



## Transition to IFRS

Getting prepared for the 1st quarter 2011, which will be under IFRS

January 25, 2011

# Agenda

## ◆ **Forward-looking Statements**

- Denis Jasmin,  
Vice-President, Investor Relations

## ◆ **Introduction**

- Gilles Laramée,  
Executive Vice-President and Chief Financial Officer

## ◆ **Transition to IFRS**

- Marc-André Lacroix,  
Corporate Assistant Controller

## ◆ **Q & A**



# Forward-looking statements

- ✓ Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.
- ✓ Statements made in this presentation 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 herein reflect the Company's expectations as at the date of this presentation and are subject to change after this date.
- ✓ Reference in this presentation 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.
- ✓ The purpose of this session is to provide information on the Company's transition to IFRS. It does not contain a full analysis of all accounting options that can be chosen by the Company nor does it constitute either a full analysis of accounting principles or legal issues relating thereto or an accounting opinion or legal opinion on the points discussed therein. Therefore, for additional information, please contact your adviser.



# Transition to IFRS

1. **SNC-Lavalin's IFRS project**
2. **IFRS adoption timeline**
3. **Status of the IFRS transition project**
4. **SNC-Lavalin's choices under IFRS accounting**
5. **Opening balance sheet - equity impacts**
6. **Main impacts on SNC-Lavalin:**
  - i. IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12");
  - ii. IAS 31, *Interests in Joint Ventures*, ("IAS 31").
7. **Other impacts on SNC-Lavalin's equity**
8. **Main impacts on SNC-Lavalin's balance sheet presentation**
9. **2011 SNC-Lavalin's revenue backlog**
10. **Conclusion**



# SNC-Lavalin's IFRS project

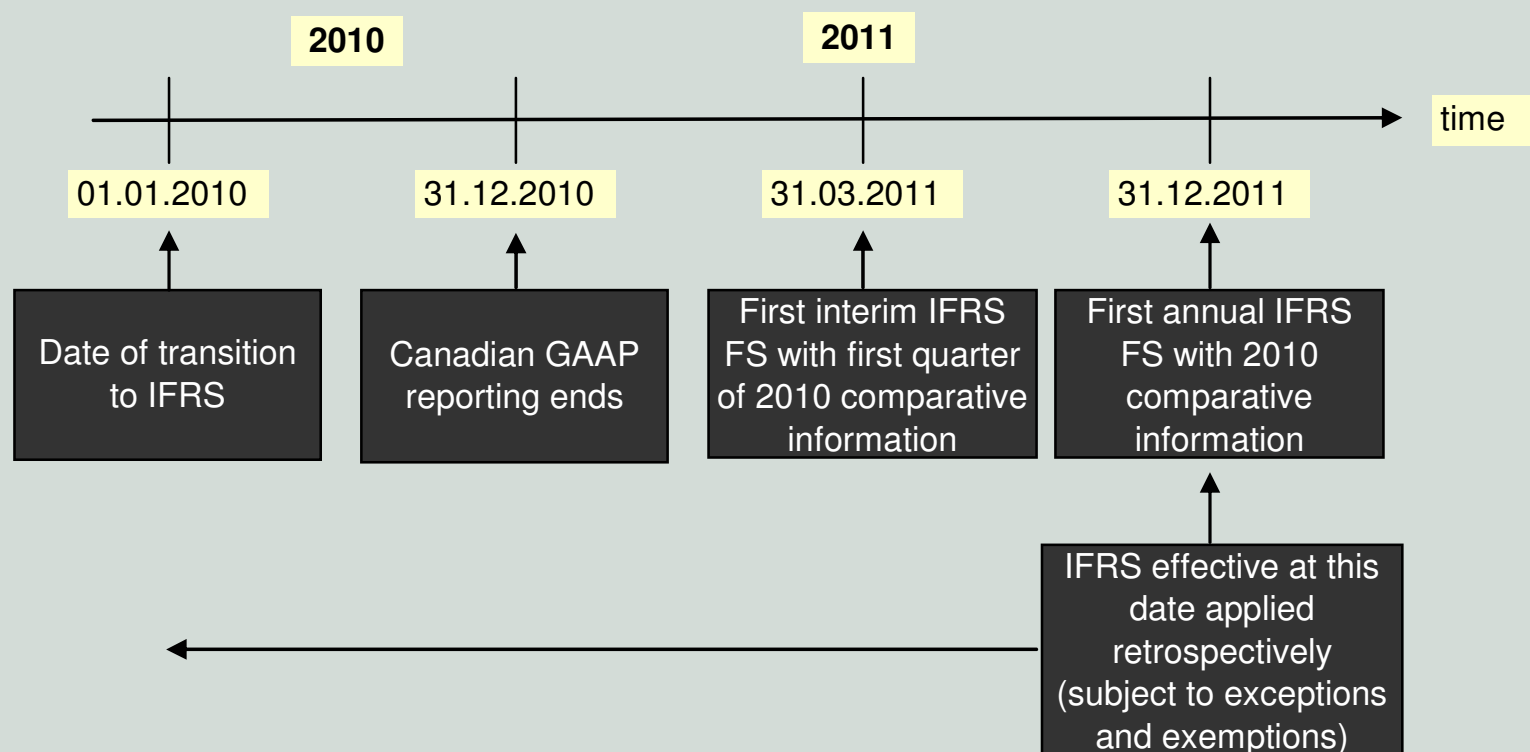
- ◆ **Overall, IFRS conceptually very similar to Canadian GAAP:**
  - Increased importance of judgment in interpreting and applying accounting rules
  - Substantial increase in the level of disclosure
- ◆ **Most significant transitional impacts relate to accounting for SNC-Lavalin's Infrastructure Concession Investments**
- ◆ **No change to underlying business activities or strategy: changes relate to accounting differences only**
- ◆ **None of the adjustments, transitional elections, or policy choices described today are unique to SNC-Lavalin – these elections and policy choices will be adopted by many other Canadian companies**



# IFRS adoption timeline

## IFRS adoption timeline

The following timeline summarizes the requirements and illustrates key dates for a Canadian first-time adopter with a calendar year-end that presents comparative information for one period.



# Status of the IFRS transition project

Step	Description	Current Status
1	Assessment of the impact of the accounting differences on the consolidated financial statements	Substantially complete
2	Training sessions provided to key finance personnel and management and the preparation of additional training sessions to be given	Substantially complete
3	Review of the potential impact on: (i) the Company's business activities; (ii) its disclosure controls and internal controls over financial reporting; and (iii) its financial reporting systems	Substantially complete
4	Preparation of the Company's consolidated financial statements and note disclosures in compliance with IFRS	In progress



# SNC-Lavalin's choices under IFRS accounting

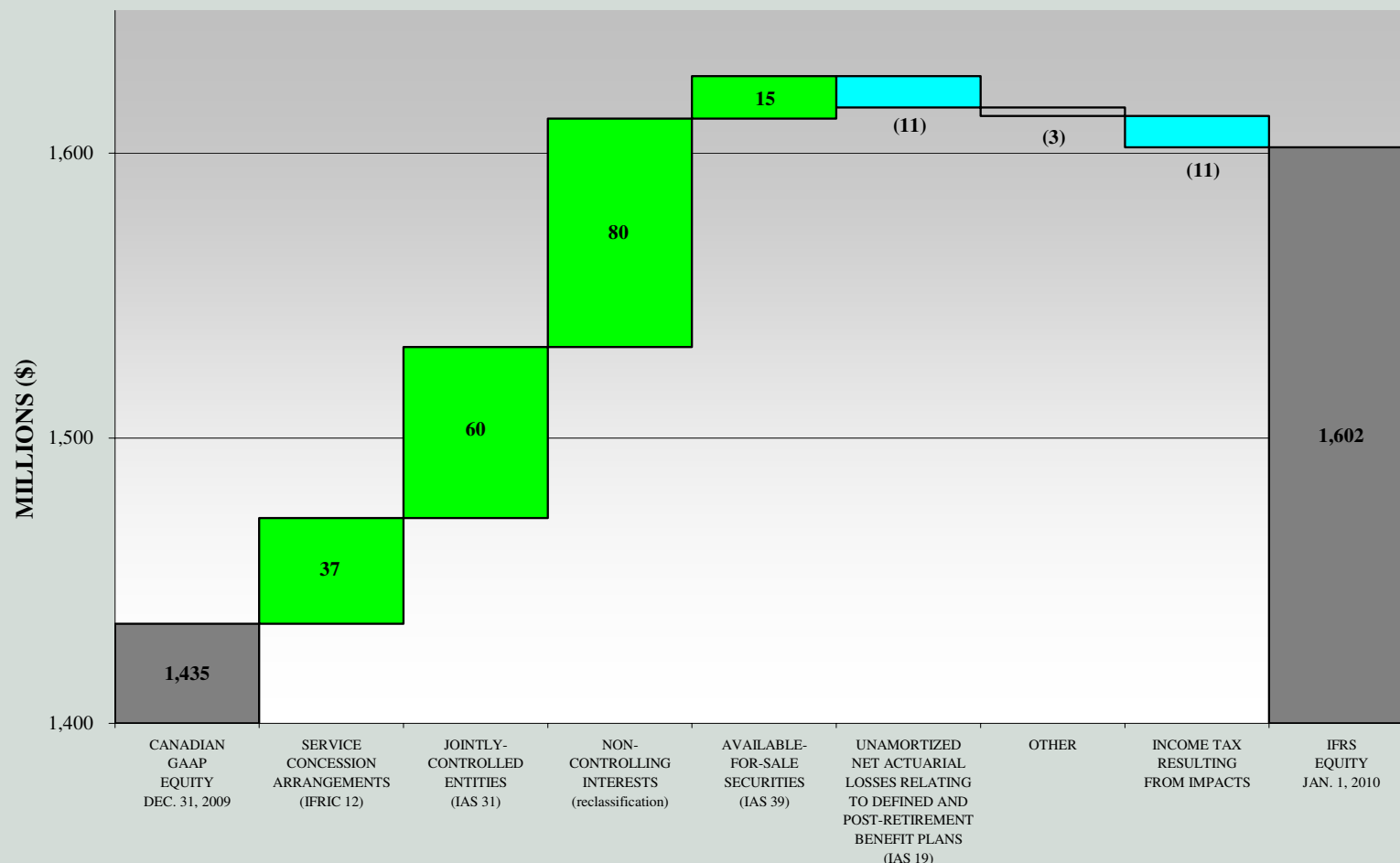
**Upon transition to IFRS, SNC-Lavalin made the following main accounting choices:**

Topic	Options under IFRS	SNC-Lavalin's choice
Jointly controlled entities (excl. jointly controlled operations)	<ul style="list-style-type: none"> <li>- equity method</li> <li>- proportionate consolidation method</li> </ul>	<b>Equity method</b>
Property and equipment	<ul style="list-style-type: none"> <li>- Cost model</li> <li>- Revaluation model (i.e. revalued amount = fair value)</li> </ul>	<b>Cost model</b>
Employee benefits	Actuarial gains and losses from defined benefit and post-retirement benefit plans in: <ul style="list-style-type: none"> <li>- Net income</li> <li>- Other comprehensive income</li> </ul>	<b>In other comprehensive income</b>



# Opening balance sheet - equity impacts

**Total impact on SNC-Lavalin's equity upon transition to IFRS on January 1, 2010**



**Upon transition to IFRS SNC-Lavalin's equity will increase by approx. 12%.**

These amounts have not yet been audited by SNC-Lavalin's external auditors, therefore these amounts could change.



# **Main impact on SNC-Lavalin:**

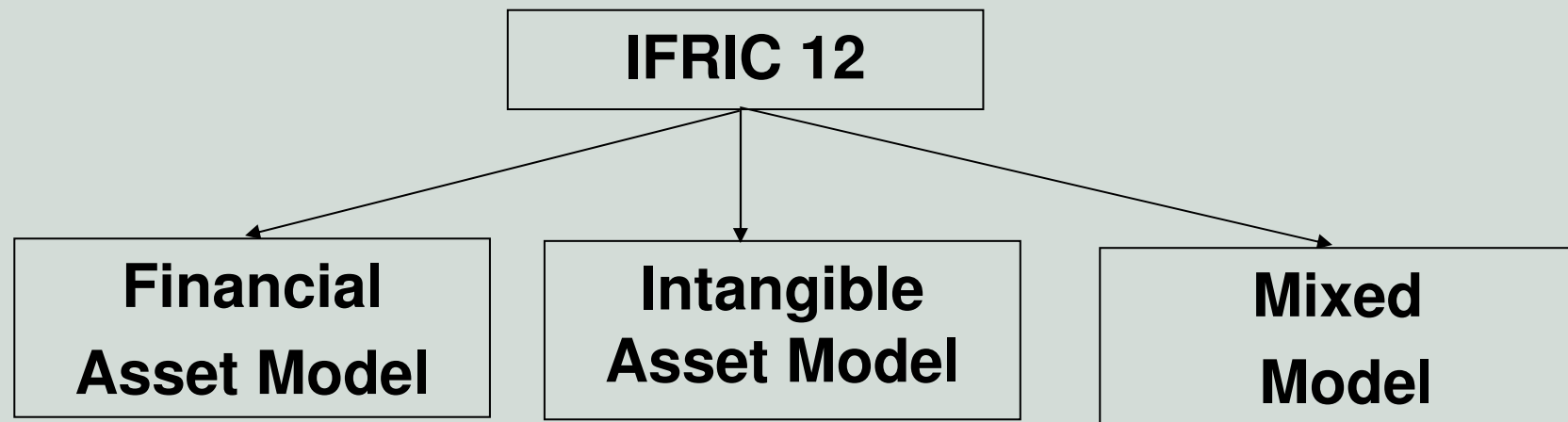
## **IFRIC 12 - *Service Concession Arrangements***

- ◆ **IFRIC 12 provides guidance on the accounting for public-to-private partnership (“PPP”) arrangements, when the grantor (usually “the government”) controls:**
  - what public services the concessionaire must provide with the infrastructure such as: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply, telecommunication networks, etc...
  - to whom it must provide the services
  - at what price it must provide the services
  - any significant residual interest in the infrastructure at the end of the term of the arrangement
  
- ◆ **There is no equivalent standard under Canadian GAAP**



# IFRIC 12 - *Service Concession Arrangements*

## Accounting models



The accounting model will be chosen depending on the allocation of the demand risk between the government and the concessionaire



# IFRIC 12 - *Service Concession Arrangements*

## Accounting models (cont'd)

- ◆ **Financial asset model**, if the concessionaire **does not bear demand risk** through the usage of the infrastructure (i.e. an unconditional right to receive cash irrespective of the usage of the infrastructure, e.g. availability payments)
- ◆ **Intangible asset model**, if the concessionaire **bears such demand risk** (i.e. has a right to charge fees for usage of the infrastructure)
- ◆ **Financial asset and Intangible asset model (also known as the mixed or bifurcated method)**, if the concessionaire **shares the demand risk** with the government (i.e. government pays the concessionaire for its services partly by a financial asset and partly by granting a right to charge users of the public service)



# IFRIC 12 - *Service Concession Arrangements*

## Financial asset model

- ◆ All SNC-Lavalin's ICI within the scope of IFRIC 12 are accounted for under the financial asset model, which is detailed in the following slides
- ◆ SNC-Lavalin's ICI within the scope of IFRIC 12:

Name	Ownership (%)	Infrastructure	Duration (years)
Chinook Roads Partnership	50.0	Road	33
Groupe Ovation	100.0	Concert hall	29
InTransit BC	33.3	Transit line	35
MUHC	60.0	Hospital	34
Okanagan Lake Concession	100.0	Bridge	30
TC Dome	51.0	Railway	35

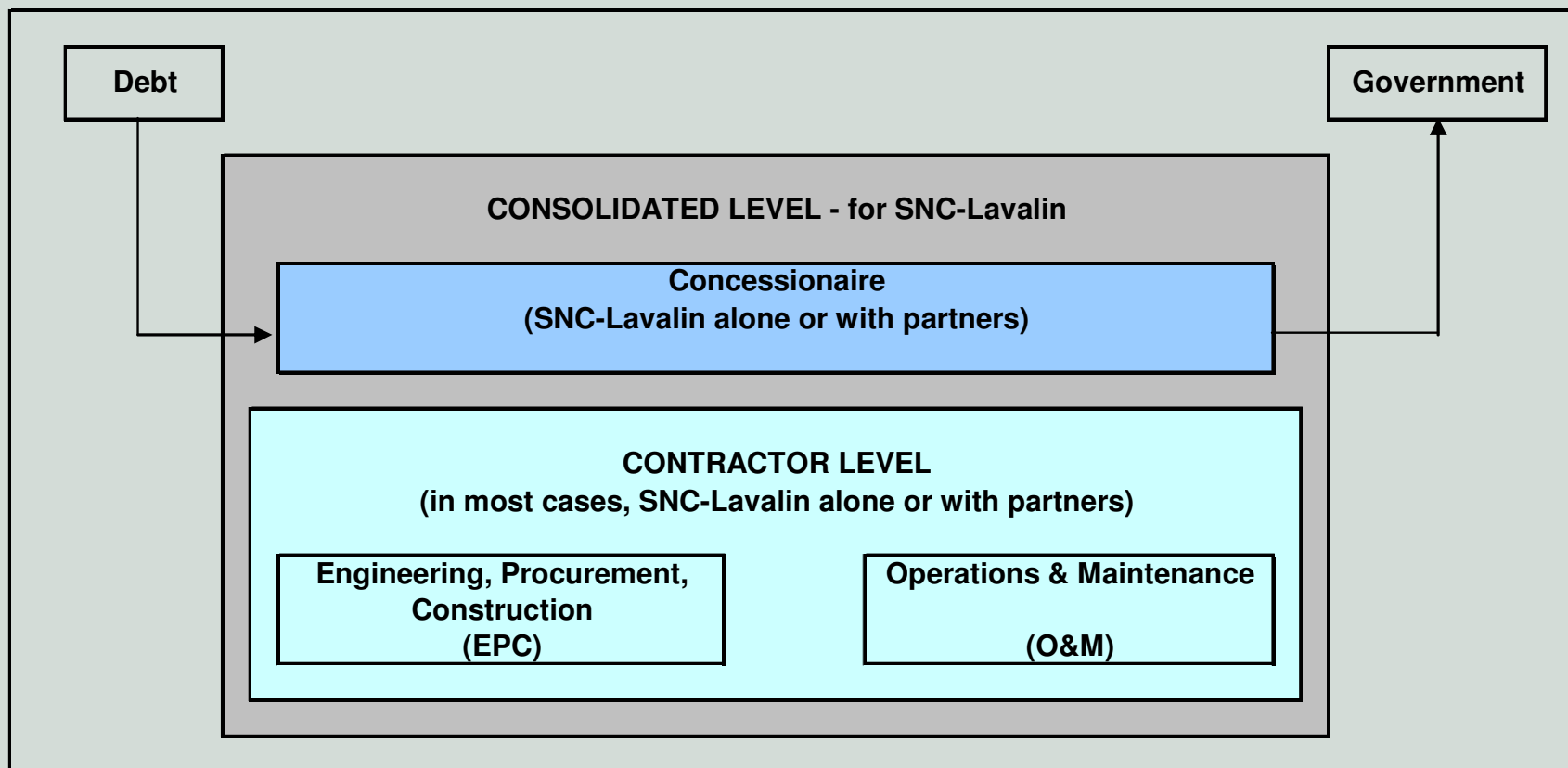
- ◆ SNC-Lavalin's ICI scoped-out of IFRIC 12:

Highway 407	Astoria II	Myah Tipaza
AltaLink	Gazmont	SEVE
Ambatovy	Hadjret En Nouss	WEDA
Astoria I	Malta	



# IFRIC 12 - *Service Concession Arrangements*

## Typical structure of a concession



# IFRIC 12 - *Service Concession Arrangements*

## **SNC-Lavalin as EPC Contractor**

Construction revenue and G.M. are recognized during construction period

Revenue and expenses relating to construction services are recognized by reference to the stage of completion of the activity

## **SNC-Lavalin as O&M provider**

O&M revenue and G.M. are recognized during operation period

Revenue and expenses relating to operations and maintenance services are recognized by reference to the stage of completion of the activity



# IFRIC 12 - *Service Concession Arrangements*

<b>SNC-Lavalin as the Concessionaire</b> (under Financial Asset Model)	
Recognition of a financial asset	
Recognition of EPC revenue Cost from EPC Contractor	Recognition of O&M revenue Cost from O&M Contractor
Recognition of financial income from the financial asset	
Borrowing costs from the debt	

- ◆ The financial asset represents the cumulative amount of revenue recognized (EPC revenue, O&M revenue, financial income) by the concessionaire minus all payments received from the grantor. The financial asset will be \$nil at the end of the concession term.
- ◆ The financial income is calculated using an effective interest rate multiplied by the outstanding financial asset.



# IFRIC 12 - Service Concession Arrangements Summary (if fully consolidated)

CONSOLIDATED LEVEL - for SNC-Lavalin					
	EPC	O&M	CONCESSIONAIRE	ELIMINATIONS	CONSOLIDATED TOTAL
	Fully consolidated				
<b><u>Revenues</u></b>					
Services	●				●
Packages	●				●
O&M		●			●
ICI:					
EPC income			●	○	-
O&M income			●	○	-
Financial income			●		●
<b><u>Costs</u></b>					
Services	●				●
Packages	●				●
O&M		●			●
ICI:					
Cost from EPC contractor			●	○	-
Cost from O&M contractor			●	○	-
<b><u>Net financial expenses</u></b>					
ICI borrowing costs			●		●
<b><u>Income before income taxes</u></b>					

No profit elimination necessary between EPC contractor / O&M provider and concessionaire, as transactions are deemed realized through the concession agreement with the grantor.



# IFRIC 12 - Service Concession Arrangements Summary (if equity method)

CONSOLIDATED LEVEL - for SNC-Lavalin				
	EPC	O&M	CONCESSIONAIRE	CONSOLIDATED TOTAL
			Equity method	
<b>Revenues</b>				
Services	●			●
Packages	●			●
O&M		●		●
ICI:				
EPC income				-
O&M income				-
Financial income				-
Equity pick-up			●	●
<b>Costs</b>				
Services	●			●
Packages	●			●
O&M		●		●
ICI:				
Cost from EPC contractor				-
Cost from O&M contractor				-
<b>Net financial expenses</b>				
ICI borrowing costs				-
Income before income taxes				●

No profit elimination necessary between EPC contractor / O&M provider and concessionaire, as transactions are deemed realized through the concession agreement with the grantor.



## Main impact on SNC-Lavalin: IAS 31 - *Interests in Joint Ventures*

- ◆ **SNC-Lavalin's jointly-controlled operations (i.e. Services, Packages, O&M activities)**
  - Proportionate consolidation (as before)
  
- ◆ **SNC-Lavalin's jointly-controlled entities (i.e. ICI activities)**
  - Equity method was chosen (new)
    - To better reflect the way SNC-Lavalin views the nature of its investments



# IAS 31 - *Interests in Joint Ventures*

## SNC-Lavalin's investment in Highway 407

- ◆ **Negative carrying value of SNC-Lavalin's investment in Highway 407 was \$60 million as at December 31, 2009 under CND GAAP**
- ◆ **Under the equity method, the carrying value of the investee cannot be negative**
  - Unless the investor has incurred legal or constructive obligations or made payments on behalf of its investee
- ◆ **SNC-Lavalin's investment in Highway 407, which will now be under the equity method, will be \$nil under IFRS and will remain as such until its carrying value becomes positive (i.e., cumulative share of net income higher than cumulative share of losses and dividends)**
  - SNC-Lavalin will not recognize its share of the Highway 407 net income/loss until the carrying value of its investment becomes positive
  - SNC-Lavalin will recognize its dividends earned from Highway 407 in its statement of income, under the ICI revenues line



# IAS 31 - *Interests in Joint Ventures*

## SNC-Lavalin's investment in Highway 407 (cont'd)

- ◆ Main impact on SNC-Lavalin's balance sheet is the elimination of SNC-Lavalin's share of assets and liabilities of Highway 407, including property and equipment and non-recourse long-term debt

in \$000	January 1, 2010	
	Highway 407 investment in SNC-Lavalin consolidated balance sheet	
	CND GAAP	IFRS
Current assets	68,712	-
Investment in Highway 407	-	-
<b>Property and equipment</b>	<b>375,213</b>	-
Other non-current assets	332,094	-
Total assets	776,019	-
<b>Non-recourse long-term debt</b>	<b>823,481</b>	-
Other current and non-current liabilities	12,603	-
Total liabilities	836,084	-
Shareholders' equity	(60,065)	-
Total liabilities and shareholders' equity	776,019	-



# IAS 31- *Interests in Joint Ventures*

## SNC-Lavalin's investment in Highway 407 (cont'd)

◆ **Main impacts on SNC-Lavalin's income statement are:**

- Elimination of SNC-Lavalin's share of revenues and expenses from Highway 407
- Highway 407 dividends receivable by SNC-Lavalin will be recorded as ICI revenues

in \$000	Three-month period ended March 31, 2010	
	Highway 407 investment in SNC-Lavalin consolidated statement of income	
	CND GAAP	IFRS
<b>Revenues by activity:</b>		
Infrastructure Concession Investments	22,006	9,226 = dividends
Direct cost of activities	5,589	-
<b>Gross margin</b>	16,417	9,226
Selling, general and administrative expenses	1,011	-
Financial expenses, net	12,310	-
<b>Income before income taxes</b>	3,096	9,226
Income taxes	987	-
<b>Net income for the period</b>	2,109	9,226



## Other impacts on SNC-Lavalin's equity: Non-controlling interests

- ◆ **Non-controlling interests will be presented within Equity under IFRS instead of between Liabilities and Shareholders' equity under CND GAAP**
  - \$80 million reclassification as at January 1, 2010

	CND GAAP	IFRS
Total Assets	X	X
Total Liabilities	Y	Y
Non-controlling interests	Z	
Shareholders' equity	X - Y - Z	
Total Equity		X - Y



## Non-controlling interests (cont'd)

- ◆ **Net income will be composed of the following:**

Net income attributable to shareholders of the Company
+ Net income attributable to non-controlling interests
<b>Net income</b>

- ◆ **However, EPS calculation remains unchanged as it is based on “Net income attributable to shareholders of the Company” (excluding non-controlling interests)**



## Other impacts on SNC-Lavalin's equity

- ◆ **Under IFRS, all available-for-sale securities are measured at fair value, unless fair value is not reliably determinable**
  - Under Canadian GAAP, available-for-sale equity securities not traded on an active market were measured at cost
  - The effect of this change is an increase to SNC-Lavalin's equity of \$15 million as at January 1, 2010
  
- ◆ **As per IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, SNC-Lavalin elected to record the balance of its unamortized net actuarial losses relating to its defined benefit plans and post-retirement benefit plans in its opening retained earnings as at January 1, 2010**
  - Resulting in a decrease of SNC-Lavalin's equity of \$11 million



# Main impacts on SNC-Lavalin's balance sheet presentation

## Main impacts are coming from:

IFRIC 12	IAS 31	Reclassifications			
	All accounts but mainly:	Deferred tax asset	Customer contributions (from AltaLink)	Asset Retirement Obligation (from AltaLink)	Non-controlling interests
Property & equipment ↓	Property & equipment ↓ Concession right (intangible asset)	Current assets ↓	Property & equipment ↑	Non-current liabilities ↓	Non-controlling interests ↓
Financial assets ↑	Non-recourse long-term debt ↓	Non-current assets ↑	Deferred revenues ↑	Provision (new line in liabilities) ↑	Equity ↑



# 2011 SNC-Lavalin's revenue backlog

- ◆ Revenue backlog is a non-GAAP and a non-IFRS measure
- ◆ In 2011, SNC-Lavalin will stop disclosing the Infrastructure Concession Investments revenue backlog, notably due to the impact of IFRIC 12 and IAS 31 on these investments
  - Comparative figures will be adjusted accordingly
- ◆ We will continue to disclose the Services, Packages and O&M revenue backlog



# Conclusion

- ◆ **Main impacts on SNC-Lavalin's consolidated financial statements upon transition to IFRS:**
  - Service concession arrangements
  - Jointly controlled entities
  - Non-controlling interests within equity
  
- ◆ **We are getting ready for our 2011 IFRS financial statements**



◆ **If you have further questions, please contact:**

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◆ **Replay of conference call:**

Investor Relations section of website:

[www.snclavalin.com](http://www.snclavalin.com)

