



SNC • LAVALIN

Q2

Interim Consolidated Financial Statements (unaudited)

As at and for the six-month period ended
June 30, 2010 and 2009

Consolidated Statements of Income

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND SHARES)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	Note	2010	2009	2010	2009
Revenues by activity:					
Services		\$ 501,556	\$ 568,766	\$ 958,812	\$ 1,128,607
Packages		537,757	575,497	985,195	1,142,323
Operations and Maintenance		255,869	241,294	639,081	650,669
Infrastructure Concession Investments		130,910	84,794	229,194	174,497
		1,426,092	1,470,351	2,812,282	3,096,096
Direct costs of activities		1,105,413	1,209,533	2,225,749	2,567,468
Gross margin		320,679	260,818	586,533	528,628
Selling, general and administrative expenses		147,560	131,669	280,676	268,631
Interest and capital taxes	5	42,523	22,340	79,181	48,983
Income before income taxes and non-controlling interest		130,596	106,809	226,676	211,014
Income taxes		29,116	24,711	50,692	49,457
Non-controlling interest		3,764	2,067	6,348	4,041
Net income		\$ 97,716	\$ 80,031	\$ 169,636	\$ 157,516
Earnings per share (\$)	7				
Basic		\$ 0.65	\$ 0.53	\$ 1.12	\$ 1.04
Diluted		\$ 0.64	\$ 0.53	\$ 1.11	\$ 1.04
Weighted average number of outstanding shares (in thousands)					
Basic		150,932	151,040	150,962	151,012
Diluted		152,000	151,676	152,176	151,605

See accompanying notes to interim consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(UNAUDITED)

SIX MONTHS ENDED JUNE 30
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES)

2010

	Note	SHARE CAPITAL		CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 4)	(1)	RETAINED EARNINGS	(1)	TOTAL SHAREHOLDERS' EQUITY
		COMMON SHARES (IN THOUSANDS)	AMOUNT						
Balance at beginning of period		151,033	\$ 397,735	\$ 33,473	\$ (23,306)		\$ 1,026,790		\$ 1,434,692
Comprehensive income :									
Net income		—	—	—	—		169,636		169,636
Exchange differences on translating self-sustaining foreign operations		—	—	—	(33,586)		—		(33,586)
Net unrealized loss on available-for-sale financial assets ⁽²⁾		—	—	—	(898)		—		(898)
Net unrealized loss on derivative financial instruments designated as cash flow hedges ⁽³⁾		—	—	—	(22,946)		—		(22,946)
Total comprehensive income									112,206
Dividends declared		—	—	—	—		(51,318)		(51,318)
Stock option compensation	8	—	—	10,009	—		—		10,009
Shares issued under stock option plans		261	7,725	(1,403)	—		—		6,322
Shares redeemed and cancelled		(353)	(947)	—	—		(16,219)		(17,166)
Balance at end of period		150,941	\$ 404,513	\$ 42,079	\$ (80,736)		\$ 1,128,889		\$ 1,494,745

SIX MONTHS ENDED JUNE 30
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT COMMON SHARES)

2009

	Note	SHARE CAPITAL		CONTRIBUTED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NOTE 4)	(1)	RETAINED EARNINGS	(1)	TOTAL SHAREHOLDERS' EQUITY
		COMMON SHARES (IN THOUSANDS)	AMOUNT						
Balance at beginning of period		151,033	\$ 385,651	\$ 24,247	\$ (101,467)		\$ 780,722		\$ 1,089,153
Comprehensive income :									
Net income		—	—	—	—		157,516		157,516
Exchange differences on translating self-sustaining foreign operations		—	—	—	(4,006)		—		(4,006)
Net unrealized gain on available-for-sale financial assets ⁽²⁾		—	—	—	6,225		—		6,225
Net unrealized gain on derivative financial instruments designated as cash flow hedges ⁽³⁾		—	—	—	45,830		—		45,830
Total comprehensive income									205,565
Dividends declared		—	—	—	—		(45,306)		(45,306)
Stock option compensation	8	—	—	7,803	—		—		7,803
Shares issued under stock option plans		133	2,817	(544)	—		—		2,273
Shares redeemed and cancelled		(121)	(310)	—	—		(3,921)		(4,231)
Balance at end of period		151,045	\$ 388,158	\$ 31,506	\$ (53,418)		\$ 889,011		\$ 1,255,257

- (1) Total of accumulated other comprehensive income (loss) and retained earnings was \$1,048.2 million at June 30, 2010 (December 31, 2009: \$1,003.5 million).
- (2) Net of income tax benefit of \$0.2 million for the six-month period ended June 30, 2010 (six-month period ended June 30, 2009: net of income tax expense of \$nil).
- (3) Net of income tax benefit of \$12.7 million for the six-month period ended June 30, 2010 (six-month period ended June 30, 2009: net of income tax expense of \$14.4 million).

See accompanying notes to interim consolidated financial statements.

Consolidated Balance Sheets

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)		Note	June 30 2010	December 31 2009
Assets				
Current				
Cash and cash equivalents			\$ 1,130,293	\$ 1,218,225
Restricted cash			175,835	68,185
Trade and other receivables			1,332,246	1,480,478
Contracts in progress			619,066	513,578
Future income tax asset			92,657	112,557
Total current assets			3,350,097	3,393,023
Property and equipment:				
From infrastructure concession investments	3		2,391,743	2,217,047
From other activities			106,487	113,952
Goodwill			514,691	520,862
Infrastructure concession investments accounted for by the equity or cost methods	3		432,824	469,402
Other non-current assets			564,582	491,997
Total assets			\$ 7,360,424	\$ 7,206,283
Liabilities				
Current				
Trade and other payables			\$ 1,430,422	\$ 1,702,034
Downpayments on contracts			353,941	397,329
Deferred revenues			546,072	505,531
Current portion of long-term debt:				
Recourse			104,960	104,874
Non-recourse from infrastructure concession investments	3		215,407	139,183
Total current liabilities			2,650,802	2,848,951
Long-term debt:				
Recourse			348,125	348,048
Non-recourse from infrastructure concession investments	3		2,296,247	2,005,485
Future income tax liability			22,783	24,408
Other non-current liabilities			460,964	464,666
Total liabilities			5,778,921	5,691,558
Non-controlling interest			86,758	80,033
Shareholders' equity			1,494,745	1,434,692
Total liabilities, non-controlling interest and shareholders' equity			\$ 7,360,424	\$ 7,206,283

See accompanying notes to interim consolidated financial statements.

Consolidated Statements of Cash Flows

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	Note	2010	2009	2010	2009
Operating activities					
Net income		\$ 97,716	\$ 80,031	\$ 169,636	\$ 157,516
Items not involving a movement of cash:					
Depreciation of property and equipment and amortization of other non-current assets:					
From infrastructure concession investments		22,406	19,883	44,528	42,589
From other activities		9,673	10,839	19,912	20,854
Future income taxes		19,899	18,844	31,066	31,651
Accrued interest expense on non-recourse long-term debt from infrastructure concession investments		1,104	6,881	2,425	8,719
Stock option compensation	8	2,761	3,708	10,009	7,803
Loss (income) from infrastructure concession investments accounted for by the equity method		(5,017)	3,704	(3,364)	6,220
Non-controlling interest		3,764	2,067	6,348	4,041
Other		(8,349)	(2,975)	(7,061)	(1,002)
Dividends and distributions received from infrastructure concession investments accounted for by the equity method		6	10,005	6	10,005
		143,963	152,987	273,505	288,396
Net change in non-cash working capital items	6	(159,601)	(206,266)	(187,479)	(380,766)
		(15,638)	(53,279)	86,026	(92,370)
Investing activities					
Acquisition of property and equipment:					
From infrastructure concession investments		(102,855)	(81,503)	(219,321)	(125,584)
From other activities		(7,736)	(7,160)	(13,849)	(15,731)
Payments for infrastructure concession investments		(10,031)	(32,147)	(11,989)	(64,388)
Increase in loan to Project Operator of Ambatovy project		(5,557)	(22,756)	(5,557)	(30,402)
Acquisition of businesses		(8,263)	(13,213)	(28,002)	(18,371)
Change in restricted cash position		(96,446)	40,152	(176,117)	(25,723)
Other		(2,606)	268	(4,086)	2,510
		(233,494)	(116,359)	(458,921)	(277,689)
Financing activities					
Repayment of non-recourse long-term debt from infrastructure concession investments					
		(1,609)	(120,782)	(50,562)	(121,894)
Increase in non-recourse long-term debt from infrastructure concession investments		214,416	102,864	416,017	195,876
Proceeds from exercise of stock options		3,652	753	6,322	2,273
Redemption of shares		(8,696)	(777)	(17,166)	(4,231)
Dividends paid to Company's shareholders		(51,318)	(45,306)	(51,318)	(45,306)
Other		(889)	(1,968)	(1,937)	(4,175)
		155,556	(65,216)	301,356	22,543
Decrease in currency translation adjustment on cash and cash equivalents held in self-sustaining foreign operations		(7,047)	(1,788)	(16,393)	(5,111)
Net decrease in cash and cash equivalents		(100,623)	(236,642)	(87,932)	(352,627)
Cash and cash equivalents at beginning of period		1,230,916	872,251	1,218,225	988,236
Cash and cash equivalents at end of period		\$ 1,130,293	\$ 635,609	\$ 1,130,293	\$ 635,609
Supplementary cash flow information	6				

See accompanying notes to interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2010 AND 2009
(TABULAR FIGURES IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. Reference 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.

A) BASIS OF PRESENTATION

The Company’s financial statements are prepared in **Canadian dollars** and are in accordance with **Canadian generally accepted accounting principles (“GAAP”)**.

These interim unaudited consolidated financial statements (“interim financial statements”) use the same accounting policies and methods used in the preparation of the Company’s 2009 annual audited consolidated financial statements. All disclosures required for annual audited consolidated financial statements have not been included in these interim financial statements. Therefore, these interim financial statements should be read in conjunction with the Company’s most recent audited annual consolidated financial statements.

In these interim financial statements, activities from Services, Packages, and Operations and Maintenance are collectively referred to as “from other activities” or “excluding ICI” to distinguish them from Infrastructure Concession Investments (“ICI”).

B) PRINCIPLES OF CONSOLIDATION

The interim financial statements include the accounts of the Company, its subsidiaries and its pro-rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. An entity that is fully consolidated but not wholly-owned by SNC-Lavalin results in non-controlling interests which are presented separately on the consolidated balance sheet, while the portion of net income attributable to such non-controlling interests is also shown separately on the consolidated statement of income. Investments in entities in which SNC-Lavalin has significant influence, but does not exercise control or joint control, are accounted for by the equity method. Investments in entities in which SNC-Lavalin does not have significant influence are accounted for by the cost method.

2. SEGMENT DISCLOSURES

	SECOND QUARTER				SIX MONTHS ENDED JUNE 30			
	2010		2009		2010		2009	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME (LOSS)	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME (LOSS)
Services and Packages								
Infrastructure and Environment	\$ 415,873	\$ 55,008	\$ 435,418	\$ 61,567	\$ 739,699	\$ 97,571	\$ 840,488	\$ 117,063
Chemicals and Petroleum	238,521	9,524	169,547	(14,803)	432,308	22,003	406,314	(24,814)
Power	163,700	25,283	239,460	25,259	335,394	40,952	452,258	39,624
Mining and Metallurgy	161,515	14,038	211,098	20,821	310,985	25,961	410,471	47,075
Other Industries	59,704	5,138	88,740	12,116	125,621	10,214	161,399	19,554
Operations and Maintenance	255,869	2,178	241,294	(574)	639,081	14,068	650,669	9,780
ICI	130,910	24,730	84,794	360	229,194	33,393	174,497	4,744
	<u>\$ 1,426,092</u>	<u>135,899</u>	<u>\$ 1,470,351</u>	<u>104,746</u>	<u>\$ 2,812,282</u>	<u>244,162</u>	<u>\$ 3,096,096</u>	<u>213,026</u>
Reversal of items included above:								
Imputed interest benefit		(7,454)		(4,414)		(16,327)		(11,713)
Net interest expense and capital taxes from ICI		33,887		21,150		63,656		47,434
Income taxes from ICI		6,975		5,580		7,924		7,143
Non-controlling interest before income taxes		3,812		2,087		6,442		4,107
Income before interest, taxes and non-controlling interest		173,119		129,149		305,857		259,997
Interest and capital taxes (Note 5)		42,523		22,340		79,181		48,983
Income before income taxes and non-controlling interest		130,596		106,809		226,676		211,014
Income taxes		29,116		24,711		50,692		49,457
Non-controlling interest		3,764		2,067		6,348		4,041
Net income	\$ 97,716		\$ 80,031		\$ 169,636		\$ 157,516	

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010		2009	
	2010	2009	2010	2009
Supplementary information:				
SNC-Lavalin's net income (loss) from ICI				
From Highway 407	\$ 5,647	\$ 1,340	\$ 7,756	\$ 2,688
From other ICI	19,083	(980)	25,637	2,056
Net income excluding ICI	72,986	79,671	136,243	152,772
Net income	\$ 97,716	\$ 80,031	\$ 169,636	\$ 157,516

The Company discloses its 16.77% proportionate share of Highway 407's net income as well as its net income (loss) from other ICI as shown above, as this information is useful in assessing the value of the Company's share price.

3. INFRASTRUCTURE CONCESSION INVESTMENTS

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. In accordance with Canadian GAAP, SNC-Lavalin'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.

When making equity investments in infrastructure concessions, SNC-Lavalin ensures that the debt included in these concessions is non-recourse to the general credit of the Company. Also, when making such equity investments, SNC-Lavalin may not be required to make its equity contribution immediately but, instead, may commit to making its equity contribution over time.

Infrastructure concession investments have a significant impact on the Company's consolidated balance sheet. Specifically, these investments have significant property and equipment, and long-term debt, which is non-recourse to the general credit of the Company. In order to assist the reader in understanding the impact of the infrastructure concession investments, additional information is provided in the table below on the assets, liabilities and non-controlling interest of infrastructure concession investments accounted for by the full or proportionate consolidation methods and on the net book value of the Company's infrastructure concession investments.

	June 30 2010	December 31 2009
Cash and cash equivalents	\$ 34,534	\$ 42,434
Restricted cash	150,611	47,616
Trade and other receivables, contracts in progress and current future income tax asset	142,848	96,340
Property and equipment	2,391,743	2,217,047
Goodwill	203,786	203,786
Other non-current assets	460,846	409,903
Total assets	3,384,368	3,017,126
Trade and other payables	164,060	166,182
Current portion of non-recourse long-term debt	215,407	139,183
Non-recourse long-term debt	2,296,247	2,005,485
Other non-current liabilities and non-current future income tax liability	372,402	378,560
Non-controlling interest	83,520	76,852
Total liabilities and non-controlling interest	3,131,636	2,766,262
Net book value of ICI accounted for by the full or proportionate consolidation methods	252,732	250,864
Net book value of ICI accounted for by the equity method	159,542	194,559
Net book value of ICI accounted for by the cost method	273,282	274,843
Net book value of ICI accounted for by the equity or cost methods as shown on balance sheet	432,824	469,402
Net book value of total ICI	\$ 685,556	\$ 720,266

CHINOOK ROADS PARTNERSHIP

At the end of March 2010, Chinook Roads Partnership ("Chinook"), an entity accounted for by the proportionate consolidation method in which SNC-Lavalin holds a 50% equity interest, 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.

Under this public-private partnership contract, Chinook will design and build 25 kilometres of six-lane road including nine interchanges, one road flyover, two rail flyovers and 27 bridge structures. Once completed, Chinook will operate and maintain the road and other existing infrastructure until 2043.

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.

Also at the end of March 2010, Chinook obtained project financing, which is non-recourse to SNC-Lavalin, for which SNC-Lavalin's proportionate share represents approximately \$75 million and which is presented as non-recourse long-term debt from ICI.

3. INFRASTRUCTURE CONCESSION INVESTMENTS (CONTINUED)

McGILL UNIVERSITY HEALTH CENTRE PROJECT

As disclosed in Note 12 “Subsequent Events” below, SNC-Lavalin and the McGill University Health Centre (“MUHC”) announced, in July 2010, the financial closure and official signing of a partnership agreement between the MUHC and the McGill Health Infrastructure Group (“MHIG”), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, the MHIG will design, build, finance and maintain the MUHC’s new Glen Campus.

4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table provides the balances of the components of accumulated other comprehensive income (loss) as at:

	June 30 2010	December 31 2009
Accumulated exchange differences on translating self-sustaining foreign operations	\$ (42,878)	\$ (9,292)
Accumulated net unrealized loss on available-for-sale financial assets	(2,793)	(1,895)
Accumulated net unrealized loss on derivative financial instruments designated as cash flow hedges	(35,065)	(12,119)
Accumulated other comprehensive loss	\$ (80,736)	\$ (23,306)

For the six-month periods ended June 30, 2010 and 2009, no amount was reclassified to net income for accumulated currency translation adjustment on self-sustaining foreign operations and for available-for-sale financial assets. For derivative financial instruments designated as cash flow hedges, any amount of the accumulated other comprehensive income (loss) that is reclassified to net income offsets the gain or loss recognized in net income on the underlying hedged items, since the Company’s cash flow hedges are highly effective.

5. INTEREST AND CAPITAL TAXES

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	2010	2009
Interest revenues:				
From ICI	\$ (316)	\$ (10,378)	\$ (471)	\$ (10,949)
From other activities	(1,082)	(1,056)	(1,885)	(3,008)
Interest on long-term debt:				
Recourse	7,528	2,040	14,998	4,085
Non-recourse from ICI	31,515	34,968	61,678	62,555
Capital taxes and other:				
From ICI	2,688	(3,440)	2,449	(4,172)
From other activities	2,190	206	2,412	472
Interest and capital taxes	\$ 42,523	\$ 22,340	\$ 79,181	\$ 48,983

6. SUPPLEMENTARY CASH FLOW INFORMATION

A) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The following table presents the items included in the net change in non-cash working capital related to operating activities presented in the statements of cash flows:

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	2010	2009
Decrease (increase) in trade and other receivables	\$ 53,454	\$ (14,538)	\$ 108,736	\$ (29,272)
Decrease (increase) in contracts in progress	(101,713)	151,062	(115,012)	112,157
Decrease in trade and other payables	(141,026)	(213,576)	(198,958)	(284,931)
Increase (decrease) in downpayments on contracts	2,781	(83,368)	(37,778)	(137,115)
Increase (decrease) in deferred revenues	26,903	(45,846)	55,533	(41,605)
Net change in non-cash working capital items	\$ (159,601)	\$ (206,266)	\$ (187,479)	\$ (380,766)

B) INTEREST PAID AND INCOME TAXES PAID

The following table presents interest paid and income taxes paid:

	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	2010	2009
Interest paid:				
From ICI	\$ 38,896	\$ 33,449	\$ 59,741	\$ 53,685
From other activities	678	93	16,033	4,339
	\$ 39,574	\$ 33,542	\$ 75,774	\$ 58,024
Income taxes paid	\$ 3,303	\$ 7,319	\$ 23,160	\$ 35,053

7. EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the period by the basic and diluted weighted average number of shares for the period, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of grant, using the treasury stock method, with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

(IN THOUSANDS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	2010	2009
Weighted average number of outstanding shares – basic	150,932	151,040	150,962	151,012
Dilutive effect of stock options	1,068	636	1,214	593
Weighted average number of outstanding shares – diluted	152,000	151,676	152,176	151,605

In the six-month period ended June 30, 2010, 1,094,000 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive (six-month period ended June 30, 2009: 2,805,476 outstanding stock options).

8. STOCK OPTION COMPENSATION

The stock option compensation cost recorded as an expense in the second quarter and the first six months of 2010 was \$2.8 million (2009: \$3.7 million) and \$10.0 million (2009: \$7.8 million), respectively. The following table presents the weighted average assumptions used to determine the stock option compensation cost, using the Black-Scholes option pricing model:

	SECOND QUARTER ^(*)		SIX MONTHS ENDED JUNE 30	
	2010	2009	2010	2009
Risk-free interest rate	-	2.21%	2.47%	1.86%
Expected stock price volatility	-	35.39%	36.65%	35.21%
Expected option life	-	4 years	4 years	4 years
Expected dividend yield	-	1.00%	1.00%	1.00%

(*) There are no figures for the second quarter of 2010 as no stock options were granted to employees during that period.

During the second quarter of 2010, no stock option (second quarter of 2009: 375,358 stock options with a weighted average fair value of \$10.63 per stock option) were granted to employees. For the six-month period ended June 30, 2010, the Company granted 1,098,500 stock options (six-month period ended June 30, 2009: 1,426,795 stock options) to employees with a weighted average fair value of \$15.49 per stock option (2009: \$9.21 per stock option).

As at June 30, 2010, 5,844,032 stock options were outstanding (December 31, 2009: 5,073,954 stock options), while 543,016 stock options remained available (December 31, 2009: 1,629,891 stock options) for future grants under the Company's 2009 Stock Option Plan.

In 2010, the Company introduced a Restricted Share Unit ("RSU") plan for certain employees, whereby such employees will receive a cash payment equivalent to the number of units held multiplied by the value of the Company's common shares at the end of a three-year vesting period. In the event of cessation of employment, except under certain circumstances such as death or retirement, units are to be cancelled immediately. In 2010, the Company granted 72,400 RSU (2009: none) and recorded a compensation cost of \$0.4 million in the six-month period ended June 30, 2010 (six-month period ended June 30, 2009: \$nil), such cost being recognized over the vesting period of the units.

9. PENSION PLANS

SNC-Lavalin has defined contribution pension plans for which its contributions are recorded as an expense in the period in which they are incurred, as well as defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

SNC-Lavalin's total defined benefit charges for its defined benefit pension plans were \$2.2 million for the second quarter of 2010 (second quarter of 2009: \$3.3 million) and \$4.4 million for the first six months ended June 30, 2010 (six months ended June 30, 2009: \$6.4 million).

10. RELATED PARTY TRANSACTIONS

In the normal course of its operations, SNC-Lavalin enters into transactions with certain of its ICI. Investments in which SNC-Lavalin has significant influence, which are accounted for by the equity method, are considered related parties, consistent with Canadian GAAP.

For the second quarter and the first six months of 2010, SNC-Lavalin recognized revenues of \$42.3 million (second quarter of 2009: \$114.3 million) and \$80.8 million (first six months of 2009: \$230.9 million), respectively, from contracts with ICI accounted for by the equity method.

SNC-Lavalin's trade and other receivables from these ICI accounted for by the equity method amounted to \$10.8 million as at June 30, 2010 (December 31, 2009: \$102.7 million), while SNC-Lavalin's remaining commitment as at June 30, 2010 to invest in these ICI accounted for by the equity method was \$71.9 million (December 31, 2009: \$74.2 million).

All of these related party transactions are measured at the exchange amount agreed upon by the related parties, which corresponds to fair value.

11. COMPARATIVE FIGURES

Certain 2009 figures have been reclassified to conform to the presentation adopted in 2010.

12. SUBSEQUENT EVENTS

McGILL UNIVERSITY HEALTH CENTRE PROJECT

In July 2010, SNC-Lavalin and the McGill University Health Centre ("MUHC") announced the financial closure and official signing of a partnership agreement between the MUHC and the McGill Health Infrastructure Group ("MHIG"), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, the MHIG will design, build, finance and maintain the MUHC's new Glen Campus. Also in July 2010, MHIG awarded to SNC-Lavalin an EPC contract for approximately \$1.6 billion to design and build the facilities. Construction is underway and should be completed in the autumn of 2014. Once completed, MHIG will maintain the campus for the next 30 years.

Consistent with Canadian GAAP, intercompany profits generated by SNC-Lavalin from its revenues on its EPC contract with MHIG will not be eliminated, as the transactions are considered realized by MHIG through its contractual agreement with MUHC.

Also in July 2010, the MHIG raised \$764 million through the sale of Senior Secured Bonds, while SNC-Lavalin and Innisfree Secondary Fund LP committed to invest, directly or indirectly, an amount of \$192 million in equity and subordinated debt.

DISPOSAL OF TECHNOLOGY SOLUTION ASSETS

On August 2, 2010, SNC-Lavalin announced it had concluded an agreement with a third-party to dispose of certain technology solution assets that help manage and optimize the flow of electricity through power grids. The transaction, which will affect the Company's results for the third quarter of 2010, is expected to generate a gain before taxes of approximately \$23 million (gain after taxes of approximately \$20 million). The disposal of these assets will not have a significant impact on the Company's future revenues.



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