



# Management's Discussion and Analysis

First Quarter of 2010 versus  
First Quarter of 2009

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May 6<sup>th</sup>, 2010

All financial information in Canadian dollars, unless otherwise indicated

## 1 – HIGHLIGHTS OF THE FIRST THREE MONTHS OF 2010

### LOWER NET INCOME

- > Net income for the three-month period ended March 31, 2010 was \$71.9 million (\$0.47 per share on a diluted basis), compared to \$77.5 million (\$0.51 per share on a diluted basis) in the first quarter of 2009. The lower net income reflects a lower net income excluding Infrastructure Concession Investments ("ICI"), partially offset by a higher net income from ICI.
  - Net income excluding ICI was \$63.2 million for the first three months of 2010, compared to \$73.1 million in the first quarter of 2009, reflecting a lower level of revenues, partially offset by an overall increase in the gross margin-to-revenue ratio.
  - Net income from ICI for the first quarter of 2010 increased to \$8.7 million, from \$4.4 million for the corresponding period of 2009, reflecting mainly a higher contribution from Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), AltaLink and Highway 407.

### LOWER REVENUES

- > For the first quarter of 2010, revenues decreased to \$1.4 billion compared to \$1.6 billion for the same period in 2009, mainly reflecting lower revenues from Packages and Services activities.
  - Packages and Services revenues for the first quarter of 2010 were lower compared with the first quarter of 2009, primarily due to a lower level of activities in Infrastructure and Environment, Mining and Metallurgy, Chemicals and Petroleum, and Power.

### SOLID FINANCIAL POSITION

- > The Company's financial position remains solid with cash and cash equivalents of \$1,230.9 million at March 31, 2010, compared to \$1,218.2 million at December 31, 2009.
- > Net cash position (cash and cash equivalents, excluding cash and cash equivalents from ICI less recourse debt) remained strong at \$736.2 million at March 31, 2010 and \$722.9 million at December 31, 2009 and is a key financial indicator of the Company's financial capability to meet its expected operating, investing and financing plans.

### STRONG REVENUE BACKLOG

- > The Company's revenue backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and ICI increased to \$11.4 billion as at March 31, 2010, compared to \$10.8 billion as at December 31, 2009, as detailed below:

(IN MILLIONS OF CANADIAN DOLLARS)		March 31 2010	December 31 2009
Services	\$	1,412.7	\$ 1,464.9
Packages		4,477.1	4,197.5
Operations and Maintenance		2,914.5	2,596.1
ICI		2,637.0	2,578.7
Total backlog	\$	11,441.3	\$ 10,837.2

## INFRASTRUCTURE CONCESSION INVESTMENTS NOTABLE EVENTS

The following notable events have taken place since January 1, 2010, with respect to the Company's ICI portfolio:

- > Chinook Roads Partnership ("Chinook"), 50% owned by SNC-Lavalin, entered into a contract with Alberta Transportation to design, build, operate, maintain and partially finance the southeast section of Calgary's Stoney Trail Ring Road in Canada. Upon signing the contract with Alberta Transportation, Chinook subcontracted the engineering, procurement and construction ("EPC") and the operations and maintenance ("O&M") work to joint ventures 50% owned by SNC-Lavalin.
- > After the end of the first quarter, SNC-Lavalin, as part of the McGill Health Infrastructure Group, was named Preferred Proponent for the contract to design, construct, finance and maintain the new campus of the McGill University Health Centre in Montreal, Canada. Revenue backlog on the project will only be added upon finalization of agreements.

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

- > ROASE was 25.7% for the 12-month period ended March 31, 2010, compared to 28.2% 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, which totalled 10.0%.

## 2010 OUTLOOK

- > With a strong revenue backlog and diverse prospects in Canada and outside Canada, SNC-Lavalin expects its 2010 net income to be as high or higher than 2009.

Unless otherwise indicated, all financial information presented in this Management's Discussion and Analysis, including tabular amounts, is in Canadian dollars, and prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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 Financial Report for the year ended December 31, 2009. 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 Analyze and Report Our Results", respectively, in the Company's 2009 Financial Report under "Management's Discussion and Analysis". The forward-looking statements in this document reflect the Company's expectations as at the date of this report and are subject to change after this date.

### 3 – OUR BUSINESS

SNC-Lavalin, with its global workforce totalling approximately 22,000 people, provides its clients with engineering and construction, and operations and maintenance expertise. The Company has a network of offices located across Canada and in over 35 other countries around the world, and is currently working on projects in some 100 countries, making it the leading engineering and construction company in Canada, and among the leaders in the world, as well as a leader in operations and maintenance in Canada. SNC-Lavalin also makes selective investments in infrastructure concessions.

#### 3.1 – ENGINEERING AND CONSTRUCTION EXPERTISE PROVIDED VIA SERVICES AND PACKAGES ACTIVITIES

Engineering and construction expertise is provided by the Company's employees as either Services or Packages activities:

- > **Services:** include contracts in which SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning.
- > **Packages:** include contracts in which SNC-Lavalin takes on the responsibility not only for providing one or more of the Services activities listed above, but also **undertakes the responsibility** for providing materials/equipment and/or construction activities.

Services and Packages activities are offered to clients in multiple industries including, amongst others, Infrastructure and Environment, Chemicals and Petroleum, Power, and Mining and Metallurgy. Refer to section 7 of this report for a review of the Company's operating results by segment.

#### 3.2 – OPERATIONS AND MAINTENANCE ACTIVITIES

Operations and Maintenance activities are provided by the Company's employees to clients in multiple lines of business and include facility management, industrial assets, transportation systems, water treatment and distribution, and defence and remote camp logistics. SNC-Lavalin's expertise in Operations and Maintenance activities permits the Company to combine such activities with Services or Packages, offering all-inclusive expertise that meets clients' needs and to complement its Infrastructure Concession Investments ("ICI").

### 3.3 – INFRASTRUCTURE CONCESSION INVESTMENTS (“ICI”)

SNC-Lavalin **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.

## 4 – HOW WE ANALYZE AND REPORT OUR RESULTS

SNC-Lavalin reports its results under **four categories of activities**, which are **Services**, and **Packages** (which together regroup activities from engineering and construction), **Operations and Maintenance**, and **ICI**. The Company regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles. The Company also analyzes results by segments, which regroup related activities within SNC-Lavalin **consistent with the way management performance is evaluated**. Services and Packages activities relate to engineering and construction operations and are presented in the way management performance is evaluated 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 **ICI** segments correspond to the categories of activity of the same name.

### 4.1 – NON-GAAP FINANCIAL MEASURES

Some of the indicators used by the Company to analyze and evaluate its results represent non-GAAP financial measures. Consequently, they do not have a 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 following Company indicators:

NON-GAAP FINANCIAL MEASURE	DEFINITION
<b>Performance</b>	
Revenue backlog	A forward-looking indicator of unearned revenues from awarded contracts, described in detail in section 6 of this report.
ROASE	Return on equity corresponding to the Company's trailing 12-month after-tax earnings divided by its trailing 13-month average shareholders' equity, excluding "accumulated other comprehensive income (loss)", described in detail in section 8.4 of this report.
Operating income	Described in section 7 of this report.
<b>Liquidity</b>	
Net cash position	Cash and cash equivalents less cash and cash equivalents from ICI and recourse debt, described in detail in section 8.1.1 of this report.
Freehold cash	Cash and cash equivalents not committed for the Company's operations and not committed for investments in ICI, described in detail in section 8.1.2 of this report.

Definitions of all non-GAAP financial measures are provided above, as well as 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. Of the measures described above, the Company's net cash position can be readily reconciled to GAAP measures, and therefore is done so in section 8.1.1 of this report.

## 5 – BREAKDOWN OF INCOME STATEMENT

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

	2010	2009
<b>Revenues by activity:</b>		
Services	\$ 457.3	\$ 559.8
Packages	447.4	566.8
Operations and Maintenance	383.2	409.4
ICI	98.3	89.7
	<b>\$ 1,386.2</b>	<b>\$ 1,625.7</b>
<b>Gross margin</b>	<b>\$ 265.9</b>	<b>\$ 267.8</b>
<b>Selling, general and administrative expenses</b>	<b>133.1</b>	<b>137.0</b>
<b>Interest and capital taxes:</b>		
From ICI	29.8	26.3
From other activities	6.9	0.3
	<b>36.7</b>	<b>26.6</b>
<b>Income before income taxes and non-controlling interest</b>	<b>96.1</b>	<b>104.2</b>
<b>Income taxes</b>	<b>21.6</b>	<b>24.7</b>
<b>Non-controlling interest</b>	<b>2.6</b>	<b>2.0</b>
<b>Net income</b>	<b>\$ 71.9</b>	<b>\$ 77.5</b>
<b>Earnings per share (\$)</b>		
Basic	\$ 0.48	\$ 0.51
Diluted	\$ 0.47	\$ 0.51
<b>Supplementary information:</b>		
SNC-Lavalin's net income from ICI		
From Highway 407	\$ 2.1	\$ 1.4
From other ICI	6.6	3.0
Net income excluding ICI	<b>63.2</b>	<b>73.1</b>
<b>Net income</b>	<b>\$ 71.9</b>	<b>\$ 77.5</b>

### 5.1 – NET INCOME

**Net income for the three-month period ended March 31, 2010 was \$71.9 million (\$0.47 per share on a diluted basis),** compared to \$77.5 million (\$0.51 per share on a diluted basis) in the first quarter of 2009. The lower net income reflects a lower net income excluding ICI, partially offset by a higher net income from ICI.

**Net income excluding ICI was \$63.2 million for the first three months of 2010,** compared to \$73.1 million in the first quarter of 2009, reflecting a lower level of revenues, partially offset by an overall increase in the gross margin-to-revenue ratio.

**Net income from ICI for the first quarter of 2010 increased to \$8.7 million,** from \$4.4 million for the corresponding period of 2009, reflecting mainly a higher contribution from Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), AltaLink and Highway 407.

With a strong revenue backlog and diverse prospects in Canada and outside Canada, the Company expects its 2010 net income to be as high or higher than 2009.



## 5.2 – REVENUE ANALYSIS

**For the first quarter of 2010, revenues decreased to \$1,386.2 million** compared to \$1,625.7 million in the same period of 2009, mainly reflecting lower revenues from Packages and Services activities.

**Services revenues in the first quarter of 2010 were \$457.3 million**, compared to \$559.8 million in the same quarter of 2009, mainly reflecting lower activities in Mining and Metallurgy, Chemicals and Petroleum, and Other Industries.

**Packages revenues in the first quarter of 2010 were \$447.4 million**, compared to \$566.8 million in the first quarter of 2009, mainly reflecting a lower level of activities in Infrastructure and Environment, Power, and Chemicals and Petroleum, primarily due to the near-completion or completion of certain major projects.

**Operations and Maintenance revenues in the first quarter of 2010 were \$383.2 million**, compared to \$409.4 million in the first quarter of 2009, mainly due to lower activities inside Canada.

**ICI revenues in the first quarter of 2010 increased to \$98.3 million**, from \$89.7 million in the first quarter of 2009, reflecting higher revenues mainly from AltaLink, SKH and Highway 407.

The Company **anticipates that revenues for 2010 will be higher** than 2009, mainly due to Packages revenues, which are expected to be higher during the second half of 2010 compared to the corresponding period in 2009.

## 5.3 – GROSS MARGIN ANALYSIS

**Gross margin for the first quarter of 2010 was \$265.9 million**, compared to \$267.8 million for the corresponding period last year. **Gross margin excluding ICI was \$218.4 million for the first three months of 2010**, compared to \$231.0 million in the first quarter of 2009, reflecting a lower level of revenues, partially offset by an overall increase in gross margin-to-revenue ratio.

## 5.4 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

**Selling, general and administrative expenses were \$133.1 million in the first quarter of 2010**, compared to \$137.0 million in the corresponding quarter of 2009.

## 5.5 – INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010			2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (0.2)	\$ (0.8)	\$ (1.0)	\$ (0.6)	\$ (2.0)	\$ (2.6)
Interest on long-term debt:						
Recourse	–	7.5	7.5	–	2.0	2.0
Non-recourse:						
AltaLink	15.4	–	15.4	13.1	–	13.1
Highway 407	12.4	–	12.4	12.1	–	12.1
Other	2.4	–	2.4	2.4	–	2.4
Capital taxes and other	(0.2)	0.2	–	(0.7)	0.3	(0.4)
Interest and capital taxes	\$ 29.8	\$ 6.9	\$ 36.7	\$ 26.3	\$ 0.3	\$ 26.6

**Interest and capital taxes expenses totalled \$36.7 million for the first quarter of 2010**, compared to \$26.6 million for the same quarter last year. Interest and capital taxes are analyzed separately for amounts from ICI and from other activities.

**Interest and capital taxes expenses from ICI increased to \$29.8 million in the first quarter of 2010**, from \$26.3 million in the comparable period of 2009, mainly due to higher interest expense from AltaLink due to additional debt incurred to finance capital expenditures.

**Interest expenses and capital taxes from other activities were \$6.9 million in the first three months of 2010**, compared to \$0.3 million in the first three months of 2009, mainly due to i) increased interest expenses mainly from the recourse 10-year unsecured debentures totalling \$350 million, bearing interest at a rate of 6.19% per year, issued by the Company on July 3, 2009, and ii) decreased interest revenues, resulting from lower effective yields, partially offset by a higher average cash balance in 2010.

## 5.6 – INCOME TAXES ANALYSIS

**Income taxes expense was \$21.6 million in the first three months of 2010**, compared to \$24.7 million in the first three months of 2009.

## 6 – REVENUE BACKLOG

The Company reports revenue backlog, which is a non-GAAP financial measure, for its **categories of activities**: i) **Services**, ii) **Packages**, iii) **Operations and Maintenance**, and iv) **ICI**. Revenue 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 **ICI** accounted for under the **full consolidation** or **proportionate consolidation** methods where the Company exercises control or joint control, respectively. In the case of **Operations and Maintenance** activities, the Company **limits** the revenue 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 revenue backlog by category of activity and by segment:

AT MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

2010

BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
<b>Services and Packages</b>					
Infrastructure and Environment	\$ 645.4	\$ 2,170.8	\$ –	\$ –	\$ 2,816.2
Chemicals and Petroleum	177.6	1,417.7	–	–	1,595.3
Power	242.5	740.1	–	–	982.6
Mining and Metallurgy	262.0	–	–	–	262.0
Other Industries	85.2	148.5	–	–	233.7
<b>Operations and Maintenance</b>	–	–	2,914.5	–	2,914.5
<b>ICI</b>	–	–	–	2,637.0	2,637.0
<b>Total</b>	<b>\$ 1,412.7</b>	<b>\$ 4,477.1</b>	<b>\$ 2,914.5</b>	<b>\$ 2,637.0</b>	<b>\$ 11,441.3</b>

AT DECEMBER 31  
(IN MILLIONS OF CANADIAN DOLLARS)

2009

BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
<b>Services and Packages</b>					
Infrastructure and Environment	\$ 677.9	\$ 2,034.6	\$ –	\$ –	\$ 2,712.5
Chemicals and Petroleum	170.5	1,553.5	–	–	1,724.0
Power	253.5	436.1	–	–	689.6
Mining and Metallurgy	297.9	–	–	–	297.9
Other Industries	65.1	173.3	–	–	238.4
<b>Operations and Maintenance</b>	–	–	2,596.1	–	2,596.1
<b>ICI</b>	–	–	–	2,578.7	2,578.7
<b>Total</b>	<b>\$ 1,464.9</b>	<b>\$ 4,197.5</b>	<b>\$ 2,596.1</b>	<b>\$ 2,578.7</b>	<b>\$ 10,837.2</b>

At March 31, 2010, revenue backlog was \$11,441.3 million compared to \$10,837.2 million at December 31, 2009, mainly reflecting an increase in the Operations and Maintenance, and Packages categories.

## 6.1 – SERVICES BACKLOG

**Services backlog was \$1,412.7 million at the end of March 2010**, compared to \$1,464.9 million at the end of December 2009. The Services backlog reflects \$405.1 million in bookings during the first quarter of 2010.

## 6.2 – PACKAGES BACKLOG

**Packages backlog increased to \$4,477.1 million at the end of March 2010**, compared to \$4,197.5 million at the end of December 2009, resulting primarily from new awards in Power, and Infrastructure and Environment. The Packages backlog at March 31, 2010 includes notable additions for 2010 such as:

- > An EPC contract for the SaskPower's Boundary Dam Integrated Carbon Capture and Sequestration (CCS) Demonstration Project. The project involves transforming an aging unit at the coal-fired Boundary Dam Power Station into a source of clean electricity, near Estevan, Saskatchewan, Canada, in the Power segment;
- > The EPC portion of an agreement between Chinook Roads Partnership, 50% owned by the Company, and Alberta Transportation to design and build 25 kilometres of six-lane road including nine interchanges and 27 bridge structures in the southeast section of Calgary's Stoney Trail Ring Road, Canada, in the Infrastructure and Environment segment; and
- > An EPC contract, awarded by the New Brunswick Ministry of Transportation, for the rehabilitation of the Princess Margaret Bridge in Fredericton, Canada, in the Infrastructure and Environment segment.

After the end of the first quarter, SNC-Lavalin, as part of the McGill Health Infrastructure Group, was named Preferred Proponent for the contract to design, construct, finance and maintain the new campus of the McGill University Health Centre in Montreal, Canada. Revenue backlog on the project will only be added upon finalization of agreements.

### 6.3 – OPERATIONS AND MAINTENANCE BACKLOG

Operations and Maintenance backlog was \$2,914.5 million at the end of the first quarter of 2010, compared to \$2,596.1 million at the end of December 2009, in large part due to additional revenue backlog on existing ongoing contracts and the addition of the contract to design, build, and install a 2,600-person camp and facilities in Canada.

### 6.4 – INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

The ICI revenue backlog was \$2,637.0 million at the end of the first quarter of 2010, compared to \$2,578.7 million at December 31, 2009. The table below presents the revenue backlog of the Company's ICI by major investment as at:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31 2010	December 31 2009
AltaLink <sup>(1)</sup>	\$ 1,915.4	\$ 1,877.4
Highway 407 <sup>(2)</sup>	620.6	600.7
Others	101.0	100.6
Total backlog	\$ 2,637.0	\$ 2,578.7

- (1) AltaLink is fully consolidated, therefore the related revenue backlog as at March 31, 2010 and December 31, 2009 represents 100% of estimated recurring revenues for the next five years.
- (2) Highway 407 is proportionately consolidated, therefore the related revenue backlog as at March 31, 2010 and December 31, 2009 represents 16.77% of its estimated recurring revenues for the next five years.

## 7 – OPERATING RESULTS BY SEGMENT

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

With the exception of the ICI 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 ICI 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 ICI segment wherein 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. In the case of ICI 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 ICI segment is reported net of income taxes and represents SNC-Lavalin's net income from its ICI.

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

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

BY SEGMENT	2010		2009	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME (LOSS)
<b>Services and Packages</b>				
Infrastructure and Environment	\$ 323.8	\$ 42.5	\$ 405.1	\$ 55.5
Chemicals and Petroleum	193.8	12.5	236.7	(10.0)
Power	171.7	15.7	212.8	14.4
Mining and Metallurgy	149.5	11.9	199.4	26.2
Other Industries	65.9	5.1	72.6	7.4
<b>Operations and Maintenance</b>	<b>383.2</b>	<b>11.9</b>	<b>409.4</b>	<b>10.4</b>
<b>ICI</b>	<b>98.3</b>	<b>8.7</b>	<b>89.7</b>	<b>4.4</b>
<b>Total</b>	<b>\$ 1,386.2</b>	<b>\$ 108.3</b>	<b>\$ 1,625.7</b>	<b>\$ 108.3</b>

## 7.1 – SERVICES AND PACKAGES ACTIVITIES

Engineering and construction expertise is provided by the Company's employees as either Services or Packages activities.

### 7.1.1 – INFRASTRUCTURE AND ENVIRONMENT

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Infrastructure and Environment		
Services	\$ 140.2	\$ 139.2
Packages	183.6	265.9
<b>Total</b>	<b>\$ 323.8</b>	<b>\$ 405.1</b>
Operating income from Infrastructure and Environment	\$ 42.5	\$ 55.5
Operating income over revenues from Infrastructure and Environment (%)	13.1%	13.7%

**Infrastructure and Environment revenues for the first quarter of 2010 were \$323.8 million,** compared to \$405.1 million in the corresponding quarter of 2009, mainly reflecting a lower level of Packages activities, as certain major projects are nearing completion.

**For the first quarter of 2010, operating income was \$42.5 million,** compared to \$55.5 million in the first quarter of 2009, mainly resulting from a lower level of Packages activities, while both periods reflect favourable cost reforecasts on certain major Packages projects.

## 7.1.2 – CHEMICALS AND PETROLEUM

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Chemicals and Petroleum		
Services	\$ 77.0	\$ 104.5
Packages	116.8	132.2
<b>Total</b>	<b>\$ 193.8</b>	<b>\$ 236.7</b>
Operating income (loss) from Chemicals and Petroleum	\$ 12.5	\$ (10.0)
Operating income (loss) over revenues from Chemicals and Petroleum (%)	6.4%	(4.2%)

**Revenues from Chemicals and Petroleum were \$193.8 million in the first quarter of 2010, compared to \$236.7 million in the first quarter of 2009, reflecting a lower level of Services and Packages activities.**

**In the first quarter of 2010, the operating income from Chemicals and Petroleum totalled \$12.5 million, compared to an operating loss of \$10.0 million in the first quarter of 2009, mainly reflecting an overall higher gross margin-to-revenue ratio in 2010, as the 2009 operating loss included an unfavourable cost reforecast on a major Packages project.**

## 7.1.3 – POWER

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Power		
Services	\$ 72.8	\$ 72.1
Packages	98.9	140.7
<b>Total</b>	<b>\$ 171.7</b>	<b>\$ 212.8</b>
Operating income from Power	\$ 15.7	\$ 14.4
Operating income over revenues from Power (%)	9.1%	6.8%

**Power revenues were \$171.7 million in the first quarter of 2010, compared to \$212.8 million in the first quarter of 2009, mainly reflecting a decreased level of activities from certain major Packages projects that were completed or nearing completion.**

**The first quarter of 2010 operating income increased to \$15.7 million, compared to \$14.4 million in the first quarter last year, mainly reflecting a higher gross margin-to-revenue ratio, partially offset by a lower level of Packages activities.**



## 7.1.4 – MINING AND METALLURGY

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Mining and Metallurgy		
Services	\$ 142.1	\$ 199.4
Packages	7.4	–
<b>Total</b>	<b>\$ 149.5</b>	<b>\$ 199.4</b>
Operating income from Mining and Metallurgy	\$ 11.9	\$ 26.2
Operating income over revenues from Mining and Metallurgy (%)	8.0%	13.2%

**Mining and Metallurgy revenues in the first quarter of 2010 were \$149.5 million**, compared to \$199.4 million in the same period of 2009, due primarily to a lower level of Services activities, primarily outside Canada, as certain major projects are nearing completion.

**Operating income was \$11.9 million in the first quarter of 2010**, compared to \$26.2 million in the same period of 2009, mainly reflecting the lower level of Services activities.

## 7.1.5 – OTHER INDUSTRIES

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Other Industries		
Services	\$ 25.1	\$ 44.5
Packages	40.8	28.1
<b>Total</b>	<b>\$ 65.9</b>	<b>\$ 72.6</b>
Operating income from Other Industries	\$ 5.1	\$ 7.4
Operating income over revenues from Other Industries (%)	7.7%	10.2%

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

**Other Industries revenues were \$65.9 million in the first quarter of 2010**, compared to \$72.6 million in the first quarter of 2009, as the increased level of activities from Packages projects was more than offset by a lower level of Services activities.

**Operating income for the first quarter of 2010 was \$5.1 million**, compared to \$7.4 million in the corresponding period of 2009, as the higher gross margin-to-revenue ratio was more than offset by the higher level of selling, general and administrative expenses and the overall lower level of activities.

## 7.2 – OPERATIONS AND MAINTENANCE

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Revenues from Operations and Maintenance	\$ 383.2	\$ 409.4
Operating income from Operations and Maintenance	\$ 11.9	\$ 10.4
Operating income over revenues from Operations and Maintenance (%)	3.1%	2.5%

**Operations and Maintenance revenues in the first quarter of 2010 were \$383.2 million**, compared to \$409.4 million in the first quarter of 2009, mainly due to lower activities inside Canada.

**Operating income increased to \$11.9 million in the first quarter of 2010**, from \$10.4 million in the first quarter of 2009, mainly due to a higher gross margin-to-revenue ratio.

## 7.3 – ICI

SNC-Lavalin makes equity investments in infrastructure concessions in certain industry sectors, such as airports, bridges, cultural and public service buildings, power, mass transit systems, roads and water, which are grouped into the ICI segment and described in section 8.3 of the Company's 2009 Financial Report under Management's Discussion and Analysis.

### 7.3.1 – NET BOOK VALUE OF ICI

Given the significant effect of ICI 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 ICI by the method accounted for on SNC-Lavalin's consolidated balance sheet. As at March 31, 2010, the net book value of the Company's ICI was \$710.6 million, compared to \$720.3 million as at December 31, 2009.

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Investments accounted for by the full or proportionate consolidations methods	\$ 257.2	\$ 250.9
Investments accounted for by the equity method	179.9	194.6
Investments accounted for by the cost method	273.5	274.8
Net book value of ICI	\$ 710.6	\$ 720.3

Based on financial valuations, the Company estimates the fair value of its ICI to be significantly greater than their net book value in both periods.

The net book value of the ICI 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 \$67.2 million as at March 31, 2010, compared to a negative balance of \$60.1 million as at December 31, 2009, 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 \$9.2 million in the first quarter of 2010, compared to \$8.0 million in the same quarter of 2009.

### 7.3.2 – OPERATING RESULTS OF THE ICI SEGMENT

FIRST QUARTER ENDED MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

		2010		2009
Revenues from ICI	\$	98.3	\$	89.7
Operating Income:				
From Highway 407	\$	2.1	\$	1.4
From Other ICI		6.6		3.0
<b>Total operating income from ICI</b>	<b>\$</b>	<b>8.7</b>	<b>\$</b>	<b>4.4</b>

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 ICI segment generated an operating income of \$8.7 million in the first quarter of 2010,** compared to \$4.4 million in the first quarter of 2009. The segment's increase in operating income mainly reflects higher contributions from SKH, AltaLink and Highway 407.

## 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")**.

### 8.1 – NET CASH POSITION AND FREEHOLD CASH

#### 8.1.1 – NET CASH POSITION

As discussed in section 4 of the Company's 2009 Financial 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 ICI and its recourse debt, and was as follows at:

(IN MILLIONS OF CANADIAN DOLLARS)	March 31 2010	December 31 2009
Cash and cash equivalents	\$ 1,230.9	\$ 1,218.2
Less:		
Cash and cash equivalents from ICI <sup>(1)</sup>	41.7	42.4
Recourse debt	453.0	452.9
<b>Net cash position</b>	<b>\$ 736.2</b>	<b>\$ 722.9</b>

(1) ICI accounted for by the full or proportionate consolidation methods.

**The net cash position at March 31, 2010 was \$736.2 million, in line with December 31, 2009.**

### 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 ICI. As such, the freehold cash is derived from the cash and cash equivalents, excluding cash and cash equivalents from consolidated and proportionately consolidated ICI at the end of the period, adjusted for estimated cash requirements to complete existing projects and the estimated net cash inflows from major ongoing projects upon their completion, as well as deducting the remaining commitments to invest in ICI, and the balance of payment for business acquisitions.

**The freehold cash was approximately \$800 million as at March 31, 2010**, in line with December 31, 2009. 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)

	2010	2009
Cash flows generated from (used by):		
Operating activities	\$ 101.7	\$ (39.1)
Investing activities	(225.4)	(161.3)
Financing activities	145.8	87.8
Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations	(9.4)	(3.3)
Net increase (decrease) in cash and cash equivalents	12.7	(115.9)
Cash and cash equivalents at beginning of period	1,218.2	988.2
Cash and cash equivalents at end of period	\$ 1,230.9	\$ 872.3

**Cash and cash equivalents totalled \$1,230.9 million at March 31, 2010**, compared to \$1,218.2 million at December 31, 2009.

### 8.2.1 – CASH FLOWS RELATED TO OPERATING ACTIVITIES

**Cash generated from operating activities was \$101.7 million for the first three months of 2010**, compared to cash used by operating activities of \$39.1 million for the first three months of 2009, mainly due to:

- > Cash used by the change in non-cash working capital items of \$27.9 million in the first quarter of 2010, compared to \$174.5 million for the corresponding quarter last year, primarily reflecting lower working capital requirements in 2010.

### **8.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES**

**Cash used by investing activities was \$225.4 million for the first three months of 2010,** compared to \$161.3 million for the first three months of 2009. The major investing activities were as follows:

- > The acquisition of property and equipment from fully consolidated and proportionally consolidated infrastructure concession investments used a total cash outflow of approximately \$116.5 million in the first quarter of 2010, compared to \$44.1 million in the same quarter of 2009, both in large part due to AltaLink, which relates mainly to capital expenditures for transmission projects.
- > Restricted cash increased by \$79.7 million in the first quarter of 2010, primarily reflecting cash proceeds received from the lenders of the recently awarded Chinook project, compared to \$65.9 million in the corresponding quarter of 2009, mainly reflecting the Company's proportionate share of the cash proceeds received by Highway 407 from the early refinancing of a bond, which was repaid upon maturity in 2009.
- > The cash outflow from the acquisition of businesses of \$19.7 million in the first quarter of 2010, reflecting mainly the payment of a balance of purchase price for a business acquisition completed in 2009, compared to \$5.2 million in the corresponding period of 2009.
- > The acquisition of property and equipment for Services, Packages, and Operations and Maintenance activities for a total cash outflow of \$6.1 million in the first quarter of 2010, compared to \$8.6 million in the corresponding quarter of 2009.
- > Payments for infrastructure concession investments totalled \$2.0 million for the first quarter of 2010, compared to \$32.2 million for the first three months of 2009, mainly reflecting payments for the Ambatovy investment in 2009.

### 8.2.3 – CASH FLOWS RELATED TO FINANCING ACTIVITIES

**Cash generated from financing activities was \$145.8 million in the first quarter of 2010,** compared to \$87.8 million in the first quarter of 2009. The major financing activities were as follows:

- > The increase in non-recourse long-term debt from infrastructure concession investments totalled \$201.6 million in the first three months of 2010, compared to \$93.0 million in the corresponding period of 2009, while the repayment of non-recourse long-term debt from infrastructure concession investments amounted to \$49.0 million in the first three months of 2010, compared to \$1.1 million in the corresponding period of 2009.
- > Under its normal course issuer bid, the Company repurchased 168,000 shares and 98,900 shares for a total cash consideration of \$8.5 million and \$3.5 million during the first three months of 2010 and 2009, respectively.
- > The issuance of shares pursuant to the exercise of stock options generated \$2.7 million in cash in the first three months of 2010 (102,027 stock options at an average price of \$26.18), compared to \$1.5 million in the first three months of 2009 (91,100 stock options at an average price of \$16.68). As at April 28, 2010, there were 6,010,062 stock options outstanding. At that same date there were 150,987,144 shares issued and outstanding.
- > During the first quarter of 2010 and 2009, the Company declared dividends totalling \$25.7 million and \$22.6 million, respectively, both of which were paid during their corresponding second quarters, resulting in no cash outflows from the payment of dividends in the first quarter of either 2010 and 2009.

### **8.3 – DIVIDENDS DECLARED**

On both March 5, 2010 and May 6, 2010, the Board of Directors declared a quarterly cash dividend of \$0.17 per share, payable April 1, 2010 and June 3, 2010, respectively, representing in both cases an increase of 13.3% compared to the corresponding periods of 2009.

### **8.4 – 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 4 of the Company's 2009 Financial 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 25.7% for the 12-month period ended March 31, 2010**, compared to 28.2% 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, which totalled 10.0%.

### **8.5 – 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 2009 annual audited consolidated financial statements. In the first quarter of 2010, there was no material change to the nature of risks arising from financial instruments, related risk management and classification of financial instruments. Furthermore, there was 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 2009 annual audited consolidated financial statements. See Note 2 to the Company's 2009 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 2009 annual audited consolidated financial statements.

### **9.1 – FUTURE CHANGES IN ACCOUNTING STANDARDS**

#### **ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) IN CANADA**

During the three-month period ended March 31, 2010, the Company continued to assess potential impacts of expected accounting differences on its consolidated financial statements. This assessment is progressing well and the quantification of the impact is expected to be complete in the second quarter of 2010, with the publication of a summary of the results expected in the third quarter of 2010. Moreover, there were no significant changes during the three-month period ended March 31, 2010 to the implementation plan adopted by the Company. Refer to section 13 of the Company's 2009 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 14 of the Company's 2009 Financial Report under Management's Discussion and Analysis. Risks and uncertainties and risk management practices have not materially changed for the first three months of 2010.

## 11 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2010	2009				2008		
	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER
Revenues	\$ 1,386.2	\$ 1,583.2	\$ 1,422.4	\$ 1,470.4	\$ 1,625.7	\$ 1,943.9	\$ 1,685.4	\$ 1,702.5
Net income	\$ 71.9	\$ 98.7	\$ 103.2	\$ 80.0	\$ 77.5	\$ 75.0	\$ 91.3	\$ 75.4
Basic earnings per share (\$)	\$ 0.48	\$ 0.65	\$ 0.68	\$ 0.53	\$ 0.51	\$ 0.50	\$ 0.61	\$ 0.50
Diluted earnings per share (\$)	\$ 0.47	\$ 0.65	\$ 0.68	\$ 0.53	\$ 0.51	\$ 0.49	\$ 0.60	\$ 0.49
Dividend declared per share (\$)	\$ 0.17	\$ 0.17	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.12	\$ 0.12

## 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 for external purposes in accordance with the Company's GAAP. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period ended March 31, 2010, 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](http://www.snclavalin.com)) as well as on SEDAR ([www.sedar.com](http://www.sedar.com)).