SNC·LAVALIN

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# Interim Condensed Consolidated Financial Statements (unaudited)

As at and for the three-month periods ended
March 31, 2012 and 2011

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(UNAUDITED)

(IN THOUSANDS OF CANADIAN DOLLARS)

| | Note | **March 31 2012** | December 31 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 1,119,227** | $ 1,231,049 |
| Restricted cash | | **47,450** | 39,354 |
| Trade receivables | | **1,230,669** | 1,155,544 |
| Contracts in progress | | **605,845** | 557,220 |
| Other current financial assets | | **364,136** | 396,552 |
| Other current assets | | **173,307** | 166,563 |
| **Total current assets** | | **3,540,634** | 3,546,282 |
| Property and equipment: | | | |
| From ICI | 4 | **2,782,211** | 2,637,735 |
| From other activities | | **171,318** | 159,883 |
| ICI accounted for by the equity or cost methods | 4 | **646,937** | 643,487 |
| Goodwill | | **638,786** | 639,471 |
| Deferred income tax asset | | **156,641** | 161,364 |
| Non-current financial assets | | **411,112** | 412,258 |
| Other non-current assets | | **174,016** | 153,521 |
| **Total assets** | | **$ 8,521,655** | $ 8,354,001 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade payables | | **$ 1,547,599** | $ 1,520,395 |
| Downpayments on contracts | | **329,140** | 316,714 |
| Deferred revenues | | **909,235** | 907,118 |
| Other current financial liabilities | | **311,013** | 291,031 |
| Other current liabilities | | **107,953** | 151,689 |
| Short-term debt and current portion of long-term debt: | | | |
| Non-recourse from ICI | 4 | **411,914** | 327,381 |
| **Total current liabilities** | | **3,616,854** | 3,514,328 |
| Long-term debt: | | | |
| Recourse | | **348,413** | 348,369 |
| Non-recourse from ICI | 4 | **1,560,933** | 1,561,377 |
| Other non-current financial liabilities | | **117,002** | 130,744 |
| Provisions | | **219,011** | 224,834 |
| Other non-current liabilities | | **502,241** | 486,217 |
| Deferred income tax liability | | **206,265** | 201,416 |
| **Total liabilities** | | **6,570,719** | 6,467,285 |
| **Equity** | | | |
| Share capital | | **460,149** | 455,682 |
| Retained earnings | | **1,577,274** | 1,543,199 |
| Other components of equity | 10 | **(90,352)** | (115,813) |
| Equity attributable to SNC-Lavalin shareholders | | **1,947,071** | 1,883,068 |
| Non-controlling interests | | **3,865** | 3,648 |
| **Total equity** | | **1,950,936** | 1,886,716 |
| **Total liabilities and equity** | | **$ 8,521,655** | $ 8,354,001 |

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(UNAUDITED)

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

**2012**

| | Equity attributable to SNC-Lavalin shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital | | | | | | |
| | Common shares (in thousands) | Amount | Retained earnings | Other components of equity (Note 10) | Total | Non-controlling interests | Total equity |
| **Balance at beginning of the period** | **151,034** | **$ 455,682** | **$ 1,543,199** | **$ (115,813)** | **$ 1,883,068** | **$ 3,648** | **$ 1,886,716** |
| Net income for the period | **–** | **–** | **67,129** | **–** | **67,129** | **217** | **67,346** |
| Other comprehensive income for the period | **–** | **–** | **1,104** | **25,461** | **26,565** | **–** | **26,565** |
| Total comprehensive income for the period | **–** | **–** | **68,233** | **25,461** | **93,694** | **217** | **93,911** |
| Dividends declared (Note 9) | **–** | **–** | **(33,239)** | **–** | **(33,239)** | **–** | **(33,239)** |
| Stock option compensation (Note 7A) | **–** | **–** | **2,089** | **–** | **2,089** | **–** | **2,089** |
| Shares issued under stock option plans | **115** | **4,604** | **(1,353)** | **–** | **3,251** | **–** | **3,251** |
| Shares redeemed and cancelled | **(45)** | **(137)** | **(1,655)** | **–** | **(1,792)** | **–** | **(1,792)** |
| **Balance at end of the period** | **151,104** | **$ 460,149** | **$ 1,577,274** | **$ (90,352)** | **$ 1,947,071** | **$ 3,865** | **$ 1,950,936** |

THREE MONTHS ENDED MARCH 31
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT NUMBER OF COMMON SHARES)

2011 [1]

| | Equity attributable to SNC-Lavalin shareholders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share Capital | | | | | | |
| | Common shares (in thousands) | Amount | Retained earnings | Other components of equity (Note 10) | Total | Non-controlling interests | Total equity |
| **Balance at beginning of the period** | 151,034 | $ 424,935 | $ 1,477,211 | $ (67,480) | $ 1,834,666 | $ 102,654 | $ 1,937,320 |
| Adjustment relating to 2010 correction (Note 14) | – | – | (17,888) | – | (17,888) | – | (17,888) |
| **Adjusted balance at beginning of the period** | 151,034 | $ 424,935 | $ 1,459,323 | $ (67,480) | $ 1,816,778 | $ 102,654 | $ 1,919,432 |
| Net income for the period | – | – | 76,073 | – | 76,073 | 2,746 | 78,819 |
| Other comprehensive income for the period | – | – | 743 | 8,770 | 9,513 | 268 | 9,781 |
| Total comprehensive income for the period | – | – | 76,816 | 8,770 | 85,586 | 3,014 | 88,600 |
| Dividends declared (Note 9) | – | – | (31,687) | – | (31,687) | – | (31,687) |
| Stock option compensation (Note 7A) | – | – | 1,980 | – | 1,980 | – | 1,980 |
| Shares issued under stock option plans | 253 | 9,694 | (1,815) | – | 7,879 | – | 7,879 |
| Shares redeemed and cancelled | (472) | (1,355) | (25,584) | – | (26,939) | – | (26,939) |
| Capital contributions by non-controlling interests | – | – | – | – | – | 2,309 | 2,309 |
| **Balance at end of the period** | 150,815 | $ 433,274 | $ 1,479,033 | $ (58,710) | $ 1,853,597 | $ 107,977 | $ 1,961,574 |

[1] See Note 14 for explanations relating to comparative figures.

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS**

(UNAUDITED)

| (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND NUMBER OF SHARES) | | THREE MONTHS ENDED MARCH 31 | |
|---|---|---|---|
| | **Note** | **2012** | 2011[1] |
| **Revenues by activity:** | | | |
| Services | | **$ 669,054** | $ 480,153 |
| Packages | | **618,950** | 634,862 |
| O&M | | **383,361** | 426,767 |
| ICI | | **116,518** | 101,771 |
| | | **1,787,883** | 1,643,553 |
| Direct cost of activities | | **1,490,694** | 1,367,348 |
| **Gross margin** | | **297,189** | 276,205 |
| Selling, general and administrative expenses | 5 | **183,156** | 153,063 |
| Net financial expenses | 6 | **30,237** | 27,184 |
| **Income before income tax expense** | | **83,796** | 95,958 |
| Income tax expense | | **16,450** | 17,139 |
| **Net income for the period** | | **$ 67,346** | $ 78,819 |
| | | | |
| **Net income attributable to:** | | | |
| SNC-Lavalin shareholders | | **$ 67,129** | $ 76,073 |
| Non-controlling interests | | **217** | 2,746 |
| **Net income for the period** | | **$ 67,346** | $ 78,819 |
| | | | |
| **Earnings per share (in $)** | | | |
| Basic | | **$ 0.44** | $ 0.50 |
| Diluted | | **$ 0.44** | $ 0.50 |
| | | | |
| **Weighted average number of outstanding shares (in thousands)** | 8 | | |
| Basic | | **151,110** | 150,952 |
| Diluted | | **151,662** | 152,295 |

[1] See Note 14 for explanations relating to comparative figures.

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

THREE MONTHS ENDED MARCH 31

(IN THOUSANDS OF CANADIAN DOLLARS)

| | **2012** | | |
|---|---|---|---|
| | **Attributable to SNC-Lavalin shareholders** | **Non-controlling interests** | **Total** |
| Net income for the period | **$ 67,129** | **$ 217** | **$ 67,346** |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 10) | **(1,105)** | **–** | **(1,105)** |
| Available-for-sale financial assets (Note 10) | **855** | **–** | **855** |
| Cash flow hedges (Note 10) | **28,819** | **–** | **28,819** |
| Defined benefit pension plans and other post-employment benefits (Note 10) | **1,534** | **–** | **1,534** |
| Share of other comprehensive income of investments accounted for by the equity method (Note 10) | **7,509** | **–** | **7,509** |
| Income tax expense relating to components of other comprehensive income (Note 10) | **(11,047)** | **–** | **(11,047)** |
| Total other comprehensive income for the period | **26,565** | **–** | **26,565** |
| **Total comprehensive income for the period** | **$ 93,694** | **$ 217** | **$ 93,911** |

THREE MONTHS ENDED MARCH 31

(IN THOUSANDS OF CANADIAN DOLLARS)

| | 2011[1] | | |
|---|---|---|---|
| | Attributable to SNC-Lavalin shareholders | Non-controlling interests | Total |
| Net income for the period | $ 76,073 | $ 2,746 | $ 78,819 |
| Other comprehensive income (loss): | | | |
| Exchange differences on translating foreign operations (Note 10) | 455 | 50 | 505 |
| Available-for-sale financial assets (Note 10) | 338 | – | 338 |
| Cash flow hedges (Note 10) | 688 | 218 | 906 |
| Defined benefit pension plans and other post-employment benefits (Note 10) | 1,000 | – | 1,000 |
| Share of other comprehensive income of investments accounted for by the equity method (Note 10) | 11,275 | – | 11,275 |
| Income tax expense relating to components of other comprehensive loss (Note 10) | (4,243) | – | (4,243) |
| Total other comprehensive income for the period | 9,513 | 268 | 9,781 |
| **Total comprehensive income for the period** | $ 85,586 | $ 3,014 | $ 88,600 |

[1] See Note 14 for explanations relating to comparative figures.

See accompanying notes to interim condensed consolidated financial statements.

SNC Lavalin Group Inc.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

| (IN THOUSANDS OF CANADIAN DOLLARS) | Note | THREE MONTHS ENDED MARCH 31 2012 | 2011[1] |
|---|---|---|---|
| **Operating activities** | | | |
| Net income for the period | | **$ 67,346** | $ 78,819 |
| Adjustments to reconcile net income to cash flows from operating activities: | | | |
| Depreciation of property and equipment and amortization of other non-current assets: | | | |
| From ICI | | **24,107** | 19,670 |
| From other activities | | **13,645** | 9,978 |
| Income tax expense recognized in net income | | **16,450** | 17,139 |
| Income taxes paid | | **(7,405)** | (12,841) |
| Net financial expenses recognized in net income | 6 | **30,237** | 27,184 |
| Interest paid: | | | |
| From ICI | | **(12,997)** | (12,672) |
| From other activities | | **(10,960)** | (10,885) |
| Expense recognized in respect of stock options | 7A | **2,089** | 1,980 |
| Expense recognized in respect of cash-settled share-based payment arrangements | 7B | **2,626** | 2,761 |
| Income from ICI accounted for by the equity method | | **(15,159)** | (19,218) |
| Dividends and distributions received from ICI accounted for by the equity method | | **15,641** | 20,378 |
| Other | | **(7,886)** | (14,533) |
| | | **117,734** | 107,760 |
| Net change in non-cash working capital items | 11 | **(75,603)** | 11,843 |
| Net cash generated from operating activities | | **42,131** | 119,603 |
| **Investing activities** | | | |
| Acquisition of property and equipment: | | | |
| From ICI | | **(183,101)** | (114,082) |
| From other activities | | **(25,162)** | (11,356) |
| Payments for ICI | | **(12,337)** | (38,692) |
| Acquisition of businesses | | **(4,509)** | (19,580) |
| Increase in receivables under service concession arrangements | | **(11,375)** | (12,346) |
| Recovery of receivables under service concession arrangements | | **914** | 3,946 |
| Other | | **(3,925)** | (9,107) |
| Net cash used for investing activities | | **(239,495)** | (201,217) |
| **Financing activities** | | | |
| Repayment of non-recourse debt from ICI | | **(885)** | (863) |
| Increase in non-recourse debt from ICI | | **84,500** | 49,025 |
| Proceeds from exercise of stock options | | **3,251** | 7,879 |
| Redemption of shares | | **(1,792)** | (26,939) |
| Other | | **198** | (1,064) |
| Net cash generated from financing activities | | **85,272** | 28,038 |
| Increase in exchange differences on translating cash and cash equivalents held in foreign operations | | **270** | 415 |
| **Net decrease in cash and cash equivalents** | | **(111,822)** | (53,161) |
| **Cash and cash equivalents at beginning of period** | | **1,231,049** | 1,235,085 |
| **Cash and cash equivalents at end of period** | | **$ 1,119,227** | $ 1,181,924 |

[1] See Note 14 for explanations relating to comparative figures.

See accompanying notes to interim condensed consolidated financial statements.

SNC-Lavalin Group Inc.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**


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# 1. DESCRIPTION OF BUSINESS

SNC-Lavalin Group Inc. is incorporated under the Canada Business Corporations Act and has its registered office at 455 René-Lévesque Boulevard West, Montreal, Quebec, Canada H2Z 1Z3. SNC-Lavalin Group Inc. is a public company listed on the Toronto Stock Exchange in Canada. Reference to the "Company" or to "SNC-Lavalin" means, as the context may require, SNC-Lavalin Group Inc. and all or some of its subsidiaries or joint ventures, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint ventures.

The Company provides engineering and construction, and operations and maintenance ("O&M") expertise through its network of offices located across Canada and in over 40 other countries, and is currently working on projects around the world. SNC-Lavalin also makes select investments in infrastructure concessions that are complementary to its other activities and are referred to as "ICI" in these financial statements.

# 2. BASIS OF PREPARATION

## A) BASIS OF PREPARATION

The Company's financial statements are presented in **Canadian dollars**. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, ("IAS 34").

The IFRS accounting policies that are set out in the Company's consolidated financial statements for the year ended December 31, 2011 were consistently applied to all periods presented. Please refer to Note 2 in the Company's consolidated financial statements for the year ended December 31, 2011 for a complete description of the Company's significant accounting policies.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3 in the Company's consolidated financial statements for the year ended December 31, 2011 and remained unchanged for the three-month period ended March 31, 2012.

The Company's financial statements have been prepared on the historical cost basis, with the exception of i) certain financial instruments, derivative financial instruments and liabilities for cash-settled share-based payment arrangements, which are measured at fair value; and ii) defined benefit liability, which is measured as the net total of the present value of the defined benefit obligation minus the fair value of plan assets. Historical cost is generally based on the fair value of consideration given in exchange for assets upon initial recognition.

These interim condensed consolidated financial statements are intended to provide an update on 2011 annual financial statements. Accordingly, they do not include all of the information required for annual financial statements and should be read in conjunction with the Company's 2011 annual audited consolidated financial statements.

The Company's interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 3, 2012.

## 2. BASIS OF PREPARATION (CONTINUED)

### B) STANDARDS AND INTERPRETATIONS ISSUED TO BE ADOPTED AT A LATER DATE

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

- IFRS 10, *Consolidated Financial Statements*, ("IFRS 10") 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.
- 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.
- IFRS 12, *Disclosure of Interests in Other Entities*, ("IFRS 12") establishes comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and special purpose vehicles.
- IFRS 13, *Fair Value Measurement*, provides a single source of fair value measurement and disclosure requirements in IFRS.
- Amended and re-titled 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.
- 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 following standard has been issued and is applicable to the Company for its annual periods beginning on or after January 1, 2015, with earlier application permitted:

- IFRS 9, *Financial Instruments*, covers the classification and measurement of financial assets and financial liabilities.

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

## 3. SEGMENT DISCLOSURES

The following table presents revenues and operating income according to the Company's segments:

| THREE MONTHS ENDED MARCH 31 | 2012 REVENUES | 2012 OPERATING INCOME | 2011 [1] REVENUES | 2011 [1] OPERATING INCOME |
|---|---|---|---|---|
| **Services and Packages** | | | | |
| Infrastructure & Environment | $ 414,463 | $ 2,384 | $ 420,491 | $ 6,095 |
| Power | 321,613 | 32,142 | 137,185 | 25,046 |
| Mining & Metallurgy | 282,726 | 15,998 | 177,367 | 1,429 |
| Hydrocarbons & Chemicals | 188,762 | 10,403 | 302,787 | 17,916 |
| Other Industries | 80,440 | 4,626 | 77,185 | 10,480 |
| **O&M** | 383,361 | 9,017 | 426,767 | 17,789 |
| **ICI** | 116,518 | 25,117 | 101,771 | 24,379 |
| | $ 1,787,883 | 99,687 | $ 1,643,553 | 103,134 |
| Reversal of items included above: | | | | |
| Imputed interest benefit | | (15,091) | | (8,165) |
| Net financial expenses from ICI | | 25,787 | | 23,203 |
| Income tax expense from ICI | | 3,306 | | 2,203 |
| Non-controlling interests before income tax expense | | 344 | | 2,767 |
| Income before net financial expenses and income tax expense | | 114,033 | | 123,142 |
| Net financial expenses (Note 6) | | 30,237 | | 27,184 |
| Income before income tax expense | | 83,796 | | 95,958 |
| Income tax expense | | 16,450 | | 17,139 |
| **Net income for the period** | | $ 67,346 | | $ 78,819 |
| **Net income attributable to:** | | | | |
| SNC-Lavalin shareholders | | $ 67,129 | | $ 76,073 |
| Non-controlling interests | | 217 | | 2,746 |
| **Net income for the period** | | $ 67,346 | | $ 78,819 |

[1] See Note 14 for explanations relating to comparative figures.

The Company also discloses in the table below under "Supplementary Information" its dividends from 407 International Inc. ("Highway 407"), as well as its net income attributable to SNC-Lavalin shareholders from other ICI, as this information is useful in assessing the value of the Company's share price.

| THREE MONTHS ENDED MARCH 31 | 2012 | 2011 [1] |
|---|---|---|
| **Supplementary information:** | | |
| Net income attributable to SNC-Lavalin shareholders from ICI: | | |
| From Highway 407 | $ 14,677 | $ 13,839 |
| From other ICI | 10,440 | 10,540 |
| Net income attributable to SNC-Lavalin shareholders excluding ICI | 42,012 | 51,694 |
| **Net income attributable to SNC-Lavalin shareholders for the period** | $ 67,129 | $ 76,073 |

[1] See Note 14 for explanations relating to comparative figures.

# 4. INFRASTRUCTURE CONCESSION INVESTMENTS ("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.

SNC-Lavalin's infrastructure concession investments are accounted for as follows:

**Accounting method**

| TYPE OF INFLUENCE | ACCOUNTING METHOD |
|---|---|
| Non-significant influence | Cost method |
| Significant influence | Equity method |
| Joint control | Equity method |
| Control | Full consolidation method |

**Accounting model**

| TYPE OF CONCESSION | ACCOUNTING MODEL |
|---|---|
| ICI accounted for under IFRIC 12 | Financial asset model when concessionaire bears no demand risk |
| | Intangible asset model when concessionaire bears demand risk |
| | Bifurcated model when concessionaire and grantor share demand risk |
| ICI outside the scope of application of IFRIC 12 | Model based on specific facts and circumstances, but usually with infrastructure asset accounted for as property and equipment |

The main concessions and public-private partnerships contracts reported under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12") are all accounted for under the financial asset model, except the Rayalseema Expressway Private Limited concession, which is accounted for under the intangible asset model, and the Société d'Exploitation de l'Aéroport de Mayotte S.A.S. concession, which is accounted for under the bifurcated model.

In order to provide the reader of the financial statements with a better understanding of the financial position and results of operations of its ICI, the Company presents certain distinct financial information related specifically to its ICI throughout its financial statements, as well as certain additional information below.

### NET BOOK VALUE OF ICI

The Company's consolidated statement of financial position includes the following assets and liabilities from its ICI:

| | **MARCH 31 2012** | DECEMBER 31 2011 |
|---|---|---|
| Cash and cash equivalents | **$ 14,775** | $ 30,901 |
| Restricted cash | **2,383** | 2,365 |
| Trade receivables, other current financial assets and other current assets | **94,617** | 101,989 |
| Property and equipment | **2,782,211** | 2,637,735 |
| Goodwill | **203,786** | 203,786 |
| Non-current financial assets | **362,564** | 366,869 |
| Other non-current assets | **136,429** | 115,038 |
| Total assets | **3,596,765** | 3,458,683 |
| Trade payables, deferred revenues, other current financial liabilities and other current liabilities | **254,254** | 246,599 |
| Non-recourse short-term debt and current portion of non-recourse long-term debt | **411,914** | 327,381 |
| Non-recourse long-term debt | **1,560,933** | 1,561,377 |
| Other non-current financial liabilities | **97,577** | 113,958 |
| Provisions and other non-current liabilities | **504,194** | 487,510 |
| Total liabilities | **2,828,872** | 2,736,825 |
| **Net assets from ICI accounted for by the full consolidation method** | **$ 767,893** | $ 721,858 |
| Net book value of ICI accounted for by the equity method | **$ 354,821** | $ 350,246 |
| Net book value of ICI accounted for by the cost method | **292,116** | 293,241 |
| Net book value of ICI accounted for by the equity or cost methods | **$ 646,937** | $ 643,487 |
| **Total net book value of ICI** | **$ 1,414,830** | $ 1,365,345 |

## 5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

During the three-month period ended March 31, 2012, the Company incurred \$5.4 million of expenses related to investigations and related matters for services rendered up to March 31, 2012, as well as an expense of \$5.0 million in connection with the terms of the former CEO's departure arrangement, which are included in selling, general and administrative expenses.

## 6. NET FINANCIAL EXPENSES

| THREE MONTHS ENDED MARCH 31 | | 2012 | | 2011 |
|---|---|---|---|---|
| Interest revenues: | | | | |
| From ICI | **$** | **(1,183)** | $ | (40) |
| From other activities | | **(2,014)** | | (2,612) |
| Interest on debt: | | | | |
| Recourse | | **5,458** | | 5,424 |
| Non-recourse from ICI: | | | | |
| AltaLink | | **23,756** | | 19,668 |
| Other | | **1,947** | | 2,037 |
| Other: | | | | |
| From ICI | | **1,267** | | 1,538 |
| From other activities | | **1,006** | | 1,169 |
| **Net financial expenses** | **$** | **30,237** | $ | 27,184 |

## 7. SHARE-BASED PAYMENTS

### A) STOCK OPTIONS

The stock option compensation cost recorded as an expense in the three-month period ended March 31, 2012 was \$2.1 million (three-month period ended March 31, 2011: \$2.0 million).

During the first three months of 2012, no stock options were granted (first three months of 2011: none).

As at March 31, 2012, 5,162,039 stock options were outstanding (December 31, 2011: 5,357,515 stock options), while 1,196,300 stock options remained available for future grants under the 2011 stock option plan (December 31, 2011: 1,188,300 stock options).

### B) CASH-SETTLED SHARE-BASED PAYMENT ARRANGEMENTS

The table below presents the number of granted share units and the weighted average fair value per granted share unit for the three-month periods ended March 31, 2012 and 2011:

| THREE MONTHS ENDED MARCH 31 | 2012 | | 2011 | |
|---|---|---|---|---|
| | NUMBER OF GRANTED SHARE UNITS | WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS) | NUMBER OF GRANTED SHARE UNITS | WEIGHTED AVERAGE FAIR VALUE PER SHARE UNIT (IN DOLLARS) |
| 2009 PSU plan | – | – | 35,734 | $ 55.00 |
| 2009 DSU plan | – | – | 35,734 | $ 55.00 |
| DSU plan | **6,893** | **$ 49.35** | 4,977 | $ 58.89 |

The compensation expense recorded in the three-month period ended March 31, 2012 relating to cash-settled share based payment arrangements was \$2.6 million (three-month period ended March 31. 2011: \$2.8 million).

## 8. WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES

The weighted average number of outstanding shares for the three-month periods ended March 31, 2012 and 2011 used to calculate the basic and diluted earnings per share were as follows:

| THREE MONTHS ENDED MARCH 31 (IN THOUSANDS) | 2012 | 2011 |
|---|---|---|
| Weighted average number of outstanding shares – basic | **151,110** | 150,952 |
| Dilutive effect of stock options | **552** | 1,343 |
| Weighted average number of outstanding shares – diluted | **151,662** | 152,295 |

In the three-month period ended March 31, 2012, 2,163,700 outstanding stock options have not been included in the computation of diluted earnings per share because they were anti-dilutive, while all stock options have been included in the computation of diluted earnings per share in the three-month period ended March 31, 2011.

## 9. DIVIDENDS

During the three-month period ended March 31, 2012, dividends declared totalled $33.2 million or $0.22 per share (three-month period ended March 31, 2011: $31.7 million or $0.21 per share). This amount payable on April 12, 2012 (April 1, 2011), is included in “other current financial liabilities” on the consolidated statement of financial position as at March 31, 2012 and 2011.

| THREE MONTHS ENDED MARCH 31 | | 2012 | | 2011 |
|---|---|---|---|---|
| Dividends payable at January 1 | **$** | **–** | $ | – |
| Dividends declared during the period | | **33,239** | | 31,687 |
| Dividends paid during the period | | **–** | | – |
| **Dividends payable at March 31** | **$** | **33,239** | $ | 31,687 |

## 10. OTHER COMPONENTS OF EQUITY

The Company has the following elements, net of income tax, within its other components of equity at March 31, 2012 and December 31, 2011:

| | | MARCH 31 2012 | | DECEMBER 31 2011 |
|---|---|---|---|---|
| Exchange differences on translating foreign operations | **$** | **(34,133)** | $ | (33,028) |
| Available-for-sale financial assets | | **2,287** | | 1,538 |
| Cash flow hedges | | **(3,204)** | | (24,375) |
| Share of other comprehensive loss of investments accounted for by the equity method | | **(55,302)** | | (59,948) |
| **Other components of equity** | **$** | **(90,352)** | $ | (115,813) |

- Exchange differences on translating foreign operations component represents exchange differences relating to the translation from the functional currencies of the Company’s foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal.
- Available-for-sale financial assets component arises upon the revaluation of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the component that relates to that financial asset that is effectively realized is recognized in net income. When a revaluated financial asset is impaired, the portion of the component that relates to that financial asset is recognized in net income.
- Cash flow hedges component represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in net income when the hedged transaction impacts net income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.
- Share of other comprehensive income (loss) of investments accounted for by the equity method component represents the Company’s proportionate share of the other comprehensive income (loss) from its investments accounted for by the equity method.

## 10. OTHER COMPONENTS OF EQUITY (CONTINUED)

The following table provides a reconciliation of each element of other components of equity for the three-month periods ended March 31, 2012 and 2011:

| THREE MONTHS ENDED MARCH 31 | **2012** | 2011 |
|---|---|---|
| Exchange differences on translating foreign operations: | | |
| Balance at beginning of period | **$ (33,028)** | $ (21,077) |
| Current period gains (losses) | **(1,105)** | 455 |
| Balance at end of period | **(34,133)** | (20,622) |
| Available-for-sale financial assets: | | |
| Balance at beginning of period | **1,538** | 1,317 |
| Current period gains | **940** | 338 |
| Income tax expense relating to current period gains | **(117)** | (47) |
| Reclassification to net income | **(85)** | - |
| Income tax expense relating to amounts reclassified to net income | **11** | - |
| Balance at end of period | **2,287** | 1,608 |
| Cash flow hedges: | | |
| Balance at beginning of period | **(24,375)** | (15,920) |
| Current period gains (losses) | **2,682** | (5,691) |
| Income tax benefit (expense) relating to current period gains (losses) | **(571)** | 858 |
| Reclassification to net income | **26,137** | 6,379 |
| Income tax benefit relating to amounts reclassified to net income | **(7,077)** | (1,253) |
| Balance at end of period | **(3,204)** | (15,627) |
| Share of other comprehensive income (loss) of investments accounted for by the equity method: | | |
| Balance at beginning of period | **(59,948)** | (31,800) |
| Current period share | **3,700** | 9,534 |
| Income tax expense relating to current period share | **(1,663)** | (3,061) |
| Reclassification to net income | **3,809** | 1,741 |
| Income tax benefit relating to amounts reclassified to net income | **(1,200)** | (483) |
| Balance at end of period | **(55,302)** | (24,069) |
| **Other components of equity** | **$ (90,352)** | $ (58,710) |

The following table provides a reconciliation of actuarial gains (losses) recognized in other comprehensive income relating to defined benefit pension plans and other post-employment benefits for the three-month periods ended March 31, 2012 and 2011:

| THREE MONTHS ENDED MARCH 31 | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | BEFORE TAX | INCOME TAX BENEFIT (EXPENSE) | NET OF TAX | BEFORE TAX | INCOME TAX BENEFIT (EXPENSE) | NET OF TAX |
| Cumulative amount at January 1 | **$ (17,475)** | **$ 4,645** | **$ (12,830)** | $ (1,442) | $ 359 | $ (1,083) |
| Recognized during the period | **1,534** | **(430)** | **1,104** | 1,000 | (257) | 743 |
| **Cumulative amount at March 31** | **$ (15,941)** | **$ 4,215** | **$ (11,726)** | $ (442) | $ 102 | $ (340) |

## 11. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

| THREE MONTHS ENDED MARCH 31 | 2012 | 2011[1] |
|---|---|---|
| Increase in trade receivables | $ (73,615) | $ (79,455) |
| Decrease (increase) in contracts in progress | (48,757) | 23,383 |
| Decrease (increase) in other current financial assets | 34,629 | (63,291) |
| Decrease (increase) in other current assets | (22,814) | 3,289 |
| Increase in trade payables | 51,230 | 94,046 |
| Increase (decrease) in downpayments on contracts | 12,667 | (30,866) |
| Increase in deferred revenues | 2,499 | 51,340 |
| Increase in other current financial liabilities | 9,540 | 5,883 |
| Increase (decrease) in other current liabilities | (40,982) | 7,514 |
| **Net change in non-cash working capital items** | $ (75,603) | $ 11,843 |

[1] See Note 14 for explanations relating to comparative figures.

## 12. 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. 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 via legislation applied by an independent governmental regulatory body. |
| ICI 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 first three months of 2012, SNC-Lavalin recognized revenues of $151.2 million (first three months of 2011: $117.2 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized income from these ICI, which represents the Company's share of net income from these ICI, of $15.2 million for the three-month period ended March 31, 2012 (three-month period ended March 31, 2011: $19.2 million). Intragroup revenues generated from transactions with AltaLink, which amounted to $146.4 million for the three-month period ended March 31, 2012 (three-month period ended March 31, 2011: $47.8 million), were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from these ICI accounted for by the equity method amounted to $62.1 million as at March 31, 2012 (December 31, 2011: $43.7 million). SNC-Lavalin's other non-current financial assets receivables from these ICI accounted for by the equity method amounted to $97.5 million as at March 31, 2012 (December 31, 2011: $83.0 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was $129.0 million at March 31, 2012 (December 31, 2011: $129.0 million).

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

## 13. CONTINGENT LIABILITIES

### A) BANGLADESH INVESTIGATION

As announced in September 2011, the Royal Canadian Mounted Police (the "RCMP") is investigating the Company's involvement in projects in Bangladesh and certain countries in Africa. The investigation is understood to be ongoing and to be focused primarily on an unsuccessful bid by a subsidiary to act for the Bangladeshi government in supervising a project contractor. The World Bank is also investigating the project in Bangladesh, and in March 2012 temporarily suspended the Company's subsidiary from the right to bid on new World Bank projects pending the conclusion of its investigation and a final decision. The subsidiary has the right to respond to the allegations outlined in the World Bank's confidential report before a final decision is taken. The Company is communicating with the World Bank and intends to provide a comprehensive response to the allegations. Due to the nature of these investigations, it is not possible to predict the respective outcomes with any certainty or potential losses, if any, for the Company in connection therewith.

### B) INDEPENDENT REVIEW

In February 2012, the Board of Directors initiated an independent review (the "Independent Review") led by its Audit Committee, of the facts and circumstances surrounding certain payments that were documented (under certain agreements presumed to be agency agreements, the "Representative Agreements") to construction projects to which they did not relate, and certain other contracts. The Company's senior management and Board of Directors have been required to devote significant time to the Independent Review and related matters which has been distracting from the conduct of the Company's daily business and significant expenses have been incurred in connection with the Independent Review including substantial fees of lawyers and other advisors. In addition, the Company and/or employees of the Company could become the subject of investigations by law enforcement and/or regulatory authorities in respect of the matters that were subject to the Independent Review which, in turn, could require the devotion of additional time of senior management and other resources. In the absence of direct and conclusive evidence, the use and purpose of the payments or nature of the services rendered or actions taken under these Representative Agreements could not be determined with certainty by the Independent Review. However, the absence of conclusive findings of the Independent Review does not exclude the possibility that, if additional facts that are adverse to the Company became known, including matters beyond the scope of the Representative Agreements that were the subject of the Independent Review, sanctions could be brought against the Company in connection with possible violations of law or contracts. The consequences of any such sanctions or other actions, whether actual or alleged, could adversely affect our business and the market price of our publicly traded securities. In addition, the Independent Review and any negative publicity associated with the Independent Review, could damage our reputation and ability to do business.

### C) PROPOSED CLASS ACTION LAWSUIT

On March 1, 2012, a "Motion to Authorize the Beginning of a Class Action and to obtain the Status of Representative" (the "Motion") was filed with the Quebec Superior Court, on behalf of persons who acquired SNC-Lavalin securities from and including March 13, 2009 through and including February 28, 2012, whether in a primary market offering or in the secondary market. The Motion for authorization alleges that certain documents issued by SNC-Lavalin between these dates contained misrepresentations. The Motion seeks leave from the Superior Court to bring a statutory misrepresentation claim under Quebec's Securities Act and the equivalent provisions contained in the various other Canadian provinces' securities legislation. The proposed action claims damages equivalent to the decline in market value of the securities purchased by class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as the costs of administering the plan to distribute recovery pursuant to the class action. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or determine the amount of any potential losses, if any, and SNC-Lavalin may, in the future, be subject to further class actions or other litigation.

### D) OTHER

The Company is a party to other claims and litigation arising in the normal course of operations. The Company does not expect the resolution of these matters to have a materially adverse effect on the financial position or results of operations of the Company.

## 14. COMPARATIVE FIGURES

As disclosed in Note 35.2 E. of the Company's 2011 annual audited consolidated financial statements, the Company corrected its 2010 comparative figures related to payments that were made under what is presumed to be an agency agreement and that were charged and documented to a construction project to which they did not relate. Because these payments were documented to a construction project to which they did not relate and that there is no direct and conclusive evidence on the use and purpose of these payments or the nature of services rendered in connection therewith, the Company concluded that these payments should be treated as period expenses (i.e., not generating revenues) for accounting purposes.

While the 2011 figures included in the Company's annual audited consolidated financial statements reflected the adjustment for the above mentioned payments made in 2010 and other similar payments made in 2011 under presumed agency agreements that also had to be treated as period expenses for accounting purposes, the quarterly interim condensed financial statements for the first, second and third quarters of 2011 were published prior to the correction relating to these payments. The table below presents the impact from the adjustments made to the comparative figures for the first quarter of 2011 that have been presented in these interim condensed consolidated financial statements for the first quarter of 2012, as well as the impact from the adjustments that will be made to the comparative figures for the second and third quarters of 2011:

| | THREE MONTHS ENDED | | |
|---|---|---|---|
| (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE) | MARCH 31 2011 | JUNE 30 2011 | SEPTEMBER 30 2011 |
| Net income, as published in quarterly consolidated financial statements | $ 76,626 | $ 103,388 | $ 128,630 |
| Net income, as adjusted | 78,819 | 104,846 | 127,551 |
| Increase (decrease) in net income | $ 2,193 | $ 1,458 | $ (1,079) |
| Basic earnings per share, as published in quarterly consolidated financial statements | $ 0.49 | $ 0.67 | $ 0.83 |
| Basic earnings per share, as adjusted | 0.50 | 0.68 | 0.83 |
| Increase in basic earnings per share | $ 0.01 | $ 0.01 | $ - |
| Diluted earnings per share, as published in quarterly consolidated financial statements | $ 0.49 | $ 0.66 | $ 0.83 |
| Diluted earnings per share, as adjusted | 0.50 | 0.67 | 0.82 |
| Increase (decrease) in diluted earnings per share | $ 0.01 | $ 0.01 | $ (0.01) |

Also, the 2010 payments accounted for as period expenses resulted in a decrease of the opening balance of retained earnings of $17.9 million as at January 1, 2011.

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