



## Management's Discussion and Analysis

Second Quarter and First Six Months of 2012 versus  
Second Quarter and First Six Months of 2011

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August 3, 2012

All financial information in Canadian dollars, unless otherwise indicated

## 1 – RECENT DEVELOPMENTS

### **Compliance Matters, Investigations and Cooperation with Authorities**

In March 2012, the Company announced the results of an independent review of the facts and circumstances surrounding certain payments and contracts (the “Independent Review”) that was voluntarily initiated by the Company’s Board of Directors in February 2012. The Independent Review was carried out by the Audit Committee of the Board of Directors with the assistance of external independent counsel under its direction and oversight. The Board of Directors of the Company adopted all of the recommendations of the Audit Committee, and directed management to develop a detailed plan and timetable for their implementation. We report below on the status of implementation of these recommendations, as well as certain other actions that have been taken. In addition, in accordance with the Independent Review’s conclusions, the Company’s Policy on Commercial Agents/Representatives (the “Agents Policy”) and compliance matters will continue to be reviewed, including to assess whether amounts may directly or indirectly have improperly been paid to persons owing fiduciary duties to the Company. Accordingly, this continuing review is looking into matters beyond the contracts and payments considered in the Independent Review, and, when reported upon to the Audit Committee, could lead to additional remedial measures or findings. The Company’s business practices will continue to be considered and changes may also be implemented in the future. See section 12 “Risks and Uncertainties”.

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 investigation has resulted in charges being laid against two former employees of a subsidiary of the Company under the *Corruption of Foreign Public Officials Act* (Canada) in regard to the Bangladesh project. 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 in regard to this and any other World Bank funded projects that the World Bank is or may be investigating.

The Company understands that investigations by various authorities are ongoing in respect of the above and other matters. As announced in March and April 2012, the Company has provided information and documentation to the appropriate authorities and is cooperating with respect to all matters, including the search warrant executed by the RCMP on April 13, 2012. Other than the temporary suspension referred to above, no charges have been brought or sanctions imposed against the Company in connection with these matters. It is not currently possible to predict the outcomes of these investigations or whether any penalties or other sanctions may be imposed against the Company in connection therewith at this time, including whether charges and/or sanctions could be brought against it in connection with possible violations of law or contracts. Other investigations of the Company by these or other authorities may be initiated or the scope of existing investigations may broaden.

#### **Remedial Measures to Address Previously Identified Material Weaknesses**

As disclosed in the Company's 2011 "Management's Discussion and Analysis", the Vice-Chairman and interim Chief Executive Officer of the Company (the "Interim CEO") and the Company's Chief Financial Officer (the "CFO"), in carrying out their evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011, which included consideration of the findings of the Independent Review, identified certain material weaknesses relating to the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2011. These material weaknesses continued to exist as at June 30, 2012 and are as follows (see section 14 "Controls and Procedures"):

- Management override of internal controls contained in the Company's Agents Policy; and
- Non-compliance with, and ineffective controls over compliance with, the Company's Code of Ethics and Business Conduct (the "Code of Ethics") and the Agents Policy.

At the recommendation of the Audit Committee, the Board of Directors adopted the recommendations for remedial measures resulting from the Independent Review. These recommendations were directed at reinforcing standards of conduct, strengthening and improving internal controls and processes, and reviewing the compliance environment. In addition, the Company's management had identified and begun to implement a number of measures to address the material weaknesses referred to above and to continue to strengthen the Company's financial controls and procedures. The Board of Directors directed management to develop a plan and timetable for the implementation of all of these measures and has been monitoring their implementation.

For a description of the status of implementation of these remedial measures, as well as certain other measures that have been adopted to strengthen the Company's financial controls and procedures, see section 14 "Controls and Procedures".

#### **Departure of the Chief Executive Officer and Appointment of Interim Chief Executive Officer**

On March 26, 2012, the Company announced that Mr. Pierre Duhaime had stepped down from his position as chief executive officer of the Company (the "Former CEO") and as a director of the Company and would retire from the Company. At the request of the Board of Directors, Mr. Ian A. Bourne agreed to assume the function of Interim CEO. Mr. Bourne has served as a director of the Company and a member of its Audit Committee and Health, Safety and Environment Committee since 2009. Mr. Bourne remains as a director of the Company but has temporarily stepped down from the Board Committees.

The Company also announced on March 26, 2012 that a search for a new CEO had begun under the direction of the Chairman of the Board. The Board of Directors struck a Special Transition Committee composed of the Chairman of the Board of Directors, the Interim CEO, and the Chairmen of the Audit and Human Resources Committees to assist with transitional matters, including serving as a resource to the management team.

## **2 – HIGHLIGHTS OF THE SECOND QUARTER AND FIRST SIX MONTHS OF 2012**

### **LOWER NET INCOME**

#### **> Second quarter**

- For the second quarter ended June 30, 2012, net income attributable to SNC-Lavalin shareholders was \$32.5 million (\$0.21 per share on a diluted basis), compared to \$102.2 million (\$0.67 per share on a diluted basis) for the comparable quarter of 2011.
- For the second quarter of 2012, net income attributable to SNC-Lavalin shareholders excluding Infrastructure Concession Investments ("ICI") was \$2.0 million, compared to \$60.5 million for the corresponding period of 2011. The decrease mainly reflected operating losses in Power and Infrastructure & Environment, as well as a lower contribution from Hydrocarbons & Chemicals.
- For the second quarter of 2012, net income attributable to SNC-Lavalin shareholders from ICI was \$30.5 million, compared to \$41.7 million for the same period last year, mainly due to lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, as well as lower net income from Shariket Kahraba Hadjret En Nouss S.p.A. ("SKH"), partially offset by higher net income from AltaLink.

#### **> First six months ended June 30**

- For the first six months of 2012, net income attributable to SNC-Lavalin shareholders was \$99.6 million (\$0.66 per share on a diluted basis), compared to \$178.3 million (\$1.17 per share on a diluted basis) for the same period of 2011.
- For the first six months of 2012, net income attributable to SNC-Lavalin shareholders excluding ICI was \$44.0 million, compared to \$112.2 million for the first six months of 2011. The decrease mainly reflected lower contributions from Power, Hydrocarbons & Chemicals and Operations & Maintenance ("O&M"), as well as an operating loss in Infrastructure & Environment, partially offset by a higher contribution from Mining & Metallurgy.
- For the first six months of 2012, net income attributable to SNC-Lavalin shareholders from ICI was \$55.6 million, compared to \$66.1 million for the corresponding period of 2011, mainly due to lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, as well as a lower net income from SKH, partially offset by higher net income from AltaLink.

## HIGHER REVENUES

- > Revenues for the second quarter of 2012 increased to \$1.9 billion, compared to \$1.7 billion for the corresponding period of 2011. Revenues for the first six months of 2012 increased by 11.5% to \$3.7 billion compared to \$3.3 billion for the first six months of 2011, mainly due to a 39.4% increase in Services.

## SOLID FINANCIAL POSITION

- > The Company's financial position remained solid with cash and cash equivalents of \$1.2 billion at June 30, 2012, in line with December 31, 2011.

## STRONG REVENUE BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2012	March 31 2012	December 31 2011
Services	\$ 2,348.1	\$ 2,377.4	\$ 2,226.1
Packages	5,988.3	5,580.6	5,482.8
O&M	2,357.3	2,558.4	2,379.1
<b>Total</b>	<b>\$ 10,693.7</b>	<b>\$ 10,516.4</b>	<b>\$ 10,088.0</b>

- > Revenue backlog remained strong at the end of June 2012, compared to the end of December 2011, mainly reflecting an increase in Packages, notably in Infrastructure & Environment and Power.

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

- > ROASE was 14.8% for the 12-month period ended June 30, 2012, compared to 25.0% for the same period last year, and higher than the Company's performance objective of 600 basis points above the long-term Canada Bond Yield for the period, totalling 8.7%.

## 2012 OUTLOOK UPDATE

- > By press release dated August 3, 2012, the Company announced that it has revised downward its previously announced 2012 Outlook. This press release is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

Management's Discussion and Analysis is designed to provide the reader with a greater understanding of the Company's business, business strategy and performance, as well as how it 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 2012 and accompanying notes, and should therefore be read in conjunction with these documents and with the Financial Report for the year ended December 31, 2011, and should also be **read together with the text in section 3 on caution regarding forward-looking statements**. 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.

The Company's quarterly and annual financial information, its Annual Information Form, its Management Proxy Circular and other financial documents are available on the Company's website ([www.sncclavalin.com](http://www.sncclavalin.com)) as well as on SEDAR ([www.sedar.com](http://www.sedar.com)).

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

### 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 MD&A 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 MD&A 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 and second quarters of 2011 that have been presented in the

Company's MD&A for the first and second quarters of 2012, as well as the impact from the adjustments that will be made to the comparative figures for the third quarter of 2011.

(IN MILLIONS OF CANADIAN DOLLARS)	THREE MONTHS ENDED		
	March 31 2011	June 30 2011	September 30 2011
Net income, as published in quarterly MD&A	\$ 76.6	\$ 103.4	\$ 128.6
Net income, as adjusted	78.8	104.9	127.5
Increase (decrease) in net income	\$ 2.2	\$ 1.5	\$ (1.1)

The comparative figures have been adjusted in this MD&A to reflect the above-mentioned adjustments.

### 3 – CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this MD&A 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.

Many factors and assumptions could have an impact on the materialization of the Company's projections, including, but not limited to, project performance, cost overruns, performance of joint venture partners, ability to attract and retain qualified personnel, subcontractors and suppliers, economic and political conditions, non-compliance with laws or regulations by the Company's employees, agents, suppliers, and/or partners, and other factors that are beyond its control. Additional risks and uncertainties exist by reason of the identified material weaknesses in the Company's internal control over financial reporting, the matters investigated in connection with the Independent Review and the Company's continuing review of compliance matters, which are described in detail in the Company's 2011 Financial Report under "Management's Discussion and Analysis" and in section 12 "Risks and Uncertainties" of this MD&A. The Company cautions that the foregoing list of factors is not exhaustive. 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 "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and the section "Risks and Uncertainties" in the Company's 2011 Financial Report under "Management's Discussion and Analysis" and in section 12 "Risks and Uncertainties" in this MD&A. 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.

## **4 – OUR BUSINESS**

SNC-Lavalin 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 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.

### **4.1 – ENGINEERING AND CONSTRUCTION EXPERTISE OFFERED AS SERVICES AND PACKAGES ACTIVITIES**

Engineering and construction expertise is provided by the Company's employees as either Services or Packages activities:

- > **Services:** include contracts wherein SNC-Lavalin provides engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning.
- > **Packages:** include contracts wherein SNC-Lavalin is responsible not only for providing one or more of the Services activities listed above, but also undertakes the responsibility for providing materials and equipment, and usually also includes construction activities.

Services and Packages activities are offered to clients in multiple industries including, among others, Infrastructure & Environment, Mining & Metallurgy, Power and Hydrocarbons & Chemicals. Refer to section 8 of this report for a review of the Company's operating results by segment.

### **4.2 – OPERATIONS AND MAINTENANCE ACTIVITIES**

O&M activities consist of providing operations, maintenance and logistics solutions for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, highways, bridges, light rail transit systems, airports, ships and camps for construction sites and the military. 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 clients' needs and complements its ICI.

### 4.3 – INFRASTRUCTURE CONCESSION INVESTMENTS

SNC-Lavalin makes select 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, 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.

## 5 – 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**. The Company presents the information in the way management performance is evaluated, and regroups its projects within the related industries, which are as follows: **Infrastructure & Environment, Mining & Metallurgy, Power, Hydrocarbons & Chemicals** and **Other Industries**. The **O&M** and **ICI** segments correspond to the categories of activity of the same name.

### 5.1 – 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 standardized meaning as prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers. Management believes that these indicators 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 indicators:

NON-IFRS FINANCIAL MEASURE	REFERENCE	NON-IFRS FINANCIAL MEASURE	REFERENCE
<b>Performance</b>		<b>Liquidity</b>	
Revenue backlog	Section 7	Net cash position	Section 9.1
Operating results by segment	Section 8	Freehold cash	Section 9.1
ROASE	Section 9.5		

Definitions of all non-IFRS financial measures are provided in the referenced sections above 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.

## 6 – BREAKDOWN OF INCOME STATEMENT

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011 <sup>(1)</sup>	2012	2011 <sup>(1)</sup>
<b>Revenues by activity:</b>				
Services	\$ 787.0	\$ 564.4	\$ 1,456.1	\$ 1,044.5
Packages	701.2	693.9	1,320.1	1,328.8
O&M	293.2	281.7	676.6	708.5
ICI	124.9	128.7	241.4	230.5
	\$ 1,906.3	\$ 1,668.7	\$ 3,694.2	\$ 3,312.3
<b>Gross margin</b>	\$ 280.9	\$ 316.6	\$ 578.1	\$ 592.8
<b>Selling, general and administrative expenses</b>	212.7	166.2	395.9	319.2
<b>Net financial expenses:</b>				
From ICI	26.1	20.1	51.9	43.3
From other activities	3.8	6.3	8.2	10.3
	29.9	26.4	60.1	53.6
<b>Income before income tax expense</b>	38.3	124.0	122.1	220.0
<b>Income tax expense</b>	5.6	19.2	22.1	36.3
<b>Net income for the period</b>	\$ 32.7	\$ 104.8	\$ 100.0	\$ 183.7
<b>Net income attributable to:</b>				
SNC-Lavalin shareholders	\$ 32.5	\$ 102.2	\$ 99.6	\$ 178.3
Non-controlling interests	0.2	2.6	0.4	5.4
<b>Net income for the period</b>	\$ 32.7	\$ 104.8	\$ 100.0	\$ 183.7
<b>Earnings per share (\$)</b>				
Basic	\$ 0.22	\$ 0.68	\$ 0.66	\$ 1.18
Diluted	\$ 0.21	\$ 0.67	\$ 0.66	\$ 1.17
<b>Supplementary information:</b>				
Net income attributable to SNC-Lavalin shareholders from ICI:				
From Highway 407	\$ 14.7	\$ 32.3	\$ 29.3	\$ 46.1
From other ICI	15.8	9.4	26.3	20.0
Net income attributable to SNC-Lavalin shareholders excluding ICI	2.0	60.5	44.0	112.2
<b>Net income attributable to SNC-Lavalin shareholders for the period</b>	\$ 32.5	\$ 102.2	\$ 99.6	\$ 178.3

(1) Refer to the "Comparative Figures" section, page 7, for explanations relating to comparative figures.

## 6.1 – NET INCOME ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Net income attributable to SNC-Lavalin shareholders excluding ICI	\$ 2.0	\$ 60.5	\$ 44.0	\$ 112.2
Net income attributable to SNC-Lavalin shareholders from ICI	30.5	41.7	55.6	66.1
Net income attributable to SNC-Lavalin shareholders	\$ 32.5	\$ 102.2	\$ 99.6	\$ 178.3

For the second quarter of 2012, net income attributable to SNC-Lavalin shareholders excluding ICI was \$2.0 million, compared to \$60.5 million for the corresponding period of 2011. The decrease mainly reflected operating losses in Power and Infrastructure & Environment, as well as a lower contribution from Hydrocarbons & Chemicals.

For the second quarter of 2012, net income attributable to SNC-Lavalin shareholders from ICI was \$30.5 million, compared to \$41.7 million for the same period last year, mainly due to lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, as well as lower net income from SKH, partially offset by higher net income from AltaLink.

For the first six months of 2012, net income attributable to SNC-Lavalin shareholders excluding ICI was \$44.0 million, compared to \$112.2 million for the first six months of 2011. The decrease mainly reflected lower contributions from Power, Hydrocarbons & Chemicals and O&M, as well as an operating loss in Infrastructure & Environment, partially offset by a higher contribution from Mining & Metallurgy.

For the first six months of 2012, net income attributable to SNC-Lavalin shareholders from ICI was \$55.6 million, compared to \$66.1 million for the corresponding period of 2011, mainly due to lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, as well as lower net income from SKH, partially offset by higher net income from AltaLink.

## 6.2 – REVENUE ANALYSIS

Revenues for the second quarter of 2012 increased to \$1.9 billion, compared to \$1.7 billion for the corresponding period of 2011. Revenues for the first six months of 2012 increased by 11.5% to \$3.7 billion, compared to \$3.3 billion for the first six months of 2011, mainly due to a 39.4% increase in Services.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Services revenues	\$ 787.0	\$ 564.4	\$ 1,456.1	\$ 1,044.5

**The increase in Services revenues for the first six months of 2012** reflected a higher level of activity in Power, Mining & Metallurgy, Infrastructure & Environment and Hydrocarbons & Chemicals.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Packages revenues	\$ 701.2	\$ 693.9	\$ 1,320.1	\$ 1,328.8

**Packages revenues for the first six months of 2012 remained in line** with the corresponding period of 2011, as the higher volume of activity in Power and Mining & Metallurgy was offset by the lower volume of activity in Hydrocarbons & Chemicals and Infrastructure & Environment.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
O&M revenues	\$ 293.2	\$ 281.7	\$ 676.6	\$ 708.5

**The increase in O&M revenues for the second quarter of 2012** reflected a higher level of activity, mainly in Canada.

**The decrease in O&M revenues for the first six months of 2012** was mainly due to a lower level of activity on certain ongoing contracts in Canada, partially offset by a higher level of activity outside Canada.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
ICI revenues	\$ 124.9	\$ 128.7	\$ 241.4	\$ 230.5

**The decrease in ICI revenues for the second quarter of 2012** mainly reflected lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, partially offset by higher revenues of AltaLink.

**The increase in ICI revenues for the first six months of 2012** mainly reflected higher revenues of AltaLink, partially offset by lower dividends from Highway 407, due to the special dividend declared and paid in the second quarter of 2011.

### 6.3 – GROSS MARGIN ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Gross margin excluding ICI	\$ 213.0	\$ 242.2	\$ 452.0	\$ 463.3
Gross margin from ICI	67.9	74.4	126.1	129.5
<b>Gross margin</b>	<b>\$ 280.9</b>	<b>\$ 316.6</b>	<b>\$ 578.1</b>	<b>\$ 592.8</b>
Gross margin-to-revenue ratio (%)	14.7%	19.0%	15.6%	17.9%

The gross margin amount excluding ICI for the first six months of 2012 decreased compared to the corresponding period of 2011, mainly reflecting a decrease in Packages, primarily due to an unfavourable cost reforecast on a major Power project, with an adverse impact of \$49.7 million on gross margin in the second quarter of 2012, as well as in O&M, partially offset by an increase in Services, mainly due to a higher level of activity.

The gross margin amount from ICI for the first six months of 2012 was in line with the corresponding period of 2011, mainly reflecting lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, and a lower gross margin from SKH, offset mainly by a higher gross margin from AltaLink.

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

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Selling, general and administrative expenses	\$ 212.7	\$ 166.2	\$ 395.9	\$ 319.2

For the first six months of 2012, the selling, general and administrative expenses increased compared to the corresponding period of 2011, notably reflecting selling, general and administrative expenses of \$49.8 million from businesses acquired after the second quarter of 2011, as well as \$7.4 million of expenses related to investigations and related matters for services rendered up to June 30, 2012, and \$5.0 million in connection with the terms of the Former CEO's departure arrangement.

The above-mentioned expenses related to investigations and related matters and in connection with the terms of the Former CEO's departure arrangement are **corporate** selling, general and administrative expenses. In accordance with the methodology described in Note 4 to the Company's 2011 annual audited consolidated financial statements, **corporate** selling, general and administrative expenses are allocated to each industry segment in proportion to their respective gross margin.

## 6.5 – NET FINANCIAL EXPENSES ANALYSIS

SECOND QUARTER ENDED JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)	2012			2011		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (1.3)	\$ (2.6)	\$ (3.9)	\$ (3.2)	\$ (2.5)	\$ (5.7)
Interest on debt:						
Recourse	–	5.5	5.5	–	5.5	5.5
Non-recourse:						
AltaLink	24.1	–	24.1	19.4	–	19.4
Other	2.0	–	2.0	2.0	–	2.0
Other	1.3	0.9	2.2	1.9	3.3	5.2
Net financial expenses	\$ 26.1	\$ 3.8	\$ 29.9	\$ 20.1	\$ 6.3	\$ 26.4

SIX MONTHS ENDED JUNE 30 (IN MILLIONS OF CANADIAN DOLLARS)	2012			2011		
	FROM ICI	FROM OTHER ACTIVITIES	TOTAL	FROM ICI	FROM OTHER ACTIVITIES	TOTAL
Interest revenues	\$ (2.5)	\$ (4.6)	\$ (7.1)	\$ (3.2)	\$ (5.1)	\$ (8.3)
Interest on debt:						
Recourse	–	10.9	10.9	–	10.9	10.9
Non-recourse:						
AltaLink	47.9	–	47.9	39.1	–	39.1
Other	3.9	–	3.9	4.0	–	4.0
Other	2.6	1.9	4.5	3.4	4.5	7.9
Net financial expenses	\$ 51.9	\$ 8.2	\$ 60.1	\$ 43.3	\$ 10.3	\$ 53.6

For the first six months of 2012, net financial expenses from ICI increased to \$51.9 million, compared to \$43.3 million in the first six months of 2011, primarily due to a higher interest expense from AltaLink, mainly due to additional non-recourse debt.

For the first six months of 2012, net financial expenses from other activities were \$8.2 million, compared to \$10.3 million in the first six months of 2011.

## 6.6 – INCOME TAXES ANALYSIS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Income tax expense excluding ICI	\$ –	\$ 17.7	\$ 13.2	\$ 32.6
Income tax expense from ICI	5.6	1.5	8.9	3.7
Income tax expense	\$ 5.6	\$ 19.2	\$ 22.1	\$ 36.3

The decrease in income tax expense for the first six months of 2012 mainly reflected a decrease in the Company's income before income tax expense.

## 7 – 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** to be recognized by the Company. It is determined based on **contract awards** that are considered **firm**.

**O&M** activities are provided under contracts that can cover a period of up to 40 years. In order to provide information that is comparable to the revenue backlog of other categories of activity, the Company limits the O&M revenue backlog to the earlier of: i) **the contract term awarded**; and 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.

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)	2012			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 809.8	\$ 2,538.9	\$ –	\$ 3,348.7
Mining & Metallurgy	770.0	395.2	–	1,165.2
Power	382.7	1,913.6	–	2,296.3
Hydrocarbons & Chemicals	268.3	827.1	–	1,095.4
Other Industries	117.3	313.5	–	430.8
<b>O&amp;M</b>	–	–	2,357.3	2,357.3
<b>Total</b>	\$ 2,348.1	\$ 5,988.3	\$ 2,357.3	\$ 10,693.7



AT MARCH 31  
(IN MILLIONS OF CANADIAN DOLLARS)

BY SEGMENT	2012			
	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 840.1	\$ 1,905.9	\$ —	\$ 2,746.0
Mining & Metallurgy	756.2	439.5	—	1,195.7
Power	380.3	1,987.9	—	2,368.2
Hydrocarbons & Chemicals	269.5	898.2	—	1,167.7
Other Industries	131.3	349.1	—	480.4
<b>O&amp;M</b>	—	—	2,558.4	2,558.4
<b>Total</b>	\$ 2,377.4	\$ 5,580.6	\$ 2,558.4	\$ 10,516.4

AT DECEMBER 31  
(IN MILLIONS OF CANADIAN DOLLARS)

BY SEGMENT	2011			
	SERVICES	PACKAGES	O&M	TOTAL
<b>Services and Packages</b>				
Infrastructure & Environment	\$ 804.7	\$ 2,051.2	\$ —	\$ 2,855.9
Mining & Metallurgy	646.4	476.6	—	1,123.0
Power	360.8	1,601.1	—	1,961.9
Hydrocarbons & Chemicals	248.9	971.8	—	1,220.7
Other Industries	165.3	382.1	—	547.4
<b>O&amp;M</b>	—	—	2,379.1	2,379.1
<b>Total</b>	\$ 2,226.1	\$ 5,482.8	\$ 2,379.1	\$ 10,088.0

At June 30, 2012, revenue backlog was \$10.7 billion, compared to \$10.5 billion at March 31, 2012, and \$10.1 billion at December 31, 2011. The revenue backlog at the end of June 2012, compared to the end of December 2011, mainly reflected an increase in Packages, notably in Infrastructure & Environment and Power.

## 7.1 – SERVICES BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2012	March 31 2012	December 31 2011
Services backlog	\$ 2,348.1	\$ 2,377.4	\$ 2,226.1

The increase from December 2011 to June 2012 primarily reflected an increase in Mining & Metallurgy, and included notable additions such as:

- > Atmospheric Emissions Reduction Project, in Mining & Metallurgy, which is an engineering, procurement and construction management contract awarded by Vale, whose primary objective is to bring Vale's Sudbury, Ontario, smelting and refining operations into environmental compliance with particulate and metals emissions standards and limits by 2015, while continuing to meet production targets;
- > Mina de Cobre Panama Project, in Mining & Metallurgy, for which an SNC-Lavalin-led joint venture has received a Full Notice to Proceed from Minera Panama S.A. for a contract to provide engineering, procurement and construction management services for the project infrastructure component of the Cobre Panama copper open-pit mine, in Panama.

## 7.2 – PACKAGES BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2012	March 31 2012	December 31 2011
Packages backlog	\$ 5,988.3	\$ 5,580.6	\$ 5,482.8

The increase from December 2011 to June 2012 mainly reflected an increase in Infrastructure & Environment and Power, partially offset by a decrease in Hydrocarbons & Chemicals, and included notable additions, such as:

- > Darlington Retube and Feeder Replacement Project, in Power, awarded by Ontario Power Generation, to an Aecon Industrial / SNC-Lavalin joint venture, for the Definition Phase of the Darlington retube and feeder replacement project;
- > Highway 407 East Project, in Infrastructure & Environment, awarded by the Province of Ontario to a new 50/50 joint venture between SNC-Lavalin and a partner, which will design and build an extension of 22 km east of Brock Road in Pickering to Harmony Road in Oshawa, as well as a 10-km north-south highway east of Lake Ridge Road connecting Highway 407 East to Highway 401;
- > Contract for the Grandir en Santé Expansion Project of the Sainte-Justine University Hospital Centre, in Infrastructure & Environment, under which SNC-Lavalin will provide engineering, construction and financing for the expansion of the health care facility.

## 7.3 – O&M BACKLOG

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2012	March 31 2012	December 31 2011
O&M backlog	\$ 2,357.3	\$ 2,558.4	\$ 2,379.1

The O&M backlog at the end of June 2012 remained in line with December 2011.

## 8 – 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 related industries.

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's ICI are accounted for as follows:

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

Such investments are grouped into the ICI segment wherein its performance is evaluated, as follows:

ACCOUNTING METHOD	PERFORMANCE EVALUATION
Cost method	Dividends or distributions received from investments
Equity method	SNC-Lavalin's share of the net results of its investments, or dividends from ICI for which the carrying amount is \$nil
Full consolidation method	Net income from investments, 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 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		2012	2011	2012	2011
<b>Services and Packages</b>					
Infrastructure & Environment		\$ 513.6	\$ 467.1	\$ 928.1	\$ 887.5
Mining & Metallurgy		360.5	233.4	643.2	410.8
Power		310.4	175.2	632.0	312.4
Hydrocarbons & Chemicals		205.7	276.5	394.5	579.3
Other Industries		98.0	106.1	178.4	183.3
<b>O&amp;M</b>		<b>293.2</b>	<b>281.7</b>	<b>676.6</b>	<b>708.5</b>
<b>ICI</b>		<b>124.9</b>	<b>128.7</b>	<b>241.4</b>	<b>230.5</b>
<b>Total</b>		<b>\$ 1,906.3</b>	<b>\$ 1,668.7</b>	<b>\$ 3,694.2</b>	<b>\$ 3,312.3</b>

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

(IN MILLIONS OF CANADIAN DOLLARS)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
BY SEGMENT		2012	2011	2012	2011
<b>Services and Packages</b>					
Infrastructure & Environment		\$ (6.7)	\$ 9.8	\$ (4.3)	\$ 15.9
Mining & Metallurgy		12.3	15.0	28.3	16.5
Power		(10.8)	28.5	21.3	53.5
Hydrocarbons & Chemicals		11.8	24.4	22.2	42.3
Other Industries		10.9	9.4	15.6	19.9
<b>O&amp;M</b>		<b>3.1</b>	<b>3.4</b>	<b>12.1</b>	<b>21.2</b>
<b>ICI</b>		<b>30.5</b>	<b>41.7</b>	<b>55.6</b>	<b>66.1</b>
<b>Total</b>		<b>\$ 51.1</b>	<b>\$ 132.2</b>	<b>\$ 150.8</b>	<b>\$ 235.4</b>

## 8.1 – SERVICES AND PACKAGES ACTIVITIES

Engineering and construction expertise is provided by the Company's employees as either Services or Packages activities.

### 8.1.1 – INFRASTRUCTURE & ENVIRONMENT

(IN MILLIONS OF CANADIAN DOLLARS)		SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
		2012	2011	2012	2011
Revenues from Infrastructure & Environment					
Services		\$ 213.1	\$ 158.1	\$ 388.2	\$ 291.6
Packages		300.5	309.0	539.9	595.9
<b>Total</b>		<b>\$ 513.6</b>	<b>\$ 467.1</b>	<b>\$ 928.1</b>	<b>\$ 887.5</b>
Operating income (loss) from Infrastructure & Environment		\$ (6.7)	\$ 9.8	\$ (4.3)	\$ 15.9
Operating income (loss) over revenues from					
Infrastructure & Environment (%)		(1.3%)	2.1%	(0.5%)	1.8%

Infrastructure & Environment revenues for the second quarter of 2012 were \$513.6 million, compared to \$467.1 million for the corresponding period of 2011. For the first six months of 2012, revenues increased to \$928.1 million, compared to \$887.5 million in the first six months of 2011, reflecting a higher level of Services activity, partially offset by a lower level of Packages activity.

For the second quarter of 2012, there was an operating loss of \$6.7 million, compared to an operating income of \$9.8 million for the corresponding quarter of 2011. The variance was mainly due to higher selling, general and administrative expenses, partially offset by a higher gross margin. For the first six months of 2012, there was an operating loss of \$4.3 million, compared to an operating income of \$15.9 million in the first six months of 2011, mainly due to higher selling, general and administrative expenses, partially offset by a higher gross margin-to-revenue ratio, mainly due to the fact that the corresponding period of 2011 included the impact of the Libyan events.

### 8.1.2 – MINING & METALLURGY

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from Mining & Metallurgy				
Services	\$ 263.3	\$ 205.3	\$ 485.6	\$ 369.6
Packages	97.2	28.1	157.6	41.2
<b>Total</b>	<b>\$ 360.5</b>	<b>\$ 233.4</b>	<b>\$ 643.2</b>	<b>\$ 410.8</b>
Operating income from Mining & Metallurgy	\$ 12.3	\$ 15.0	\$ 28.3	\$ 16.5
Operating income over revenues from Mining & Metallurgy (%)	3.4%	6.4%	4.4%	4.0%

Mining & Metallurgy revenues in the second quarter of 2012 were \$360.5 million, compared to \$233.4 million for the corresponding period of 2011. For the first six months of 2012, revenues were \$643.2 million, compared to \$410.8 million in the first six months of 2011, primarily due to a higher level of activity in both categories of activity.

Operating income was \$12.3 million in the second quarter of 2012, compared to \$15.0 million for the corresponding period of 2011, mainly due to higher selling, general and administrative expenses, partially offset by a higher gross margin. For the first six months of 2012, operating income was \$28.3 million, compared to \$16.5 million in the first six months of 2011, mainly due to higher gross margin, primarily reflecting a higher volume of activity, partially offset by higher selling, general and administrative expenses. While there was an unfavourable impact due to additional costs on one project in the first quarter of 2011, Services gross margin-to-revenue ratio of 2012 was in line with the corresponding period of 2011.

### 8.1.3 – POWER

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from Power				
Services	\$ 136.9	\$ 67.7	\$ 256.4	\$ 120.8
Packages	173.5	107.5	375.6	191.6
<b>Total</b>	<b>\$ 310.4</b>	<b>\$ 175.2</b>	<b>\$ 632.0</b>	<b>\$ 312.4</b>
Operating income (loss) from Power	\$ (10.8)	\$ 28.5	\$ 21.3	\$ 53.5
Operating income (loss) over revenues from Power (%)	(3.5%)	16.3%	3.4%	17.1%

**Power revenues increased to \$310.4 million in the second quarter of 2012**, compared to \$175.2 million in the second quarter of 2011. **For the first six months of 2012, revenues amounted to \$632.0 million**, compared to \$312.4 million in the corresponding period of 2011, mainly reflecting a higher volume of activity from both categories of activity.

**For the second quarter of 2012, there was an operating loss of \$10.8 million**, compared to an operating income of \$28.5 million in the corresponding quarter of 2011, mainly reflecting an unfavourable cost reforecast on a major Packages project, with an adverse impact of \$49.7 million on gross margin, as well as favourable cost reforecasts in 2011, partially offset by a higher volume of activity. **For the first six months of 2012, operating income totalled \$21.3 million**, compared to \$53.5 million in the corresponding period of 2011, for the same reasons stated above.

### 8.1.4 – HYDROCARBONS & CHEMICALS

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from Hydrocarbons & Chemicals				
Services	\$ 134.3	\$ 93.2	\$ 247.9	\$ 185.9
Packages	71.4	183.3	146.6	393.4
<b>Total</b>	<b>\$ 205.7</b>	<b>\$ 276.5</b>	<b>\$ 394.5</b>	<b>\$ 579.3</b>
Operating income from Hydrocarbons & Chemicals	\$ 11.8	\$ 24.4	\$ 22.2	\$ 42.3
Operating income over revenues from Hydrocarbons & Chemicals (%)	5.7%	8.8%	5.6%	7.3%

**Revenues from Hydrocarbons & Chemicals were \$205.7 million in the second quarter of 2012**, compared to \$276.5 million in the second quarter of 2011. **For the first six months of 2012, revenues were \$394.5 million**, compared to \$579.3 million in the corresponding period of 2011, mainly reflecting a lower level of Packages activities.

**In the second quarter of 2012, operating income decreased to \$11.8 million**, compared to \$24.4 million in the second quarter of 2011, mainly reflecting a lower level of activity in 2012, as well as an unfavourable cost reforecast on a major fixed-price Services project in the second quarter of 2012, with an adverse impact of \$16.6 million on gross margin, partially offset by lower selling, general and administrative expenses. **For the first six months of 2012, operating income**

decreased to **\$22.2 million**, compared to \$42.3 million in the corresponding period of 2011, for the same reasons stated above.

### 8.1.5 – 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 industry segments.

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from Other Industries				
Services	\$ 39.4	\$ 40.1	\$ 78.0	\$ 76.6
Packages	58.6	66.0	100.4	106.7
<b>Total</b>	<b>\$ 98.0</b>	<b>\$ 106.1</b>	<b>\$ 178.4</b>	<b>\$ 183.3</b>
Operating income from Other Industries	\$ 10.9	\$ 9.4	\$ 15.6	\$ 19.9
Operating income over revenues from Other Industries (%)	11.2%	8.8%	8.7%	10.8%

**Other Industries revenues were \$98.0 million in the second quarter of 2012**, compared to \$106.1 million for the corresponding quarter of 2011. **For the first six months of 2012, revenues were \$178.4 million, in line** with the first six months of 2011.

**Operating income for the second quarter of 2012 was \$10.9 million**, compared to \$9.4 million for the corresponding period of 2011. **For the first six months of 2012, operating income was \$15.6 million**, compared to \$19.9 million in the first six months of 2011, mainly reflecting a lower gross margin-to-revenue ratio.

## 8.2 – O&M

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from O&M	\$ 293.2	\$ 281.7	\$ 676.6	\$ 708.5
Operating income from O&M	\$ 3.1	\$ 3.4	\$ 12.1	\$ 21.2
Operating income over revenues from O&M (%)	1.1%	1.2%	1.8%	3.0%

**O&M revenues in the second quarter of 2012 were \$293.2 million**, compared to \$281.7 million in the second quarter of 2011, reflecting a higher level of activity, mainly in Canada. **For the first six months of 2012, revenues were \$676.6 million**, compared to \$708.5 million in the corresponding period of 2011, mainly due to a lower level of activity on certain ongoing contracts in Canada, partially offset by a higher level of activity outside Canada.

**Operating income was \$3.1 million in the second quarter of 2012**, compared to \$3.4 million in the second quarter of 2011. **For the first six months of 2012, operating income amounted to \$12.1 million**, compared to \$21.2 million in the corresponding period of 2011, mainly reflecting a lower gross margin-to-revenue ratio.

### 8.3 – 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 2011 Financial Report under "Management's Discussion and Analysis".

#### 8.3.1 – 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 2012 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 2012	December 31 2011
ICI accounted for by the full consolidation method	\$ 797.5	\$ 721.9
ICI accounted for by the equity method	369.1	350.2
ICI accounted for by the cost method	322.2	293.2
Net book value of ICI	\$ 1,488.8	\$ 1,365.3

As at June 30, 2012, the Company estimates that the fair value of its ICI is higher than their net book value, with the Company's investment in Highway 407 and AltaLink having the highest estimated fair values of its ICI portfolio. The net book values of the Company's investments in Highway 407 and AltaLink are \$nil and \$683.5 million, respectively, as at June 30, 2012.

#### 8.3.2 – OPERATING RESULTS OF THE ICI SEGMENT

(IN MILLIONS OF CANADIAN DOLLARS)	SECOND QUARTER		SIX MONTHS ENDED JUNE 30	
	2012	2011	2012	2011
Revenues from ICI	\$ 124.9	\$ 128.7	\$ 241.4	\$ 230.5
Operating income:				
From Highway 407	\$ 14.7	\$ 32.3	\$ 29.3	\$ 46.1
From other ICI	15.8	9.4	26.3	20.0
Operating income from ICI	\$ 30.5	\$ 41.7	\$ 55.6	\$ 66.1

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 operating income amounted to \$30.5 million in the second quarter of 2012, compared to \$41.7 million for the same period last year. The ICI segment operating income decreased to \$55.6 million for the first six months of 2012, compared to \$66.1 million for the corresponding period of 2011, mainly due to lower dividends from Highway 407, as a special dividend of \$18.5 million was declared and paid to the Company in the second quarter of 2011, as well as a lower contribution from SKH, partially offset by a higher contribution from AltaLink.

## 9 – 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 its cash and cash equivalents; and
- > An assessment of the Company's **Return on Average Shareholders' Equity** ("ROASE").

### 9.1 – NET CASH POSITION AND FREEHOLD CASH

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

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:

(IN MILLIONS OF CANADIAN DOLLARS)	June 30 2012	December 31 2011
Cash and cash equivalents	\$ 1,241.4	\$ 1,231.0
Less:		
Cash and cash equivalents of ICI accounted for by the full consolidation method	170.0	30.9
Recourse debt	348.5	348.4
<b>Net cash position</b>	<b>\$ 722.9</b>	<b>\$ 851.7</b>

The net cash position at June 30, 2012 was \$722.9 million, compared to \$851.7 million at December 31, 2011. The decrease in net cash position is mainly due to the cash used for investing and financing from other activities. Refer to section 9.2 of this MD&A for more details.

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, 2012,** compared to approximately \$750 million as at December 31, 2011. The decrease is mainly due to the variation in cash requirements to complete ongoing projects, as well as to the acquisition of businesses and payments for interests in a jointly controlled entity.

## 9.2 – CASH FLOW ANALYSIS

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

	2012	2011
Cash flows generated from (used for):		
Operating activities	\$ 227.2	\$ 202.1
Investing activities	(521.9)	(381.2)
Financing activities	306.2	53.1
Increase (decrease) in exchange differences on translating cash and cash equivalents held in foreign operations	(1.1)	2.3
Net increase (decrease) in cash and cash equivalents	10.4	(123.7)
Cash and cash equivalents at beginning of period	1,231.0	1,235.1
Cash and cash equivalents at end of period	\$ 1,241.4	\$ 1,111.4

**Cash and cash equivalents were \$1.2 billion at June 30, 2012,** compared to \$1.1 billion at June 30, 2011, as discussed further below.

### 9.2.1 – CASH FLOWS RELATED TO OPERATING ACTIVITIES

**Cash generated from operating activities was \$227.2 million for the first six months of 2012,** compared to \$202.1 million for the corresponding period of 2011. The variance was mainly due to:

- > Cash generated from the change in non-cash working capital items of \$0.6 million in the first six months of 2012, compared to cash used by the change in non-cash working capital items of \$39.6 million for the corresponding period of 2011, primarily reflecting lower working capital requirements.
- > A decrease of \$78.7 million in net income attributable to SNC-Lavalin shareholders to \$99.6 million in the first six months of 2012, compared to \$178.3 million for the corresponding period of 2011.

### 9.2.2 – CASH FLOWS RELATED TO INVESTING ACTIVITIES

**Cash used for investing activities was \$521.9 million for the first six months of 2012,** compared to \$381.2 million for the corresponding period of 2011. The major investing activities were as follows:

- > The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of \$379.8 million in the first six months of 2012, compared to \$223.2 million for the corresponding period of 2011, both due to AltaLink, mainly relating to capital expenditures for transmission projects.
- > The acquisition of property and equipment for Services, Packages and O&M activities amounted to a total cash outflow of \$51.7 million in the first six months of 2012, compared to \$28.2 million for the corresponding period of 2011.
- > Payments for ICI amounted to \$38.9 million in the first six months of 2012, primarily reflecting payments for Ambatovy Nickel Project and Piramal Roads Infra Private Limited, compared to \$62.9 million for the corresponding period of 2011, which mainly reflected payments for Astoria Project Partners II LLC, Ambatovy Nickel Project and Rayalseema Expressway Private Limited.
- > Payments of \$40.3 million for interests in SNC-Lavalin Fayez Engineering, a jointly controlled entity in Saudi Arabia.

### 9.2.3 – CASH FLOWS RELATED TO FINANCING ACTIVITIES

**Cash generated from financing activities was \$306.2 million in the first six months of 2012,** compared to \$53.1 million for the corresponding period of 2011. The major financing activities were as follows:

- > The increase in non-recourse debt from ICI amounted to \$378.8 million in the first six months of 2012, compared to \$136.9 million for the corresponding period of 2011, primarily relating to AltaLink.
- > Under its normal course issuer bid, the Company repurchased 166,700 shares and 539,300 shares for a total cash consideration of \$6.5 million and \$30.6 million during the first six months of 2012 and 2011, respectively.
- > The issuance of shares pursuant to the exercise of stock options generated \$5.6 million of cash in the first six months of 2012 (169,303 stock options at an average price of \$33.08), compared to \$12.9 million in the first six months of 2011 (398,909 stock options at an average price of

\$32.40). As at July 25, 2012, there were 5,552,509 stock options outstanding. At that same date, there were 151,037,346 shares issued and outstanding.

- > During the first six months of 2012 and 2011, the Company paid dividends totalling \$66.5 million and \$63.4 million, respectively.

### 9.3 – RECOURSE DEBT – CREDIT RATING

On March 28, 2012, **DBRS confirmed** the credit rating of the Company's debentures at **BBB (high) and changed the trend to stable from positive**. On April 20, 2012, **Standard & Poor's affirmed** the credit rating of SNC-Lavalin's debentures' at **BBB+ and revised the outlook to negative from stable**.

### 9.4 – DIVIDENDS DECLARED

On March 25, 2012, May 3, 2012, and August 3, 2012, the Board of Directors declared a quarterly cash dividend of \$0.22 per share, payable April 12, 2012, May 31, 2012 and August 31, 2012, respectively, representing an increase of 4.8% compared to the dividend of \$0.21 per share for the corresponding periods in 2011.

### 9.5 – 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 5 of the Company's 2011 Financial Report under "Management's Discussion and Analysis", achieving a ROASE at least equal to the long-term Canada Bond Yield plus 600 basis points is a key financial objective of the Company.

**ROASE was 14.8% for the 12-month period ended June 30, 2012**, compared to 25.0% for the same period last year, and higher than the Company's performance objective of 600 basis points above the long-term Canada Bond Yield for the period, totalling 8.7%.

### 9.6 – FINANCIAL INSTRUMENTS

The nature and extent of risks arising from financial instruments, and their related risk management, are described in Note 27 to the Company's 2011 annual audited consolidated financial statements. In the first six months of 2012, 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.

## 10 – 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 second quarter and the first six months of 2012, SNC-Lavalin recognized revenues of \$206.8 million (second quarter of 2011: \$140.6 million) and \$358.0 million (first six months of 2011: \$244.0 million), respectively, from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized its share of net income from the ICI accounted for by the equity method, of \$19.5 million for the second quarter of 2012 (second quarter of 2011: \$37.5 million) and \$34.7 million for the first six months of 2012 (first six months of 2011: \$56.8 million). For the second quarter and the first six months of 2012, intragroup revenues generated from transactions with AltaLink, which amounted to \$171.3 million (second quarter of 2011: \$64.6 million) and \$317.8 million (first six months of 2011: \$112.5 million), respectively, were eliminated upon consolidation, while profits from those transactions were not eliminated.

SNC-Lavalin's trade receivables from the ICI accounted for by the equity method amounted to \$30.9 million as at June 30, 2012 (December 31, 2011: \$43.7 million). SNC-Lavalin's other current financial assets receivable from the ICI accounted for by the equity method amounted to \$127.3 million as at June 30, 2012 (December 31, 2011: \$83.0 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was \$141.5 million at June 30, 2012 (December 31, 2011: \$129.0 million).

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

## 11 – ACCOUNTING POLICIES AND CHANGES

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 2012 in accordance with IFRS. See Note 2 to the Company's 2011 annual audited consolidated financial statements for more information about the significant accounting principles used to prepare the financial statements, as they remain unchanged for the second quarter of 2012.

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, were disclosed in the Company's 2011 annual audited consolidated financial statements and remain unchanged for the second quarter of 2012.

### 11.1 – 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.
- > *Annual Improvements to IFRSs 2009-2011 Cycle*: The International Accounting Standards Board issued a collection of amendments to five International Financial Reporting Standards under its annual improvements project (2009-2011 cycle) as follows:
  - Amendments to IFRS 1, *First-Time Adoption of IFRS*, ("IFRS 1") related to repeated application of IFRS 1 and to borrowing costs.
  - Amendments to IAS 1, *Presentation of Financial Statements*, related to clarification of the requirements for comparative information.
  - Amendments to IAS 16, *Property, Plant and Equipment*, related to classification of servicing equipment.
  - Amendments to IAS 32, *Financial Instruments: Presentation*, related to tax effect of distribution to holders of equity instruments.
  - Amendments to IAS 34, *Interim Financial Reporting*, related to interim financial reporting and segment information for total assets and liabilities.

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.

## 12 – RISKS AND UNCERTAINTIES

Risks and uncertainties and certain risk management practices of the Company are described in section 15 of the Company's 2011 Financial Report under "Management's Discussion and Analysis". These risks and uncertainties and risk management practices have not materially changed in the first six months of 2012 with the exception of changes to the Company's internal control over financial reporting that are discussed in section 14 "Controls and Procedures" in this MD&A.

As described in section 14 "Controls and Procedures", management of the Company has identified certain material weaknesses relating to the design and operational effectiveness of the Company's internal control over financial reporting as at December 31, 2011, which material weaknesses continue to exist as at June 30, 2012. Management has identified and is in the process of implementing a number of remedial measures to address these material weaknesses and strengthen the Company's financial controls and procedures, as more fully described in the "Controls and Procedures" section. However, there can be no assurance that such measures will be effective and the Company could face additional risks and/or unknown losses.

## 13 – QUARTERLY INFORMATION

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT EARNINGS PER SHARE AND DIVIDENDS PER SHARE)	2012		2011				2010	
	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER
Revenues	\$ 1,906.3	\$ 1,787.9	\$ 2,118.1	\$ 1,779.5	\$ 1,668.7	\$ 1,643.6	\$ 1,825.1	\$ 1,509.2
Net income attributable to SNC-Lavalin shareholders from ICI:								
From Highway 407	\$ 14.7	\$ 14.7	\$ 17.2	\$ 13.9	\$ 32.3	\$ 13.8	\$ 18.4	\$ –
From other ICI	15.8	10.4	22.3	11.7	9.4	10.6	36.2	16.4
Net income attributable to SNC-Lavalin shareholders excluding ICI	2.0	42.0	36.5	98.9	60.5	51.7	104.1	107.4
Net income attributable to SNC-Lavalin shareholders	32.5	67.1	76.0	124.5	102.2	76.1	158.7	123.8
Net income attributable to non-controlling interests	0.2	0.2	0.1	3.0	2.7	2.7	2.9	1.5
Net income	\$ 32.7	\$ 67.3	\$ 76.1	\$ 127.5	\$ 104.9	\$ 78.8	\$ 161.6	\$ 125.3
Basic earnings per share (\$)	\$ 0.22	\$ 0.44	\$ 0.50	\$ 0.83	\$ 0.68	\$ 0.50	\$ 1.05	\$ 0.82
Diluted earnings per share (\$)	\$ 0.21	\$ 0.44	\$ 0.50	\$ 0.82	\$ 0.67	\$ 0.50	\$ 1.04	\$ 0.81
Dividends declared per share (\$)	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.17



## 14 – CONTROLS AND PROCEDURES

The Company's Interim CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures as well as the internal control over financial reporting, as those terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") of the Canadian securities regulatory authorities.

### 14.1 – MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As disclosed in the Company's 2011 "Management's Discussion and Analysis", the Interim CEO and the CFO, in carrying out their evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011, which included consideration of the findings of the Independent Review, identified certain material weaknesses<sup>1</sup> relating to the design and operating effectiveness of the Company's internal control over financial reporting as at December 31, 2011. These material weaknesses continued to exist as at June 30, 2012 and are as follows:

1. Management override of internal controls contained in the Agents Policy. The Independent Review found that the Former CEO, acting at the request of the former Executive Vice-President of the Construction division (the "Former EVP Construction"), overrode controls with respect to the authorization of payments to commercial agents which did not comply with the Agents Policy and was a breach of the Code of Ethics.

Disclosure controls and procedures and internal control over financial reporting are subject to inherent limitations, including that management has the ability to override internal controls. The unfettered ability of any member of management to override internal controls exposes the Company to risk by providing an opportunity for such management member and potentially others to engage in and conceal illegal or improper activity or the misuse or misappropriation of corporate assets and possible misrepresentations in financial reporting.

2. Non-compliance with, and ineffective controls over compliance with, the Code of Ethics and the Agents Policy. The Independent Review found that provisions of the Code of Ethics requiring the maintenance of accurate books and records were not complied with by the Former CEO and the Former EVP Construction as a result of any one of the following findings:

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<sup>1</sup> As used herein, the term "material weakness" has the meaning prescribed in NI 52-109 and means a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a reporting issuer's annual or interim financial statements will not be prevented or detected on a timely basis.

- > the improper documentation of certain agent agreements in respect of projects to which they did not relate and the concealment thereof;
- > incorrect entries relating to payments under certain agent agreements in the books and records of the Company, and concealment thereof; and
- > non-compliance with the Agents Policy.

Non-compliance with and/or ineffective controls regarding the hiring of, appropriate use of, verification of the integrity of, contractual relationship with, and/or supervision of the conduct of, commercial agents exposes the Company to the risk of improper or illegal activities by its employees and agents, the misuse or misappropriation of corporate assets, and the concealment of such activities through falsification of documentation and corporate records, which in turn could impact the reliability of the Company's financial reporting.

## **14.2 – REMEDIAL MEASURES**

At the recommendation of the Audit Committee, the Board of Directors adopted the recommendations for remedial measures resulting from the Independent Review. These recommendations were directed at reinforcing standards of conduct, strengthening and improving internal controls and processes, and reviewing the compliance environment. In addition, the Company's management had identified and begun to implement a number of measures to address the material weaknesses referred to above and to continue to strengthen the Company's financial controls and procedures. The Board of Directors directed management to develop a plan and timetable for the implementation of all of these measures and has been monitoring their implementation.

### **REMEDIAL MEASURES TO ADDRESS MATERIAL WEAKNESSES**

A summary of the remedial measures that have been adopted to address the aforementioned material weaknesses and of the status of their implementation is set out below.

- > A "Management Override Policy" has been approved by the Board of Directors providing procedures to be followed (i) in cases of acceptable management departures from the Company's policies and procedures, and (ii) anytime a person in a managerial or supervisory position or other employee requests or directs that Company policies or procedures be disregarded. The new policy was communicated to all employees in May 2012, was posted on the Company's intranet and is available to all employees. A training program on the new policy is ongoing and is in the process of being provided to all employees;

- > The Code of Ethics has been amended to include a duty to report violations or proposed violations of the Code of Ethics, subject to applicable law. These amendments have been approved by the Board of Directors, communicated to all employees in May 2012, posted on the Company's intranet and are available to all employees. A training program on the amended Code of Ethics is ongoing and is in the process of being provided to all employees;
- > Various changes to the Agents Policy that were approved by the Board of Directors in March 2012 were implemented or are in the process of being implemented, including:
  - an Agent Review Committee has been created to review and approve the entering into of any agent agreement meeting certain criteria;
  - an annual review of the Agents Policy by the Governance Committee of the Board of Directors was added to the Governance Committee's mandate;
  - an annual confirmation of compliance with the Agents Policy by the Executive Vice-President responsible for this policy was added to the Audit Committee's mandate. The first annual confirmation is scheduled to be completed in the third quarter of 2012;
  - enhanced due diligence procedures were adopted in connection with all potential agent agreements, including completion of a "red flags" warning checklist and integrity certification by senior management following completion of due diligence; and
  - a requirement was adopted for formal training of the Company's commercial agents on the Code of Ethics.

The Board of Directors, the Audit Committee and management of the Company will continue to consider and, if deemed appropriate, develop and implement additional remedial measures to address the material weaknesses referred to above.

#### **MEASURES TO CONTINUE TO STRENGTHEN FINANCIAL CONTROLS AND PROCEDURES**

A number of other measures have been adopted and implemented, or are in the process of being implemented, to continue to strengthen the Company's financial controls and procedures, including the following:

- > a communication plan has been developed emphasizing compliance with the Code of Ethics as a core value in all aspects of the Company's business and an enhanced training programs around the Code of Ethics is in the process of being implemented throughout the organization;

- > the scope of complaints and reporting under the Company's Whistleblowing Policy was expanded to include all violations of the Code of Ethics;
- > the specific monitoring of compliance with the Code of Ethics and administration of the Whistleblowing Policy by the Ethics and Compliance Committee has been approved and is reflected in the charter of the Ethics and Compliance Committee, which is required to report quarterly to the Audit Committee and Human Resources Committee on its activities;
- > the Company is pursuing its search of potential candidates with a view to engaging an independent expert to provide advice on the structure of the organization, guidelines and controls, and communication and training;
- > the existing practice of the internal auditors reporting directly to the Audit Committee and the mandate of the internal audit function of the Company have been formally documented;
- > the primary reporting relationship of all business unit vice presidents of finance has been changed such that they now report directly to the CFO; and
- > preparation of the final procedures and approvals regarding the levels of authority are expected to be completed by the end of the year.

### **14.3 – CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

The remedial measures described above that have been implemented in the quarter ended June 30, 2012 to address the material weaknesses have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to implement in its different business units a new financial management solution as part of its integrated platform. With the conversion of additional business units during the second quarter of 2012, the overall implementation of this financial management solution is considered to have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting in that several new automated controls were introduced to complement or replace certain existing controls.

## 15 – LEGAL PROCEEDINGS

On March 1, 2012, a “Motion to Authorize the Beginning of a Class Action and to Obtain the Status of Representative” (the “Quebec 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 Quebec Motion raises both statutory and negligent misrepresentation claims.

On May 9, 2012, two proposed class actions were commenced in the Ontario Superior Court on behalf of all persons who acquired SNC-Lavalin securities during different time periods. These two actions were consolidated into a single action (the “Ontario Action”) on June 29, 2012. The Ontario Action seeks damages on behalf of all persons who acquired securities of SNC-Lavalin between November 6, 2009 and February 27, 2012. The Ontario Action raises, among other things, both statutory and common law misrepresentation claims.

The Quebec Motion and the Ontario Action (collectively, the “Actions”) allege that certain documents issued by SNC-Lavalin contained misrepresentations concerning, among other things, SNC-Lavalin’s corporate governance practices, adequacy of controls and procedures, reported net income for the year ended December 31, 2010, and adherence to SNC-Lavalin’s Code of Ethics.

The Actions each seek damages based on the decline in market value of the securities purchased by proposed class members when SNC-Lavalin issued a press release dated February 28, 2012, as well as other damages and costs. The Ontario Action further seeks additional damages based on a further drop in share price on June 25, 2012.

The Actions will require leave from the respective courts to commence statutory secondary market misrepresentations claims under the various applicable securities legislation. They further require leave from the respective courts to proceed as class actions.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of these lawsuits 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.