March 2009, in line with the backlog at the end of December 2008. The Services backlog remains strong and contributes to the Company's favourable outlook, as the gross margin-to-revenue ratio from Services is the highest compared to Packages, and Operations and Maintenance activities.

6.2 – PACKAGES BACKLOG

Packages backlog totalled $3,154.5 million at the end of March 2009, compared to $3,508.0 million at the end of December 2008, mainly reflecting the ongoing progress on certain major projects in Infrastructure and Environment, and Chemicals and Petroleum.

6.3 – OPERATIONS AND MAINTENANCE BACKLOG

Operations and Maintenance backlog was $1,893.5 million at the end of the first quarter of 2009, compared to $2,196.2 million at the end of December 2008, in large part due to normal fluctuations in the timing of long-term contracts, primarily inside Canada.

6.4 – INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The Infrastructure Concession Investments revenues backlog was $2,412.3 million at the end of the first quarter of 2009, compared to $2,342.7 million at December 31, 2008. The table below presents the revenues backlog of the Company's Infrastructure Concession Investments by major investment as at:

(IN MILLIONS OF CANADIAN DOLLARS)	**March 31 2009**	December 31 2008
AltaLink (1)	**$ 1,739.8**	$ 1,685.2
Highway 407 (2)	**573.1**	558.4
Okanagan Lake Concession (1)	**99.4**	99.1
Total Infrastructure Concession Investments revenue backlog	**$ 2,412.3**	$ 2,342.7

(1) AltaLink and Okanagan Lake Concession are fully consolidated, therefore the related revenues backlog as at March 31, 2009 and December 31, 2008 represents 100% of their estimated recurring revenues for the next five years.

(2) Highway 407 is proportionately consolidated, therefore the related revenues backlog as at March 31, 2009 and December 31, 2008 mrepresents 16.77% of its estimated recurring revenues for the next five years.

7 – OPERATING RESULTS BY SEGMENT

The Company's results are evaluated by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is assessed: i) **Services and Packages** relate to engineering and construction operations, for which the Company presents the information in the way management performance is assessed, and regroups its projects within the industries they are executed for, namely **Infrastructure and Environment**, **Chemicals and Petroleum**, **Power**, **Mining and Metallurgy**, and **Other Industries**; ii) **Operations and Maintenance**; and iii) **Infrastructure Concession Investments**.

With the exception of the Infrastructure Concession Investments segment, the Company evaluates segment performance using operating income net of imputed interest, and corporate general and administrative costs. Imputed interest is calculated on non-cash working capital position and allocated monthly to these segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa, while corporate general and administrative costs are allocated based on the gross margin of each of these segments. Corporate income taxes are not allocated to segments except for the Infrastructure Concession Investments segment.

SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, which are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. Such investments are grouped into the Infrastructure Concession Investments segment whereby the performance of this segment is evaluated using: i) dividends or distributions received from investments accounted for by the cost method; ii) SNC-Lavalin's share of the net income of its investments accounted for by the equity method; iii) SNC-Lavalin's share of the net income of its investments accounted for by the proportionate consolidation method; and iv) net income from investments accounted for by the full consolidation method, less the portion attributable to non-controlling interest, based on their respective financial statements using Canadian GAAP. In the case of Infrastructure Concession Investments for which income taxes are payable by the investor, such as investments in limited partnerships in Canada, corporate income taxes are allocated based on SNC-Lavalin's tax rate for such investments. Accordingly, the operating income of the Infrastructure

Concession Investments segment is reported net of income taxes and represents SNC-Lavalin's net income from its infrastructure concession investments.

The table below summarizes the revenues and operating income of the Company's segments:

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009		2008	
BY SEGMENT	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME
Services and Packages				
Infrastructure and Environment	**$ 405.1**	**$ 55.5**	$ 349.0	$ 0.6
Chemicals and Petroleum	**236.7**	**(10.0)**	415.0	46.6
Power	**212.8**	**14.4**	273.7	21.1
Mining and Metallurgy	**199.4**	**26.2**	211.3	14.2
Other Industries	**72.6**	**7.4**	92.2	7.2
Operations and Maintenance	**409.4**	**10.4**	355.5	10.6
Infrastructure Concession Investments	**89.7**	**4.4**	78.4	0.4
Total	**$ 1,625.7**	**$ 108.3**	$ 1,775.1	$ 100.7

7.1 – INFRASTRUCTURE AND ENVIRONMENT

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009	2008
Revenues from Infrastructure and Environment		
Services	**$ 139.2**	$ 100.7
Packages	**265.9**	248.3
Total	**$ 405.1**	$ 349.0
Operating income from Infrastructure and Environment	**$ 55.5**	$ 0.6
Operating income over revenues from Infrastructure and Environment (%)	**13.7%**	0.2%

Infrastructure and Environment revenues for the first quarter of 2009 were $405.1 million, compared to $349.0 million in the corresponding quarter of 2008, reflecting a higher level of Services and Packages activities.

For the first quarter of 2009, operating income increased to $55.5 million, from $0.6 million in the first quarter of 2008, reflecting an overall higher gross margin contribution from Packages, mainly due to favourable cost reforecasts on certain major projects, coupled with an higher level of Services activities.

7.2 – CHEMICALS AND PETROLEUM

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		2009		2008
Revenues from Chemicals and Petroleum				
Services	**$**	**104.5**	$	155.6
Packages		**132.2**		259.4
Total	**$**	**236.7**	$	415.0
Operating income (loss) from Chemicals and Petroleum	**$**	**(10.0)**	$	46.6
Operating income (loss) over revenues from Chemicals and Petroleum (%)		**(4.2%)**		11.2%

Revenues from Chemicals and Petroleum were $236.7 million in the first quarter of 2009, compared to $415.0 million in the first quarter of 2008, reflecting an overall decreased level of activities both outside and inside Canada.

In the first quarter of 2009, the operating loss from Chemicals and Petroleum was $10.0 million, compared to an operating income of $46.6 million in the first quarter of 2008, due mainly to an unfavourable cost reforecast on a major Packages project, coupled with an overall decreased level of Services and Packages activities.

7.3 – POWER

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		2009		2008
Revenues from Power				
Services	**$**	**72.1**	$	37.7
Packages		**140.7**		236.0
Total	**$**	**212.8**	$	273.7
Operating income from Power	**$**	**14.4**	$	21.1
Operating income over revenues from Power (%)		**6.8%**		7.7%

Power revenues were $212.8 million in the first quarter of 2009, compared to $273.7 million in the first quarter of 2008, mainly reflecting the decreased level of activities from certain major Packages projects that are nearing completion, partially offset by increased Services activities, primarily outside Canada.

The first quarter of 2009 operating income was $14.4 million, compared to $21.1 million in the first quarter last year, due primarily to a lower level of activities.

7.4 – MINING AND METALLURGY

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		2009		2008
Revenues from Mining and Metallurgy				
Services	$	199.4	$	131.6
Packages		–		79.7
Total	$	199.4	$	211.3
Operating income from Mining and Metallurgy	$	26.2	$	14.2
Operating income over revenues from Mining and Metallurgy (%)		13.2%		6.7%

Mining and Metallurgy revenues in the first quarter of 2009 were $199.4 million, compared to $211.3 million in the same period of 2008, mainly reflecting that there were no Packages activities in the first quarter of 2009, compared to revenues of $79.7 million from Packages activities in the first three months of 2008, partially offset by increased Services activities, primarily outside Canada.

Operating income increased to $26.2 million in the first quarter of 2009, compared to $14.2 million in the same period of 2008, mainly due to increased contributions resulting from increased Services activities, partially offset by no Packages activities in the first quarter of 2009.

7.5 – OTHER INDUSTRIES

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		2009		2008
Revenues from Other Industries				
Services	$	44.5	$	51.8
Packages		28.1		40.4
Total	$	72.6	$	92.2
Operating income from Other Industries	$	7.4	$	7.2
Operating income over revenues from Other Industries (%)		10.2%		7.8%

The Other Industries segment includes activities in agrifood, pharmaceuticals and biotechnology, sulphuric acid as well as other industrial facilities.

Other Industries revenues were $72.6 million in the first quarter of 2009, compared to $92.2 million in the first quarter of 2008, reflecting decreased activities mainly from Packages projects outside Canada, and Services activities inside Canada.

Operating income for the first quarter of 2009 was $7.4 million, in line with the corresponding period of 2008.

7.6 – OPERATIONS AND MAINTENANCE

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		**2009**		2008
Revenues from Operations and Maintenance	**$**	**409.4**	$	355.5
Operating income from Operations and Maintenance	**$**	**10.4**	$	10.6
Operating income over revenues from Operations and Maintenance (%)		**2.5%**		3.0%

Operations and Maintenance revenues in the first quarter of 2009 increased to $409.4 million, from $355.5 million in the first quarter of 2008, in large part due to increased volume on certain ongoing contracts, mainly inside Canada.

Operating income of $10.4 million for the first quarter of 2009 was in line with the first quarter of 2008, as the increased volume was offset by a lower gross margin-to-revenue ratio.

7.7 – INFRASTRUCTURE CONCESSION INVESTMENTS

SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, such as airports, bridges, power, mass transit systems, roads and water, which are grouped into the Infrastructure Concession Investments segment and described in section 7.7 of the Company's 2008 Annual Report under Management's Discussion and Analysis.

7.7.1 – NET BOOK VALUE OF INFRASTRUCTURE CONCESSION INVESTMENTS

Given the significant effect of infrastructure concession investments on the Company's consolidated balance sheet, the Company provides additional information in Note 3 of its unaudited interim consolidated financial statements regarding the net book value of its infrastructure concession investments by the method accounted for on SNC-Lavalin's consolidated balance sheet. As at March 31, 2009, the net book value of the Company's infrastructure concession investments was $553.7 million, compared to $547.6 million as at December 31, 2008. Based on financial valuations, the Company estimates the fair value of its infrastructure concession investments to be significantly greater than their net book value in both periods.

The net book value of the infrastructure concession investments includes the investment in Highway 407, which is accounted for by the proportionate consolidation method. Under Canadian GAAP, the proportionate consolidation method requires the venturer to recognize its proportionate share of the joint venture cumulative losses irrespective of the carrying amount of its investment in such joint venture. Consistent with this requirement, the net book value of the Company`s investment in Highway 407 resulted in a negative balance of $44.5 million as at March 31, 2009, compared to a negative balance of $37.9 million as at December 31, 2008, which does not represent a liability or any future obligation that SNC-Lavalin has relative to Highway 407 or any other party. This negative balance is the result of accounting for SNC-Lavalin's proportionate share of Highway 407's cumulative accounting losses and cumulative dividends received. Highway 407 has reported positive net income since 2006, whereas previously it had reported net accounting losses since its inception in 1999. The Company received dividends from Highway 407 totalling $8.0 million in the first quarter of 2009, compared to $5.7 million in the same quarter of 2008.

7.7.2 – OPERATING RESULTS OF THE INFRASTRUCTURE CONCESSION INVESTMENTS SEGMENT

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		**2009**		2008
Revenues from Infrastructure Concession Investments	**$**	**89.7**	$	78.4
Operating income from Infrastructure Concession Investments	**$**	**4.4**	$	0.4

The Company's investments are accounted for by either the cost, equity, proportionate consolidation or full consolidation methods depending on whether SNC-Lavalin exercises, or not, significant influence, joint control or control. In evaluating the performance of the segment, the relationship between revenues and operating income may not be 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 financial results.

The Infrastructure Concession Investments segment generated an operating income of $4.4 million in the first quarter of 2009, compared to $0.4 million in the first quarter of 2008. The segment's increase in operating income mainly reflects SNC-Lavalin's proportionate share of the increase in Highway 407's net income, which is primarily due to the favourable fair value adjustment on long-term non-bank notes, compared with an unfavourable fair value adjustment in the corresponding period of 2008. Refer to section 8 of the current report for additional information on the fair value adjustment of Highway 407's long-term non-bank notes.

8 – LIQUIDITY AND CAPITAL RESOURCES

This Liquidity and Capital Resources section has been prepared to provide the reader with a better understanding of the Company's financial position and is discussed in relation to the following:

- A review of the Company's **net cash position** and **freehold cash**;
- A **cash flow analysis**, providing details on how the Company generated and used cash and cash equivalents; and
- An assessment of the Company's **Return On Average Shareholders' Equity ("ROASE")**.

As at March 31, 2009, Highway 407, which is accounted for by the proportionate consolidation method, held a $153.3 million principal amount of long-term notes (December 31, 2008: $147.0 million of Asset-Backed Commercial Paper, converted to notes in 2009, and $6.3 million of non-bank notes, collectively referred to as "Notes" in 2009). The market for the Notes is not liquid and therefore they have been valued using best available market data, resulting in a carrying value of $91.5 million at March 31, 2009 (December 31, 2008: $92.0 million). The decrease in the carrying value in the first quarter of 2009 was primarily due to accrued interest received of $5.7 million, partially offset by a fair value adjustment recovery of $5.2 million. SNC-Lavalin's proportionate share in the revised carrying value of the Notes held by Highway 407 represented approximately $15.3 million at March 31, 2009 (December 31, 2008: $15.4 million), and is presented in "Other long-term assets". While some uncertainties exist about the amount and timing of cash flows relating to the Notes, they will not have a significant impact on SNC-Lavalin's financial position. On a consolidated basis, SNC-Lavalin has no other direct or indirect investment in such Notes.

As SNC-Lavalin's proportionate share of the carrying value of the Notes held by Highway 407 are not included in the Company's $872.3 million of cash and cash equivalents, they are not part of the following discussion and analysis of net cash position, freehold cash and cash flows of the Company.

8.1 – NET CASH POSITION AND FREEHOLD CASH

8.1.1 - NET CASH POSITION

As discussed in section 2.6 of the Company's 2008 Annual Report under Management's Discussion and Analysis, maintaining a strong balance sheet with a net cash position sufficient to meet expected operating, investing and financing plans is a key financial objective.

SNC-Lavalin's net cash position, which is a non-GAAP financial measure, excludes from the Company's cash and cash equivalents, cash and cash equivalents from infrastructure concession investments and its recourse debt, and was as follows at:

(IN MILLIONS OF CANADIAN DOLLARS)		March 31 2009		December 31 2008
Cash and cash equivalents	$	872.3	$	988.2
Less:				
Cash and cash equivalents from infrastructure concession investments (1)		40.1		28.9
Recourse long-term debt		104.7		104.7
Net cash position	$	727.5	$	854.6

(1) Infrastructure Concession Investments accounted for by the full or proportionate consolidation methods.

The net cash position at March 31, 2009 was $727.5 million, compared to $854.6 million at December 31, 2008, mainly due to the net change in non-cash working capital items coupled with payments made for infrastructure concession investments, partially offset by cash generated from operations before the net change in non-cash working capital items.

8.1.2 – FREEHOLD CASH

The Company estimates its freehold cash, a non-GAAP financial measure, defined as the amount of cash and cash equivalents that is not committed for its operations and not committed for investments in Infrastructure Concession Investments. As such, the freehold cash is derived from the cash and cash equivalents, excluding cash and cash equivalents from consolidated and proportionately consolidated Infrastructure Concession Investments at the end of the period, adjusted for estimated cash requirements to complete existing projects and the estimated net cash inflows from major ongoing projects upon their completion, as well as deducting the remaining commitments to invest in Infrastructure Concession Investments.

The freehold cash was approximately $550 million as at March 31, 2009, compared to approximately $600 million as at December 31, 2008, mainly due to Infrastructure Concession Investments. The Company's freehold cash is available for making engineering business acquisitions and investments in selective infrastructure concessions.

8.2 – CASH FLOW ANALYSIS

FIRST QUARTER ENDED MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)		**2009**		2008
Cash flows generated from (used by):				
Operating activities	**$**	**(39.1)**	$	58.2
Investing activities		**(161.3)**		(76.7)
Financing activities		**87.8**		(40.4)
Foreign currency translation gain (loss) on cash and cash equivalents held in self-sustaining operations		**(3.3)**		7.2
Net decrease in cash and cash equivalents		**(115.9)**		(51.7)
Cash and cash equivalents at beginning of period		**988.2**		1,088.6
Cash and cash equivalents at end of period	**$**	**872.3**	$	1,036.9

Cash and cash equivalents totalled $872.3 million at March 31, 2009, compared to $988.2 million at December 31, 2008.

8.2.1 – CASH FLOWS RELATED TO OPERATING ACTIVITIES

Cash used for operating activities was $39.1 million for the first three months of 2009, compared to cash generated from operating activities of $58.2 million for the first three months of 2008, mainly due to:

- Cash used by the change in non-cash working capital items of $174.5 million in the first quarter of 2009, compared to $61.8 million for the corresponding quarter last year.
- This variation in the non-cash working capital items was partially offset by a net income of $77.5 million in the first quarter of 2009, compared to $70.8 million in the first quarter of 2008.

8.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES

Cash used for investing activities was $161.3 million for the first three months of 2009, compared to $76.7 million for the first three months of 2008. The major investing activities were as follows:

- Restricted cash increased by $65.9 million in the first quarter of 2009, mainly reflecting the Company’s proportionate share of the cash proceeds received from the early refinancing of a Highway 407 bond, which will be repaid upon maturity on April 20, 2009, compared to a decrease of $6.6 million in the corresponding quarter of 2008.

- The acquisition of property and equipment from fully consolidated and proportionally consolidated infrastructure concession investments used a total cash outflow of approximately $44.1 million in the first quarter of 2009, compared to $49.7 million in the same quarter of 2008, both in large part due to AltaLink.
- Payments for infrastructure concession investments totalled $32.2 million for the first quarter of 2009, compared to $2.6 million for the first three months of 2008, mainly reflecting payments for the Ambatovy investment.
- The acquisition of property and equipment for Services, Packages, and Operations and Maintenance activities for a total cash outflow of $8.6 million in the first quarter of 2009, compared to $8.3 million in the corresponding quarter of 2008.

8.2.3 – CASH FLOWS RELATED TO FINANCING ACTIVITIES

Cash generated by financing activities was $87.8 million in the first quarter of 2009, compared to cash used from financing activities of $40.4 million in the first quarter of 2008. The major financing activities were as follows:

- The increase in non-recourse long-term debt from infrastructure concession investments totalled $93.0 million in the first three months of 2009, compared to $92.2 million in the corresponding period of 2008, while the repayment of non-recourse long-term debt from infrastructure concession investments amounted to $1.1 million in the first three months of 2009, compared to $88.3 million in the corresponding period of 2008.
- There was no repayment of non-recourse long-term debt from other activities during the first quarter of 2009, compared to a repayment of $25.8 million in the same period of 2008, which was mainly due to the repayment of the remaining balance of the Company's mortgage of approximately $25 million on its head office building in downtown Montreal.
- Under its normal course issuer bid, the Company repurchased 98,900 shares and 167,000 shares for a total cash consideration of $3.5 million and $7.1 million during the first three months of 2009 and 2008, respectively.
- The issuance of shares pursuant to the exercise of stock options generated $1.5 million in cash in the first three months of 2009 (91,100 stock options at an average price of $16.68), compared to $2.4 million in the first three months of 2008 (90,700 stock options at an

average price of $26.42). As at April 29, 2009, there were 5,197,587 stock options outstanding. At that same date there were 151,038,593 shares issued and outstanding.

- During the first quarter of 2009 and 2008, the Company declared dividends of $22.6 million and $18.1 million, respectively, both of which were paid during their corresponding second quarters, resulting in no cash outflows from the payment of dividends in either the first quarter of 2009 and 2008.

8.3 – RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

ROASE, a non-GAAP financial measure, is a key performance indicator used to measure the Company's return on equity. ROASE, as calculated by the Company, corresponds to the trailing 12-month after-tax earnings, divided by a trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)". As discussed in section 2.6 of the Company's 2008 Annual Report under Management's Discussion and Analysis, achieving a ROASE at least equal to the long-term Canada Bond Yield plus 600 basis points is a key financial objective of the Company.

ROASE was 28.2% for the 12-month period ended March 31, 2009, compared to 25.8% for the same period last year, significantly surpassing the Company's performance objective of 600 basis points above the long-term Canada Bond Yield for the period, totalling 9.9%.

8.4 – FINANCIAL INSTRUMENTS

The nature and extent of risks arising from financial instruments, and their related risk management, are described in Note 20 to the Company's 2008 annual audited consolidated financial statements. In the first quarter of 2009, there has been no material change to the nature of risks arising from financial instruments, related risk management and classification of financial instruments. Furthermore, there has been no change in the methodology used in determining the fair value of the financial instruments that are measured at fair value on the Company's consolidated balance sheet.

9 – ACCOUNTING POLICIES AND CHANGES

The Company's unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP and use the same accounting policies and methods used in the preparation of the Company's 2008 annual audited consolidated financial statements except as described below. See Note 1 to the Company's 2008 annual audited consolidated financial statements for more information about the significant accounting principles used to prepare the financial statements.

The key assumptions and basis for estimates that management has made under GAAP, and their impact on the amounts reported in the interim consolidated financial statements and notes, remain substantially unchanged from those described in the Company's 2008 Annual Report.

9.1 – RECENT CHANGES IN ACCOUNTING STANDARDS

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new section replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs", and, concurrently, EIC-27, "Revenues and Expenditures in the Pre-operating Period" has been withdrawn, while Accounting Guideline 11, "Enterprises in the Development Stage" and Section 1000, "Financial Statements Concepts", have been amended. These new accounting standards were effective January 1, 2009 for SNC-Lavalin and were required to be adopted retroactively, with restatement of comparative figures.

The adoption of these new accounting standards resulted in a transitional adjustment reducing the Company's retained earnings at January 1, 2008 by $5.9 million, representing the cumulative net income impact of applying the new standards up to that date. The transitional adjustment also resulted in the following changes to the Company's consolidated balance sheet at the same date: i) a decrease of $6.7 million in infrastructure concession investments accounted for by the equity method; ii) a decrease of $0.7 million in other long-term assets; and iii) an increase of $1.5 million in long-term future income tax asset. These changes relate mainly to pre-operating expenditures that were incurred and capitalized by infrastructure concession investments that are no longer capitalized under the new accounting standards. The adoption of the new accounting standards did not have any impact on the Company's 2008 consolidated net income and, accordingly, the transitional adjustments are limited to those described above.

RATE-REGULATED OPERATIONS

On January 1, 2009, the removal of the temporary exemption granted to rate-regulated enterprises from applying Section 1100 of the CICA Handbook, "Generally Accepted Accounting Principles" took effect. The temporary exemption permitted rate-regulated entities to apply industry practice as a primary source of Canadian GAAP. Accordingly, based on industry practice, AltaLink was recording the portion of the amount collected for future removal and site restoration as a reduction to its property and equipment. The removal of the temporary exemption of Section 1100 requires AltaLink to present such amount as a liability, with such change being made prospectively. As such, the removal of the temporary exemption resulted in a $145.4 million increase in property and equipment with a corresponding increase in long-term liabilities at January 1, 2009. This accounting change had no impact on SNC-Lavalin's 2008 consolidated net income.

9.2 – FUTURE CHANGES IN ACCOUNTING STANDARDS

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") IN CANADA

During the three-month period ended March 31, 2009, the Company continued to assess potential impacts of expected accounting differences on its consolidated financial statements. Moreover, there were no significant changes during the three-month period ended March 31, 2009 to the implementation plan adopted by the Company. Refer to section 10 of the Company's 2008 Annual Report under Management's Discussion and Analysis for additional details and information relating to the Company's IFRS implementation plan.

10 – RISKS AND UNCERTAINTIES

Risks and uncertainties and risk management practices are described in section 11 of the Company's 2008 Annual Report under Management's Discussion and Analysis. Risks and uncertainties and risk management practices have not materially changed for the first three months of 2009.

11 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2009	2008				2007		
	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER
Revenues	**$ 1,625.7**	$ 1,943.9	$ 1,685.4	$ 1,702.5	$ 1,775.1	$ 1,991.4	$ 1,785.3	$ 1,686.6
Net income	**$ 77.5**	$ 75.0	$ 91.3	$ 75.4	$ 70.8	$ 68.1	$ 63.2	$ 40.2
Basic earnings per share ($)	**$ 0.51**	$ 0.50	$ 0.61	$ 0.50	$ 0.47	$ 0.45	$ 0.42	$ 0.27
Diluted earnings per share ($)	**$ 0.51**	$ 0.49	$ 0.60	$ 0.49	$ 0.47	$ 0.45	$ 0.41	$ 0.26
Dividend declared per share ($)	**$ 0.15**	$ 0.15	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.09	$ 0.09

As detailed in section 9.1, Recent Changes in Accounting Standards of the current report, the Company adopted new CICA guidance on goodwill and intangible assets beginning on January 1, 2009. The adoption of the new accounting standards was applied retroactively with restatement of comparative figures. There was no impact on the consolidated 2008 figures, while the total impact on net income for the last three quarters of 2007 was a decrease of $1.5 million. The quarterly information presented above has been restated accordingly.

12 – CONTROLS AND PROCEDURES

INTERNAL CONTROL OVER FINANCIAL REPORTING

SNC-Lavalin’s management, under the supervision of the President and Chief Executive Officer, and of the Executive Vice-President and Chief Financial Officer, has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Company’s GAAP. As of March 31, 2009, there has been no change in the Company’s internal control over financial reporting that occurred during the Company’s most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

13 – ADDITIONAL INFORMATION

The Company's quarterly and annual financial information, its Annual Information Form and other financial documents are available on the Company’s website (www.snclavalin.com) as well as on SEDAR (www.sedar.com).