



## Management's Discussion and Analysis

Third Quarter and First Nine Months of 2010 versus  
Third Quarter and First Nine Months of 2009

### TABLE OF CONTENTS

Section	Page	Section	Page
1 Highlights of the First Nine Months of 2010	2	8 Liquidity and Capital Resources	24
2 Caution Regarding Forward-Looking Statements	5	9 Accounting Policies and Changes	28
3 Our Business	6	10 Risks and Uncertainties	31
4 How We Analyze and Report Our Results	7	11 Quarterly Information	31
5 Breakdown of Income Statement	9	12 Controls and Procedures	31
6 Revenue Backlog	13	13 Additional Information	31
7 Operating Results by Segment	17	14 Subsequent Events	32

November 5<sup>th</sup>, 2010

All financial information in Canadian dollars, unless otherwise indicated

## **1 – HIGHLIGHTS OF THE FIRST NINE MONTHS OF 2010**

### **INCREASE IN NET INCOME**

- > Net income for the third quarter ended September 30, 2010 increased to \$128.2 million (\$0.84 per share on a diluted basis), compared to \$103.1 million (\$0.68 per share on a diluted basis) for the third quarter of 2009. Net income for the first nine months of 2010 was \$297.9 million (\$1.96 per share on a diluted basis), compared to \$260.7 million (\$1.72 per share on a diluted basis) for the corresponding period in 2009.
  - Net income excluding Infrastructure Concession Investments (“ICI”) increased to \$110.9 million for the third quarter of 2010, compared to \$93.7 million for the corresponding period in 2009, mainly reflecting a higher operating income from the Power segment, which included a gain on disposal of technology solution assets, and from the Infrastructure and Environment segment, partially offset by an operating loss in the Chemicals and Petroleum segment. Net income excluding ICI was \$247.1 million for the first nine months of 2010, in line with the same period in 2009, as higher operating income in the Chemicals and Petroleum, and Power segments was offset by lower operating income in the Mining and Metallurgy, Infrastructure and Environment, and Other Industries segments.
  - Net income from ICI for the third quarter of 2010 amounted to \$17.3 million, compared to \$9.4 million in the third quarter of 2009. Net income from ICI for the first nine months of 2010 increased to \$50.8 million, compared to \$14.2 million for the corresponding period in 2009, attributable mainly to a higher net income from AltaLink, Highway 407 and 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.

### **HIGHER REVENUES IN THE THIRD QUARTER OF 2010**

- > For the third quarter of 2010, revenues increased to \$1.6 billion, compared to \$1.4 billion for the corresponding period in 2009, mainly due to higher Packages revenues. For the first nine months of 2010, revenues were \$4.4 billion, compared to \$4.5 billion for the corresponding period in 2009, mainly reflecting lower revenues from Services, and Operations and Maintenance activities, partially offset by higher revenues from ICI, and Packages activities.

### **SOLID FINANCIAL POSITION**

- > The Company’s financial position remains solid with cash and cash equivalents of \$1,049.3 million at September 30, 2010, compared to \$1,218.2 million at December 31, 2009.
- > Net cash position (cash and cash equivalents, less cash and cash equivalents from ICI and recourse debt) remained strong at \$655.4 million at September 30, 2010 and \$722.9 million at December 31, 2009.

## STRONG REVENUE BACKLOG

- > The Company's revenue backlog for its four revenue categories: Services, Packages, Operations and Maintenance, and ICI increased to \$12.7 billion as at September 30, 2010, which is the highest ever for the Company, compared to \$11.4 billion as at June 30, 2010 and \$10.8 billion as at December 31, 2009:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30 2010	June 30 2010	December 31 2009
Services	\$ 1,429.1	\$ 1,485.4	\$ 1,464.9
Packages	5,764.3	4,348.3	4,197.5
Operations and Maintenance	2,621.3	2,808.8	2,596.1
ICI	2,846.4	2,740.5	2,578.7
<b>Total</b>	<b>\$ 12,661.1</b>	<b>\$ 11,383.0</b>	<b>\$ 10,837.2</b>

## INFRASTRUCTURE CONCESSION INVESTMENTS NOTABLE EVENTS

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

- > 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 Groupe immobilier santé McGill. ("GISM"), composed of SNC-Lavalin and Innisfree Ltd. Under this 34-year public-private partnership, the GISM will design, build, finance and maintain the MUHC's new Glen Campus in Montreal, Canada. Also in July 2010, GISM awarded 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, GISM will maintain the campus for the next 30 years.
- > On October 12, 2010, SNC-Lavalin announced the sale of its approximately 10.07% equity interest in Valener Inc. (TSX:VNR) ("Valener") consisting of 3,516,453 common shares of Valener for net proceeds of \$58.7 million, resulting in a loss after taxes of approximately \$1.3 million to be recognized in the fourth quarter of 2010. The transaction was closed on November 2, 2010 and, as such, SNC-Lavalin holds no equity securities of Valener following the sale.
- > On November 1, 2010, SNC-Lavalin announced that it had entered into an agreement with Caisse de Dépôt et placement du Québec to sell its approximately 11.1% interest in Trencap Limited Partnership ("Trencap"). The transaction generated net proceeds of approximately \$118 million, resulting in a gain after taxes of approximately \$27 million to be recognized in the fourth quarter of 2010.

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

- > ROASE was 26.1% for the 12-month period ended September 30, 2010, compared to 26.9% 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, totalling 9.9%.

## **2010 OUTLOOK**

- > With the increase in revenue backlog, diverse prospects in Canada and outside Canada and considering the Company's good results for the first nine months of 2010, SNC-Lavalin now expects that its 2010 net income growth will surpass its annual long-term growth objective of 7% to 12%.

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, among 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 allows the Company to combine such activities with Services or Packages, offering all-inclusive expertise that meets clients' needs and complements 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, which 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 standard 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, and 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, in section 8.1.1 of this report.



## 5 – BREAKDOWN OF INCOME STATEMENT

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)		THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
		2010	2009	2010	2009
<b>Revenues by activity:</b>					
Services	\$	491.8	\$ 535.7	\$ 1,450.5	\$ 1,664.3
Packages		666.1	472.5	1,651.3	1,614.8
Operations and Maintenance		308.2	311.9	947.3	962.6
ICI		141.2	102.3	370.4	276.8
	\$	1,607.3	\$ 1,422.4	\$ 4,419.5	\$ 4,518.5
<b>Gross margin</b>	\$	347.6	\$ 306.0	\$ 934.1	\$ 834.6
<b>Selling, general and administrative expenses</b>		133.9	128.9	414.6	397.5
<b>Interest and capital taxes:</b>					
From ICI		43.7	32.6	107.3	80.1
From other activities		4.1	7.2	19.6	8.7
		47.8	39.8	126.9	88.8
<b>Income before income taxes and non-controlling interest</b>		165.9	137.3	392.6	348.3
<b>Income taxes</b>		36.1	32.8	86.8	82.2
<b>Non-controlling interest</b>		1.6	1.4	7.9	5.4
<b>Net income</b>	\$	128.2	\$ 103.1	\$ 297.9	\$ 260.7
<b>Earnings per share (\$)</b>					
Basic	\$	0.85	\$ 0.68	\$ 1.97	\$ 1.73
Diluted	\$	0.84	\$ 0.68	\$ 1.96	\$ 1.72
<b>Supplementary information:</b>					
SNC-Lavalin's net income from ICI					
From Highway 407	\$	4.8	\$ 2.1	\$ 12.6	\$ 4.8
From other ICI		12.5	7.3	38.2	9.4
Net income excluding ICI		110.9	93.7	247.1	246.5
<b>Net income</b>	\$	128.2	\$ 103.1	\$ 297.9	\$ 260.7

### 5.1 – NET INCOME

**Net income for the third quarter ended September 30, 2010 increased to \$128.2 million (\$0.84 per share on a diluted basis), compared to \$103.1 million (\$0.68 per share on a diluted basis) for the third quarter of 2009. Net income for the first nine months of 2010 was \$297.9 million (\$1.96 per share on a diluted basis), compared to \$260.7 million (\$1.72 per share on a diluted basis) for the corresponding period in 2009.**

**Net income excluding ICI increased to \$110.9 million for the third quarter of 2010, compared to \$93.7 million for the corresponding period in 2009, mainly reflecting a higher operating income from the Power segment, which included a gain on disposal of technology solution assets, and from the Infrastructure and Environment segment, partially offset by an operating loss in the Chemicals and Petroleum segment. Net income excluding ICI was \$247.1 million for the first nine months of 2010, in line with the same period in 2009, as higher operating income in the Chemicals and**

Petroleum, and Power segments was offset by lower operating income in the Mining and Metallurgy, Infrastructure and Environment, and Other Industries segments.

**Net income from ICI for the third quarter of 2010 amounted to \$17.3 million**, compared to \$9.4 million in the third quarter of 2009. **Net income from ICI for the first nine months of 2010 increased to \$50.8 million**, compared to \$14.2 million for the corresponding period in 2009, attributable mainly to a higher net income from AltaLink, Highway 407, and 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 third quarter of 2010, revenues amounted to \$1,607.3 million** compared to \$1,422.4 million for the corresponding period in 2009. **Year-to-date revenues were \$4,419.5 million**, compared to \$4,518.5 million for the corresponding period in 2009, mainly reflecting lower revenues from Services, and Operations and Maintenance activities, partially offset by higher revenues from ICI, and Packages activities.

**Services revenues in the third quarter of 2010 were \$491.8 million**, compared to \$535.7 million for the corresponding quarter in 2009. **Year-to-date revenues were \$1,450.5 million**, compared to \$1,664.3 million for the corresponding period in 2009, mainly reflecting lower activities in Mining and Metallurgy, Other Industries, and Chemicals and Petroleum.

**Packages revenues in the third quarter of 2010 increased to \$666.1 million**, compared to \$472.5 million in the third quarter of 2009. **Year-to-date revenues were \$1,651.3 million**, compared to \$1,614.8 million for the corresponding period in 2009, mainly reflecting higher levels of activity in the Chemicals and Petroleum, and the Infrastructure and Environment segments, partially offset by a lower level of activities mainly in Power.

**Operations and Maintenance revenues in the third quarter of 2010 were \$308.2 million**, compared to \$311.9 million in the third quarter of 2009. **Year-to-date revenues were \$947.3 million**, compared to \$962.6 million for the corresponding period in 2009, mainly due to lower activities in Canada.

**ICI revenues in the third quarter of 2010 increased to \$141.2 million**, from \$102.3 million in the third quarter of 2009. **Year-to-date revenues were \$370.4 million**, compared to \$276.8 million for the corresponding period in 2009, reflecting higher revenues mainly from AltaLink, and Highway 407.

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

### **5.3 – GROSS MARGIN ANALYSIS**

**Gross margin for the third quarter of 2010 was \$347.6 million**, compared to \$306.0 million for the same period last year. **Gross margin excluding ICI was \$275.1 million for the third quarter of 2010**, compared to \$256.3 million in the third quarter of 2009. **Year-to-date gross margin was \$934.1 million**, compared to \$834.6 million for the corresponding period of 2009. **Year-to-date gross margin excluding ICI was \$739.9 million**, compared to \$717.1 million for the corresponding period in 2009, mainly due to a higher gross margin-to-revenue ratio from Packages activities, partially offset by a lower level of Services activities. The increase in the gross margin-to-revenue ratio from Packages activities resulted mainly from favourable reforecasts on certain major projects, as well as from a gain on the disposal of technology solution assets. While the Company was expecting a decrease in its gross margin-to-revenue ratio from Packages activities in 2010 compared to 2009, the Company now expects this ratio to be in line with 2009. **Year-to-date gross margin from ICI increased to \$194.2 million**, from \$117.5 million for the corresponding period in 2009, relating mainly to AltaLink, Highway 407 and SKH.

### **5.4 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS**

**Selling, general and administrative expenses were \$133.9 million in the third quarter of 2010**, compared to \$128.9 million for the corresponding quarter in 2009. **Selling, general and administrative expenses were \$414.6 million for the first nine months of 2010**, compared to \$397.5 million for the corresponding period in 2009, mainly reflecting an increase in selling expenses.

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

THIRD QUARTER (IN MILLIONS OF CANADIAN DOLLARS)	2010			2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (2.5)	\$ (2.0)	\$ (4.5)	\$ (0.4)	\$ (0.9)	\$ (1.3)
Interest on long-term debt:						
Recourse	–	7.3	7.3	–	7.3	7.3
Non-recourse:						
AltaLink	16.4	–	16.4	13.9	–	13.9
Highway 407	14.9	–	14.9	16.4	–	16.4
Other	11.5	–	11.5	2.4	–	2.4
Capital taxes and other	3.4	(1.2)	2.2	0.3	0.8	1.1
Interest and capital taxes	\$ 43.7	\$ 4.1	\$ 47.8	\$ 32.6	\$ 7.2	\$ 39.8

  

NINE MONTHS ENDED SEPTEMBER 30 (IN MILLIONS OF CANADIAN DOLLARS)	2010			2009		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (3.0)	\$ (3.9)	\$ (6.9)	\$ (11.3)	\$ (3.9)	\$ (15.2)
Interest on long-term debt:						
Recourse	–	22.3	22.3	–	11.4	11.4
Non-recourse:						
AltaLink	47.6	–	47.6	40.0	–	40.0
Highway 407	39.3	–	39.3	48.0	–	48.0
Other	17.6	–	17.6	7.2	–	7.2
Capital taxes and other	5.8	1.2	7.0	(3.8)	1.2	(2.6)
Interest and capital taxes	\$ 107.3	\$ 19.6	\$ 126.9	\$ 80.1	\$ 8.7	\$ 88.8

Interest and capital taxes expenses amounted to \$47.8 million for the third quarter of 2010, compared to \$39.8 million for the corresponding quarter last year. Year-to-date interest and capital taxes expenses amounted to \$126.9 million, compared to \$88.8 million for the corresponding period in 2009. Interest and capital taxes from ICI and from other activities are analyzed separately.

Interest and capital taxes expenses from ICI increased to \$43.7 million in the third quarter of 2010, from \$32.6 million for the comparable period in 2009. Interest and capital taxes expenses from ICI increased to \$107.3 million for the first nine months of 2010, compared to \$80.1 million for the corresponding period in 2009, mainly due to: (i) 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, and (ii) higher interest expenses on non-recourse long-term debt in 2010, mainly from GISM, AltaLink, and Chinook, partly offset by Highway 407, primarily due to the inflation component of the Company’s proportionate share of Highway 407’s inflation indexed debt.

Interest and capital taxes expenses from other activities were \$4.1 million in the third quarter of 2010, compared to \$7.2 million for the comparable period in 2009. Year-to-date interest expenses

and capital taxes from other activities were \$19.6 million for the first nine months of 2010, compared to \$8.7 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 \$36.1 million in the third quarter of 2010, compared to \$32.8 million in the corresponding period in 2009. Income taxes expense was \$86.8 million for the first nine months of 2010, compared to \$82.2 million for the corresponding period in 2009, reflecting mainly an increase in the Company's income, partly offset by a lower effective income tax rate.

## 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 SEPTEMBER 30 (IN MILLIONS OF CANADIAN DOLLARS)		2010			
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
<b>Services and Packages</b>					
Infrastructure and Environment	\$ 631.7	\$ 3,631.1	\$ –	\$ –	\$ 4,262.8
Chemicals and Petroleum	164.8	1,054.3	–	–	1,219.1
Power	256.4	859.8	–	–	1,116.2
Mining and Metallurgy	296.8	–	–	–	296.8
Other Industries	79.4	219.1	–	–	298.5
<b>Operations and Maintenance</b>	–	–	2,621.3	–	2,621.3
<b>ICI</b>	–	–	–	2,846.4	2,846.4
<b>Total</b>	<b>\$ 1,429.1</b>	<b>\$ 5,764.3</b>	<b>\$ 2,621.3</b>	<b>\$ 2,846.4</b>	<b>\$ 12,661.1</b>

AT JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)		2010			
BY SEGMENT	SERVICES	PACKAGES	OPERATIONS AND MAINTENANCE	ICI	TOTAL
<b>Services and Packages</b>					
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
<b>Operations and Maintenance</b>	–	–	2,808.8	–	2,808.8
<b>ICI</b>	–	–	–	2,740.5	2,740.5
<b>Total</b>	<b>\$ 1,485.4</b>	<b>\$ 4,348.3</b>	<b>\$ 2,808.8</b>	<b>\$ 2,740.5</b>	<b>\$ 11,383.0</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 September 30, 2010, revenue backlog increased to \$12,661.1 million, compared to \$11,383.0 million at June 30, 2010 and \$10,837.2 million at December 31, 2009. The increase from December 2009 mainly reflects an increase in the Packages category.

## 6.1 – SERVICES BACKLOG

Services backlog was \$1,429.1 million at the end of September 2010, compared to \$1,485.4 million at June 30, 2010 and to \$1,464.9 million at the end of December 2009. The variation from December 2009 mainly reflects a decrease in the Infrastructure and Environment segment.

## 6.2 – PACKAGES BACKLOG

Packages backlog increased to \$5,764.3 million at the end of September 2010, compared to \$4,348.3 million at June 30, 2010 and to \$4,197.5 million at the end of December 2009. The increase from December 2009 mainly reflects an increase in the Infrastructure and Environment, and Power segments, partially offset by a decrease in the Chemicals and Petroleum segment.

The Packages backlog at September 30, 2010 includes notable additions such as:

**FOR THE THIRD QUARTER OF 2010**

- > The EPC-related work for the new Glen Campus concession awarded by the McGill University Health Centre ("MUHC") to the Groupe immobilier santé McGill ("GISM"), in Montreal, Canada, in the Infrastructure and Environment segment. The EPC contract for approximately \$1.6 billion involves the design and the construction of the facilities. Construction is underway and should be completed in the autumn of 2014.
- > An EPC contract to design and build two district cooling plants for Rayadah Investment Company (RIC) which will serve the King Abdullah Financial District (KAJD) in Riyadh, Kingdom of Saudi Arabia, in the Infrastructure and Environment segment.

**FOR THE SECOND QUARTER OF 2010**

- > 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.

**FOR THE FIRST QUARTER OF 2010**

- > 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. This 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.

### 6.3 – OPERATIONS AND MAINTENANCE BACKLOG

**Operations and Maintenance backlog was \$2,621.3 million at the end of September 2010,** compared to \$2,808.8 million at June 30, 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, partially offset by the normal fluctuations in the timing of long-term contracts.

### 6.4 – INFRASTRUCTURE CONCESSION INVESTMENTS BACKLOG

**The ICI revenue backlog was \$2,846.4 million at the end of September 2010,** compared to \$2,740.5 million at June 30, 2010 and to \$2,578.7 million at December 31, 2009. The table below presents the Company's ICI revenue backlog by major investments, which are fully consolidated or proportionally consolidated, as at:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30 2010	June 30 2010	December 31 2009
AltaLink <sup>(1)</sup>	\$ 2,108.5	\$ 2,009.8	\$ 1,877.4
Highway 407 <sup>(2)</sup>	635.9	629.1	600.7
Others	102.0	101.6	100.6
<b>Total backlog</b>	<b>\$ 2,846.4</b>	<b>\$ 2,740.5</b>	<b>\$ 2,578.7</b>

- (1) AltaLink is fully consolidated, therefore the related revenue backlog as at September 30, 2010, June 30, 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 September 30, 2010, June 30, 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 investors, 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)		THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
BY SEGMENT		2010	2009	2010	2009
<b>Services and Packages</b>					
Infrastructure and Environment	\$	498.7	\$ 342.7	\$ 1,238.4	\$ 1,183.2
Chemicals and Petroleum		220.2	201.1	652.5	607.4
Power		196.8	202.6	532.2	654.9
Mining and Metallurgy		170.0	185.9	480.9	596.3
Other Industries		72.2	75.9	197.8	237.3
<b>Operations and Maintenance</b>		308.2	311.9	947.3	962.6
<b>ICI</b>		141.2	102.3	370.4	276.8
<b>Total</b>	\$	1,607.3	\$ 1,422.4	\$ 4,419.5	\$ 4,518.5

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

(IN MILLIONS OF CANADIAN DOLLARS)		THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
BY SEGMENT		2010	2009	2010	2009
<b>Services and Packages</b>					
Infrastructure and Environment	\$	72.3	\$ 66.1	\$ 169.9	\$ 183.1
Chemicals and Petroleum		(2.8)	10.7	19.2	(14.1)
Power		48.1	21.8	89.0	61.4
Mining and Metallurgy		17.1	20.6	43.0	67.7
Other Industries		5.1	8.6	15.3	28.1
<b>Operations and Maintenance</b>		11.9	11.2	26.0	21.0
<b>ICI</b>		17.3	9.4	50.8	14.2
<b>Total</b>	\$	169.0	\$ 148.4	\$ 413.2	\$ 361.4

## 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)		THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
		2010	2009	2010	2009
Revenues from Infrastructure and Environment					
Services	\$	157.9	\$ 155.8	\$ 447.3	\$ 445.1
Packages		340.8	186.9	791.1	738.1
<b>Total</b>	\$	498.7	\$ 342.7	\$ 1,238.4	\$ 1,183.2
Operating income from Infrastructure and Environment	\$	72.3	\$ 66.1	\$ 169.9	\$ 183.1
Operating income over revenues from Infrastructure and Environment (%)		14.5%	19.3%	13.7%	15.5%

Infrastructure and Environment revenues for the third quarter of 2010 increased to \$498.7 million, compared to \$342.7 million for the corresponding period in 2009. For the first nine months of 2010, revenues increased to \$1,238.4 million, compared to \$1,183.2 million for the corresponding period in 2009, mainly reflecting a higher level of Packages activities.

For the third quarter of 2010, operating income was \$72.3 million, compared to \$66.1 million for the corresponding quarter in 2009. For the first nine months of 2010, operating income was \$169.9 million, compared to \$183.1 million for the corresponding period in 2009, both periods, although not as significant in 2010, reflecting favourable reforecasts on certain major Packages projects.

### 7.1.2 – CHEMICALS AND PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from Chemicals and Petroleum				
Services	\$ 67.3	\$ 83.3	\$ 233.8	\$ 278.8
Packages	152.9	117.8	418.7	328.6
<b>Total</b>	<b>\$ 220.2</b>	<b>\$ 201.1</b>	<b>\$ 652.5</b>	<b>\$ 607.4</b>
Operating income (loss) from Chemicals and Petroleum	\$ (2.8)	\$ 10.7	\$ 19.2	\$ (14.1)
Operating income (loss) over revenues from Chemicals and Petroleum (%)	(1.3%)	5.3%	2.9%	(2.3%)

Revenues from Chemicals and Petroleum were \$220.2 million in the third quarter of 2010, compared to \$201.1 million in the third quarter of 2009. Revenues amounted to \$652.5 million in the first nine months of 2010, compared to \$607.4 million for the corresponding period in 2009, reflecting mainly a higher level of Packages activities, partially offset by a lower level of Services activities.

In the third quarter of 2010, the operating loss from Chemicals and Petroleum was \$2.8 million, compared to an operating income of \$10.7 million in the third quarter of 2009, mainly reflecting an unfavourable cost reforecast on a Packages project. For the first nine months of 2010, operating income amounted to \$19.2 million, compared to an operating loss of \$14.1 million for the corresponding period in 2009, both periods, although not as significant in 2010, reflecting unfavourable cost reforecasts on Packages projects.

### 7.1.3 – POWER

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from Power				
Services	\$ 80.1	\$ 71.0	\$ 232.3	\$ 213.9
Packages	116.7	131.6	299.9	441.0
<b>Total</b>	<b>\$ 196.8</b>	<b>\$ 202.6</b>	<b>\$ 532.2</b>	<b>\$ 654.9</b>
Operating income from Power	\$ 48.1	\$ 21.8	\$ 89.0	\$ 61.4
Operating income over revenues from Power (%)	24.4%	10.7%	16.7%	9.4%

**Power revenues were \$196.8 million in the third quarter of 2010**, compared to \$202.6 million in the third quarter of 2009. **Revenues totalled \$532.2 million in the first nine months of 2010**, compared to \$654.9 million for the corresponding period in 2009, mainly reflecting a decreased level of activities from certain major Packages projects that were completed or nearing completion.

**The third quarter of 2010 operating income amounted to \$48.1 million**, compared to \$21.8 million for the corresponding quarter in 2009, reflecting mainly the gain of \$22.8 million in the third quarter of 2010 from the disposal of certain technology solution assets that help manage and optimize the flow of electricity through power grids. **Operating income for the first nine months of 2010 totalled \$89.0 million**, compared to \$61.4 million for the corresponding period in 2009, mainly due to a higher gross margin-to-revenue ratio from Packages, in part explained by the gain described above, and from Services activities, partially offset by a lower level of Packages activities.

#### 7.1.4 – MINING AND METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from Mining and Metallurgy				
Services	\$ 159.6	\$ 185.9	\$ 455.7	\$ 596.3
Packages	10.4	—	25.2	—
<b>Total</b>	<b>\$ 170.0</b>	<b>\$ 185.9</b>	<b>\$ 480.9</b>	<b>\$ 596.3</b>
Operating income from Mining and Metallurgy	\$ 17.1	\$ 20.6	\$ 43.0	\$ 67.7
Operating income over revenues from Mining and Metallurgy (%)	10.1%	11.1%	9.0%	11.3%

**Mining and Metallurgy revenues in the third quarter of 2010 were \$170.0 million**, compared to \$185.9 million for the corresponding period in 2009. **Revenues in the first nine months of 2010 were \$480.9 million**, compared to \$596.3 million for the corresponding period in 2009, due primarily to a lower level of Services activities, mainly outside Canada.

**Operating income was \$17.1 million in the third quarter of 2010**, compared to \$20.6 million for the corresponding period in 2009. **For the first nine months of 2010, operating income amounted to \$43.0 million**, compared to \$67.7 million for the corresponding period in 2009, mainly reflecting the lower level of activities, partially offset by a higher gross margin-to-revenue ratio.

## 7.1.5 – OTHER INDUSTRIES

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from Other Industries				
Services	\$ 26.8	\$ 39.7	\$ 81.4	\$ 130.2
Packages	45.4	36.2	116.4	107.1
<b>Total</b>	<b>\$ 72.2</b>	<b>\$ 75.9</b>	<b>\$ 197.8</b>	<b>\$ 237.3</b>
Operating income from Other Industries	\$ 5.1	\$ 8.6	\$ 15.3	\$ 28.1
Operating income over revenues from Other Industries (%)	7.0%	11.3%	7.7%	11.9%

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

**Other Industries revenues were \$72.2 million in the third quarter of 2010** in line with the corresponding quarter of 2009. **Revenues amounted to \$197.8 million in the first nine months of 2010**, compared to \$237.3 million for the corresponding period in 2009, mainly due to a lower level of Services activities.

**Operating income for the third quarter of 2010 was \$5.1 million**, compared to \$8.6 million for the corresponding period in 2009. **Operating income for the first nine months of 2010 totalled \$15.3 million**, compared to \$28.1 million for the corresponding period in 2009, reflecting a lower level of Services activities combined with a lower gross margin-to-revenue ratio for Services activities, partly offset by a higher gross margin-to-revenue ratio for Packages activities.

## 7.2 – OPERATIONS AND MAINTENANCE

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from Operations and Maintenance	\$ 308.2	\$ 311.9	\$ 947.3	\$ 962.6
Operating income from Operations and Maintenance	\$ 11.9	\$ 11.2	\$ 26.0	\$ 21.0
Operating income over revenues from Operations and Maintenance (%)	3.9%	3.6%	2.7%	2.2%

**Operations and Maintenance revenues in the third quarter of 2010 were \$308.2 million**, compared to \$311.9 million for the third quarter in 2009. **Year-to-date revenues were \$947.3 million**, compared to \$962.6 million for the corresponding period in 2009, mainly due to lower activities in Canada.

**Operating income amounted to \$11.9 million in the third quarter of 2010**, compared to \$11.2 million for the third quarter in 2009. **Operating income increased to \$26.0 million in the first**

**nine months of 2010**, from \$21.0 million for the corresponding period in 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 September 30, 2010, the net book value of the Company's ICI was \$720.2 million, compared to \$720.3 million as at December 31, 2009.

(IN MILLIONS OF CANADIAN DOLLARS)	September 30 2010	December 31 2009
Investments accounted for by the full or proportionate consolidation methods	\$ 297.5	\$ 250.9
Investments accounted for by the equity method	147.0	194.6
Investments accounted for by the cost method	275.7	274.8
Net book value of ICI	\$ 720.2	\$ 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 \$79.3 million as at September 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's proportionate share of Highway 407's dividends was \$nil in the third quarter of 2010, compared to \$8.0 million for the corresponding quarter in 2009. For the first nine months of 2010, the Company received dividends from Highway 407 totalling \$31.9 million, compared to \$23.9 million for the corresponding period of 2009.

### 7.3.2 – OPERATING RESULTS OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	THIRD QUARTER		NINE MONTHS ENDED SEPTEMBER 30	
	2010	2009	2010	2009
Revenues from ICI	\$ 141.2	\$ 102.3	\$ 370.4	\$ 276.8
Operating Income :				
From Highway 407	\$ 4.8	\$ 2.1	\$ 12.6	\$ 4.8
From Other ICI	12.5	7.3	38.2	9.4
<b>Total operating income from ICI</b>	<b>\$ 17.3</b>	<b>\$ 9.4</b>	<b>\$ 50.8</b>	<b>\$ 14.2</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 \$17.3 million in the third quarter of 2010, compared to \$9.4 million for the corresponding quarter in 2009. Year-to-date operating income amounted to \$50.8 million in the first nine months of 2010, compared to \$14.2 million for the corresponding period in 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 the Company's recourse debt, and was as follows at:

(IN MILLIONS OF CANADIAN DOLLARS)	September 30 2010	December 31 2009
Cash and cash equivalents	\$ 1,049.3	\$ 1,218.2
Less:		
Cash and cash equivalents from ICI <sup>(1)</sup>	45.7	42.4
Recourse debt	348.2	452.9
<b>Net cash position</b>	<b>\$ 655.4</b>	<b>\$ 722.9</b>

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

**The net cash position at September 30, 2010 was \$655.4 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 \$700 million as at September 30, 2010, compared to approximately \$800 million as at December 31, 2009. The decrease mainly reflects additional commitments from ICI, primarily for GISM. The total proceeds of approximately \$175 million received subsequent to September 30, 2010 from the divestiture of the Company's interests in Trencap and Valener are not reflected in the freehold cash presented above. The Company's freehold cash is available for making engineering business acquisitions and investments in selective infrastructure concessions.

## 8.2 – CASH FLOW ANALYSIS

NINE MONTHS ENDED SEPTEMBER 30  
(IN MILLIONS OF CANADIAN DOLLARS)

	2010	2009
Cash flows generated from (used by):		
Operating activities	\$ 322.2	\$ 285.7
Investing activities	(1,048.4)	(434.8)
Financing activities	567.7	390.5
Decrease in exchange differences on translating cash and cash equivalents held in self-sustaining foreign operations	(10.4)	(8.3)
Net increase (decrease) in cash and cash equivalents	(168.9)	233.1
Cash and cash equivalents at beginning of period	1,218.2	988.2
Cash and cash equivalents at end of period	\$ 1,049.3	\$ 1,221.3

Cash and cash equivalents were \$1,049.3 million at September 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 \$322.2 million for the first nine months of 2010, compared to \$285.7 million for the corresponding period in 2009. The variance was mainly due to:

- > Cash used by the change in non-cash working capital items of \$148.6 million in the first nine-month period of 2010, compared to \$189.4 million for the corresponding period of 2009, primarily reflecting lower working capital requirements in 2010.

### 8.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES

Cash used by investing activities was \$1,048.4 million for the first nine months of 2010, compared to \$434.8 million for the corresponding period in 2009. The major investing activities were as follows:

- > Restricted cash increased by \$614.6 million in the first nine months of 2010, primarily reflecting cash received from the lenders of the recently awarded GISM and Chinook concessions, compared to \$23.4 million for the corresponding period in 2009. The GISM and Chinook proceeds are in separate trust accounts that will serve to finance part of the construction of the MUHC's new Glen campus and the Stoney Trail Ring Road, respectively. As such, these funds have been classified as restricted cash in the Company's consolidated balance sheet.
- > The acquisition of property and equipment from fully consolidated and proportionally consolidated infrastructure concession investments used a total cash outflow of \$325.6 million in the first nine months of 2010, compared to \$193.2 million for the corresponding period in 2009, both in large part due to AltaLink, mainly relating for capital expenditures for transmission projects.
- > The cash outflow from the acquisition of businesses was \$36.7 million in the first nine months of 2010, compared to \$20.4 million for the corresponding period in 2009.
- > The acquisition of property and equipment for Services, Packages, and Operations and Maintenance activities for a total cash outflow of \$27.3 million in the first nine months of 2010, compared to \$23.1 million for the corresponding period in 2009.
- > Payments for infrastructure concession investments amounted to \$31.2 million in the first nine months of 2010, mainly reflecting payments for Ambatovy, compared to \$121.0 million for the corresponding period in 2009, mainly reflecting payments for Ambatovy and Intransit BC.

### **8.2.3 – CASH FLOWS RELATED TO FINANCING ACTIVITIES**

**Cash generated from financing activities was \$567.7 million in the first nine months of 2010,** compared to \$390.5 million for the corresponding period in 2009. The major financing activities were as follows:

- > The increase in non-recourse long-term debt from infrastructure concession investments amounted to \$909.6 million in the first nine months of 2010, compared to \$237.9 million for the corresponding period in 2009. The higher level of non-recourse long-term debt from ICI issued in the first nine months of 2010 compared to the corresponding period in 2009 mainly relates to GISM, AltaLink, Highway 407, and Chinook. The repayment of non-recourse long-term debt from infrastructure concession investments totalled \$156.4 million in the first nine

months of 2010, mainly relating to Highway 407 and AltaLink, compared to \$123.0 million for the corresponding period in 2009.

- > The repayment at maturity of the \$105.0 million recourse debt in September 2010.
- > Under its normal course issuer bid, the Company repurchased 391,400 shares and 175,500 shares for a total cash consideration of \$18.8 million and \$6.7 million during the first nine months of 2010 and 2009, respectively.
- > The issuance of shares pursuant to the exercise of stock options generated \$10.0 million in cash in the first nine months of 2010 (388,677 stock options at an average price of \$25.74), compared to \$5.7 million in the first nine months of 2009 (290,379 stock options at an average price of \$19.51). As at October 27, 2010, there were 5,518,778 stock options outstanding. At that same date, there were 151,167,341 shares issued and outstanding.

For the nine-month period ended September 30, 2010, the Company granted 1,098,500 stock options to employees, compared to 1,426,795 stock options for the corresponding period in 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 nine months of 2010 and 2009, the Company paid dividends totalling \$77.0 million and \$68.0 million, respectively.

### **8.3 – DIVIDENDS DECLARED**

On March 5, 2010, May 6, 2010, August 6, 2010 and on November 5, 2010, the Board of Directors declared a quarterly cash dividend of \$0.17 per share, payable April 1, 2010, June 3, 2010, September 3, 2010 and December 2, 2010, respectively, representing an increase of 13.3% compared to the corresponding periods in 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 26.1% for the 12-month period ended September 30, 2010**, compared to 26.9% 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, totalling 9.9%.

## **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 nine 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**

Regarding the progress made by the Company during the third quarter of 2010 on its IFRS implementation plan, SNC-Lavalin substantially completed all the following steps of its IFRS implementation plan: i) assessment of the impact of the accounting differences on the consolidated financial statements, ii) training provided to key finance personnel, and iii) review of the potential impact on the Company's business activities, its disclosure controls and internal controls over financial reporting and its financial reporting systems (see section 13.3 of the Company's Management Discussion and Analysis for the year ended December 31, 2009 for further details on the Company's

IFRS implementation plan). Additionally, the preparation of the Company's consolidated financial statements and note disclosures in compliance with IFRS as well as the preparation of the first-time adoption reconciliations required under IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, ("IFRS 1") is progressing well as at September 30, 2010.

#### A. ESTIMATED ADJUSTMENTS TO EQUITY ON ADOPTION OF IFRS

During the third quarter of 2010, the Company substantially completed its assessment and quantification of identified accounting differences between Canadian GAAP and IFRS.

The following unaudited table shows the Company's known estimates of identified differences on its IFRS opening equity (January 1, 2010) and are subject to changes pending the finalization of work, including resolution of accounting for rate-regulated activities discussed below:

(IN MILLIONS OF CANADIAN DOLLARS)		(unaudited) January 1, 2010	
	note		
IFRS adjustments to equity			
Reclassification of non-controlling interests to equity	a	\$	80
Interests in jointly controlled entities having a negative carrying amount under Canadian GAAP	b		60
Measurement of available-for-sale unlisted securities at fair value	b		15
Service concession arrangements (IFRIC 12)	b		36
Recognition of unamortized net actuarial losses from defined benefit plans and post-retirement benefit plans	b		(11)
Other	b		(3)
Tax effect of above differences			(11)
Total estimated increase on equity from conversion to IFRS		\$	166

- a. Under IFRS, non-controlling interests are presented within equity as the non-controlling interests represent the residual interest in the net assets of the subsidiaries and therefore meet the definition of equity as per the *Framework for the Preparation and Presentation of Financial Statements*. Under Canadian GAAP, non-controlling interests were presented outside shareholders' equity.
- b. Refer to December 31, 2009 Management's Discussion and Analysis, section 13.3, for additional information on the nature of these adjustments.

Numbers provided above are for indicative purpose only and might be adjusted up to the first quarter of 2011, pending further work and analysis. Numbers are also subject to change in the event the

Company early adopts any newly issued international financial reporting standard prior to the first quarter of 2011.

#### **B. RATE-REGULATED ACTIVITIES**

AltaLink, 76.92%-owned by the Company, is an entity subject to rate regulation and recognizes regulatory assets and regulatory liabilities. Due to recent developments in a project conducted by the International Accounting Standards Board on rate-regulated activities, the potential impact of transition to IFRS on AltaLink's financial statements, which are consolidated in the Company's financial statements, is subject to uncertainties.

In September 2010, the Accounting Standards Board of Canada ("AcSB") allowed qualifying entities with rate-regulated activities, including their qualifying parent entities, to delay the adoption of IFRS by one year. Neither SNC-Lavalin nor AltaLink intend to defer the adoption of IFRS and, as such, SNC-Lavalin's timeline to adopt IFRS remains unchanged.

#### **C. POTENTIAL IMPACT ON BUSINESS ACTIVITIES, DISCLOSURE CONTROLS AND FINANCIAL REPORTING SYSTEMS**

As at September 30, 2010, the Company does not foresee any significant impact on clauses referring to Canadian GAAP contained in contractual agreements.

As at September 30, 2010, the Company does not expect its disclosure controls and internal control over financial reporting to be significantly impacted by its transition to IFRS. As part of its IFRS implementation plan, the Company has developed and implemented internal controls over its transition to IFRS process and has completed its update of internal policies and procedures for IFRS.

As at September 30, 2010, the assessment of the impact on information systems regarding IFRS requirements for capturing data is substantially completed and no significant impact is expected.

#### **D. TRAINING SESSIONS**

In 2010, a number of additional IFRS internal training sessions to key finance personnel such as divisional business controllers and other finance staff were offered by the IFRS implementation team. Additional training sessions are planned to be provided in the fourth quarter of 2010, and thereafter as needed.

## 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 nine months of 2010.

## 11 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)	2010				2009			2008
	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER
Revenues	\$ 1,607.3	\$ 1,426.1	\$ 1,386.2	\$ 1,583.2	\$ 1,422.4	\$ 1,470.4	\$ 1,625.7	\$ 1,943.9
Net income	\$ 128.2	\$ 97.7	\$ 71.9	\$ 98.7	\$ 103.1	\$ 80.0	\$ 77.5	\$ 75.0
Basic earnings per share (\$)	\$ 0.85	\$ 0.65	\$ 0.48	\$ 0.65	\$ 0.68	\$ 0.53	\$ 0.51	\$ 0.50
Diluted earnings per share (\$)	\$ 0.84	\$ 0.64	\$ 0.47	\$ 0.65	\$ 0.68	\$ 0.53	\$ 0.51	\$ 0.49
Dividend declared per share (\$)	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15

## 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 September 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](http://www.snclavalin.com)) as well as on SEDAR ([www.sedar.com](http://www.sedar.com)).

## 14 – SUBSEQUENT EVENTS

### DISPOSAL OF VALENER SHARES

On October 12, 2010, SNC-Lavalin announced that it had entered into an agreement with a group of financial institutions to sell its approximately 10.07% equity interest in Valener consisting of 3,516,453 common shares of Valener, on an underwritten block trade basis, for anticipated net proceeds of \$58.7 million, resulting in a loss after taxes of approximately \$1.3 million to be recognized in the fourth quarter of 2010. The transaction was closed on November 2, 2010 and, as a result, SNC-Lavalin holds no equity securities of Valener.

### DISPOSAL OF TRENCAP LIMITED PARTNERSHIP UNITS

On November 1, 2010, SNC-Lavalin announced that it had entered into an agreement with Caisse de Dépôt et placement du Québec to sell its approximate 11.1% interest in Trencap. The transaction generated net proceeds of approximately \$118 million, resulting in a gain after taxes of approximately \$27 million to be recognized in the fourth quarter of 2010.