Management's Discussion and Analysis

Second Quarter and First Six Months of 2010 versus
Second Quarter and First Six Months of 2009

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August 6th, 2010

All financial information in Canadian dollars, unless otherwise indicated

1 – HIGHLIGHTS OF THE FIRST SIX MONTHS OF 2010

INCREASE IN NET INCOME

> Net income for the second quarter ended June 30, 2010 increased to $97.7 million ($0.64 per share on a diluted basis), compared to $80.0 million ($0.53 per share on a diluted basis) for the second quarter of 2009. For the first six months of 2010, net income increased by 7.7% to $169.6 million ($1.11 per share on a diluted basis), compared to $157.5 million ($1.04 per share on a diluted basis) for the corresponding period of 2009. The increase in net income in both periods reflects a higher net income from Infrastructure Concession Investments ("ICI"), partly offset by a lower net income excluding ICI.

- Net income excluding ICI amounted to $73.0 million for the second quarter of 2010, compared to $79.6 million for the corresponding period of 2009. Net income excluding ICI was $136.2 million for the first six months of 2010, compared to $152.8 million in the first six months of 2009. The decrease was mainly due to a lower operating income in the Mining and Metallurgy, and Infrastructure and Environment segments, while the Chemicals and Petroleum, and Operations and Maintenance segments have generated higher operating income.
- Net income from ICI for the second quarter of 2010 amounted to $24.7 million, compared to $0.4 million in the second quarter of 2009. Net income from ICI for the first six months of 2010 increased to $33.4 million, compared to $4.7 million for the corresponding period of 2009, reflecting mainly a higher net income from AltaLink and Highway 407, as well as Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), which owns, operates and maintains a power plant in Algeria that started operations in the second half of 2009.

LOWER REVENUES

> For the second quarter of 2010, revenues amounted to $1.4 billion, compared to $1.5 billion in the corresponding period of 2009. For the first six months of 2010, revenues were $2.8 billion, compared to $3.1 billion for the corresponding period of 2009, mainly reflecting lower revenues from Services and Packages activities.

SOLID FINANCIAL POSITION

> The Company's financial position remains solid with cash and cash equivalents of $1,130.3 million at June 30, 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 $642.7 million at June 30, 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 remained strong at $11.4 billion as at June 30, 2010, in line with March 31, 2010 and compared to $10.8 billion as at December 31, 2009:

(IN MILLIONS OF CANADIAN DOLLARS)	**June 30 2010**	March 31 2010	December 31 2009
Services	**$ 1,485.4**	$ 1,412.7	$ 1,464.9
Packages	**4,348.3**	4,477.1	4,197.5
Operations and Maintenance	**2,808.8**	2,914.5	2,596.1
ICI	**2,740.5**	2,637.0	2,578.7
Total	**$ 11,383.0**	$ 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.

> 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 in Montreal, Canada. 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. Packages revenue backlog related to the EPC contract will be included in the Company's consolidated revenue backlog in the third quarter of 2010.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

> ROASE was 25.7% for the 12-month period ended June 30, 2010, compared to 27.3% 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 and considering its good results for the first six months of 2010, SNC-Lavalin now expects its 2010 net income to be 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, 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
Performance	
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.
Liquidity	
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 readily be reconciled to GAAP measures, and therefore this is done so in section 8.1.1 of this report.

5 – BREAKDOWN OF INCOME STATEMENT

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues by activity:				
Services	**$ 501.5**	$ 568.8	**$ 958.8**	$ 1,128.6
Packages	**537.8**	575.5	**985.2**	1,142.3
Operations and Maintenance	**255.9**	241.3	**639.1**	650.7
ICI	**130.9**	84.8	**229.2**	174.5
	$ 1,426.1	$ 1,470.4	**$ 2,812.3**	$ 3,096.1
Gross margin	**$ 320.7**	$ 260.8	**$ 586.6**	$ 528.6
Selling, general and administrative expenses	**147.6**	131.7	**280.7**	268.6
Interest and capital taxes:				
From ICI	**33.9**	21.1	**63.7**	47.4
From other activities	**8.6**	1.2	**15.5**	1.6
	42.5	22.3	**79.2**	49.0
Income before income taxes and non-controlling interest	**130.6**	106.8	**226.7**	211.0
Income taxes	**29.1**	24.7	**50.7**	49.5
Non-controlling interest	**3.8**	2.1	**6.4**	4.0
Net income	**$ 97.7**	$ 80.0	**$ 169.6**	$ 157.5
Earnings per share ($)				
Basic	**$ 0.65**	$ 0.53	**$ 1.12**	$ 1.04
Diluted	**$ 0.64**	$ 0.53	**$ 1.11**	$ 1.04
Supplementary information:				
SNC-Lavalin's net income (loss) from ICI				
From Highway 407	**$ 5.6**	$ 1.3	**$ 7.8**	$ 2.7
From other ICI	**19.1**	(0.9)	**25.6**	2.0
Net income excluding ICI	**73.0**	79.6	**136.2**	152.8
Net income	**$ 97.7**	$ 80.0	**$ 169.6**	$ 157.5

5.1 – NET INCOME

Net income for the second quarter ended June 30, 2010 increased to $97.7 million ($0.64 per share on a diluted basis), compared to $80.0 million ($0.53 per share on a diluted basis) for the second quarter of 2009. **For the first six months of 2010, net income increased by 7.7% to $169.6 million ($1.11 per share on a diluted basis)**, compared to $157.5 million ($1.04 per share on a diluted basis) for the corresponding period of 2009. The increase in net income in both periods reflects a higher net income from ICI, partially offset by a lower net income excluding ICI.

Net income excluding ICI amounted to $73.0 million for the second quarter of 2010, compared to $79.6 million for the corresponding period of 2009. **Net income excluding ICI was $136.2 million for the first six months of 2010**, compared to $152.8 million in the first six months of 2009. The decrease was mainly due to a lower operating income in the Mining and Metallurgy, and Infrastructure and Environment segments, while the Chemicals and Petroleum, and Operations and Maintenance segments have generated higher operating income.

Net income from ICI for the second quarter of 2010 amounted to $24.7 million, compared to $0.4 million in the second quarter of 2009. **Net income from ICI for the first six months of 2010 increased to $33.4 million**, compared to $4.7 million for the corresponding period of 2009, reflecting mainly a higher net income from AltaLink and Highway 407, as well as SKH, which owns, operates and maintains a power plant in Algeria that started operations in the second half of 2009.

5.2 – REVENUE ANALYSIS

For the second quarter of 2010, revenues amounted to $1,426.1 million compared to $1,470.4 million in the corresponding period of 2009. **Year-to-date revenues were $2,812.3 million**, compared to $3,096.1 million in the corresponding period of 2009, mainly reflecting lower revenues from Services and Packages activities.

Services revenues in the second quarter of 2010 were $501.5 million, compared to $568.8 million in the corresponding quarter of 2009. **Year-to-date revenues were $958.8 million,** compared to $1,128.6 million in the corresponding period of 2009, mainly reflecting lower activities in Mining and Metallurgy, Other Industries, and Chemicals and Petroleum.

Packages revenues in the second quarter of 2010 were $537.8 million, compared to $575.5 million in the second quarter of 2009. **Year-to-date revenues were $985.2 million**, compared to $1,142.3 million in the corresponding period of 2009, mainly reflecting a lower level of activities in Power, and Infrastructure and Environment, primarily due to the near-completion or completion of certain major projects, partially offset by an increased level of activities mainly in Chemicals and Petroleum.

Operations and Maintenance revenues in the second quarter of 2010 were $255.9 million, compared to $241.3 million in the second quarter of 2009. **Year-to-date revenues were $639.1 million**, compared to $650.7 million in the corresponding period of 2009, mainly due to lower activities in Canada.

ICI revenues in the second quarter of 2010 increased to $130.9 million, from $84.8 million in the second quarter of 2009. **Year-to-date revenues were $229.2 million**, compared to $174.5 million in the corresponding period 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 of 2009.

5.3 – GROSS MARGIN ANALYSIS

Gross margin for the second quarter of 2010 was $320.7 million, compared to $260.8 million for the same period last year. **Gross margin excluding ICI was $246.5 million for the second quarter of 2010,** compared to $229.8 million in the second quarter of 2009. **Year-to-date gross margin was $586.6 million**, compared to $528.6 million in the corresponding period of 2009. **Year-to-date gross margin excluding ICI was $464.9 million**, compared to $460.8 million in the corresponding period of 2009, mainly reflecting an increase in gross margin-to-revenue ratio primarily from Packages activities, mainly from the near completion or completion of certain major projects, partially offset by the lower level of activities in Services and Packages. **Year-to-date gross margin from ICI increased to $121.7 million**, from $67.8 million in the corresponding period of 2009, relating mainly to SKH and AltaLink.

5.4 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

Selling, general and administrative expenses were $147.6 million in the second quarter of 2010, compared to $131.7 million in the corresponding quarter of 2009. **Selling, general and administrative expenses were $280.7 million for the first six months of 2010,** compared to $268.6 million in the corresponding period of 2009, mainly reflecting the increase in selling expenses.

5.5 – INTEREST (REVENUES) AND CAPITAL TAXES ANALYSIS

SECOND QUARTER (IN MILLIONS OF CANADIAN DOLLARS)	**2010**			2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (0.3)**	**$ (1.1)**	**$ (1.4)**	$ (10.4)	$ (1.0)	$ (11.4)
Interest on long-term debt:						
Recourse	**–**	**7.5**	**7.5**	–	2.0	2.0
Non-recourse:						
AltaLink	**15.7**	**–**	**15.7**	13.1	–	13.1
Highway 407	**12.1**	**–**	**12.1**	19.5	–	19.5
Other	**3.7**	**–**	**3.7**	2.4	–	2.4
Capital taxes and other	**2.7**	**2.2**	**4.9**	(3.5)	0.2	(3.3)
Interest and capital taxes	**$ 33.9**	**$ 8.6**	**$ 42.5**	$ 21.1	$ 1.2	$ 22.3

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)	2010			2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	**$ (0.5)**	**$ (1.9)**	**$ (2.4)**	$ (11.0)	$ (3.0)	$ (14.0)
Interest on long-term debt:						
Recourse	**–**	**15.0**	**15.0**	–	4.1	4.1
Non-recourse:						
AltaLink	**31.1**	**–**	**31.1**	26.2	–	26.2
Highway 407	**24.5**	**–**	**24.5**	31.6	–	31.6
Other	**6.1**	**–**	**6.1**	4.8	–	4.8
Capital taxes and other	**2.5**	**2.4**	**4.9**	(4.2)	0.5	(3.7)
Interest and capital taxes	**$ 63.7**	**$ 15.5**	**$ 79.2**	$ 47.4	$ 1.6	$ 49.0

Interest and capital taxes expenses amounted to $42.5 million for the second quarter of 2010, compared to $22.3 million for the corresponding quarter last year. **Year-to-date interest and capital taxes expenses amounted to $79.2 million**, compared to $49.0 million in the corresponding period of 2009. Interest and capital taxes are analyzed separately for amounts from ICI and from other activities.

Interest and capital taxes expenses from ICI increased to $33.9 million in the second quarter of 2010, from $21.1 million in the comparable period of 2009. **Interest and capital taxes expenses from ICI increased to $63.7 million for the first six months of 2010**, compared to $47.4 million in the corresponding period of 2009, mainly due to a non-recurring interest revenue of $10.0 million generated from providing temporary financing to Astoria Project Partners II LLC and its subsidiary ("Astoria II") in 2009.

Interest and capital taxes expenses from other activities were $8.6 million in the second quarter of 2010, compared to $1.2 million in the comparable period of 2009. **Year-to-date interest expenses and capital taxes from other activities were $15.5 million for the first six months of 2010**, compared to $1.6 million for the corresponding period of 2009, mainly due to increased interest expenses from the recourse 10-year unsecured debentures totalling $350 million, bearing interest at an annual rate of 6.19%, issued by the Company on July 3, 2009.

5.6 – INCOME TAXES ANALYSIS

Income taxes expense was $29.1 million in the second quarter of 2010, compared to $24.7 million in the corresponding period in 2009. **Income taxes expense was $50.7 million for the first six months of 2010**, compared to $49.5 million for the corresponding period 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 JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)	2010				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
Services and Packages					
Infrastructure and Environment	**$ 624.2**	**$ 2,223.7**	**$ –**	**$ –**	**$ 2,847.9**
Chemicals and Petroleum	**165.8**	**1,189.2**	**–**	**–**	**1,355.0**
Power	**293.0**	**761.0**	**–**	**–**	**1,054.0**
Mining and Metallurgy	**304.7**	**–**	**–**	**–**	**304.7**
Other Industries	**97.7**	**174.4**	**–**	**–**	**272.1**
Operations and Maintenance	**–**	**–**	**2,808.8**	**–**	**2,808.8**
ICI	**–**	**–**	**–**	**2,740.5**	**2,740.5**
Total	**$ 1,485.4**	**$ 4,348.3**	**$ 2,808.8**	**$ 2,740.5**	**$ 11,383.0**

AT MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)	2010				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
Services and Packages					
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
Operations and Maintenance	–	–	2,914.5	–	2,914.5
ICI	–	–	–	2,637.0	2,637.0
Total	$ 1,412.7	$ 4,477.1	$ 2,914.5	$ 2,637.0	$ 11,441.3

AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)	2009				
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
Services and Packages					
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
Operations and Maintenance	–	–	2,596.1	–	2,596.1
ICI	–	–	–	2,578.7	2,578.7
Total	$ 1,464.9	$ 4,197.5	$ 2,596.1	$ 2,578.7	$ 10,837.2

At June 30, 2010, revenue backlog was $11,383.0 million, compared to $11,441.3 million at March 31, 2010 and $10,837.2 million at December 31, 2009. The increase from December 2009 mainly reflects an increase in the Operations and Maintenance, ICI, and Packages categories.

6.1 – SERVICES BACKLOG

Services backlog was $1,485.4 million at the end of June 2010, compared to $1,412.7 million at March 31, 2010 and to $1,464.9 million at the end of December 2009. The increase from December 2009 mainly reflects an increase in the Power, and Other Industries segments, partially offset by a decrease in the Infrastructure and Environment segment.

6.2 – PACKAGES BACKLOG

Packages backlog totalled $4,348.3 million at the end of June 2010, compared to $4,477.1 million at March 31, 2010 and to $4,197.5 million at the end of December 2009. The increase from December 2009 mainly reflects an increase in Power, and Infrastructure and Environment. The Packages backlog at June 30, 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, in Saskatchewan, Canada, in the Power segment.

> The EPC-related work for the Stoney Trail Ring Road concession awarded by Alberta Transportation to Chinook Roads Partnership, which is 50% owned by the Company. The EPC contract involves the design and construction of 25 kilometres of six-lane road including nine interchanges and 27 bridge structures in the southeast section of Calgary, Canada, in the Infrastructure and Environment segment.

> 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.

> An EPC contract for the design and construction of a four-lane, four-kilometre section of a divided expressway linking Winnipeg's inland port to the James A. Richardson International Airport and the Perimeter Highway, awarded by Manitoba Infrastructure and Transportation, in the Infrastructure and Environment segment.

> An EPC contract awarded by Saudi Tabreed for district cooling facilities in Dhahran in the Eastern Province of the Kingdom of Saudi Arabia ("KSA"), in the Infrastructure and Environment segment.

> A contract for Jordanian Phosphate Mines Company ("JPMC") and Indian Farmers Fertiliser Cooperative Limited ("IFFCO") to build a sulphuric and phosphoric acid complex including utilities and a power plant in Eshidya, Jordan, in the Other Industries segment.

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 in Montreal, Canada. 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. Packages revenue backlog related to the EPC contract will be included in the Company's consolidated revenue backlog in the third quarter of 2010.

6.3 – OPERATIONS AND MAINTENANCE BACKLOG

Operations and Maintenance backlog was $2,808.8 million at the end of June 2010, compared to $2,914.5 million at March 31, 2010 and $2,596.1 million at the end of December 2009. The increase since December 2009 is in large part due to additional revenue backlog on existing ongoing contracts and the addition of a 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 $2,740.5 million at the end of June 2010, compared to $2,637.0 million at March 31, 2010 and 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)	**June 30 2010**	March 31 2010	December 31 2009
AltaLink [(1)]	**$ 2,009.8**	$ 1,915.4	$ 1,877.4
Highway 407 [(2)]	**629.1**	620.6	600.7
Others	**101.6**	101.0	100.6
Total backlog	**$ 2,740.5**	$ 2,637.0	$ 2,578.7

(1) AltaLink is fully consolidated, therefore the related revenue backlog as at June 30, 2010, 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 June 30, 2010, 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 of the Company's segments:

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
BY SEGMENT	**2010**	2009	**2010**	2009
Services and Packages				
Infrastructure and Environment	**$ 415.9**	$ 435.4	**$ 739.7**	$ 840.5
Chemicals and Petroleum	**238.5**	169.6	**432.3**	406.3
Power	**163.7**	239.5	**335.4**	452.2
Mining and Metallurgy	**161.5**	211.1	**311.0**	410.5
Other Industries	**59.7**	88.7	**125.6**	161.4
Operations and Maintenance	**255.9**	241.3	**639.1**	650.7
ICI	**130.9**	84.8	**229.2**	174.5
Total	**$ 1,426.1**	$ 1,470.4	**$ 2,812.3**	$ 3,096.1

The following table summarizes the Company's operating income (loss) by segment:

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
BY SEGMENT	**2010**	2009	**2010**	2009
Services and Packages				
Infrastructure and Environment	**$ 55.0**	$ 61.6	**$ 97.6**	$ 117.1
Chemicals and Petroleum	**9.5**	(14.8)	**22.0**	(24.8)
Power	**25.3**	25.2	**40.9**	39.6
Mining and Metallurgy	**14.1**	20.8	**26.0**	47.1
Other Industries	**5.1**	12.1	**10.2**	19.5
Operations and Maintenance	**2.2**	(0.6)	**14.1**	9.8
ICI	**24.7**	0.4	**33.4**	4.7
Total	**$ 135.9**	$ 104.7	**$ 244.2**	$ 213.0

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

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Infrastructure and Environment				
Services	**$ 149.1**	$ 150.1	**$ 289.4**	$ 289.3
Packages	**266.8**	285.3	**450.3**	551.2
Total	**$ 415.9**	$ 435.4	**$ 739.7**	$ 840.5
Operating income from Infrastructure and Environment	**$ 55.0**	$ 61.6	**$ 97.6**	$ 117.1
Operating income over revenues from Infrastructure and Environment (%)	**13.2%**	14.1%	**13.2%**	13.9%

Infrastructure and Environment revenues for the second quarter of 2010 were $415.9 million, compared to $435.4 million in the corresponding period of 2009. **For the first six months of 2010, revenues were $739.7 million,** compared to $840.5 million in the corresponding period of 2009, mainly reflecting a lower level of Packages activities, as certain major projects are nearing completion.

For the second quarter of 2010, operating income was $55.0 million, compared to $61.6 million in the corresponding quarter of 2009. **For the first six months of 2010, operating income was $97.6 million,** compared to $117.1 million in the corresponding period of 2009, mainly resulting from a lower level of Packages activities, while both periods reflect favourable cost reforecasts on certain major Packages projects nearing completion or completed.

7.1.2 – CHEMICALS AND PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Chemicals and Petroleum				
Services	**$ 89.4**	$ 90.9	**$ 166.4**	$ 195.4
Packages	**149.1**	78.7	**265.9**	210.9
Total	**$ 238.5**	$ 169.6	**$ 432.3**	$ 406.3
Operating income (loss) from Chemicals and Petroleum	**$ 9.5**	$ (14.8)	**$ 22.0**	$ (24.8)
Operating income (loss) over revenues from Chemicals and Petroleum (%)	**4.0%**	(8.7%)	**5.1%**	(6.1%)

Revenues from Chemicals and Petroleum were $238.5 million in the second quarter of 2010, compared to $169.6 million in the second quarter of 2009. **Revenues amounted to $432.3 million in the first six months of 2010,** compared to $406.3 million in the corresponding period of 2009, reflecting mainly a higher level of Packages activities.

In the second quarter of 2010, operating income from Chemicals and Petroleum totalled $9.5 million, compared to an operating loss of $14.8 million in the second quarter of 2009. **For the first six months of 2010, operating income amounted to $22.0 million,** compared to an operating loss of $24.8 million in the corresponding period 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

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Power				
Services	**$ 79.4**	$ 70.7	**$ 152.2**	$ 142.8
Packages	**84.3**	168.8	**183.2**	309.4
Total	**$ 163.7**	$ 239.5	**$ 335.4**	$ 452.2
Operating income from Power	**$ 25.3**	$ 25.2	**$ 40.9**	$ 39.6
Operating income over revenues from Power (%)	**15.4%**	10.5%	**12.2%**	8.8%

Power revenues were $163.7 million in the second quarter of 2010, compared to $239.5 million in the second quarter of 2009. **Revenues totalled $335.4 million in the first six months of 2010,** compared to $452.2 million in the corresponding period of 2009, mainly reflecting a decreased level of activities from certain major Packages projects that were completed or nearing completion.

The second quarter of 2010 operating income amounted to $25.3 million, in line with the corresponding quarter last year. **Operating income for the first six months of 2010 totalled $40.9 million,** in line with the same period last year, as a higher gross margin-to-revenue ratio was offset by a lower level of Packages activities.

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. This transaction is expected to generate a gain before taxes of approximately $23 million, which will be added to the Power segment's third quarter 2010 operating income.

7.1.4 – MINING AND METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Mining and Metallurgy				
Services	**$ 154.1**	$ 211.1	**$ 296.2**	$ 410.5
Packages	**7.4**	$ –	**14.8**	$ –
Total	**$ 161.5**	$ 211.1	**$ 311.0**	$ 410.5
Operating income from Mining and Metallurgy	**$ 14.1**	$ 20.8	**$ 26.0**	$ 47.1
Operating income over revenues from Mining and Metallurgy (%)	**8.7%**	9.9%	**8.3%**	11.5%

Mining and Metallurgy revenues in the second quarter of 2010 were $161.5 million, compared to $211.1 million in the corresponding period of 2009. **Revenues in the first six months of 2010 were $311.0 million,** compared to $410.5 million in the corresponding period of 2009, due primarily to a lower level of Services activities, mainly outside Canada, as certain major projects are nearing completion.

Operating income was $14.1 million in the second quarter of 2010, compared to $20.8 million in the corresponding period of 2009. **For the first six months of 2010, operating income amounted to $26.0 million,** compared to $47.1 million in the corresponding period of 2009, mainly reflecting the lower level of Services activities.

7.1.5 – OTHER INDUSTRIES

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Other Industries				
Services	**$ 29.5**	$ 46.0	**$ 54.6**	$ 90.6
Packages	**30.2**	42.7	**71.0**	70.8
Total	**$ 59.7**	$ 88.7	**$ 125.6**	$ 161.4
Operating income from Other Industries	**$ 5.1**	$ 12.1	**$ 10.2**	$ 19.5
Operating income over revenues from Other Industries (%)	**8.6%**	13.7%	**8.1%**	12.1%

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

Other Industries revenues were $59.7 million in the second quarter of 2010, compared to $88.7 million in the corresponding quarter of 2009. **Revenues amounted to $125.6 million in the first six months of 2010,** compared to $161.4 million in the corresponding period of 2009, mainly due to a lower level of Services activities.

Operating income for the second quarter of 2010 was $5.1 million, compared to $12.1 million in the corresponding period of 2009. **Operating income for the first six months of 2010 totalled $10.2 million,** compared to $19.5 million in the corresponding period of 2009, reflecting a lower level of activities combined with a lower gross margin-to-revenue ratio.

7.2 – OPERATIONS AND MAINTENANCE

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from Operations and Maintenance	**$ 255.9**	$ 241.3	**$ 639.1**	$ 650.7
Operating income (loss) from Operations and Maintenance	**$ 2.2**	$ (0.6)	**$ 14.1**	$ 9.8
Operating income (loss) over revenues from Operations and Maintenance (%)	**0.9%**	(0.2%)	**2.2%**	1.5%

Operations and Maintenance revenues in the second quarter of 2010 were $255.9 million, compared to $241.3 million in the second quarter of 2009. **Year-to-date revenues were $639.1 million**, compared to $650.7 million in the corresponding period of 2009, mainly due to lower activities in Canada.

Operating income amounted to $2.2 million in the second quarter of 2010, compared to an operating loss of $0.6 million in the second quarter of 2009. **Operating income increased to $14.1 million in the first six months of 2010,** from $9.8 million in the corresponding period 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 accounting method used in SNC-Lavalin's consolidated balance sheet. As at June 30, 2010, the net book value of the Company's ICI was $685.6 million, compared to $720.3 million as at December 31, 2009.

(IN MILLIONS OF CANADIAN DOLLARS)	**June 30 2010**	December 31 2009
Investments accounted for by the full or proportionate consolidation methods	**$ 252.7**	$ 250.9
Investments accounted for by the equity method	**159.6**	194.6
Investments accounted for by the cost method	**273.3**	274.8
Net book value of ICI	**$ 685.6**	$ 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 $84.2 million as at June 30, 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.

The Company received dividends from Highway 407 totalling $22.6 million in the second quarter of 2010, compared to $8.0 million in the corresponding quarter of 2009. For the first six months of 2010, the Company received dividends from Highway 407 totalling $31.9 million, compared to $15.9 million for the corresponding period of 2009.

7.3.2 – OPERATING RESULTS OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2010	2009	**2010**	2009
Revenues from ICI	**$ 130.9**	$ 84.8	**$ 229.2**	$ 174.5
Operating Income (loss):				
From Highway 407	**$ 5.6**	$ 1.3	**$ 7.8**	$ 2.7
From Other ICI	**19.1**	(0.9)	**25.6**	2.0
Total operating income from ICI	**$ 24.7**	$ 0.4	**$ 33.4**	$ 4.7

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 $24.7 million in the second quarter of 2010, compared to $0.4 million in the corresponding quarter of 2009. **Year-to-date operating income amounted to $33.4 million in the first six months of 2010,** compared to $4.7 million in the corresponding period 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)	**June 30 2010**	December 31 2009
Cash and cash equivalents	**$ 1,130.3**	$ 1,218.2
Less:		
Cash and cash equivalents from ICI [(1)]	**34.5**	42.4
Recourse debt	**453.1**	452.9
Net cash position	**$ 642.7**	$ 722.9

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

The net cash position at June 30, 2010 was $642.7 million, compared to $722.9 million at December 31, 2009.

8.1.2 – FREEHOLD CASH

The Company estimates its freehold cash, which is a non-GAAP financial measure. It is 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 June 30, 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

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)	**2010**	2009
Cash flows generated from (used by):		
Operating activities	**$ 86.0**	$ (92.4)
Investing activities	**(458.9)**	(277.7)
Financing activities	**301.4**	22.6
Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations	**(16.4)**	(5.1)
Net decrease in cash and cash equivalents	**(87.9)**	(352.6)
Cash and cash equivalents at beginning of period	**1,218.2**	988.2
Cash and cash equivalents at end of period	**$ 1,130.3**	$ 635.6

Cash and cash equivalents were $1,130.3 million at June 30, 2010, compared to $1,218.2 million at December 31, 2009, as discussed further below.

8.2.1 – CASH FLOWS RELATED TO OPERATING ACTIVITIES

Cash generated from operating activities was $86.0 million for the first six months of 2010, compared to cash used by operating activities of $92.4 million for the corresponding period of 2009. The variance was mainly due to:

> Cash used by the change in non-cash working capital items of $187.5 million in the first six-month period of 2010, compared to $380.8 million for the corresponding period of 2009, primarily reflecting higher working capital requirements in 2009.

8.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES

Cash used by investing activities was $458.9 million for the first six months of 2010, compared to $277.7 million for the corresponding period 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 $219.3 million in the first six months of 2010, compared to $125.6 million in the corresponding period of

2009, both in large part due to AltaLink, mainly relating to capital expenditures for transmission projects.

> Restricted cash increased by $176.1 million in the first six months of 2010, primarily reflecting cash received from the lenders of the recently awarded Chinook concession and from the Company's proportionate share of the cash received by Highway 407 from the early refinancing of a bond which will be repaid in the third quarter of 2010, compared to $25.7 million in the corresponding period of 2009. The Chinook proceeds are in a trust account to finance part of the construction of the Stoney Trail Ring Road. The Highway 407 proceeds are in a separate trust account to repay an existing debt in the third quarter of 2010. As such, these funds have been classified as restricted cash in the Company's consolidated balance sheet.

> The cash outflow from the acquisition of businesses was $28.0 million in the first six months of 2010, compared to $18.4 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 $13.8 million in the first six months of 2010, compared to $15.7 million in the corresponding period of 2009.

> Payments for infrastructure concession investments amounted to $12.0 million in the first six months of 2010, compared to $64.4 million in the corresponding period of 2009, mainly reflecting higher payments for the Ambatovy investment in 2009 compared to 2010.

8.2.3 – CASH FLOWS RELATED TO FINANCING ACTIVITIES

Cash generated from financing activities was $301.4 million in the first six months of 2010, compared to $22.6 million in the corresponding period of 2009. The major financing activities were as follows:

> The increase in non-recourse long-term debt from infrastructure concession investments amounted to $416.0 million in the first six months of 2010, compared to $195.9 million in the corresponding period of 2009. The higher level of non-recourse long-term debt from ICI issued in the first six months of 2010 compared to the corresponding period of 2009 mainly relates to AltaLink, Chinook and Highway 407. The repayment of non-recourse long-term debt from infrastructure concession investments totalled $50.6 million in the first six months of 2010, compared to $121.9 million in the corresponding period of 2009.

> Under its normal course issuer bid, the Company repurchased 353,400 shares and 120,700 shares for a total cash consideration of $17.2 million and $4.2 million during the first six months of 2010 and 2009, respectively.

> The issuance of shares pursuant to the exercise of stock options generated $6.3 million in cash in the first six months of 2010 (261,554 stock options at an average price of $24.17), compared to $2.3 million in the first six months of 2009 (133,082 stock options at an average price of $17.08). As at July 28, 2010, there were 5,791,463 stock options outstanding. At that same date, there were 150,929,906 shares issued and outstanding.

  For the six-month period ended June 30, 2010, the Company granted 1,098,500 stock options to employees, compared to 1,426,795 stock options in the corresponding period of 2009. The lower level of stock options granted in 2010 compared to 2009 mainly reflects the grant of Restricted Share Units ("RSU") in 2010 to certain categories of employees which, in the past, were granted stock options. The RSU plan was introduced in 2010 as a part of the Company's retention strategy.

> During the first six months of 2010 and 2009, the Company paid dividends totalling $51.3 million and $45.3 million, respectively.

8.3 – DIVIDENDS DECLARED

On March 5, 2010, May 6, 2010, and August 6, 2010, the Board of Directors declared a quarterly cash dividend of $0.17 per share, payable April 1, 2010, June 3, 2010, and September 3, 2010, respectively, representing 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 June 30, 2010, compared to 27.3% 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%.

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 six months 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 six-month period ended June 30, 2010, the Company continued to assess potential impacts of expected accounting differences on its consolidated financial statements. This assessment is progressing well and a quantified summary of the results is expected to be published in the Management's Discussion and Analysis at the third quarter of 2010. 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.

As of June 30, 2010, a number of additional IFRS internal training sessions to key finance personnel were offered by the IFRS implementation team. Additional training sessions are planned to be provided for the third quarter of 2010, and thereafter as needed.

As part of its implementation plan, the Company has developed and implemented internal controls over its transition to IFRS process and expects to complete its update of internal policies and procedures for IFRS in the third quarter of 2010.

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 six months of 2010.

11 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	**2010**		2009				2008	
	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER
Revenues	**$ 1,426.1**	$ 1,386.2	$ 1,583.2	$ 1,422.4	$ 1,470.4	$ 1,625.7	$ 1,943.9	$ 1,685.4
Net income	**$ 97.7**	$ 71.9	$ 98.7	$ 103.2	$ 80.0	$ 77.5	$ 75.0	$ 91.3
Basic earnings per share ($)	**$ 0.65**	$ 0.48	$ 0.65	$ 0.68	$ 0.53	$ 0.51	$ 0.50	$ 0.61
Diluted earnings per share ($)	**$ 0.64**	$ 0.47	$ 0.65	$ 0.68	$ 0.53	$ 0.51	$ 0.49	$ 0.60
Dividend declared per share ($)	**$ 0.17**	$ 0.17	$ 0.17	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 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 June 30, 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) as well as on SEDAR (www.sedar.com).

14 – 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. Packages revenue backlog related to the EPC contract will be included in the Company's consolidated revenue backlog in the third quarter of 2010.

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.

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.