



## Management's Discussion and Analysis

Second Quarter and First Six Months of 2011 versus  
Second Quarter and First Six Months of 2010

### TABLE OF CONTENTS

Section	Page	Section	Page
1 Highlights of the First Six Months of 2011	2	8 Liquidity and Capital Resources	20
2 Caution Regarding Forward-Looking Statements	4	9 Related Party Transactions	24
3 Our Business	5	10 Accounting Policies and Changes	25
4 How We Analyze and Report Our Results	6	11 Risks and Uncertainties	26
5 Breakdown of Income Statement	7	12 Quarterly Information	27
6 Revenue Backlog	11	13 Controls and Procedures	28
7 Operating Results by Segment	13	14 Additional Information	28

August 5, 2011

All financial information in Canadian dollars, unless otherwise indicated

## 1 – HIGHLIGHTS OF THE FIRST SIX MONTHS OF 2011

### LOWER NET INCOME

- > Net income attributable to SNC-Lavalin shareholders for the second quarter ended June 30, 2011 was \$100.7 million (\$0.66 per share on a diluted basis), compared to \$119.1 million (\$0.78 per share on a diluted basis) for the second quarter of 2010. For the first six months of 2011, net income attributable to SNC-Lavalin shareholders was \$174.6 million (\$1.15 per share on a diluted basis), compared to \$203.3 million (\$1.34 per share on a diluted basis) for the corresponding period of 2010.
  - Net income attributable to SNC-Lavalin shareholders excluding Infrastructure Concession Investments ("ICI") was \$59.0 million for the second quarter of 2011, compared to \$74.8 million for the corresponding period of 2010, mainly reflecting a lower contribution from Infrastructure & Environment, primarily due to a lower gross margin-to-revenue ratio on Packages activities, as well as additional costs from the Libyan events, partly offset by higher contributions from all other segments.
  - Net income attributable to SNC-Lavalin shareholders excluding ICI was \$108.5 million for the first six months of 2011, compared to \$139.4 million for the first six months of 2010, mainly reflecting lower contributions from Infrastructure & Environment that is primarily due to the impact of the Libyan events in 2011 and favourable cost reforecasts in 2010, and from Mining & Metallurgy, partly offset by higher contributions from all other segments.
  - Net income attributable to SNC-Lavalin shareholders from ICI was \$41.7 million for the second quarter of 2011, compared to \$44.3 million for the same period last year, mainly reflecting a lower contribution from AltaLink L.P. ("AltaLink"), and the absence of contributions in the second quarter of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, partially offset by higher dividends from 407 International Inc. ("Highway 407").
  - Net income attributable to SNC-Lavalin shareholders from ICI was \$66.1 million for the first six months of 2011, compared to \$63.9 million for the corresponding period of 2010, mainly due to higher dividends from Highway 407, partially offset by the absence of contributions in the first six months of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, and a lower contribution from AltaLink.

### HIGHER REVENUES

- > For the second quarter of 2011, revenues increased to \$1.7 billion, compared to \$1.4 billion for the corresponding period of 2010. For the first six months of 2011, revenues increased by 24.0% to \$3.3 billion, compared to \$2.7 billion for the first six months of 2010, reflecting higher revenues in all the Company's segments of activity and in all revenue categories, especially in Packages, which increased by 54.7%.

### SOLID FINANCIAL POSITION

- > The Company's financial position remained solid with cash and cash equivalents of \$1,111.4 million at June 30, 2011, compared to \$1,235.1 million at December 31, 2010.
- > Net cash position (cash and cash equivalents, less cash and cash equivalents from ICI and recourse debt) remained strong at \$758.3 million at June 30, 2011 and \$870.1 million at December 31, 2010.

## STRONG REVENUE BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	March 31 2011	December 31 2010
Services	\$ 1,679.9	\$ 1,396.0	\$ 1,410.7
Packages	5,319.4	5,544.5	5,556.0
O&M	2,343.5	2,429.2	2,732.8
<b>Total</b>	<b>\$ 9,342.8</b>	<b>\$ 9,369.7</b>	<b>\$ 9,699.5</b>

- > As previously announced, the Company no longer includes its ICI revenue backlog. The Company's ICI revenue backlog disclosed in the Company's 2010 Financial Report 2010, under "Management's Discussion and Analysis", was \$2.9 billion at December 31, 2010.

## ATOMIC ENERGY OF CANADA LIMITED

In June 2011, CANDU Energy Inc. ("CANDU Energy"), a wholly-owned subsidiary of the Company, agreed with the Government of Canada to acquire certain assets of Atomic Energy of Canada Limited's ("AECL") commercial reactor division for a purchase price of \$15 million and royalty payments from future new build and life extension projects. As part of the transaction, AECL will retain its past liabilities. Approximately 1,200 employees are expected to be transitioned from AECL to CANDU Energy and the acquisition is expected to be finalized in early fall 2011, subject to the fulfillment of certain conditions including Competition Act compliance and other administrative approvals.

In addition to the acquisition, CANDU Energy will work towards completing the Enhanced CANDU reactor (EC6) development program, with the support of up to \$75 million from the Government of Canada.

## NOTABLE EVENT RELATED TO ICI

The following notable event related to ICI took place since January 1, 2011:

- > On February 25, 2011, SNC-Lavalin entered into an agreement to acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million, subject to certain adjustments. The agreement was concluded following the acceptance by SNC-Lavalin of an offer from MEAP to make the acquisition. The offer was presented to SNC-Lavalin in response to a binding offer received by MEAP from a third party and pursuant to a right of first refusal held by SNC-Lavalin to acquire MEAP's ownership interest in AltaLink. The closing of the transaction is subject to customary closing conditions and regulatory approval, including approval from the *Alberta Utilities Commission*, and would bring SNC-Lavalin's ownership in AltaLink to 100%.

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

- > ROASE was 25.1% for the 12-month period ended June 30, 2011, compared to 27.9% 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 9.6%.

## 2011 OUTLOOK

- > Based on the Company's revenue backlog and prospects list, the Company continues to expect its 2011 net income to remain in line with 2010, when we exclude the gains from the disposals of certain assets and investments recognized in 2010.

Unless otherwise indicated, all financial information presented in this Management's Discussion and Analysis ("MD&A"), including tabular amounts, is in **Canadian dollars**, and prepared in accordance with **International Financial Reporting Standards ("IFRS")**.

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 condensed consolidated financial statements for the second quarter of 2011 and accompanying notes, and should therefore be read in conjunction with these documents and with the Financial Report for the year ended December 31, 2010. Reference in this MD&A 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 2010 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. The Company does not undertake any obligation to update publicly or to revise any such forward-looking statements, unless required by applicable legislation or regulation.

### 3 – OUR BUSINESS

SNC-Lavalin, which celebrates its 100<sup>th</sup> anniversary in 2011, provides its clients with engineering and construction, and Operations and Maintenance (“O&M”) 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 a leading international engineering and construction company, and a leader in O&M in Canada. SNC-Lavalin also makes select 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 is responsible not only for providing one or more Services activities, 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 & Environment, Chemicals & Petroleum, Mining & Metallurgy, and Power. Refer to section 7 of this report for a review of the Company's operating results by segment.

#### 3.2 – OPERATIONS AND MAINTENANCE (“O&M”) ACTIVITIES

O&M activities are provided in the following lines of business: i) project, facility and property management; ii) industrial; iii) transportation; and iv) defence and remote camp logistics. SNC-Lavalin's expertise in O&M activities, in addition to obtaining stand-alone O&M contracts, allows the Company to expand on its Services, Packages, and ICI activities by offering all-inclusive expertise that meets client's needs and complements its ICI.

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

SNC-Lavalin makes select investments in infrastructure concessions for which its technical, engineering and construction, project management, and O&M expertise, along with its experience in arranging project financing, represent a distinct advantage.

## 4 – HOW WE ANALYZE AND REPORT OUR RESULTS

The Company reports its results under **four categories of activity**, which are **Services** and **Packages** (together these regroup activities from engineering and construction), **O&M**, 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 & Environment, Chemicals & Petroleum, Mining & Metallurgy, Power**, and **Other Industries**. The **O&M** and **ICI** segments correspond to the categories of activity of the same name.

### 4.1 – NON-IFRS FINANCIAL MEASURES

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

NON-IFRS FINANCIAL MEASURE	REFERENCE	NON-IFRS FINANCIAL MEASURE	REFERENCE
<b>Performance</b>		<b>Liquidity</b>	
Revenue backlog	Section 6	Net cash position	Section 8.1
Operating income by segment	Section 7	Freehold cash	Section 8.1
ROASE	Section 8.4		

Definitions of all non-IFRS financial measures are provided in the sections referenced previously 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-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS.

## 5 – BREAKDOWN OF INCOME STATEMENT

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
<b>Revenues by activity:</b>				
Services	\$ 564.4	\$ 501.6	\$ 1,044.5	\$ 958.8
Packages	692.0	471.6	1,324.1	855.7
O&M	281.7	255.7	708.5	638.8
ICI	128.7	127.8	230.5	214.7
	<b>\$ 1,666.8</b>	<b>\$ 1,356.7</b>	<b>\$ 3,307.6</b>	<b>\$ 2,668.0</b>
<b>Gross margin</b>	<b>\$ 314.7</b>	<b>\$ 326.6</b>	<b>\$ 588.2</b>	<b>\$ 590.1</b>
<b>Selling, general and administrative expenses</b>	<b>166.1</b>	<b>146.0</b>	<b>319.2</b>	<b>276.3</b>
<b>Net financial expenses:</b>				
From ICI	20.1	21.6	43.3	39.7
From other activities	6.3	9.2	10.3	16.7
	<b>26.4</b>	<b>30.8</b>	<b>53.6</b>	<b>56.4</b>
<b>Income before income tax expense</b>	<b>122.2</b>	<b>149.8</b>	<b>215.4</b>	<b>257.4</b>
<b>Income tax expense</b>	<b>18.8</b>	<b>26.9</b>	<b>35.4</b>	<b>47.8</b>
<b>Net income for the period</b>	<b>\$ 103.4</b>	<b>\$ 122.9</b>	<b>\$ 180.0</b>	<b>\$ 209.6</b>
<b>Net income attributable to:</b>				
SNC-Lavalin shareholders	\$ 100.7	\$ 119.1	\$ 174.6	\$ 203.3
Non-controlling interests	2.7	3.8	5.4	6.3
<b>Net income for the period</b>	<b>\$ 103.4</b>	<b>\$ 122.9</b>	<b>\$ 180.0</b>	<b>\$ 209.6</b>
<b>Earnings per share (\$)</b>				
Basic	\$ 0.67	\$ 0.79	\$ 1.16	\$ 1.35
Diluted	\$ 0.66	\$ 0.78	\$ 1.15	\$ 1.34
<b>Supplementary information:</b>				
Net income attributable to SNC-Lavalin shareholders from ICI				
From Highway 407	\$ 32.3	\$ 22.6	\$ 46.1	\$ 31.9
From other ICI	9.4	21.7	20.0	32.0
Net income attributable to SNC-Lavalin shareholders excluding ICI	59.0	74.8	108.5	139.4
<b>Net income attributable to SNC-Lavalin shareholders for the period</b>	<b>\$ 100.7</b>	<b>\$ 119.1</b>	<b>\$ 174.6</b>	<b>\$ 203.3</b>

### 5.1 – NET INCOME ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Net income attributable to SNC-Lavalin shareholders excluding ICI	\$ 59.0	\$ 74.8	\$ 108.5	\$ 139.4
Net income attributable to SNC-Lavalin shareholders from ICI	41.7	44.3	66.1	63.9
<b>Net income attributable to SNC-Lavalin shareholders</b>	<b>\$ 100.7</b>	<b>\$ 119.1</b>	<b>\$ 174.6</b>	<b>\$ 203.3</b>

**Net income attributable to SNC-Lavalin shareholders excluding ICI for the second quarter of 2011** mainly reflected a lower contribution from Infrastructure & Environment, primarily due to a lower gross margin-to-revenue ratio on Packages activities, as well as additional costs from the Libyan events, partly offset by higher contributions from all other segments.

**Net income attributable to SNC-Lavalin shareholders excluding ICI for the first six months of 2011** mainly reflected lower contributions from Infrastructure & Environment that is primarily due to

the impact of the Libyan events in 2011 and favourable cost reforecasts in 2010, and from Mining & Metallurgy, partly offset by higher contributions from all other segments.

**Net income attributable to SNC-Lavalin shareholders from ICI for the second quarter of 2011** mainly reflected a lower contribution from AltaLink, and the absence of contributions in the second quarter of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, partially offset by higher dividends from Highway 407.

**Net income attributable to SNC-Lavalin shareholders from ICI for the first six months of 2011** increased mainly due to higher dividends from Highway 407, partially offset by the absence of contributions in the first six months of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, and a lower contribution from AltaLink.

## 5.2 – REVENUE ANALYSIS

**For the second quarter of 2011, revenues amounted to \$1,666.8 million** compared to \$1,356.7 million for the corresponding period of 2010. **For the first six months of 2011, revenues amounted to \$3,307.6 million** compared to \$2,668.0 million for the first six months of 2010, reflecting higher revenues in all segments, especially in Infrastructure & Environment, and Chemicals & Petroleum.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Services revenues	\$ 564.4	\$ 501.6	\$ 1,044.5	\$ 958.8

The increase in Services revenues for the first six months of 2011 mainly reflected a higher level of activity in Mining & Metallurgy, partially offset by a decrease in Power.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Packages revenues	\$ 692.0	\$ 471.6	\$ 1,324.1	\$ 855.7

The increase in Packages revenues for the first six months of 2011 reflected a higher volume of activity in all segments, primarily in Power, Infrastructure & Environment, and Chemicals & Petroleum.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
O&M revenues	\$ 281.7	\$ 255.7	\$ 708.5	\$ 638.8

The increase in O&M revenues for the first six months of 2011 was mainly due to a higher level of activity in Canada.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
ICI revenues	\$ 128.7	\$ 127.8	\$ 230.5	\$ 214.7

The increase in ICI revenues for the first six months of 2011 mainly reflected higher dividends from Highway 407, as well as higher revenues from AltaLink.

### 5.3 – GROSS MARGIN ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Gross margin excluding ICI	\$ 240.3	\$ 247.7	\$ 458.7	\$ 466.6
Gross margin from ICI	74.4	78.9	129.5	123.5
<b>Gross margin</b>	<b>\$ 314.7</b>	<b>\$ 326.6</b>	<b>\$ 588.2</b>	<b>\$ 590.1</b>
Gross margin-to-revenue ratio	18.9%	24.1%	17.8%	22.1%

The gross margin amount excluding ICI for the first six months of 2011 decreased mainly due to Infrastructure & Environment, primarily due to the impact of the Libyan events in 2011 as well as favourable cost reforecasts in 2010, partially offset by an overall higher level of activity, and a higher gross margin-to-revenue ratio from Chemicals & Petroleum.

The gross margin amount from ICI for the first six months of 2011 increased mainly due to higher dividends from Highway 407, partially offset by the absence of contributions in the first six months of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010.

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

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Selling, general and administrative expenses	\$ 166.1	\$ 146.0	\$ 319.2	\$ 276.3

The increase in selling, general and administrative expenses for the first six months of 2011 mainly reflected higher selling costs, and higher general and administrative expenses.

## 5.5 – NET FINANCIAL EXPENSES ANALYSIS

SECOND QUARTER ENDED JUNE 30  
(IN MILLIONS OF CANADIAN DOLLARS)

	2011			2010		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (3.2)	\$ (2.5)	\$ (5.7)	\$ –	\$ (1.1)	\$ (1.1)
Interest on debt:						
Recourse	–	5.5	5.5	–	7.5	7.5
Non-recourse:						
AltaLink	19.4	–	19.4	17.2	–	17.2
Other	2.0	–	2.0	2.1	–	2.1
Other	1.9	3.3	5.2	2.3	2.8	5.1
Net financial expenses	\$ 20.1	\$ 6.3	\$ 26.4	\$ 21.6	\$ 9.2	\$ 30.8

SIX MONTHS ENDED JUNE 30  
(IN MILLIONS OF CANADIAN DOLLARS)

	2011			2010		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (3.2)	\$ (5.1)	\$ (8.3)	\$ –	\$ (1.9)	\$ (1.9)
Interest on debt:						
Recourse	–	10.9	10.9	–	15.0	15.0
Non-recourse:						
AltaLink	39.1	–	39.1	33.0	–	33.0
Other	4.0	–	4.0	4.3	–	4.3
Other	3.4	4.5	7.9	2.4	3.6	6.0
Net financial expenses	\$ 43.3	\$ 10.3	\$ 53.6	\$ 39.7	\$ 16.7	\$ 56.4

Net financial expenses amounted to \$26.4 million for the second quarter of 2011, compared to \$30.8 million for the corresponding quarter last year. For the first six months of 2011, net financial expenses amounted to \$53.6 million, compared to \$56.4 million in the first six months of 2010. Net financial expenses from ICI and from other activities are analyzed separately.

Net financial expenses from ICI decreased to \$20.1 million in the second quarter of 2011, from \$21.6 million for the comparable period in 2010. For the first six months of 2011, net financial expenses from ICI increased to \$43.3 million, compared to \$39.7 million in the first six months of 2010, mainly due to a higher interest expense from AltaLink, reflecting additional non-recourse debt, partially offset by higher interest revenues.

Net financial expenses from other activities were \$6.3 million in the second quarter of 2011, compared to \$9.2 million for the comparable period in 2010. For the first six months of 2011, net financial expenses from other activities were \$10.3 million, compared to \$16.7 million in the first six months of 2010, mainly due to lower interest expense, primarily due to the repayment at maturity

of the \$105 million recourse debt in September 2010, combined with higher interest revenues, resulting from higher effective yields.

## 5.6 – INCOME TAXES ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Income tax expense excluding ICI	\$ 17.3	\$ 21.5	\$ 31.7	\$ 41.0
Income tax expense from ICI	1.5	5.4	3.7	6.8
Income tax expense	\$ 18.8	\$ 26.9	\$ 35.4	\$ 47.8

The decrease in income tax expense for the first six months of 2011 mainly reflected a decrease in the Company's income before income tax expense.

## 6 – REVENUE BACKLOG

The Company reports revenue backlog, which is a non-IFRS financial measure, for the following **categories of activity**: i) **Services**; ii) **Packages**; and iii) **O&M**. Revenue backlog is a **forward-looking indicator of anticipated revenues** that will be recognized by the Company. In the case of **O&M** activities, the Company **limits** the revenue backlog to **the earlier of either**: i) **the contract term awarded**; or ii) **the next five years**.

The Company aims to provide a revenue backlog that is both meaningful and current. As such, the Company regularly reviews its backlog to ensure that it reflects any modifications, which include awards of new projects, changes of scope on current projects, and project cancellations, if any.

Considering the impact of IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"), and IAS 31, *Interests in Joint Ventures*, ("IAS 31") on its ICI, the **Company decided to no longer include** its revenue backlog for ICI activities when reporting its financial results under IFRS. The Company's ICI revenue backlog disclosed in the Company's 2010 Financial Report 2010, under "Management's Discussion and Analysis", was \$2.9 billion at December 31, 2010.

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)				
2011				
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 612.8	\$ 2,379.2	\$ –	\$ 2,992.0
Chemicals & Petroleum	282.8	561.2	–	844.0
Mining & Metallurgy	468.6	116.4	–	585.0
Power	231.8	1,780.0	–	2,011.8
Other Industries	83.9	482.6	–	566.5
<b>O&amp;M</b>	–	–	2,343.5	2,343.5
<b>Total</b>	<b>\$ 1,679.9</b>	<b>\$ 5,319.4</b>	<b>\$ 2,343.5</b>	<b>\$ 9,342.8</b>
AT MARCH 31 (IN MILLIONS OF CANADIAN DOLLARS)				
2011				
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 662.4	\$ 2,620.1	\$ –	\$ 3,282.5
Chemicals & Petroleum	140.2	701.0	–	841.2
Mining & Metallurgy	291.6	140.6	–	432.2
Power	214.4	1,575.1	–	1,789.5
Other Industries	87.4	507.7	–	595.1
<b>O&amp;M</b>	–	–	2,429.2	2,429.2
<b>Total</b>	<b>\$ 1,396.0</b>	<b>\$ 5,544.5</b>	<b>\$ 2,429.2</b>	<b>\$ 9,369.7</b>
AT DECEMBER 31 (IN MILLIONS OF CANADIAN DOLLARS)				
2010				
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 665.1	\$ 2,820.6	\$ –	\$ 3,485.7
Chemicals & Petroleum	165.8	907.4	–	1,073.2
Mining & Metallurgy	273.6	167.1	–	440.7
Power	219.6	1,340.4	–	1,560.0
Other Industries	86.6	320.5	–	407.1
<b>O&amp;M</b>	–	–	2,732.8	2,732.8
<b>Total</b>	<b>\$ 1,410.7</b>	<b>\$ 5,556.0</b>	<b>\$ 2,732.8</b>	<b>\$ 9,699.5</b>

At June 30, 2011, revenue backlog was \$9,342.8 million, compared to \$9,369.7 million at March 31, 2011, and \$9,699.5 million at December 31, 2010. The decrease from December 2010 mainly reflects a decrease in O&M, and Packages, partially offset by an increase of 19.1% in Services.

## 6.1 – SERVICES BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	March 31 2011	December 31 2010
Services backlog	\$ 1,679.9	\$ 1,396.0	\$ 1,410.7

The increase from December 2010 is mainly attributable to Mining & Metallurgy, and Chemicals & Petroleum.

## 6.2 – PACKAGES BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	March 31 2011	December 31 2010
Packages backlog	\$ 5,319.4	\$ 5,544.5	\$ 5,556.0

The decrease from December 2010 mainly reflects a decrease in Infrastructure & Environment, and Chemicals & Petroleum, partially offset by an increase in Power, and Other Industries.

## 6.3 – O&M BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	March 31 2011	December 31 2010
O&M backlog	\$ 2,343.5	\$ 2,429.2	\$ 2,732.8

The decrease since December 2010 is mainly due to normal fluctuations in the timing of long-term contracts, primarily in Canada.

## 7 – OPERATING RESULTS BY SEGMENT

As mentioned previously, the Company's results are analyzed by segment. The segments regroup related activities within SNC-Lavalin consistent with the way management performance is evaluated. The Company presents the information in the way management performance is evaluated, and regroups its projects within the industries they are executed for.

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 based on the 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 investments in infrastructure concessions in certain infrastructure for public services, which are accounted for by either the cost, equity 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 results of its investments, or dividends from ICI for which the carrying amount is \$nil (i.e. Highway 407), for investments accounted for by the equity method; and iii) net income from investments accounted for by the full consolidation method, less the portion attributable

to non-controlling interests. 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)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
BY SEGMENT		2011	2010	2011	2010
<b>Services and Packages</b>					
Infrastructure & Environment	\$	467.0	\$ 417.6	\$ 887.5	\$ 743.6
Chemicals & Petroleum		274.7	238.5	574.7	432.3
Mining & Metallurgy		233.4	161.5	410.8	311.0
Power		175.2	95.9	312.4	202.0
Other Industries		106.1	59.7	183.2	125.6
<b>O&amp;M</b>		281.7	255.7	708.5	638.8
<b>ICI</b>		128.7	127.8	230.5	214.7
<b>Total</b>	\$	1,666.8	\$ 1,356.7	\$ 3,307.6	\$ 2,668.0

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

(IN MILLIONS OF CANADIAN DOLLARS)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
BY SEGMENT		2011	2010	2011	2010
<b>Services and Packages</b>					
Infrastructure & Environment	\$	9.8	\$ 56.2	\$ 15.9	\$ 99.4
Chemicals & Petroleum		22.5	9.7	37.6	22.2
Mining & Metallurgy		15.0	14.2	16.5	26.3
Power		28.5	25.4	53.5	41.2
Other Industries		9.4	5.2	19.9	10.3
<b>O&amp;M</b>		3.5	2.2	21.2	13.8
<b>ICI</b>		41.7	44.3	66.1	63.9
<b>Total</b>	\$	130.4	\$ 157.2	\$ 230.7	\$ 277.1

## 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 & ENVIRONMENT

(IN MILLIONS OF CANADIAN DOLLARS)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
		2011	2010	2011	2010
Revenues from Infrastructure & Environment					
Services	\$	158.1	\$ 149.1	\$ 291.6	\$ 289.4
Packages		308.9	268.5	595.9	454.2
<b>Total</b>	\$	467.0	\$ 417.6	\$ 887.5	\$ 743.6
Operating income from Infrastructure & Environment	\$	9.8	\$ 56.2	\$ 15.9	\$ 99.4
Operating income over revenues from Infrastructure & Environment (%)		2.1%	13.4%	1.8%	13.4%

**Infrastructure & Environment revenues for the second quarter of 2011 increased to \$467.0 million**, compared to \$417.6 million for the corresponding period of 2010. **For the first six months of 2011, revenues increased to \$887.5 million**, compared to \$743.6 million in the first six months of 2010, mainly reflecting a higher level of Packages activities.

**For the second quarter of 2011, operating income totalled \$9.8 million**, compared to \$56.2 million for the corresponding quarter in 2010, mainly due to a lower gross margin-to-revenue ratio on Packages activities, as well as additional costs from Libyan events in 2011, while the gross margin-to-revenue ratio on Packages activities for the second quarter of 2010 reflected favourable cost reforecasts on certain major projects. **For the first six months of 2011, operating income totalled \$15.9 million**, compared to \$99.4 million in the first six months of 2010, mainly due to the impact of the Libyan events in 2011 and favourable cost reforecasts on major Packages projects in 2010.

### 7.1.2 – CHEMICALS & PETROLEUM

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from Chemicals & Petroleum				
Services	\$ 93.2	\$ 89.4	\$ 186.0	\$ 166.4
Packages	181.5	149.1	388.7	265.9
<b>Total</b>	<b>\$ 274.7</b>	<b>\$ 238.5</b>	<b>\$ 574.7</b>	<b>\$ 432.3</b>
Operating income from Chemicals & Petroleum	\$ 22.5	\$ 9.7	\$ 37.6	\$ 22.2
Operating income over revenues from Chemicals & Petroleum (%)	8.2%	4.0%	6.6%	5.1%

**Revenues from Chemicals & Petroleum were \$274.7 million in the second quarter of 2011**, compared to \$238.5 million in the second quarter of 2010. **For the first six months of 2011, revenues were \$574.7 million**, compared to \$432.3 million in the corresponding period of 2010, mainly reflecting a higher level of Packages activities.

**In the second quarter of 2011, the operating income was \$22.5 million**, compared to \$9.7 million in the second quarter of 2010. **For the first six months of 2011, operating income was \$37.6 million**, compared to \$22.2 million in the corresponding period of 2010, mainly reflecting a higher gross margin-to-revenue ratio in both revenue categories, as well as a higher level of activity.

### 7.1.3 – MINING & METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from Mining & Metallurgy				
Services	\$ 205.3	\$ 154.1	\$ 369.6	\$ 296.2
Packages	28.1	7.4	41.2	14.8
<b>Total</b>	<b>\$ 233.4</b>	<b>\$ 161.5</b>	<b>\$ 410.8</b>	<b>\$ 311.0</b>
Operating income from Mining & Metallurgy	\$ 15.0	\$ 14.2	\$ 16.5	\$ 26.3
Operating income over revenues from Mining & Metallurgy (%)	6.4%	8.8%	4.0%	8.4%

**Mining & Metallurgy revenues in the second quarter of 2011 were \$233.4 million**, compared to \$161.5 million for the corresponding period of 2010. **For the first six months of 2011, revenues were \$410.8 million**, compared to \$311.0 million in the first six months of 2010, due primarily to a higher level of Services activities.

**Operating income was \$15.0 million in the second quarter of 2011**, compared to \$14.2 million for the corresponding period of 2010. **For the first six months of 2011, operating income was \$16.5 million**, compared to \$26.3 million in the first six months of 2010, primarily reflecting additional costs on one project in the first quarter of 2011, combined with higher selling, general and administrative expenses, partially offset by an increased volume of activity, mainly in Services.

### 7.1.4 – POWER

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from Power				
Services	\$ 67.7	\$ 79.4	\$ 120.8	\$ 152.2
Packages	107.5	16.5	191.6	49.8
<b>Total</b>	<b>\$ 175.2</b>	<b>\$ 95.9</b>	<b>\$ 312.4</b>	<b>\$ 202.0</b>
Operating income from Power	\$ 28.5	\$ 25.4	\$ 53.5	\$ 41.2
Operating income over revenues from Power (%)	16.3%	26.5%	17.1%	20.4%

**Power revenues amounted to \$175.2 million in the second quarter of 2011**, compared to \$95.9 million in the second quarter of 2010. **For the first six months of 2011, revenues amounted to \$312.4 million**, compared to \$202.0 million in the corresponding period of 2010, mainly reflecting a higher level of Packages activities.

**Operating income totalled \$28.5 million in second quarter of 2011**, compared to \$25.4 million for the corresponding quarter in 2010. **For the first six months of 2011, operating income totalled \$53.5 million**, compared to \$41.2 million in the corresponding period of 2010, mainly

reflecting a higher level of Packages activities, partially offset by a lower gross margin-to-revenue ratio, while both six-month periods reflected favourable cost reforecasts.

### 7.1.5 – OTHER INDUSTRIES

**Other Industries** combines projects in several industry sectors, namely agrifood, pharmaceuticals and biotechnology, sulphuric acid, as well as projects related to other industrial facilities not already identified as part of any other preceding segments.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from Other Industries				
Services	\$ 40.1	\$ 29.5	\$ 76.5	\$ 54.6
Packages	66.0	30.2	106.7	71.0
<b>Total</b>	<b>\$ 106.1</b>	<b>\$ 59.7</b>	<b>\$ 183.2</b>	<b>\$ 125.6</b>
Operating income from Other Industries	\$ 9.4	\$ 5.2	\$ 19.9	\$ 10.3
Operating income over revenues from Other Industries (%)	8.8%	8.7%	10.8%	8.2%

**Other Industries revenues were \$106.1 million in the second quarter of 2011**, compared to \$59.7 million in the corresponding quarter of 2010. **For the first six months of 2011, revenues were \$183.2 million**, compared to \$125.6 million in the first six months of 2010, reflecting a higher level of activity in both revenue categories.

**Operating income for the second quarter of 2011 was \$9.4 million**, compared to \$5.2 million for the corresponding period of 2010. **For the first six months of 2011, operating income was \$19.9 million**, compared to \$10.3 million in the first six months of 2010, mainly reflecting a higher level of activity.

## 7.2 – O&M

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from O&M	\$ 281.7	\$ 255.7	\$ 708.5	\$ 638.8
Operating income from O&M	\$ 3.5	\$ 2.2	\$ 21.2	\$ 13.8
Operating income over revenues from O&M (%)	1.2%	0.8%	3.0%	2.2%

**O&M revenues in the second quarter of 2011 were \$281.7 million**, compared to \$255.7 million for the second quarter in 2010. **For the first six months of 2011, revenues were \$708.5 million**, compared to \$638.8 million in the corresponding period of 2010, mainly due to a higher level of activity in Canada.

**Operating income amounted to \$3.5 million in the second quarter of 2011**, compared to \$2.2 million for the second quarter in 2010. **For the first six months of 2011, operating income**

amounted to **\$21.2 million**, compared to \$13.8 million in the corresponding period of 2010, mainly due to a higher gross margin-to-revenue ratio, combined with a higher volume of activity.

### 7.3 – ICI

SNC-Lavalin makes investments in infrastructure concessions in certain infrastructure for public services, 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 9.3 of the Company's 2010 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 statement of financial position, the Company provides additional information in Note 4 to its unaudited interim condensed consolidated financial statements for the second quarter of 2011 regarding the net book value of its ICI in accordance with the method accounted for in SNC-Lavalin's consolidated statement of financial position.

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	March 31 2011	December 31 2010
Investments accounted for by the full consolidation method	\$ 510.0	\$ 478.0	\$ 441.5
Investments accounted for by the equity method	389.3	400.3	392.5
Investments accounted for by the cost method	284.8	237.6	234.4
Net book value of ICI	\$ 1,184.1	\$ 1,115.9	\$ 1,068.4

The Company estimates the fair value of its ICI to be significantly greater than their net book value, as reflected by the following events:

- > In the fourth quarter of 2010, Cintra Infraestructuras S.A. ("Cintra"), one of SNC-Lavalin's co-shareholders in Highway 407, sold its ownership interest of 10% of the total issued and outstanding shares of Highway 407 to a subsidiary of Canada Pension Plan Investment Board ("CPPIB") for \$894.3 million. The value of the transaction between Cintra and CPPIB for Cintra's shares in Highway 407, when applied to the 16.77% share owned by the Company, would represent approximately \$1.5 billion, while the net book value of the Company's investment was \$nil as at June 30, 2011.
- > On February 25, 2011, SNC-Lavalin entered into an agreement to acquire a 23.08% ownership interest in AltaLink from Macquarie Essential Assets Partnership ("MEAP") for \$213 million, subject to certain adjustments. The agreement was concluded following the acceptance by SNC-Lavalin of an offer from MEAP to make the acquisition. The offer was presented to SNC-Lavalin in response to a binding offer received by MEAP from a third party and pursuant

to a right of first refusal held by SNC-Lavalin to acquire MEAP's ownership interest in AltaLink. The closing of the transaction is subject to customary closing conditions and regulatory approval, including approval from the *Alberta Utilities Commission*, and would bring SNC-Lavalin's ownership in AltaLink to 100%. The value of the offer for the 23.08% ownership interest in AltaLink, when applied to the 76.92% share owned by SNC-Lavalin, would represent approximately \$710 million, while its net book value of the Company's investment was \$361.0 million as at June 30, 2011.

### 7.3.2 – OPERATING RESULTS OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2011	2010	2011	2010
Revenues from ICI	\$ 128.7	\$ 127.8	\$ 230.5	\$ 214.7
Operating income				
From Highway 407	\$ 32.3	\$ 22.6	\$ 46.1	\$ 31.9
From other ICI	9.4	21.7	20.0	32.0
Operating income from ICI	\$ 41.7	\$ 44.3	\$ 66.1	\$ 63.9

The Company's investments are accounted for by either the cost, equity 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, which equals net income for ICI, is not 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 individual ICI's financial results.

**The ICI segment generated an operating income of \$41.7 million in the second quarter of 2011**, compared to \$44.3 million for the corresponding quarter of 2010, mainly reflecting a lower contribution from AltaLink, and the absence of contributions in the second quarter of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, partially offset by higher dividends from Highway 407. **Net income attributable to SNC-Lavalin shareholders from ICI was \$66.1 million for the first six months of 2011**, compared to \$63.9 million for the corresponding period of 2010, mainly due to higher dividends from Highway 407, partially offset by the absence of contributions in the first six months of 2011 from Valener Inc. and Trencap Limited Partnership, which were sold in the fourth quarter of 2010, and a lower contribution from AltaLink.

## 8 – LIQUIDITY AND CAPITAL RESOURCES

This section has been prepared to provide the reader with a better understanding of the Company's liquidity and capital resources, and has been structured as follows:

- > 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

Maintaining a strong statement of financial position with a net cash position sufficient to meet expected operating, investing and financing plans is a key financial objective.

The Company's **net cash position**, which is a non-IFRS financial measure, is arrived at by excluding cash and cash equivalents from ICI and its recourse debt from its cash and cash equivalents, and was as follows at:

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2011	December 31 2010
Cash and cash equivalents	\$ 1,111.4	\$ 1,235.1
Less:		
Cash and cash equivalents from ICI <sup>(1)</sup>	4.8	16.8
Recourse debt	348.3	348.2
<b>Net cash position</b>	<b>\$ 758.3</b>	<b>\$ 870.1</b>

(1) ICI accounted for by the full consolidation method.

**The net cash position at June 30, 2011 was \$758.3 million**, compared to \$870.1 million at December 31, 2010.

In addition to determining its net cash position, the Company estimates its **freehold cash**, a non-IFRS financial measure defined as the amount of cash and cash equivalents that is not committed for its operations, investments in ICI and balance of payment for past business acquisitions. As such, the freehold cash is derived from the cash and cash equivalents, excluding cash and cash equivalents from fully 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 past business acquisitions.

The freehold cash was approximately \$600 million as at June 30, 2011, compared to approximately \$900 million as at December 31, 2010. The decrease mainly reflected cash and cash equivalents that will be required for the acquisition of a 23.08% ownership interest in AltaLink, upon customary closing conditions and regulatory approval, including approval from the *Alberta Utilities Commission*, as well as an increase in the Company's commitment to invest in Ambatovy Nickel Project.

## 8.2 – CASH FLOW ANALYSIS

SIX MONTHS ENDED JUNE 30  
(IN MILLIONS OF CANADIAN DOLLARS)

	2011	2010
Cash flows generated from (used for):		
Operating activities	\$ 202.1	\$ 129.9
Investing activities	(381.2)	(297.1)
Financing activities	53.1	94.6
Increase (decrease) in exchange differences on translating cash and cash equivalents held in foreign operations	2.3	(16.4)
Net decrease in cash and cash equivalents	(123.7)	(89.0)
Cash and cash equivalents at beginning of period	1,235.1	1,191.4
Cash and cash equivalents at end of period	\$ 1,111.4	\$ 1,102.4

Cash and cash equivalents were \$1,111.4 million at June 30, 2011, compared to \$1,235.1 million at December 31, 2010, as discussed further below.

### 8.2.1 – CASH FLOWS RELATED TO OPERATING ACTIVITIES

Cash generated from operating activities was \$202.1 million for the first six months of 2011, compared to \$129.9 million for the corresponding period of 2010. The variance was mainly due to:

- > Cash used by the change in non-cash working capital items of \$34.9 million in the first six-month period of 2011, compared to cash used by the change in non-cash working capital items of \$151.0 million for the corresponding period of 2010, primarily reflecting lower working capital requirements in 2011.
- > A decrease in net income to \$180.0 million in the first six-month period of 2011, compared to a net income of \$209.6 million for the first six months of 2010.

### 8.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES

Cash used for investing activities was \$381.2 million for the first six months of 2011, compared to \$297.1 million for the corresponding period of 2010. The major investing activities were as follows:

- > The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of \$223.2 million in the first six months of 2011, compared to \$211.1 million for the corresponding period of 2010, both due to AltaLink, mainly relating to capital expenditures for transmission projects.
- > The cash outflow from the acquisition of businesses was \$35.1 million in the first six months of 2011, compared to \$27.6 million for the corresponding period of 2010.
- > The acquisition of property and equipment for Services, Packages, and O&M activities amounted to a total cash outflow of \$28.2 million in the first six months of 2011, compared to \$13.8 million for the corresponding period of 2010.
- > Payments for ICI amounted to \$62.9 million in the first six months of 2011, mainly reflecting payments for Astoria Project Partners II LLC, Ambatovy Nickel Project and Rayalseema Expressway Private Limited, compared to \$12.0 million for the corresponding period of 2010.

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

**Cash generated from financing activities was \$53.1 million in the first six months of 2011,** compared to \$94.6 million for the corresponding period of 2010. The major financing activities were as follows:

- > The increase in non-recourse debt from ICI amounted to \$136.9 million in the first six months of 2011, compared to \$207.6 million for the corresponding period of 2010. The lower level of issuance of non-recourse debt from ICI in the first six months of 2011 compared to the corresponding period of 2010 mainly relates to AltaLink. The repayment of non-recourse debt from ICI totalled \$5.9 million in the first six months of 2011 compared to \$49.6 million for the corresponding period of 2010.
- > Under its normal course issuer bid, the Company repurchased 539,300 shares and 353,400 shares for a total cash consideration of \$30.6 million and \$17.2 million during the first six months of 2011 and 2010, respectively.
- > The issuance of shares pursuant to the exercise of stock options generated \$12.9 million in cash in the first six months of 2011 (398,909 stock options at an average price of \$32.40), compared to \$6.3 million in the first six months of 2010 (261,554 stock options at an average price of \$24.17). As at July 27, 2011, there were 5,793,609 stock options outstanding. At that same date, there were 150,906,341 shares issued and outstanding.

- > During the first six months of 2011 and 2010, the Company paid dividends totalling \$63.4 million and \$51.3 million, respectively.

### **8.3 – DIVIDENDS DECLARED**

On March 4, 2011, May 5, 2011 and August 5, 2011, the Board of Directors declared a quarterly cash dividend of \$0.21 per share, payable April 1, 2011, June 2, 2011 and September 2, 2011, respectively, representing an increase of 23.5% compared to the dividend of \$0.17 per share for the corresponding periods in 2010.

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

ROASE, a non-IFRS 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 net income attributable to SNC-Lavalin shareholders, divided by a trailing 13-month average equity attributable to SNC-Lavalin shareholders, excluding "other components of equity". As discussed in section 4 of the Company's 2010 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 for the Company.

**ROASE was 25.1% for the 12-month period ended June 30, 2011**, compared to 27.9% 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 9.6%.

### **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 2010 annual audited consolidated financial statements. The changeover from Canadian generally accepted accounting principles ("GAAP") to IFRS had no impact on the nature and extent of risks arising from financial instruments, and their related risk management. In the first six months of 2011, there was no material change to the nature of risks arising from financial instruments, related risk management or classification of financial instruments. Furthermore, there was no change in the methodology used to determine the fair value of the financial instruments that are measured at fair value on the Company's consolidated statement of financial position.

## 9 – RELATED PARTY TRANSACTIONS

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

Consistent with IFRS, intragroup profits generated from revenues with ICI accounted for by the equity or full consolidation methods are eliminated in the period they occur, except when such profits are deemed to have been realized by the ICI with a third party. Profits generated from transactions with ICI accounted for by the cost method are not eliminated, in accordance with IFRS.

The accounting treatment of intragroup profits is summarized below:

ICI	ACCOUNTING METHOD	ACCOUNTING TREATMENT OF INTRAGROUP PROFITS
AltaLink	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by AltaLink with a third party through the approval of rates
Service concession arrangements accounted for under IFRIC 12	Full consolidation method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client
	Equity method	Not eliminated upon consolidation in the period they occur, as they are considered realized by the ICI through the contractual agreement with its client
Others	Equity method	Eliminated in the period they occur, as a reduction of the underlying asset and subsequently recognized over the depreciation period of the corresponding asset
	Cost method	Not eliminated, in accordance with IFRS

For the second quarter and the first six months of 2011, SNC-Lavalin recognized revenues of \$172.9 million (second quarter of 2010: \$71.0 million) and \$290.1 million (first six months of 2010: \$120.3 million), respectively, from contracts with ICI accounted for by the equity method. For the second quarter and the first six months of 2011, intragroup revenues generated from transactions with AltaLink, which amounted to \$64.6 million (second quarter of 2010: \$67.8 million) and \$112.5 million (first six months of 2010: \$133.4 million), respectively, were eliminated upon consolidation, while profits from those transactions were not eliminated as they are deemed to have been realized with a third party.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to \$43.3 million as at June 30, 2011 (December 31, 2010: \$12.0 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was \$139.2 million at June 30, 2011 (December 31, 2010: \$178.6 million).

All of these related party transactions are measured at fair value.

## 10 – ACCOUNTING POLICIES AND CHANGES

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced the changeover from Canadian GAAP to IFRS for Canadian publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As such, starting from the first quarter of 2011, the Company’s unaudited interim condensed consolidated financial statements are prepared in accordance with IFRS in effect since January 1, 2011, with 2010 comparative figures and January 1, 2010 (“Date of Transition”) opening statement of financial position restated to conform with such IFRS, along with reconciliations from Canadian GAAP to IFRS, as per the guidance provided in IFRS 1, *First-time Adoption of International Financial Reporting Standards*, (“IFRS 1”). See Note 14 to the Company’s unaudited interim condensed consolidated financial statements for the second quarter of 2011 for quantitative reconciliations between Canadian GAAP and IFRS.

The Company established its accounting policies and methods used in the preparation of its unaudited interim condensed consolidated financial statements for the second quarter of 2011 in accordance with IFRS. See Note 2 to the Company’s unaudited interim condensed consolidated financial statements for the first quarter of 2011 for more information about the significant accounting principles used to prepare the financial statements, as they remain unchanged for the second quarter of 2011.

The key assumptions and basis for estimates that management has made under IFRS, and their impact on the amounts reported in the unaudited interim condensed consolidated financial statements and notes, have been disclosed in the Company’s unaudited interim condensed consolidated financial statements for the first quarter of 2011 and remain unchanged for the second quarter of 2011.

### 10.1 – STANDARDS AND INTERPRETATIONS ISSUED TO BE ADOPTED AT A LATER DATE

The following standards and amendments to the existing standards have been issued and are applicable for the Company for annual periods beginning on or after January 1, 2013, with earlier application permitted:

- > IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.
- > IFRS 10, *Consolidated Financial Statements*, (“IFRS 10”) and IFRS 12, *Disclosure of Interests in Other Entities*, (“IFRS 12”). The first standard replaces IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*, and establishes

principles for identifying when an entity controls other entities and the second standard establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.

- > IFRS 11, *Joint Arrangements*, (“IFRS 11”) supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and requires a single method to account for interests in jointly controlled entities.
- > Amended and retitled IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new IFRS 10, IFRS 11 and IFRS 12.
- > IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.
- > Amendments to IAS 1, *Presentation of Financial Statements*, to require entities to group items within other comprehensive income that may be reclassified to net income.
- > Amendments to IAS 19, *Employee Benefits*, to eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

The Company is currently evaluating the impact of adopting these standards and amendments on its financial statements.

## 11 – RISKS AND UNCERTAINTIES

Risks and uncertainties and risk management practices are described in section 14 of the Company's 2010 Financial Report under “Management's Discussion and Analysis”. Risks and uncertainties and risk management practices have not been materially changed in the first six months of 2011.

## 12 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND DIVIDENDS PER SHARE)	2011		2010				2009 <sup>(1)</sup>	
	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER
Revenues	\$ 1,666.8	\$ 1,640.8	\$ 1,829.3	\$ 1,513.0	\$ 1,356.7	\$ 1,311.3	\$ 1,583.2	\$ 1,422.4
Net income attributable to SNC-Lavalin shareholders from ICI								
From Highway 407	\$ 32.3	\$ 13.8	\$ 18.4	\$ –	\$ 22.6	\$ 9.2	\$ 4.9	\$ 2.2
From other ICI	9.4	10.6	36.2	16.4	21.7	10.3	17.8	7.3
Net income attributable to SNC-Lavalin shareholders excluding ICI	59.0	49.5	108.6	111.7	74.8	64.6	76.0	93.7
Net income attributable to SNC-Lavalin shareholders	100.7	73.9	163.2	128.1	119.1	84.1	98.7	103.2
Net income attributable to non-controlling interests	2.7	2.7	2.9	1.5	3.8	2.6	–	–
Net income	\$ 103.4	\$ 76.6	\$ 166.1	\$ 129.6	\$ 122.9	\$ 86.7	\$ 98.7	\$ 103.2
Basic earnings per share (\$)	\$ 0.67	\$ 0.49	\$ 1.08	\$ 0.85	\$ 0.79	\$ 0.56	\$ 0.65	\$ 0.68
Diluted earnings per share (\$)	\$ 0.66	\$ 0.49	\$ 1.07	\$ 0.84	\$ 0.78	\$ 0.55	\$ 0.65	\$ 0.68
Dividends declared per share (\$)	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.15

(1) The quarterly figures for 2009 have been prepared in accordance with Canadian GAAP, and have not been restated as they relate to periods prior to the Date of Transition. The quarterly net income for 2009 does not include non-controlling interests, as they were presented outside shareholders' equity under Canadian GAAP. Non-controlling interests for the fourth and third quarter of 2009 were \$4.2 million and \$1.4 million, respectively.

The most significant impacts of adopting IFRS, other than the presentation of the net income attributable to SNC-Lavalin shareholders and the net income attributable to non-controlling interests, relate to accounting for the Company's ICI, accounted for under IFRIC 12, and for its jointly controlled entities, accounted for under IAS 31. The transition to IFRS had a limited impact on the Company's other activities.

While the Company did not restate its 2009 comparative figures, the estimated impact of IFRIC 12 and IAS 31, mainly attributable to the change of consolidation method for Highway 407, on revenues and net income for the fourth and third quarter of 2009, would have been as follows:

(IN MILLIONS OF CANADIAN DOLLARS)	2009	
	FOURTH QUARTER	THIRD QUARTER
Decrease in revenues	\$ (12.9)	\$ (14.6)
Increase in net income	\$ 7.6	\$ 8.9

### 13 – CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- > Material information related to the company is made known to them, particularly during the period in which the interim filings were being prepared; and
- > Information required to be disclosed in the Company’s filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

There has been no change in the Company’s internal control over financial reporting that occurred during the period beginning on April 1, 2011 and ended on June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

### 14 – 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)).