2014 Management's Discussion and Analysis

March 5, 2015

Management's Discussion and Analysis ("MD&A") is designed to provide the reader with a greater understanding of the Company's business, the Company's business strategy and performance, as well as how it manages risk and capital resources. It is intended to enhance the understanding of the audited annual consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents, and should also be **read together with the text below on 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 arrangements, or SNC-Lavalin Group Inc. or one or more of its subsidiaries or joint arrangements.

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.snclavalin.com) as well as on SEDAR (www.sedar.com), the system used for electronically filing most securities-related information with the Canadian securities regulatory authorities. None of the information contained on, or connected to the SNC-Lavalin website is incorporated by reference or otherwise part of this MD&A.

Unless otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain totals, subtotals and percentages may not reconcile due to rounding. Not applicable ("N/A") is used to indicate that the percentage change between the current and prior year figures is not meaningful, or if the percentage change exceeds 1,000%.

COMPARATIVE FIGURES

In 2014, the Company revised its reportable segments to reflect the changes made to its internal reporting structure. SNC-Lavalin's reportable segments are now i) **Resources, Environment and Water** ("**REW**"); ii) **Power**; iii) **Infrastructure**; and iv) **ICI**. The Company also provides additional information on certain sub-segments of its segments, notably on the Mining & Metallurgy, Oil & Gas and Environment & Water sub-segments of REW, as well as on the Infrastructure & Construction and Operations & Maintenance ("O&M") sub-segments of Infrastructure. In 2014, the Company also changed its measure of profit or loss for its reportable segments by replacing the "operating income (loss)" by "segment earnings before interest and taxes" ("segment EBIT"). As such, the Company no longer calculates imputed interest. The Company also no longer includes net financial expenses and income taxes in its measure of profit or loss for the ICI segment. In the year ended December 31, 2014, the Company has also made a retrospective change to the presentation of its statement of cash flows and comparative figures were reclassified for the change in restricted cash position, to provide details on this element. Therefore, the amount of the change in restricted cash position of $22.2 million in the year ended December 31, 2013 was reclassified from "Other" to "Change in restricted cash position" included in the investing activities in the statement of cash flows. The comparative figures have been adjusted in this MD&A to reflect the abovementioned changes.

Forward-looking statements

Statements made in this MD&A that describe the Company's or management's budgets, estimates, expectations, forecasts, objectives, predictions, projections of the future or strategies may be "forward-looking statements", which can be identified by the use of the conditional or forward-looking terminology such as "aims", "anticipates", "assumes", "believes", "cost savings", "estimates", "expects", "goal", "intends", "may", "plans", "projects", "should", "synergies", "will", or the negative thereof or other variations thereon. Forward-looking statements also include any other statements that do not refer to historical facts. Forward-looking statements also include statements relating to the following: i) future capital expenditures, revenues, expenses, earnings, economic performance, indebtedness, financial condition, losses and future prospects; and ii) business and management strategies and the expansion and growth of the Company's operations and potential synergies resulting from the Acquisition. All such forward-looking statements are made pursuant to the "safe-harbour" provisions of applicable Canadian securities laws. 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. Forward-looking statements are presented for the purpose of assisting investors and others in understanding certain key elements of the Company's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Company's business and anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Forward-looking statements made in this MD&A are based on a number of assumptions believed by the Company to be reasonable on March 5, 2015. The assumptions are set out throughout this MD&A (particularly, in the sections entitled "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" and "How We Analyze and Report our Results" in this MD&A). If these assumptions are inaccurate, the Company's actual results could differ materially from those expressed or implied in such forward-looking statements. In addition, important risk factors could cause the Company's assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by these forward-looking statements. These risks include, but are not limited to: (a) the outcome of pending and future claims and litigation could have a material adverse impact on the Company's business, financial condition and results of operation; (b) on February 19, 2015, the Company was charged with one count of corruption under the CFPOA and one count of fraud under the *Criminal Code* (Canada), and is also subject to other ongoing investigations which could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant. These charges and investigations, and potential results thereof, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business; (c) further regulatory developments could have a significant adverse impact on the Company's results, and employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm the Company's reputation, reduce its revenues and net income, and subject the Company to criminal and administrative enforcement actions and civil actions; (d) if the Company is not able to successfully execute on its new strategic plan, its business and results of operations would be adversely affected; (e) a negative impact on the Company's public image could influence its ability to obtain future projects; (f) fixed-price contracts or the Company's failure to meet contractual schedule or performance requirements may increase the volatility and unpredictability of its revenue and profitability; (g) the Company's revenue and profitability are largely dependent on the awarding of new contracts, which it does not directly control, and the uncertainty of contract award timing could have an adverse effect on the Company's ability to match its workforce size with its contract needs; (h) the Company's backlog is subject to unexpected adjustments and cancellations, including under "termination for convenience" provisions, and does not represent a guarantee of the Company's future revenues or profitability; (i) SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting; (j) the Company's international operations are exposed to various risks and uncertainties, including unfavourable political environments, weak foreign economies and the exposure to foreign currency risk; (k) there are risks associated with the Company's ownership interests in ICI that could adversely affect it; (l) the Company is dependent on third parties to complete many of its contracts; (m) the Company's use of joint ventures and partnerships exposes it to risks and uncertainties, many of which are outside of the Company's control; (n) the competitive nature of the markets in which the Company does business could adversely affect it; (o) the Company's project execution activities may result in professional liability or liability for faulty services; (p) the Company could be subject to monetary damages and penalties in connection with professional and engineering reports and opinions that it provides; (q) the Company may not have in place sufficient insurance coverage to satisfy its needs; (r) the Company's employees work on projects that are inherently dangerous and a failure to maintain a safe work site could result in significant losses and/or an inability to obtain future projects; (s) the Company's failure to attract and retain qualified personnel could have an adverse effect on its activities; (t) work stoppages, union negotiations and other labour matters could adversely affect the Company; (u) the Company relies on information systems and data in its operations. Failure in

the availability or security of the Company's information systems or in data security could adversely affect its business and results of operations; (v) any acquisition or other investment may present risks or uncertainties; (w) the Company may be unable to successfully integrate the businesses of SNC-Lavalin and Kentz and realize the anticipated benefits of the Acquisition; (x) a deterioration or weakening of the Company's financial position, including its cash net of recourse debt, would have a material adverse effect on its business and results of operations; (y) the Company may have significant working capital requirements, which if unfunded could negatively impact its business, financial condition and cash flows; (z) an inability of SNC-Lavalin's clients to fulfill their obligations on a timely basis could adversely affect the Company; (aa) the Company may be required to impair certain of its goodwill, and it may also be required to write down or write off the value of certain of its assets and investments, either of which could have a material adverse impact on the Company's results of operations and financial condition; (bb) global economic conditions could affect the Company's client base, partners, subcontractors and suppliers and could materially affect its backlog, revenues, net income and ability to secure and maintain financing; (cc) fluctuations in commodity prices may affect clients' investment decisions and therefore subject the Company to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards, and may affect the costs of the Company's projects; (dd) inherent limitations to the Company's control framework could result in a material misstatement of financial information, and; (ee) environmental laws and regulations expose the Company to certain risks, could increase costs and liabilities and impact demand for the Company's services. 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 sections "Risks and Uncertainties", "How We Analyze and Report Our Results" and "Critical Accounting Judgments and Key Sources of Estimation Uncertainty" in this report.

The forward-looking statements herein reflect the Company's expectations as at March 5, 2015, when the Company's Board of Directors approved this document, 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 whether as a result of new information, future events or otherwise, unless required by applicable legislation or regulation.

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1. 2014 EXECUTIVE SUMMARY

1.1 EXECUTIVE SUMMARY – FINANCIAL INDICATORS

NET INCOME

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT EARNINGS PER SHARE)	2014	2013	CHANGE (%)
Net income (loss) attributable to SNC-Lavalin shareholders:			
From E&C	**$ (300.5)**	$ (245.8)	22.3%
From ICI	**1,633.9**	281.6	480.2%
Net income attributable to SNC-Lavalin shareholders	**$ 1,333.3**	$ 35.8	N/A
Earnings (loss) per share - diluted (in $)			
From E&C	**$ (1.97)**	$ (1.62)	21.6%
From ICI	**10.71**	1.86	478.9%
Earnings per share - diluted (in $)	**$ 8.74**	$ 0.24	N/A

> For the year ended December 31, 2014, net income attributable to SNC-Lavalin shareholders was $1,333.3 million ($8.74 per share on a diluted basis), compared to $35.8 million ($0.24 per share on a diluted basis) for the comparable period in 2013. The higher net income attributable to SNC-Lavalin shareholders in 2014 was mainly due to a higher net income attributable to SNC-Lavalin shareholders from Infrastructure Concession Investments ("ICI"), notably from a gain on disposal of the Company's ownership interest in AltaLink Holdings, L.P. ("AHLP" or "AltaLink"), partially offset by a higher net loss attributable to SNC-Lavalin shareholders from Engineering & Construction ("E&C").

> Net loss attributable to SNC-Lavalin shareholders from E&C was $300.5 million in 2014, compared to $245.8 million in 2013, mainly attributable to:

- $149.9 million ($149.0 million after taxes) of additional reserves mainly due to increased counterparty credit risk, impairment of an investment, as well as other charges relating to the restructuring and right-sizing plan announced on November 6, 2014;
- $99.9 million ($80.4 million after taxes) of financing, acquisition-related and integration costs in 2014, related to the acquisition of Kentz Corporation Limited ("Kentz");
- $36.5 million ($26.5 million after taxes) of amortization of intangible assets related to the acquisition of Kentz on August 22, 2014.
- $109.9 million ($99.5 million after taxes) of restructuring costs in 2014, compared to $123.5 million ($112.1 million after taxes) of restructuring costs and goodwill impairment in 2013.

When excluding the abovementioned items, there was a lower negative segment EBIT in Infrastructure combined with a higher contribution from REW, partially offset by a lower contribution from Power, compared to the previous year.

> Net income attributable to SNC-Lavalin shareholders from ICI increased in 2014 compared to 2013, principally due to the net gain of $1,334.2 million on disposals of AltaLink, Astoria and Ovation further described in section 8.4.3.3, compared to a net gain of $36.2 million on partial disposal of Astoria Project Partners II LLC ("Astoria II"), a higher net income from AltaLink, and the Company ceasing to depreciate and amortize AltaLink's non-current assets starting May 1st, 2014, resulting from the classification of AltaLink's assets and liabilities as assets and liabilities of a disposal group classified as held for sale at that date, as well as higher dividends received from Highway 407. The increase was partially offset by the impairment of an investment, as well as a lower contribution from SKH.

REVENUES

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014	2013	CHANGE (%)
Revenues	**$ 8,238.8**	$ 7,913.2	4.1%

> Revenues increased in 2014, compared to 2013, reflecting an increase in Services, ICI, as well as Packages, mainly due to the incremental Services and Packages revenues from Kentz.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014	2013	CHANGE (%)
Selling costs	**$ 188.4**	$ 216.2	(12.9%)
General and administrative expenses	**653.0**	620.4	5.3%
Selling, general and administrative expenses	**$ 841.4**	$ 836.6	0.6%

> Selling, general and administrative expenses in 2014 were in line with 2013, and amounted to $841.4 million, despite the incremental selling, general and administrative expenses from Kentz of $67.8 million, mainly attributable to costs savings resulting from the Company's restructuring plans implemented in the second half of 2013, as well as other initiatives under the Value Up program. The Company expects to continue implementing selling, general and administrative expenses reduction initiatives and expects to integrate further potential selling, general and administrative expenses synergies following the acquisition of Kentz.

CASH NET OF RECOURSE DEBT

AT DECEMBER 31 (IN MILLIONS CA$)	2014	2013	CHANGE (%)
Cash and cash equivalents	**$ 1,702.2**	$ 1,108.7	53.5%
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	**29.3**	17.8	65.0%
Recourse debt	**348.9**	348.7	0.1%
Cash net of recourse debt	**$ 1,324.0**	$ 742.2	78.4%

> Cash net of recourse debt (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt) increased as at December 31, 2014 compared to December 31, 2013, mainly reflecting an increase in cash and cash equivalents.

REVENUE BACKLOG

AT DECEMBER 31 (IN MILLIONS CA$)	2014	2013
Services	**$ 4,684.0**	$ 1,629.6
Packages	**5,693.5**	4,429.7
Operations & Maintenance ("O&M")	**1,947.9**	2,228.5
Total	**$ 12,325.5**	$ 8,287.8

> The Company's revenue backlog increased at December 31, 2014 compared to 2013, reflecting an increase in Services and Packages, mainly from the acquisition of Kentz, partially offset by a decrease in O&M.

DIVIDEND INCREASE

> On March 5, 2015, the Company's Board of Directors approved a quarterly dividend of $0.25 per share, a 4.2% increase over the previous quarterly dividend declared.

1.2 EXECUTIVE SUMMARY – OTHER ITEMS

BUSINESS ACQUISITION

- On June 23, 2014, in line with its strategy, the Company announced that it has reached an agreement with Kentz Corporation Limited (“Kentz”), approved by the boards of directors of both companies, on the terms of a cash acquisition by which the entire ordinary share capital of Kentz, issued and to be issued, was to be acquired by SNC-Lavalin (the “Acquisition”) for a consideration estimated at approximately £1.2 billion (CA$2.1 billion). Kentz is a global oil & gas services company. On August 22, 2014, the Company announced that it has completed the Acquisition. Christian Brown, Kentz’s Chief Executive Officer, was then appointed President, Oil & Gas, SNC-Lavalin Group Inc., leading the Company’s Oil & Gas business unit.
- In August 2014, in connection with Kentz acquisition, the Facility entered into by the Company in December 2013 was amended to: i) increase the committed amount from $3,500 million to $4,250 million which it may use for the issuance of performance and financial letters of credit as well as cash draws, subject to a limit of $1,800 million applicable to financial letters of credit and cash draws but not to performance letters of credit; and ii) extend the maturity of the Facility from December 2016 to August 2017, with an annual extension option for a one-year period upon lenders’ approval.
- The Company successfully completed its acquisition of Kentz without ultimately increasing its level of indebtedness.

ICI PORTFOLIO

- In February 2014, the Company announced that InPower BC General Partnership, its wholly owned subsidiary, signed an agreement with BC Hydro to design, build, partially finance, maintain and rehabilitate the John Hart Generating Replacement Facility, in Canada, under a 20-year contract.
- On September 30, 2014, SNC-Lavalin sold its 100% ownership interest in Ovation Real Estate Group (Quebec) Inc. (“Ovation”) which principal activity was to build, operate and maintain an acoustic concert hall in Montreal, Canada. SNC-Lavalin will continue to provide operations and maintenance services for this acoustic concert hall and its new owner, until 2038.
- On October 15, 2014, SNC-Lavalin announced that it sold its 21% ownership interest in Astoria, the owner of the legal entity that owns and operates a gas-fired combined-cycle power plant in New York City. The total cash consideration received amounted to US$93.5 million (CA$104.9 million).
- On December 1, 2014, SNC-Lavalin sold its 100% ownership interest in AltaLink Holdings, L.P. (“AHLP”), the parent company of AltaLink, L.P., the owner and operator of transmission lines and substations subject to rate regulation in Alberta, to Berkshire Hathaway Energy. The total cash consideration received amounted to $3.1 billion.

ACTIONS TO ALIGN OPERATIONS WITH GROWTH STRATEGY AND END-MARKET ECONOMICS

- On November 6, 2014, the Company announced that it will take a number of steps to restructure and right-size certain areas of its business as it continues to execute its five-year strategic plan to build a global Tier-1 engineering and construction firm. Accordingly, over 18 months following this announcement, SNC-Lavalin expected to incur charges of approximately $200 million after taxes to scale back certain underperforming activities and adjust, consolidate and streamline some of its operations and corporate structure to improve efficiency, effectiveness and competitive positioning. Simultaneously, the Company was also expecting to record approximately $100 million after taxes of non-cash charges over this time.

2. OVERVIEW OF OUR BUSINESS AND STRATEGY

2.1 OUR BUSINESS

SNC-Lavalin is one of the leading engineering and construction groups in the world, and is a major player in the ownership of infrastructure and in the provision of operations and maintenance ("O&M") services.

On August 22, 2014, the Company completed its acquisition of Kentz, a leading global engineering specialist which provides high-quality engineering, procurement and construction, construction management and technical support services to clients in the oil and gas sector. Kentz includes Valerus Field Solutions, a US-based integrated oil and gas surface facility solutions provider, acquired by Kentz on January 3, 2014.

SNC-LAVALIN CONSISTS OF:
A network of offices located in over 50 countries with approximately 42,000 EMPLOYEES working on projects around the world, offering expertise that meets clients' needs and making selective investments in infrastructure concessions

Engineering and construction expertise offered as **Services** or **Packages**, to clients in multiple industries:

- Mining & Metallurgy
- Oil & Gas
- Environment & Water
- Power
- Infrastructure & Construction

O&M activities performed to efficiently manage clients' facilities and assets, in various lines of business:

- Integrated Real Estate Solutions
- Industrial
- Transportation
- Defence & logistics

Selectively invest in **ICI** that, in general, offer potential complementary engineering and construction, and/or O&M contract opportunities, with a fair return for SNC-Lavalin shareholders, such as:

- Airports
- Bridges
- Cultural and public service buildings
- Highways
- Mass transit systems
- Power
- Water treatment facilities

In certain parts of this MD&A, activities from Services, Packages and O&M are collectively referred to as "E&C" to distinguish them from ICI activities.

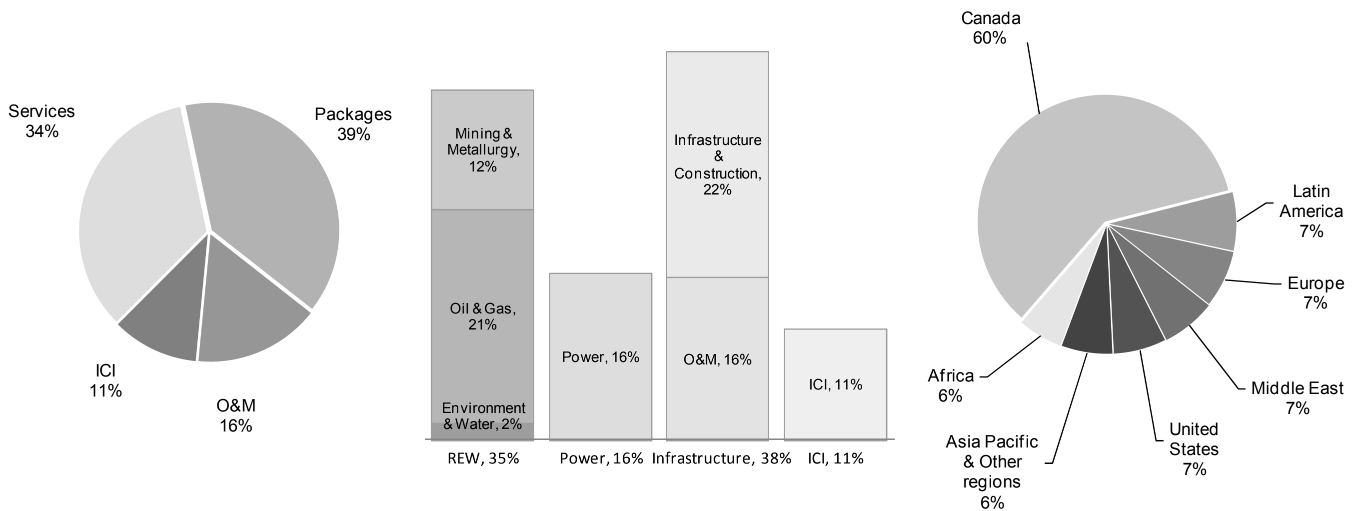
SNC-Lavalin has ongoing projects in multiple geographic regions and for multiple segments, showing the diversity of the Company's operations. The Company's geographic and industry diversification is one of the key factors that allows SNC-Lavalin to differentiate itself from its competitors.

The **diversity of the Company's revenue base** and its capacity to operate in different categories of activity, industry segments and geographic areas are illustrated in the following 2014 revenue charts.

DIVERSITY OF THE COMPANY'S REVENUE BASE

2014 Revenues
($8.2 billion)

CATEGORIES OF ACTIVITY	SEGMENTS	GEOGRAPHIC AREAS



Four activities that are complimentary... **...serving multiple industry segments...** **...with good geographic coverage and Canada as its largest base**

2.2 OUR BUSINESS STRATEGY

On May 2, 2013, the Company announced its five year strategic plan designed to increase long-term stability and profitability and maximizing shareholder value. SNC-Lavalin's new strategy outlines key sectors and geographic markets that the Company will target. It also outlines the integrated solutions for its Infrastructure Concession Investments ("ICI") and its disciplined approach to employing capital.

SNC-Lavalin's strategy contains three pillars, which are designed to work together to enhance performance on multiple levels and across the organization. They are:

GROWTH PLATFORMS:

SNC-Lavalin is putting renewed focus on strengthening its position in certain key sectors and geographic markets.

The Company has determined an accelerated growth path for its Resources, Environment and Water Group. In Oil & Gas, SNC-Lavalin will leverage the acquisition of Kentz and expand its capabilities and market reach to compete in projects which deliver high value to its targeted blue chip international and national oil and gas companies. For the Mining & Metallurgy practice, SNC-Lavalin wants to solidify its tier 1 status and position for higher long-term profitability. With the Environment & Water sectors, the Company envisages multiple opportunities to generate growth, including synergies with the Oil & Gas and Mining & Metallurgy sectors. The Company is committed to a global platform.

The Clean Power and Infrastructure markets represent a sustained growth platform for the Company. In Clean Power, SNC-Lavalin intends to focus on high growth and margin subsectors such as transmission & distribution, nuclear, and hydro. The Company has a strong and mature position in these key sectors. In the Infrastructure sector, the Company will focus on growing the transportation market by leveraging its Public-Private Partnership ("P3") and transit experience. The Group will be centered around major, complex projects, building on its strong capabilities in airports, ports, major bridges and highways. The Company will emphasize expanding its strong footprint in Canada and the rest of the Americas with selective global expansion.

SNC-Lavalin will continue to evaluate strategic acquisitions to support its growth strategy as described above. The acquisition of Kentz in 2014 was a major milestone in delivering on its strategy.

Regarding its offering mix, the Company intends to leverage the full spectrum of its capabilities which include: Services; Packages; O&M and Sustaining Services. Services is an area of core strength for the Company and will be key to its growth strategy as it intends to increase the percentage of Services revenues as a percentage of total revenues. SNC-Lavalin will reposition its offering for increased project and technical complexity to deliver higher margins. Packages expertise will continue to be key to accessing sectors of growth such as onshore oil & gas and infrastructure. The Company will proactively manage portfolio risk through tight governance mechanisms. O&M and Sustaining Services also constitute a key growth lever. It will allow the Company to pursue services with technical complexity in Oil & Gas, mining, nuclear power and transportation. It will also create opportunities in capital asset management, operations, maintenance, commissioning and training.

GROWTH ENABLERS:

SNC-Lavalin is improving how it shares resources, promoting greater interaction between its business units and developing more coordinated approaches to client management and business development in its offices worldwide through the execution of a Global Operations model.

The further globalization of the Company's operations also involves making better and more efficient company-wide use of its systems and processes. SNC-Lavalin is planning investments in several of these systems, including its enterprise management system, its Human Resources Management System, and its proprietary project management suite, PM+, which the Company believes provide a strategic advantage when bidding on and carrying out medium- and large-scale projects.

Underlying all of this will be a continuing, relentless focus on maintaining world-class ethics, governance and health and safety performance, as well as developing and retaining the best talent the industry has to offer.

ENHANCED ICI MANAGEMENT APPROACH:

SNC-Lavalin is continuing to reinforce its ICI business, which has historically been a source of project work for its engineering and construction units, as well as a significant contributor to the strength of its earnings. ICI is an important element of building a successful engineering and construction company. Going forward, the Company will employ an ever more disciplined and balanced approach to managing its portfolio of assets, which includes exiting investments at maturity, unless strategic considerations justify otherwise. The Company is also actively looking at the potential disposal of non-core ICI assets. As such, the Company completed the sale of its ownership interest in Ovation, Astoria and AltaLink in 2014, while its Highway 407 stake is expected to be reduced in a near future. The Company will also seek financing solutions and partnering opportunities to unlock value as it proactively manages the portfolio.

As SNC-Lavalin looks at new opportunities, it will continue to prioritize greenfield (new-build) ICIs that it believes should provide its engineering, construction and operations and maintenance units with significant project opportunities. Brownfield (existing) ICIs will be considered mainly as a means of extending SNC-Lavalin's investment résumé into new markets and providing an additional platform for engineering and construction opportunities.

SNC-Lavalin's key geographical focus for major ICIs and public-private partnerships will continue to be the Americas.

2.3 EXECUTING ON OUR BUSINESS STRATEGY – SCORECARD

<table>
<tr><th>PILLARS</th><th>STRATEGIC OBJECTIVES</th><th>KEY STEPS ACCOMPLISHED IN 2014</th></tr>
<tr><td>Growth Platforms</td><td>Markets – Accelerated growth focus
Markets – Sustained growth focus
Service mix – Leverage full spectrum</td><td>✓ Completed landmark acquisition of Kentz, which transformed oil and gas capabilities;
✓ Announced a number of steps to restructure and right-size certain areas of its business as it continues to align its operations with its growth strategy and end-markets economics.</td></tr>
<tr><td>Growth Enablers</td><td>Efficient operating model
World-class project execution
Talent development and retention</td><td>✓ Implementation of a Global Operations model to better integrate our business development and project delivery efforts worldwide;
✓ Increased efficiency through selling, general and administrative (SG&A) expenses reductions and enhanced client focus by further restructuring and right-sizing our operations;
✓ In 2014, reduced the total number of recordable incidents by 25% and lost-time incidents by 23%, compared to 2013;
✓ Ongoing: Systems excellence - Upgrading key systems.</td></tr>
<tr><td>Enhanced ICI Management Approach</td><td>Prioritize greenfield (new-build) ICIs
Exiting investments at maturity</td><td>✓ Addition of InPower BC General Partnership;
✓ Rebalanced ICI portfolio , while continuing to evaluate how best to manage assets as reflected by the following disposals of ICI:
• AltaLink
• Ovation
• Astoria</td></tr>
</table>

3. HOW WE ANALYZE AND REPORT OUR RESULTS

3.1 RESULTS BY CATEGORY OF ACTIVITY

The Company reports its results under **four categories of activity**, which are **Services** and **Packages**, **O&M** (together these regroup activities from **engineering and construction** or **"E&C"**) and **ICI**. The Company's management regularly analyzes the results of these categories independently as they generate different gross margin yields and have different risk profiles.

3.1.1 SERVICES ACTIVITIES

Services revenues are derived primarily from cost-plus reimbursable contracts. Services revenues from individual contracts are typically lower than those of Packages activities, which are discussed below, as they mainly reflect the professional and technical services rendered. Services contracts that provide for engineering, procurement and construction management are referred to as "EPCM" contracts. Services activities include contracts wherein SNC-Lavalin provides **engineering services, feasibility studies, planning, detailed design, contractor evaluation and selection, project and construction management, and commissioning**, which aim to generate a gross margin yield exceeding 25%. Services revenues also include **materials and/or multi-disciplinary construction services, namely provision of structural mechanical, electrical, instrumentation and piping services**, mainly from Kentz projects portfolio and aim to generate a gross margin yield exceeding 11%.

3.1.2 PACKAGES ACTIVITIES

Packages activities are different from Services activities in that the Company is **responsible not only for providing one or more Services activities, but also undertakes the responsibility for providing materials and providing or fabricating equipment, and usually also include construction activities**. In particular, Packages contracts that include engineering services, providing materials and providing or fabricating equipment, and construction activities are referred to as "EPC" contracts. **Packages revenues** are derived primarily from fixed-price contracts. As such, Packages revenues include the cost of materials, equipment and, in most cases, construction activities. The Company aims to generate a gross margin yield between 7% and 10% on Packages projects.

3.1.3 O&M ACTIVITIES

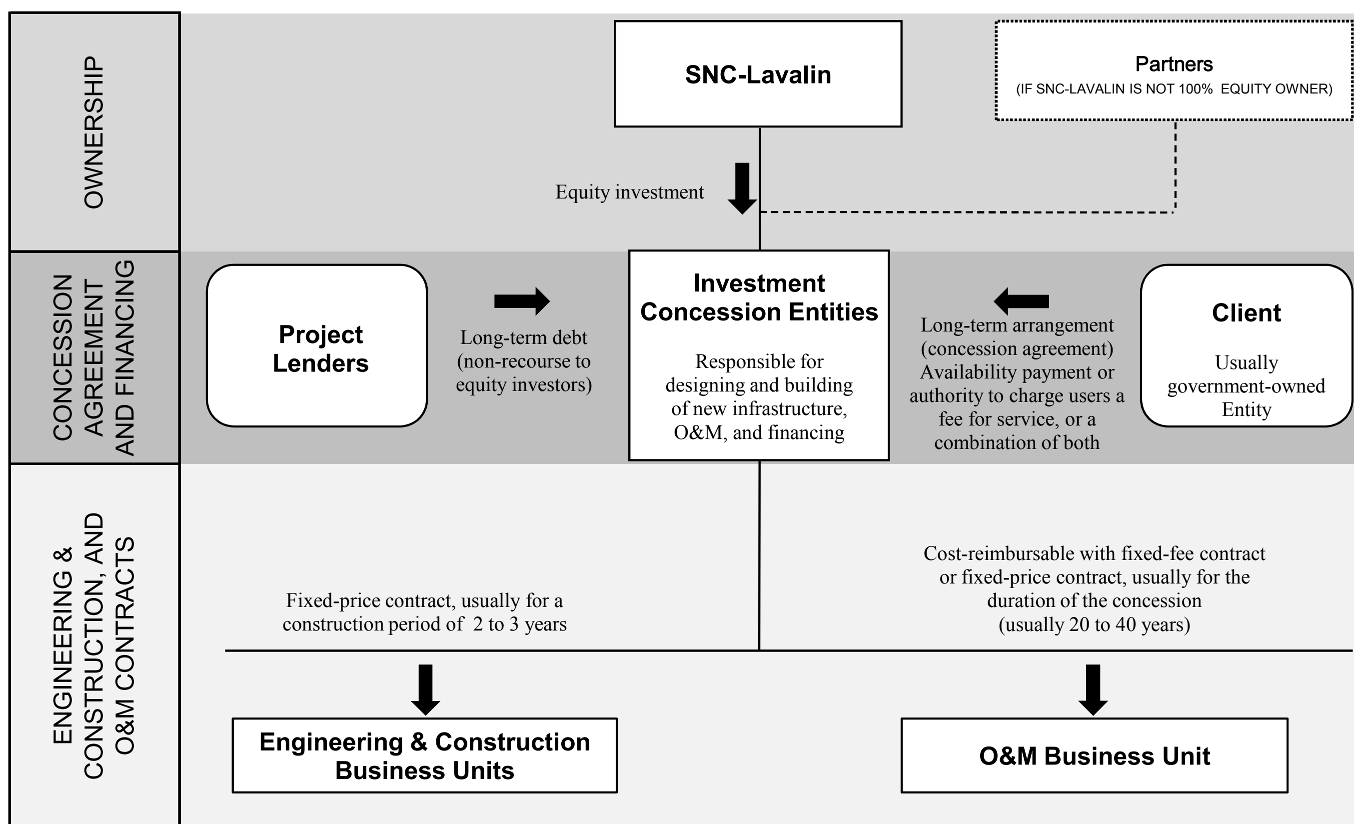
The Company provides **operations, maintenance and logistics solutions** for buildings, power plants, water supply and treatment systems, desalination plants, postal services, broadcasting facilities, telecommunications infrastructure, highways, bridges, light rail transit systems, airports, ships, oil and gas facilities, and camps for construction operations and the military. **O&M revenues** are derived primarily from cost-reimbursable with fixed-fee contracts, and from fixed-price contracts. O&M activities usually involve a high volume of transactions, which are mainly cost-reimbursable by the client, and therefore result in a lower gross margin-to-revenue ratio than Services and Packages activities. O&M activities have historically generated a gross margin yield between 3% and 5%. As more infrastructure concession investments are getting to the O&M cycle and due to the evolution of the projects portfolio, the Company now aims to generate a gross margin yield between 4% and 6% from its O&M activities.

3.1.4 ICI ACTIVITIES

The Company's ICI are typically infrastructure for public services, such as **airports, bridges, cultural and public service buildings, highways, mass transit systems, power and water treatment facilities**. These types of infrastructure are commonly provided by government-owned entities, however, many countries are turning to the private sector to take ownership, finance, operate and maintain the assets, usually for a defined period of time. These public-private partnership arrangements allow for the transfer to the private sector of many of the risks associated with designing, building, operating, maintaining and financing such assets. In return, the government will either: i) commit to making regular payments, usually in the form of availability payments, upon the start of operations of the infrastructure for a defined period of time (typically 20 to 40 years); ii) authorize the infrastructure concession entity to charge users of the infrastructure for a defined period of time; or iii) a combination of both.

ICI revenues are generated mainly from dividends or distributions received by SNC-Lavalin from the investment concession entities, or from all or a portion of an investment concession entity's net results or revenues, depending on the accounting method required by IFRS.

For SNC-Lavalin, a typical structure when investing in a "greenfield" infrastructure concession (meaning that the infrastructure needs to be built, as there is none on the site) is illustrated below:

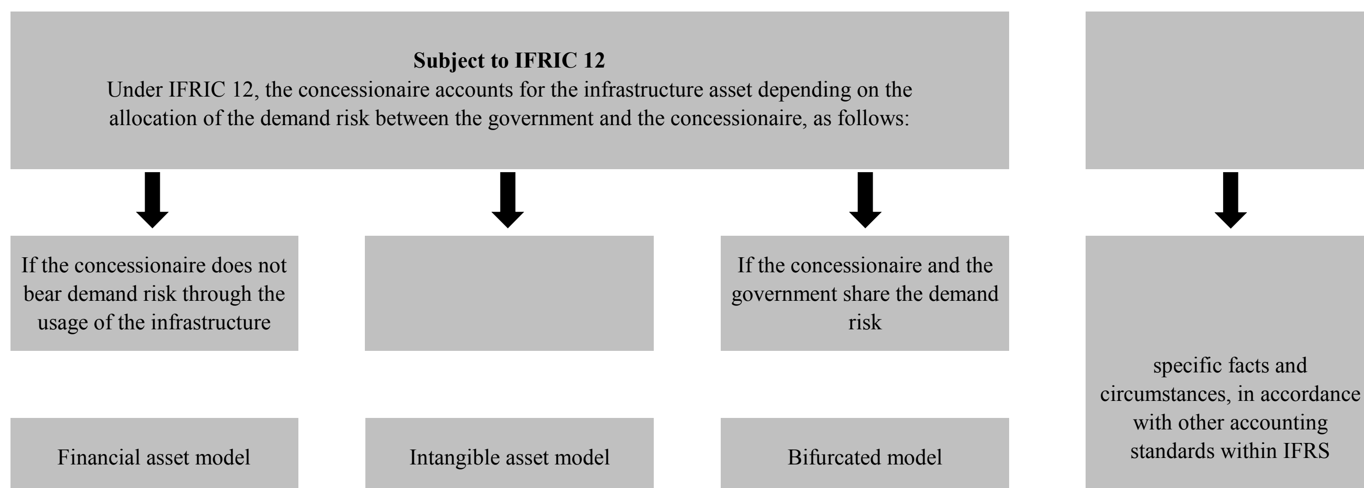


3.1.5 ACCOUNTING MODELS USED BY CONCESSION ENTITIES

Certain of the Company's ICI that are public-private partnership arrangements qualify for accounting under IFRIC Interpretation 12, *Service Concession Arrangements*, ("IFRIC 12"), which provides guidance on the accounting for such arrangements, whereby the grantor (usually a government):

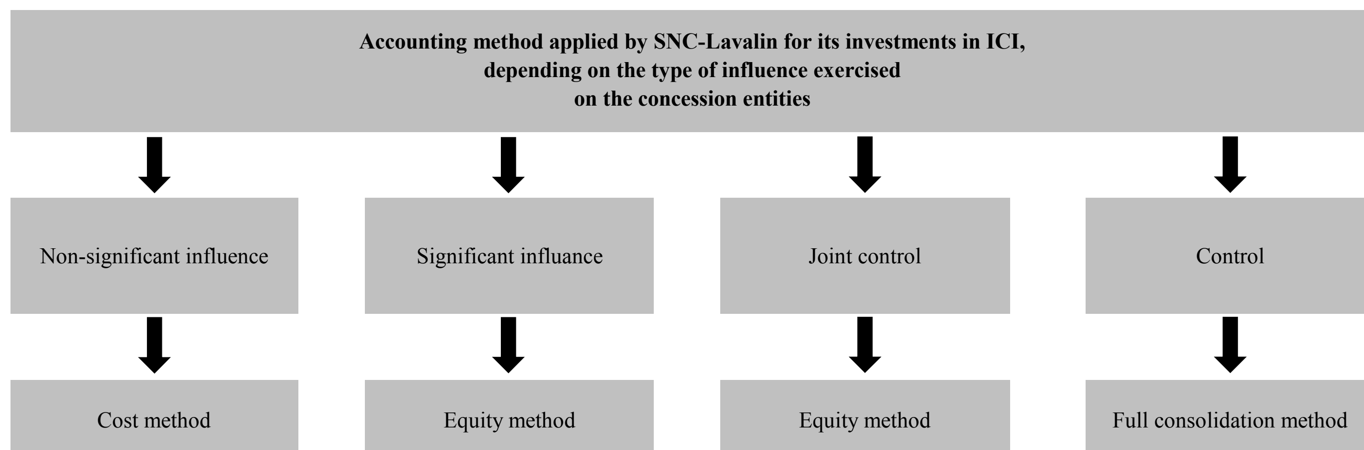
i. controls or regulates what services the operator (the "concessionaire") must provide with the infrastructure, to whom it must provide them, and at what price; and
ii. controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

The contractual arrangement between the government and the concessionaire is referred to as a "concession agreement", under which the government specifies the responsibilities of the concessionaire and governs the basis upon which the concessionaire will be remunerated. The concessionaire is usually responsible for the construction of the infrastructure, its O&M and its rehabilitation, and is usually paid by the government, the users, or both. In certain cases, the concessionaire can receive payments from the government during the initial construction phase. At the end of the term of a concession agreement, the infrastructure is returned to the government, often for no additional consideration. Here are the accounting models used by concession entities, depending if the concession agreement is subject, or not, to IFRIC 12:



3.1.6 ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN CONCESSION ENTITIES

For the purposes of the Company's audited annual consolidated financial statements, SNC-Lavalin's Infrastructure Concession Investments ("ICI") are accounted for as follows:



3.1.7 ADDITIONAL FINANCIAL INFORMATION ON ICI TO BETTER UNDERSTAND OUR FINANCIAL STATEMENTS

The Company's consolidated statement of financial position includes the line by line impact of ICI that are fully consolidated. Unlike E&C activities, ICI are often capital intensive due to the ownership of infrastructure assets that are financed mainly with project-specific debt, which is usually non-recourse to the general credit of the Company.

The following information on the Company's ICI is included in its audited annual consolidated financial statements:

Consolidated statement of financial position	• Property and equipment from ICI controlled by the Company • The net book value of ICI accounted for by the equity and cost methods, distinctively • Non-recourse debt from ICI controlled by the Company
Consolidated statement of cash flows	For ICI controlled by the Company: • Depreciation and amortization from ICI, and acquisition of property and equipment from ICI • Repayment and increase of non-recourse debt from ICI
Notes to the annual consolidated financial statements	• Main accounts of the statement of financial position impacted by ICI controlled by the Company are shown on separate lines in Note 5 • Net income attributable to SNC-Lavalin shareholders from ICI • Certain other notes provide information regarding ICI separately from E&C

It should be noted that most of the financial impact of ICI accounted for by the full consolidation method were from AltaLink, which was sold in December 2014. While the assets and liabilities related to ICI significantly decreased as at December 31, 2014 compared to the previous year, additional information is still provided in this MD&A and in the audited consolidated financial statements for comparative purposes and for operations that occurred in 2014.

Section 8.4 of the current MD&A also presents specific information on the Company's ICI, including a snapshot on Highway 407, which is considered to represent the most significant portion of the total fair value of the Company's ICI portfolio.

3.2 SEGMENTED INFORMATION

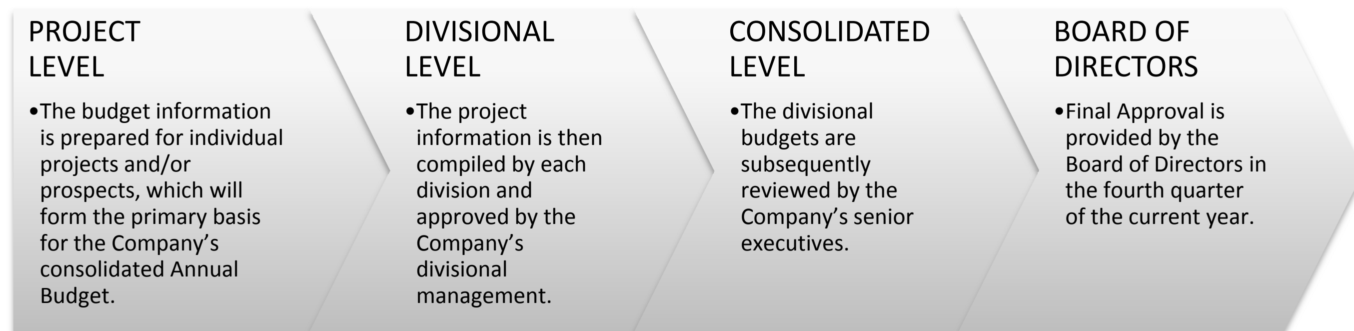
In addition to analyzing its results by categories of activity, the Company presents information in the way management performance is evaluated.

In 2014, the Company revised its reportable segments to reflect the changes made to its internal reporting structure. SNC-Lavalin's reportable segments are now i) **Resources, Environment and Water** ("**REW**"); ii) **Power**; iii) **Infrastructure**; and iv) **ICI**. The Company also provides additional information on certain sub-segments of its segments, notably on the Mining & Metallurgy, Oil & Gas and Environment & Water sub-segments of REW, as well as on the Infrastructure & Construction and Operations & Maintenance ("O&M") sub-segments of Infrastructure.

The Company presents the information in the way management performance is evaluated by regrouping its engineering and construction projects within the related industries, which are as follows: i) Mining & Metallurgy; ii) Oil & Gas; iii) Environment & Water; iv) Power; v) Infrastructure & Construction; and vi) O&M. The O&M sub-segment and ICI segment correspond to the O&M and ICI categories of activity, respectively.

3.3 HOW WE BUDGET AND FORECAST OUR RESULTS

The Company prepares a formal annual budget ("Annual Budget") in the fourth quarter of each year.



The Annual Budget is a key tool used by management to monitor the Company's performance and progress against key financial objectives in accordance with the Company's strategic plan. The Annual Budget is updated during the year to reflect current information as the Company prepares forecasts of its annual expected results in the first, second and third quarters ("Quarterly Forecasts"), which are presented to the Board of Directors. In addition, the performance of projects (i.e., its estimated revenues and costs to complete) is reviewed by its respective project manager and, depending on the size and risk profile of the project, by key management personnel, including the divisional manager, the business unit executive vice-president, the group president, the Chief Financial Officer ("CFO") and the Chief Executive Officer ("CEO").

The key elements taken into account when estimating revenues and gross margin for budget and forecast purposes from E&C activities are the following:

KEY ELEMENTS	IMPACT ON THE ANNUAL BUDGET
Backlog	Firm contracts used to estimate a portion of future revenues taking into account the execution and expected performance of each individual project.
Prospects list	Unsigned contracts that the Company is currently bidding on, and/or future projects on which it intends to bid. For prospects, the Company applies, on the value of a contract, what is referred to as a "Go-Get Percentage", which is the product of the expectation that the client will go forward with the contract ("Go"), and the probability that it will be awarded to the Company ("Get") .
Execution and expected performance	Revenues and costs (or execution) of projects are determined on an individual project basis, and take into consideration assumptions on risks and uncertainties that can have an impact on the progress and/or profitability of that project, such as, but not limited to, performance of the Company's employees and of subcontractors or equipment suppliers, as well as price and availability of labour, equipment and materials.

In regards to its **ICI** budget and forecast, expected results based on assumptions specific to each investment are used.

One of the key management tools for monitoring the Company's performance is the monthly evaluation and analysis of actual results compared to the Annual Budget or the Quarterly Forecasts, for revenues, gross margin and profitability. This enables management to analyze its performance and, if necessary, take remedial actions. Variations from plan may arise mainly from the following:

SOURCE OF VARIATION	EXPLANATION
Level of activity for E&C	Variation depends on the number of newly awarded, ongoing, completed or near-completed projects, and on the progress made on each of these projects in the period. The revenue mix between the categories of activity will also affect, among other elements, the gross margin of the Company.
Changes in the estimated costs to complete each individual project ("cost reforecasts")	Variation of the estimated costs to complete projects for fixed-price contracts result in either a positive or negative impact to a project's results. Increases or decreases in profitability for any given fixed-price project are largely dependent on project execution.

Changes in the estimated revenues and in the recovery of such revenues	Variation of the estimated revenues of projects, including the impact from change orders and claims, as well as the change in estimates on the recovery of trade receivables, contracts in progress and other financial assets, may impact the financial results of the Company.
Changes in the results of its ICI	Variation in the financial results of each ICI accounted for under the full consolidation or equity methods will impact the financial results of the Company. Additions to the Company's ICI portfolio, or divestitures from it, can also impact the Company's results.
Level of selling, general and administrative expenses	Variation in selling, general and administrative expenses has a direct impact on the profitability of the Company. The level of selling, general and administrative expenses is influenced by the level of activity, and can depend on several other factors not related to project execution or performance, that can be recurring or not.
Acquisition-related costs and integration costs	Business acquisitions, such as the acquisition of Kentz, might require the Company to incur significant acquisition-related costs and integration costs, which have an impact on actual and future results.
Restructuring costs and goodwill impairment	Changes made to the way the Company operates, closure of certain locations where it conducts business and modifications to its offerings might result in restructuring costs and goodwill impairment, having an impact on actual and future results.
Income taxes	Variation in income taxes impact the profitability of the Company, and depends on various factors, as, amongst others, the geographic areas in which the Company is present, the statutory tax rates enacted, the nature of the revenues earned by the Company as well as tax assessments made by authorities.

3.4 NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS 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. The Company also uses additional IFRS measures. 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.

The non-IFRS financial measures and additional IFRS measures include the following indicators:

PERFORMANCE		LIQUIDITY	
NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE	REFERENCE	NON-IFRS FINANCIAL MEASURE OR ADDITIONAL IFRS MEASURE	REFERENCE
Earnings before interests and income taxes ("EBIT")	Section 5.2	Cash net of recourse debt	Section 10.2
Earnings before interests, income taxes, depreciation and amortization ("EBITDA")	Section 5.2	Working capital	Section 10.4
Gross margin by category of activity	Section 5.3	Recourse debt-to-capital ratio	Section 10.5
Revenue backlog	Section 6		
Booking-to-revenue ratio	Section 6		
Segment or sub-segment earnings before interest and income taxes	Section 8		
Return on average shareholders equity ("ROASE")	Section 10.9		
Diluted earnings per share from E&C	Section 4		
Diluted earnings per share from ICI	Section 1.1		

Definitions of all non-IFRS financial measures and additional IFRS 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.

4. OUR KEY FINANCIAL PERFORMANCE INDICATORS

To enable the Company to continuously strive to create value for its shareholders it regularly evaluates its overall performance using key financial indicators, namely:

> **Net income attributable to SNC-Lavalin shareholders,** which is used by the Company to evaluate its profitability;

> **Earnings before interest and income taxes ("EBIT")**, **Earnings before interest, income taxes, depreciation and amortization ("EBITDA")** and **Diluted earnings per share from E&C** which are key indicators of the Company's operational performance;

> **Operating cash flow**, which corresponds to the net cash generated from operating activities as presented in the Company's consolidated statement of cash flows, is a key indicator of the Company's ability to generate cash from its operations including how it manages its working capital; and

> **Cash net of recourse debt**, which is a key indicator of the Company's financial capability.

The following table presents a summary of the Company's key financial performance indicators and outlines the results achieved as at or for the years ended December 31, 2014, 2013 and 2012.

KEY FINANCIAL PERFORMANCE INDICATORS

FINANCIAL INDICATORS ACTUAL RESULTS (IN MILLIONS CA$, EXCEPT DILUTED EARNINGS (LOSS) PER SHARE FROM E&C)	**2014**	2013	2012
Net income attributable to SNC-Lavalin shareholders	**$ 1,333.3**	$ 35.8	$ 305.9
Earnings before interest and income taxes ("EBIT")	**$ 1,877.4**	$ 228.8	$ 499.5
Earnings before interest, income taxes, depreciation and amortization ("EBITDA")	**$ 2,073.1**	$ 486.2	$ 660.3
Diluted earnings (loss) per share from E&C (in $)	**$ (1.97)**	$ (1.62)	$ 0.98
Operating cash flow	**$ 264.1**	$ 333.2	$ 504.3
Cash net of recourse debt (cash and cash equivalents less cash and cash equivalents from ICI and recourse debt)	**$ 1,324.0**	$ 742.2	$ 808.7

Net income attributable to SNC-Lavalin shareholders in 2014 increased to $1,333.3 million ($8.74 per share on a diluted basis), compared to $35.8 million ($0.24 per share on a diluted basis) in 2013. Net income attributable to SNC-Lavalin shareholders of the past three years is discussed in section 5.1.

EBIT increased to $1,877.4 million in 2014, compared to 228.8 million in 2013. **EBITDA increased to $2,073.1 million in 2014,** compared to 486.2 million in 2013. The Company's EBIT and EBITDA are discussed in section 5.2.

Diluted earnings per share from E&C, as calculated by the Company, is an additional IFRS measure which corresponds to net income attributable to SNC-Lavalin shareholders from E&C divided by the weighted average outstanding number of shares for the period. **The decrease in 2014,** compared to 2013, mainly reflected the variance in net income attributable to SNC-Lavalin shareholders from E&C, as the increase in weighted average outstanding number of shares was not significant in 2014, compared to 2013.

Operating cash flow generated $264.1 million in 2014, compared to $333.2 million in 2013. Cash generated from operating activities is discussed in section 10.3.

The Company's cash net of recourse debt of $1,324.0 million as at December 31, 2014 contributes to the capacity of the Company to meet operating, investing and financing needs. The Company's liquidity and capital resources are discussed in section 10.2.

5. BREAKDOWN OF INCOME STATEMENT

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT EARNINGS (LOSS) PER SHARE)	2014		2013		2012	
Revenues by activity:						
Services	**$ 2,815.8**		$ 2,697.6		$ 3,174.9	
Packages	**3,205.5**		3,113.4		3,020.4	
O&M	**1,313.4**		1,338.3		1,330.5	
ICI	**904.1**		763.8		565.1	
	$ 8,238.8		$ 7,913.2		$ 8,091.0	
Gross margin by activity:						
Services	**$ 406.8**	**14.4%**	$ 554.0	20.5%	$ 747.3	23.5%
Packages	**223.4**	**7.0%**	19.8	0.6%	227.1	7.5%
O&M	**70.7**	**5.4%**	77.1	5.8%	64.1	4.8%
ICI	**639.9**	**70.8%**	464.9	60.9%	316.6	56.0%
	$ 1,340.8	**16.3%**	$ 1,115.8	14.1%	$ 1,355.0	16.7%
Selling, general and administrative expenses:						
From E&C	**765.7**		783.4		826.8	
From ICI	**75.7**		53.1		28.6	
	841.4		836.6		855.5	
Restructuring costs and goodwill impairment	**109.9**		123.5		–	
Impairment of investments	**28.5**		–		–	
Acquisition-related costs and integration costs	**62.5**		–		–	
Amortization of intangible assets related to Kentz acquisition	**36.5**		–		–	
Gain on disposals of ICI	**(1,615.4)**		(73.0)		–	
Earnings before interest and income taxes	**$ 1,877.4**	**22.8%**	$ 228.8	2.9%	$ 499.5	6.2%
Net financial expenses:						
From E&C	**38.9**		19.5		13.7	
From ICI	**180.9**		131.2		112.5	
	219.8		150.7		126.2	
Earnings before income taxes	**1,657.6**		78.1		373.4	
Income taxes	**323.0**		41.7		67.0	
Net income	**$ 1,334.6**		$ 36.4		$ 306.3	
Net income attributable to:						
SNC-Lavalin shareholders	**$ 1,333.3**		$ 35.8		$ 305.9	
Non-controlling interests	**1.2**		0.6		0.4	
Net income	**$ 1,334.6**		$ 36.4		$ 306.3	
Earnings per share ($)						
Basic	**$ 8.76**		$ 0.24		$ 2.03	
Diluted	**$ 8.74**		$ 0.24		$ 2.02	
Supplementary information						
Net income (loss) attributable to SNC-Lavalin shareholders:						
From E&C	**$ (300.5)**		$ (245.8)		$ 149.0	
From ICI	**1,633.9**		281.6		156.9	
Net income attributable to SNC-Lavalin shareholders	**$ 1,333.3**		$ 35.8		$ 305.9	
Diluted earnings (loss) per share from E&C ($)	**$ (1.97)**		$ (1.62)		$ 0.98	

5.1 NET INCOME ANALYSIS

The analysis that follows is for 2014, 2013 and 2012.

Net income attributable to SNC-Lavalin shareholders increased in 2014 compared to 2013, reflecting a higher net income attributable to SNC-Lavalin shareholders from ICI, notably from a gain on disposal of the Company's ownership interest in AltaLink, partially offset by a higher net loss attributable to SNC-Lavalin shareholders from E&C. The decrease in net income in 2013 compared to 2012 was reflective of a net loss attributable to SNC-Lavalin shareholders from E&C compared to a net income in 2012, partially offset by higher net income attributable to SNC-Lavalin shareholders from ICI.

Net loss attributable to SNC-Lavalin shareholders from E&C was $300.5 million in 2014, compared to $245.8 million in 2013, mainly attributable to:

> $149.9 million ($149.0 million after taxes) of additional reserves mainly due to increased counterparty credit risk, impairment of an investment, as well as other charges relating to the restructuring and right-sizing plan announced on November 6, 2014;

> $99.9 million ($80.4 million after taxes) of financing, acquisition-related and integration costs in 2014, related to the acquisition of Kentz;

> $36.5 million ($26.5 million after taxes) of amortization of intangible assets related to the acquisition of Kentz on August 22, 2014;

> $109.9 million ($99.5 million after taxes) of restructuring costs in 2014, compared to $123.5 million ($112.1 million after taxes) of restructuring costs and goodwill impairment in 2013.

When excluding the abovementioned items, there was a lower negative segment EBIT in Infrastructure combined with a higher contribution from REW, partially offset by a lower contribution from Power, compared to the previous year.

There was a net loss attributable to SNC-Lavalin shareholders from E&C in 2013 compared to a net income attributable to SNC-Lavalin shareholders from E&C in 2012. The net loss in 2013 mainly reflected a negative sub-segment EBIT in Infrastructure & Construction and Oil & Gas, a $123.5 million ($112.1 million after taxes) charge for restructuring costs and goodwill impairment relating mainly to Europe, while the gross margin-to-revenue ratio in 2012 was negatively impacted notably by unfavourable cost reforecasts on a major Packages project in Power with an adverse impact of $110.9 million on gross margin. The negative sub-segment EBIT in Infrastructure & Construction in 2013 was mainly due to unfavourable cost reforecasts and additional costs on certain unprofitable legacy fixed-price contracts, particularly in the hospital and road sectors, as well as a risk provision recorded on a North African project. The negative sub-segment EBIT in Oil & Gas in 2013 was mainly due to a loss recorded in the second quarter of 2013 and an unfavourable cost reforecast in the third quarter of 2013, both of which are related to a fixed-price project in Algeria.

Net income attributable to SNC-Lavalin shareholders from ICI increased in 2014 compared to 2013, principally due to the net gain of $1,334.2 million on disposals of AltaLink, Astoria and Ovation further described in section 8.4.3.3, compared to a net gain of $36.2 million on partial disposal of Astoria II, a higher net income from AltaLink, and the Company ceasing to depreciate and amortize AltaLink's non-current assets starting May 1st, 2014, resulting from the classification of AltaLink's assets and liabilities as assets and liabilities of a disposal group classified as held for sale at that date, as well as higher dividends received from Highway 407. The increase was partially offset by the impairment of an investment, as well as a lower contribution from SKH. Net income attributable to SNC-Lavalin shareholders from ICI increased in 2013 compared to 2012, mainly due to higher net income from AltaLink and SKH, a net gain on partial disposal of Astoria II, and higher dividends received from Highway 407.

5.2 EARNINGS BEFORE INTEREST AND INCOME TAXES ("EBIT") AND EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") ANALYSIS

EBIT is a non-IFRS financial measure which is an indicator of the entity's capacity to generate income from operations before taking into account management's financing decisions. Accordingly, EBIT is defined herein as income before net financial expenses and income taxes. EBITDA, a non-IFRS financial measure, is defined as income before net financial expenses, income taxes, depreciation and amortization. Management uses these measures as a more meaningful way to compare the Company's financial performance from period to period. Management believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance.

RECONCILIATION OF EBIT AND EBITDA TO NET INCOME (LOSS)

(IN MILLIONS CA$)	2014			2013		
	FROM E&C	FROM ICI	TOTAL	FROM E&C	FROM ICI	TOTAL
Net income (loss)	**$ (299.3)**	**$ 1,633.9**	**$ 1,334.6**	$ (245.2)	$ 281.6	$ 36.4
Net financial expenses	**38.9**	**180.9**	**219.8**	19.5	131.2	150.7
Income taxes	**(22.7)**	**345.8**	**323.0**	(30.3)	72.0	41.7
EBIT	**$ (283.1)**	**$ 2,160.5**	**$ 1,877.4**	$ (255.9)	$ 484.7	$ 228.8
Goodwill impairment and impairment of investments	**9.4**	**19.1**	**28.5**	56.5	–	56.5
Amortization of intangible assets related to Kentz acquisition	**36.5**	**–**	**36.5**	–	–	–
Depreciation and amortization	**77.2**	**53.5**	**130.8**	67.9	133.1	201.0
EBITDA	**$ (160.0)**	**$ 2,233.1**	**$ 2,073.1**	$ (131.6)	$ 617.8	$ 486.2

In 2014, EBIT from E&C was negative $283.1 million, compared to a negative EBIT of $255.9 million in 2013, mainly due to $62.5 million of acquisition-related costs and integration costs in 2014, compared to $nil in 2013, higher restructuring costs, as well as a higher negative segment EBIT from REW in 2014 and a lower contribution from Power, partially offset by a lower negative segment EBIT from Infrastructure. While EBIT from E&C in 2014 included $9.4 million of impairment of an investment, EBIT from E&C in 2013 included goodwill impairment of $56.5 million. In addition, following the acquisition of Kentz, the Company began amortizing intangible assets acquired which resulted in amortization of $36.5 million in 2014, compared to $nil in 2013. Depreciation and amortization of property and equipment was higher in 2014 compared to 2013. This resulted in **negative EBITDA from E&C of $160.0 million in 2014,** compared to a negative EBITDA of $131.6 million in 2013.

EBITDA from ICI amounted to $2,233.1 million in 2014, compared to $617.8 million in 2013, principally due to the net gain on disposal of AltaLink, Astoria and Ovation further described in section 8.4.3.3, as well as a higher contribution from AltaLink, partially offset by a lower contribution from SKH.

EBIT from ICI increased in 2014, compared to 2013, for the same reasons explained above and the Company ceasing to depreciate and amortize AltaLink's non-current assets starting May 1st, 2014, resulting from the classification of AltaLink's assets and liabilities as assets and liabilities of a disposal group classified as held for sale at that date, partially offset by a an impairment of investment.

5.3 REVENUE AND GROSS MARGIN ANALYSIS

Revenues increased in 2014, compared to 2013, reflecting an increase in ICI, Services, as well as Packages, mainly due to the incremental Services and Packages revenues from Kentz. Revenues in 2013 were in line with 2012 as the decrease in Services was offset by an increase in ICI and Packages.

Gross margin in 2014 increased compared to the previous year, reflecting a higher gross margin from Packages and ICI, partially offset by a lower gross margin from Services. Gross margin in 2013 decreased compared to the previous period, reflecting a lower gross margin from both Packages and Services, partially offset by a higher gross margin from ICI.

5.3.1 SERVICES REVENUES AND GROSS MARGIN

Services revenues increased in 2014 compared to 2013, due to an increase in REW, mainly reflecting higher revenues from Oil & Gas, partially offset by lower revenues from Mining & Metallurgy. The increase in REW was partially offset by a decrease in Infrastructure and Power.

Services gross margin decreased in 2014 compared to 2013, mainly due to $140.4 million of additional reserves mainly due to increased counterparty credit risk and to other charges relating to the restructuring and right-sizing plan announced on November 6, 2014. In addition, the decrease in Services gross margin-to-revenue ratio in 2014, compared to 2013 reflected a change in the mix of revenues generated from Services activities described in section 3.1.1.

Services gross margin decreased in 2013 compared to 2012, mainly due to a lower level of activity, as well as a lower gross margin-to-revenue ratio. The Services gross margin in 2013 was also negatively impacted by losses on certain Latin America Services projects in Oil & Gas due to an increase in counterparty credit risk, and included a provision for costs of approximately $17 million recognized in the first quarter of 2013 in Mining & Metallurgy.

5.3.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues increased in 2014 compared to 2013, mainly reflecting an increase in REW, partially offset by lower revenues from Power. The increase in REW reflected higher revenues in Oil & Gas, partially offset by a decrease in Mining & Metallurgy.

Gross margin for Packages increased in 2014 compared to 2013, principally due to a favourable variance in the gross margin-to-revenue ratio, in Infrastructure, as well as a higher gross margin in REW, partially offset by a lower volume of activity in Power. The favourable variance in gross margin-to-revenue ratio in Infrastructure was primarily attributable to reversals in 2014 of non-cash provisions on a North African project, as well as less unfavourable cost reforecasts, losses and provisions in 2014 compared to 2013. The higher gross margin in REW was mainly due to the incremental gross margin from Kentz, partially offset by a lower volume of activity in Mining & Metallurgy.

The gross margin-to-revenue ratio decreased in 2013, compared to 2012, mainly due to unfavourable cost reforecasts on certain unprofitable legacy fixed-price contracts in North Africa and in Infrastructure & Environment, particularly in the hospital and road sectors, notably from additional costs on a major hospital project recognized in the first quarter of 2013, as well as to a risk provision recorded on a North African project and a loss relating to the confirmation of a claim on a project in Algeria in the second quarter of 2013.

5.3.3 O&M REVENUES AND GROSS MARGIN

O&M revenues in 2014 were in line with 2013.

O&M gross margin decreased in 2014 compared to the previous year, mainly reflecting a lower gross margin-to-revenue ratio.

The gross margin-to-revenue ratio was within the target range of 4% to 6% and surpassed the historical range of 3% to 5% in 2014 and 2013 while the gross margin-to-revenue ratio in 2012 was within the historical range.

5.3.4 ICI REVENUES AND GROSS MARGIN

The relationship between revenues and gross margin for ICI activities is not meaningful, as a significant portion of the investments are accounted for under either the equity or cost methods, which do not reflect the line by line items of the individual ICI's financial results.

The Company's **ICI revenues increased in 2014** compared to 2013, mainly due to higher revenues from AltaLink, partially offset by lower revenues from SKH. **Gross margin increased in 2014** compared to 2013, mainly attributable to a higher gross margin from AltaLink, partially offset by a lower contribution from SKH.

5.4 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ANALYSIS

(IN MILLIONS CA$)	**2014**	2013	CHANGE (%)
Selling costs	**$ 188.4**	$ 216.2	(12.9%)
General and administrative expenses	**653.0**	620.4	5.3%
Selling, general and administrative expenses	**$ 841.4**	$ 836.6	0.6%

Selling, general and administrative expenses in 2014 were in line with 2013, and **amounted to $841.4 million,** despite the incremental selling, general and administrative expenses from Kentz of $67.8 million, mainly attributable to costs savings resulting from the Company's restructuring plans implemented in the second half of 2013, as well as other initiatives under the Value Up program. The Company expects to continue implementing selling, general and administrative expenses reduction initiatives and expects to integrate further potential selling, general and administrative expenses synergies following the Acquisition.

In 2014 and 2013, the Company's **corporate** selling, general and administrative expenses included, amongst others, the following expenses:

(IN MILLIONS CA$)	2014	2013
Investigations and related matters[1]	$ (8.2)	$ 14.8
Expenses related to new information technology systems	28.3	22.9
Implementation of a new Compliance Program	18.5	12.8
Total	$ 38.6	$ 50.5

(1) As disclosed in Note 34 to the Company's 2014 audited consolidated financial statements, the Company was recognized as an injured party in the context of certain proceedings and is entitled to recover certain amounts of money in connection therewith.

In accordance with the methodology described in Note 4 to the Company's 2014 audited annual consolidated financial statements, **corporate** selling, general and administrative expenses are allocated to each of the Company's segments.

5.5 PROFIT IMPROVEMENT INITIATIVES

In 2014, the Company continued to implement its company-wide profit improvement program which was launched in 2013. The program contributed to enhance the Company's efficiency and effectiveness, improving its competitiveness and its ability to build a stronger backlog. The program also identified short- and long-term, cross-company initiatives which will cover many aspects of the Company's work, from streamlining its organizational structure to simplifying day-to-day tasks, in order to improve project performance and eliminate unnecessary bureaucracy. The program team is dedicated to ensuring that SNC-Lavalin becomes an industry leader in project execution, as well as a Tier-1 engineering and construction firm.

5.6 RESTRUCTURING COSTS AND GOODWILL IMPAIRMENT

In 2014, the Company continued to restructure certain of its activities and, in November 2014, announced that it will take a number of steps to restructure and right-size certain areas of its business as it continues to execute its five-year strategic plan and to build a global Tier-1 engineering and construction firm. A total of **$109.9 million of restructuring costs were incurred in 2014**.

In 2013, the Company incurred $67.0 million of restructuring costs as part of the reorganization of certain of its activities.

Such reorganization, the lack of profitability on certain activities and a decrease in the overall level of activities in the "Services and Packages – Europe" and in the "Services and Packages – Brazil" cash-generating units resulted in a goodwill impairment of $48.5 million and $8.0 million, respectively, in 2013. The recoverable amounts of the "Services and Packages – Europe" and of the "Services and Packages – Brazil" cash-generating units correspond to their value in use and amounted to $154.7 million and $94.2 million, respectively, at the date of the impairment test. In 2013, the amount of goodwill impairment was calculated using a discounted cash flow model, which is based on key assumptions such as future cash flows and discount rates ranging between 14.0% and 14.9%.

The restructuring costs recognized in 2014 and 2013 were mainly for severances, the disposal of certain activities and closure of certain offices.

5.7 IMPAIRMENT OF INVESTMENTS

During the year ended December 31, 2014, SNC-Lavalin recognized impairment losses on two of its investments accounted for by the equity method, one included in ICI, and one included in Oil & Gas, **for a combined amount of $28.5 million**. The events and circumstances that led to the recognition of impairment losses are mainly the deterioration of the expected return on these investments, in part due to a deteriorating economic environment of their respective country. The combined recoverable amount of the Company's investments was $3.3 million as at December 31, 2014, while the combined remaining cumulative exchange losses on translating foreign operations amounted to $17.5 million at the same date. The recoverable amounts were determined based on their value in use. The discount rates used in current estimates of value in use were 19.0% for the investment in ICI and 16.4% for the investment in Oil & Gas.

5.8 ACQUISITION-RELATED COSTS AND INTEGRATION COSTS

In 2014, the Company incurred acquisition-related costs and integration costs totalling $62.5 million, attributable to the acquisition of Kentz, due to a $34.7 million unfavourable remeasurement of a foreign exchange hedge settled in the third quarter of 2014, as explained in Note 6 to the Company's 2014 audited consolidated financial statements, as well as $27.8 million of professional fees and other related costs.

5.9 NET GAIN ON DISPOSALS OF ICI

In line with its business strategy, the Company completed the disposal of certain ICI assets, notably its 100% ownership interest in AltaLink, resulting in a net gain before taxes of $1,615.4 million (1,334.2 million after taxes). Additional information on these transactions is discussed in section 8.4.3.3.

5.10 NET FINANCIAL EXPENSES

Net financial expenses increased in 2014 compared to 2013, reflecting an increase from ICI and from E&C.

Net financial expenses from E&C increased in 2014 compared to 2013, mainly resulting from costs of $37.4 million related to additional financing for the acquisition of Kentz and the cost of the unsecured revolving credit agreement entered into in December 2013, partially offset by net foreign exchange gains in 2014, mainly relating to intragroup loans used for repayment of recourse debt of Kentz.

Net financial expenses from ICI increased in 2014 compared to 2013, primarily due to a higher interest expense on additional non-recourse debt mainly related to AltaLink and InPower BC General Partnership.

(IN MILLIONS CA$)	**2014**			2013		
	FROM E&C	FROM ICI	TOTAL	FROM E&C	FROM ICI	TOTAL
Interest revenues	**$ (6.6)**	**$ (16.2)**	**$ (22.8)**	$ (6.6)	$ (6.3)	$ (12.9)
Interest on debt:						
Recourse	**59.2**	**–**	**59.2**	21.9	–	21.9
Non-recourse						
AltaLink	**–**	**178.2**	**178.2**	–	124.9	124.9
Other	**–**	**25.1**	**25.1**	–	7.6	7.6
Net foreign exchange losses (gains)	**(28.7)**	**(9.2)**	**(37.9)**	6.7	(4.9)	1.8
Other	**15.0**	**2.9**	**18.0**	(2.4)	9.8	7.4
Net financial expenses	**$ 38.9**	**$ 180.9**	**$ 219.8**	$ 19.5	$ 131.2	$ 150.7

5.11 INCOME TAXES ANALYSIS

The effective income tax rate from E&C decreased in 2014 compared to 2013. The low effective income tax rate from E&C in 2014, when compared to the Company's statutory income tax rate, mainly reflected losses that do not generate an income tax benefit, the effect of valuation allowances on previously recognized deferred income tax assets, as well as permanent differences, including non-deductible restructuring costs and acquisition-related costs, partially offset by the geographic mix of earnings (loss) before income taxes. The effective income tax rate from E&C in 2013 was also lower than the Company's statutory income tax rate, mainly due to losses recognized in 2013 that do not generate an income tax benefit, non-deductible restructuring costs and goodwill impairment, as well as the geographic mix of earnings (loss) before income taxes.

The effective income tax rate from ICI decreased in 2014 compared to 2013, mainly reflecting the effect of the taxable capital gain on disposal of AltaLink.

The following table provides a summary of the Company's effective income tax rate from E&C and from ICI.

(IN MILLIONS CA$)	2014			2013		
	FROM E&C	FROM ICI	TOTAL	FROM E&C	FROM ICI	TOTAL
Earnings (loss) before income taxes	**$ (322.0)**	**$ 1,979.6**	**$ 1,657.6**	$ (275.5)	$ 353.6	$ 78.1
Income taxes	**$ (22.7)**	**$ 345.8**	**$ 323.0**	$ (30.3)	$ 72.0	$ 41.7
Effective income tax rate (%)	**7.1%**	**17.5%**	**19.5%**	11.0%	20.4%	53.4%

6. REVENUE BACKLOG

The Company reports revenue backlog, which is a non-IFRS financial measure, for the following **categories of activity**: i) **Services**; ii) **Packages**; and iii) **O&M**. Revenue backlog is a **forward-looking indicator of anticipated revenues** 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**; and ii) **the next five years**. An indication of the total O&M backlog for the period beyond the five-year timeframe, that is not included in the Company's backlog, is disclosed in section 6.3.

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.

In the following section, the Company presents its "booking-to-revenue ratio" by category of activity, a non-IFRS measure. The ratio is obtained by dividing the contract bookings by the revenues, for a given period. This measure provides a basis for assessing the renewal of business. However, the revenue backlog measure does not include prospects, one of the key elements taken into account when estimating revenues and gross margin for budget and forecast purposes described in section 3.3, which can be a significant portion of the budgeted and/or forecasted revenues.

REVENUE BACKLOG BY SEGMENT, GEOGRAPHIC AREA AND CATEGORY OF ACTIVITY

The following table provides a breakdown of revenue backlog by segment, geographic area and category of activity.

AT DECEMBER 31 (IN MILLIONS CA$)	2014			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Resources, Environment and Water				
Mining & Metallurgy	**$ 222.5**	**$ 552.1**	**$ –**	**$ 774.6**
Oil & Gas	**3,617.1**	**1,310.1**	**–**	**4,927.2**
Environment & Water	**58.8**	**–**	**–**	**58.8**
	$ 3,898.3	**$ 1,862.2**	**$ –**	**$ 5,760.5**
Power	**$ 304.2**	**$ 2,208.3**	**$ –**	**$ 2,512.4**
Infrastructure				
Infrastructure & Construction	**$ 481.6**	**$ 1,623.0**	**$ –**	**$ 2,104.6**
O&M	**–**	**–**	**1,947.9**	**1,947.9**
	$ 481.6	**$ 1,623.0**	**$ 1,947.9**	**$ 4,052.5**
Total	**$ 4,684.0**	**$ 5,693.5**	**$ 1,947.9**	**$ 12,325.5**
FROM CANADA AND OUTSIDE CANADA				
From Canada	**$ 676.5**	**$ 3,335.0**	**$ 1,160.2**	**$ 5,171.8**
Outside Canada	**4,007.5**	**2,358.5**	**787.7**	**7,153.6**
Total	**$ 4,684.0**	**$ 5,693.5**	**$ 1,947.9**	**$ 12,325.5**

AT DECEMBER 31 (IN MILLIONS CA$)	2013[1]			
BY SEGMENT	SERVICES	PACKAGES	O&M	TOTAL
Resources, Environment and Water				
Mining & Metallurgy	$ 384.4	$ 245.5	$ –	$ 629.9
Oil & Gas	238.0	50.8	–	288.9
Environment & Water	100.8	–	–	100.8
	$ 723.2	$ 296.3	$ –	$ 1,019.5
Power	$ 383.6	$ 1,403.4	$ –	$ 1,787.0
Infrastructure				
Infrastructure & Construction	$ 522.8	$ 2,730.0	$ –	$ 3,252.8
O&M	–	–	2,228.5	2,228.5
	$ 522.8	$ 2,730.0	$ 2,228.5	$ 5,481.3
Total	$ 1,629.6	$ 4,429.7	$ 2,228.5	$ 8,287.8
FROM CANADA AND OUTSIDE CANADA				
From Canada	$ 801.3	$ 3,559.1	$ 1,458.5	$ 5,819.0
Outside Canada	828.2	870.6	770.1	2,468.8
Total	$ 1,629.6	$ 4,429.7	$ 2,228.5	$ 8,287.8

(1) Comparative figures have been restated to reflect the change made to the segment reporting structure.

The Company's revenue backlog increased at December 31, 2014 compared to 2013, reflecting an increase in Services and Packages, mainly from the acquisition of Kentz, partially offset by a decrease in O&M.

Backlog from Canada decreased, primarily due to a decrease in Infrastructure, partially offset by an increase in Power.

Backlog from Outside Canada increased, principally due to an increase in REW, mainly in Oil & Gas, notably from Kentz, as well as in Infrastructure, mainly in Infrastructure & Construction.

6.1 SERVICES BACKLOG

Services backlog increased at the end of 2014 compared to the end of the previous year, mainly reflecting an increase in REW, partially offset by a decrease in Power. The increase in REW is principally due to an increase in Oil & Gas, notably from Kentz. This increase was partially offset by a decrease in Mining & Metallurgy.

RECONCILIATION OF SERVICES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2014**	2013
Opening backlog	**$ 1,629.6**	$ 2,151.3
Add: Contract bookings during the year	**2,686.8**	2,296.8
Backlog from business acquisitions, net of disposals	**3,183.4**	–
Less: Revenues recognized during the year	**2,815.8**	2,697.7
Debooking of backlog of a major mining contract	**–**	120.9
Ending backlog	**$ 4,684.0**	$ 1,629.6
Booking-to-revenue ratio	**2.1**	0.8

6.2 PACKAGES BACKLOG

Packages backlog increased at the end of 2014 compared to 2013, mainly reflecting an increase in REW and Power, partially offset by a decrease in Infrastructure. The increase in REW is principally due to an increase in Oil & Gas, notably from Kentz as well as the addition in the Mining & Metallurgy sub-segment of a contract for a sulphuric acid plant in the Middle East. The increase in Power notably reflected the addition in 2014 of the John Hart Generating Replacement Facility project, further described in section 8.4.3.3, the addition of a contract relating to electrical transmission and distribution systems in Canada, as well as the addition of a contract relating to a natural gas-fired combined cycle power plant in the United States of America.

RECONCILIATION OF PACKAGES BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2014**	2013
Opening backlog	**$ 4,429.7**	$ 5,747.7
Add: Contract bookings during the year	**2,321.9**	1,795.4
Backlog from business acquisitions, net of business disposals	**1,697.1**	–
Backlog recognized upon disposal of AltaLink [1]	**450.3**	–
Less: Revenues recognized during the year	**3,205.5**	3,113.4
Ending backlog	**$ 5,693.5**	$ 4,429.7
Booking-to-revenue ratio	**1.4**	0.6

(1) Refer to section 8.4.3.3 for explanations.

6.3 O&M BACKLOG

O&M backlog at the end of 2014 decreased compared to 2013, mainly due to normal fluctuations in the timing of long-term contracts. The decrease was partially offset by the addition in 2014, of a contract to deliver integrated real estate solutions projects in Canada.

RECONCILIATION OF O&M BACKLOG

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$ EXCEPT FOR BOOKING-TO-REVENUE RATIO)	**2014**	2013
Opening backlog	**$ 2,228.5**	$ 2,234.4
Add: Contract bookings during the year	**1,032.8**	1,332.4
Less: Revenues recognized during the year	**1,313.4**	1,338.3
Ending backlog	**$ 1,947.9**	$ 2,228.5
Booking-to-revenue ratio	**0.8**	1.0

A large number of the Company's O&M contracts have been signed for a period that extends well beyond the five-year timeframe for which revenues are included in the Company's O&M backlog. The following table indicates the revenue backlog for the O&M category by year for the five years that have been included in backlog, per the Company's booking policy, as well as the anticipated revenues to be derived thereafter, based on its firm contracts, which are not included in backlog.

	INCLUDED IN BACKLOG						NOT INCLUDED IN BACKLOG
(IN MILLIONS CA$)	2015	2016	2017	2018	2019	TOTAL	THEREAFTER
O&M backlog	$ 505.5	$ 384.1	$ 380.8	$ 349.1	$ 328.5	$ 1,947.9	$ 3,279.0

7. GEOGRAPHIC BREAKDOWN OF REVENUES BY CATEGORY OF ACTIVITY

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	**$ 1,142.1**	**$ 1,818.5**	**$ 1,096.5**	**$ 856.9**	**$ 4,914.1**	**60%**
Latin America	**318.2**	**259.4**	**31.6**	**–**	**609.2**	**7%**
Europe	**293.7**	**210.9**	**78.9**	**12.3**	**595.8**	**7%**
Middle East	**260.8**	**289.9**	**17.0**	**–**	**567.7**	**7%**
United States	**179.0**	**355.3**	**1.6**	**14.2**	**550.0**	**7%**
Africa	**148.2**	**213.6**	**87.9**	**20.7**	**470.3**	**6%**
Asia Pacific & Other Regions	**473.9**	**57.8**	**–**	**–**	**531.6**	**6%**
Total	**$ 2,815.8**	**$ 3,205.5**	**$ 1,313.4**	**$ 904.1**	**$ 8,238.8**	**100%**

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2013					
	SERVICES	PACKAGES	O&M	ICI	TOTAL	
Canada	$ 1,191.6	$ 2,173.7	$ 1,128.7	$ 708.1	$ 5,202.2	66%
Latin America	553.8	215.1	48.7	–	817.5	10%
Europe	318.0	263.8	49.9	2.5	634.1	8%
Middle East	210.2	112.9	16.0	–	339.1	4%
United States	132.6	234.8	1.4	11.1	379.9	5%
Africa	161.4	98.9	93.5	42.1	396.0	5%
Asia Pacific & Other regions	130.0	14.2	–	–	144.3	2%
Total	$ 2,697.6	$ 3,113.4	$ 1,338.3	$ 763.8	$ 7,913.2	100%

Revenues in Canada decreased in 2014 compared to 2013, mainly due to a lower level of Packages activity, partially offset by higher revenues in ICI, mainly due to higher revenues from AltaLink. The decrease in Packages was mainly due to a decrease in REW and Power, partially offset by an increase in Infrastructure.

Revenues in Latin America decreased in 2014 compared to 2013, principally reflecting a lower level of Services activity in REW, partially offset by a higher level of Packages activity in REW, notably in Oil & Gas.

Revenues from Europe decreased in 2014 compared to 2013, mainly due to a lower level of Packages and Services activity, partially offset by a higher level of O&M activity.

Revenues from the Middle East increased in 2014 compared to 2013, mainly due to a higher level of Packages activity, primarily in REW partially offset by a decrease in Infrastructure, combined with a higher level of Services activity principally in REW as an increase in Oil & Gas was partially offset by a decrease in Mining & Metallurgy.

United States revenues increased in 2014 compared to 2013, mainly reflecting a higher level of Packages activity in REW, as well as a higher level of Services activity in Power, Infrastructure and REW.

Revenues from Africa increased in 2014 compared to 2013, primarily due to a higher level of Packages activity, mainly in REW, partially offset by lower revenues from SKH in the ICI category.

In Asia Pacific and Other regions, revenues increased in 2014 compared to the previous year, mainly reflecting a higher level of Services and Packages activity in REW, from its Oil & Gas sub-segment.

8. SEGMENTED INFORMATION

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.

The Company revised its reportable segments in 2014 to reflect the changes made to its internal reporting structure. SNC-Lavalin's reportable segments are now i) **REW**; ii) **Power**; iii) **Infrastructure**; and iv) **ICI**. The Company also provides additional information on certain sub-segments of its segments, notably on the Mining & Metallurgy, Oil & Gas and Environment & Water sub-segments of REW, as well as on the Infrastructure & Construction and O&M sub-segments of Infrastructure.

In 2014, the Company also changed its measure of profit or loss for its reportable segments by replacing the "operating income (loss)" by "segment earnings before interest and taxes" ("segment EBIT"). As such, the Company no longer calculates imputed interest, which was in the past allocated to segments other than ICI at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceeded current liabilities or vice versa. The Company also no longer includes net financial expenses and income taxes in its measure of profit or loss for the ICI segment. Therefore, since January 2014, the Company evaluates segment performance, using segment EBIT, which consists of gross margin less i) directly related selling, general and administrative expenses; ii) corporate selling, general and administrative expenses; and iii) non-controlling interests before taxes. Corporate selling, general and administrative expenses are allocated based on the gross margin of each of these segments. Restructuring costs, goodwill impairment, acquisition-related costs and integration costs, as well as amortization of intangible assets are not allocated to the Company's segments.

It was decided by management that corporate selling, general and administrative expenses that are not directly related to projects or segments would no longer be allocated to the Company's segments starting January 2015. Therefore, the Company's segment EBIT will no longer include these corporate selling, general and administrative expenses. The Company believes that the use of such segment EBIT will improve the quality of its segment disclosure by providing information that is more comparable relating to their results from operations.

The following discussion reviews the Company's segment revenues and segment EBIT.

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014			2013[1]		
	REVENUES	SEGMENT EBIT	SEGMENT EBIT OVER REVENUES	REVENUES	SEGMENT EBIT	SEGMENT EBIT OVER REVENUES
Resources, Environment and Water						
Mining & Metallurgy	**$ 971.8**	**$ (4.7)**	**(0.5%)**	$ 1,619.8	$ 65.9	4.1%
Oil & Gas	**1,730.1**	**(17.8)**	**(1.0%)**	555.8	(55.6)	(10.0%)
Environment & Water	**135.7**	**(29.2)**	**(21.5%)**	144.7	(10.5)	(7.2%)
	$ 2,837.5	**$ (51.7)**	**(1.8%)**	$ 2,320.3	$ (0.2)	0.0%
Power	**$ 1,350.3**	**$ 54.8**	**4.1%**	$ 1,570.3	$ 97.7	6.2%
Infrastructure						
Infrastructure & Construction	**$ 1,833.4**	**$ (119.2)**	**(6.5%)**	$ 1,920.4	$ (276.7)	(14.4%)
O&M	**1,313.4**	**40.4**	**3.1%**	1,338.3	45.9	3.4%
	$ 3,146.8	**$ (78.8)**	**(2.5%)**	$ 3,258.8	$ (230.8)	(7.1%)
ICI	**$ 904.1**	**$ 2,160.5**	**239.0%**	$ 763.8	$ 484.7	63.5%
Total segment EBIT	**$ 8,238.8**	**$ 2,084.8**	**25.3%**	$ 7,913.2	$ 351.5	4.4%
Less:						
Restructuring costs and goodwill impairment		**$ (109.9)**			$ (123.5)	
Acquisition-related costs and integration costs		**(62.5)**			–	
Amortization of intangible assets related to Kentz acquisition		**(36.5)**			–	
Reversal of non-controlling interests before income taxes		**1.5**			0.8	
EBIT		**$ 1,877.4**			$ 228.8	

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

8.1 RESOURCES, ENVIRONMENT AND WATER

REW regroups projects from the Mining & Metallurgy, Oil & Gas and Environment & Water sub-segments which are further described below.

8.1.1 MINING & METALLURGY

Mining & Metallurgy includes a full range of activities for all mineral and metal recovery processes, including mine infrastructure development, mineral processing, smelting, refining, mine closure and reclamation, mine and tailings management, as well as production of fertilizers and sulphur product.

(IN MILLIONS CA$)	2014	2013[1]	CHANGE (%)
Revenues from Mining & Metallurgy			
Services	**$ 586.0**	$ 925.1	(36.7%)
Packages	**385.8**	694.6	(44.5%)
Total	**$ 971.8**	$ 1,619.8	(40.0%)
Sub-segment EBIT from Mining & Metallurgy	**$ (4.7)**	$ 65.9	(107.1%)
Sub-segment EBIT over revenues from Mining & Metallurgy (%)	**(0.5%)**	4.0%	N/A
Revenue backlog at year end	**$ 774.6**	$ 629.9	23.0%

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

Mining & Metallurgy revenues decreased in 2014 compared to 2013, reflecting a lower level of Services and Packages activity, mainly attributable to a continued softening of the commodity markets and the completion or near completion of certain major projects.

The **major revenue contributors in 2014** included work on sulphuric acid plants in the Middle East and Europe, projects related to potash in Western Canada, an aluminum-related project in the Middle East, as well as an atmospheric emissions reduction project for nickel smelter complex in Canada.

The Company's **sub-segment EBIT from Mining & Metallurgy decreased in 2014** compared to 2013, mainly due to a lower volume of activity combined with a lower gross margin-to-revenue ratio, negatively impacted by some demobilization costs on certain completed or near completed projects aimed at right-sizing certain activities in the Company, partially offset by lower selling, general and administrative expenses. The gross margin-to-revenue ratio in 2014 also included the impact of favourable cost reforecasts on certain projects in the Middle East that were offset by additional reserves on certain projects in North Africa while the gross margin-to-revenue ratio in 2013 included a provision for costs of approximately $17 million following the receipt of a notice of suspension by the Company in March 2013 in connection with a major mining contract.

8.1.2 OIL & GAS

Oil & Gas includes projects in the upstream, midstream, downstream (and supporting infrastructure) sectors for major oil and gas and resources companies, supporting these clients operating across the asset lifecycle from front end evaluation through decommissioning (capital expenditures and operational expenditures). Consistent with the way the Company's performance is evaluated, the Oil & Gas sub-segment includes all projects of Kentz.

	2014			2013[1]	CHANGE (%)
(IN MILLIONS CA$)	**Kentz**	**Other**	**Total**	Total	
Revenues from Oil & Gas					
Services	**$ 681.9**	**$ 429.1**	**$ 1,110.9**	$ 521.3	113.1%
Packages	**596.7**	**22.4**	**619.1**	34.5	N/A
Total	**$ 1,278.6**	**$ 451.5**	**$ 1,730.1**	$ 555.8	211.3%
Sub-segment EBIT from Oil & Gas	**$ 110.8**	**$ (128.6)**	**$ (17.8)**	$ (55.6)	(68.1%)
Sub-segment EBIT over revenues from Oil & Gas (%)	**8.7%**	**(28.5%)**	**(1.0%)**	(10.0%)	N/A
Revenue backlog at year end	**$ 4,584.1**	**$ 343.1**	**$ 4,927.2**	$ 288.9	N/A

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

Oil & Gas revenues increased in 2014 compared to the previous year, due to incremental revenues from Kentz in the period from August 22, 2014 to December 31, 2014. Packages revenues in 2013 were negatively impacted by a non-cash loss of $70.1 million recognized by the Company relating to a confirmation of a claim received in July of 2013 alleging late penalties under a fixed-price project in Algeria.

The **major revenue contributors in 2014** included work on Liquefied Natural Gas ("LNG") projects in Asia Pacific, a refinery and chemical complex in United States, steam-assisted gravity drainage central processing facilities in Canada as well as project management services contracts for various types of facilities and infrastructure in Latin America.

Sub-segment EBIT from Oil & Gas was negative $17.8 million in 2014, compared to a negative sub-segment EBIT of $55.6 million in 2013, mainly reflecting a higher volume of activity from the acquisition of Kentz, partially offset by its incremental selling, general and administrative expenses, as well as a lower gross margin-to-revenue ratio, which was negatively impacted by some demobilization costs on certain completed or near completed projects aimed at right-sizing certain activities in the Company. The gross margin in 2014 also included a negative impact totalling $72.5 million from losses on certain Services projects in Latin America due to an increase in counterparty credit risk, unfavourable cost reforecasts on a legacy fixed-price project in North Africa, more specifically in Algeria, as well as a provision for loss recognized during the warranty period on a completed legacy Packages project.

The gross margin in 2013 included an unfavourable cost reforecast, as well as a loss of $70.1 million recognized by the Company in the second quarter of 2013 mentioned in the revenues analysis above. In addition, the gross margin in 2013 also included losses on Services projects in Latin America. The negative impact on gross margin from these items was partially offset by a favourable outcome on certain fixed-price EPC contracts.

8.1.3 ENVIRONMENT & WATER

Environment & Water includes engineering activities in the areas of acoustics, air quality and climate change, impact assessments and community engagement, geo-environmental services, site assessments and remediation, risk assessments and water resource management.

(IN MILLIONS CA$)	2014	2013[1]	CHANGE (%)
Revenues from Environment & Water			
Services	**$ 135.7**	$ 144.7	(6.2%)
Total	**$ 135.7**	$ 144.7	(6.2%)
Sub-segment EBIT from Environment & Water	**$ (29.2)**	$ (10.5)	(179.0%)
Sub-segment EBIT over revenues from Environment & Water (%)	**(21.5%)**	(7.2%)	N/A
Revenue backlog at year end	**$ 58.8**	$ 100.8	(41.7%)

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

Environment & Water revenues decreased in 2014 compared to 2013, reflecting a lower level of activity.

There was a **negative sub-segment EBIT from Environment & Water in 2014 of $29.2 million,** compared to a negative sub-segment EBIT of $10.5 million in 2013, mainly reflecting a lower gross margin-to-revenue ratio resulting in insufficient gross margin to cover selling, general and administrative expenses.

The Company has strengthened management of its Environment & Water sub-segment in 2014 in order to enhance its ability to deliver a positive contribution.

8.2 POWER

Power includes projects and services in: hydro, nuclear and thermal power generation; renewable power generation; energy from waste; and electrical transmission and distribution systems.

(IN MILLIONS CA$)	2014	2013[1]	CHANGE (%)
Revenues from Power			
Services	**$ 387.3**	$ 435.5	(11.1%)
Packages	**963.0**	1,134.8	(15.1%)
Total	**$ 1,350.3**	$ 1,570.3	(14.0%)
Segment EBIT from Power	**$ 54.8**	$ 97.7	(43.9%)
Segment EBIT over revenues from Power (%)	**4.1%**	6.2%	N/A
Revenue backlog at year end	**$ 2,512.4**	$ 1,787.0	40.6%

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

Power revenues decreased in 2014 compared to 2013, principally reflecting a lower level of Packages activity, mainly due to certain major projects nearing completion. Following completion of the disposal of AltaLink, the Company recognized all E&C revenues generated from transactions with AltaLink whereas only profits from these projects, which were deemed to have been realized by AltaLink, were recognized prior the transaction date, as explained in section 8.4.4.

The **major revenue contributors in 2014** included work on hydroelectric power facilities in Canada, nuclear generating stations in Latin America and Canada, combined cycle power plants in the United States and Europe, as well as a dam rehabilitation project and a thermal power plant in Africa.

The Company's **segment EBIT from Power decreased in 2014** compared to 2013 mainly reflecting a lower volume of activity, primarily in Packages, partially offset by a less unfavourable impact mainly from additional reserves and cost reforecasts for a net total amount of $50.4 million in 2014, compared to an adverse impact of $67.2 million from unfavourable cost reforecasts on certain major contracts, including an unprofitable legacy fixed-price contract in North Africa.

8.3 INFRASTRUCTURE

Infrastructure regroups projects from Infrastructure & Construction and O&M which are further described below.

8.3.1 INFRASTRUCTURE & CONSTRUCTION

Infrastructure & Construction includes projects in a broad range of sectors, including hospitals, mass transit, heavy rail, roads, bridges, airports, ports and harbours, facilities architecture and engineering (structural, mechanical, electrical), industrial (pharmaceutical, agrifood, life sciences, automation, industrial processes), geotechnical engineering and materials testing, as well as water infrastructure and treatment facilities.

(IN MILLIONS CA$)	2014	2013[1]	CHANGE (%)
Revenues from Infrastructure & Construction			
Services	**$ 595.9**	$ 671.0	(11.2%)
Packages	**1,237.5**	1,249.4	(1.0%)
Total	**$ 1,833.4**	$ 1,920.4	(4.5%)
Sub-segment EBIT from Infrastructure & Construction	**$ (119.2)**	$ (276.7)	(56.9%)
Sub-segment EBIT over revenues from Infrastructure & Construction (%)	**(6.5%)**	(14.4%)	N/A
Revenue backlog at year end	**$ 2,104.6**	$ 3,252.8	(35.3%)

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

Revenues from Infrastructure & Construction decreased in 2014 compared to 2013, principally reflecting a lower level of Services activity.

The **major revenue contributors in 2014** included work on hospitals in Eastern Canada, as well as highways and mass transit systems in Western and Central Canada.

Sub-segment EBIT from Infrastructure & Construction was negative $119.2 million in 2014 compared to a negative sub-segment EBIT of $276.7 million in 2013, principally reflecting a higher gross margin-to-revenue ratio, partially offset by higher selling, general and administrative expenses. Legacy fixed-price contracts negatively impacted gross margin by a net amount of $112.4 million in 2014, mainly due to an additional loss and unfavourable cost reforecasts on certain major hospital projects. This negative impact was partially offset by a net favourable impact of $35.3 million on gross margin in 2014 explained by: i) letters of credit on which a draw was attempted in 2013 matured in the first quarter of 2014 which led the Company to reverse a risk provision recorded in the second quarter of 2013 for an amount of $47.0 million on a Libyan project; partially offset by ii) a risk provision recorded in the first quarter of 2014 covering in full the cash held in Libya caused by the increasing risk on the availability of such funds as difficult conditions in the country have worsened during the first quarter of 2014. Further explaining the negative sub-segment EBIT in 2014 were additional costs on a mass transit project in Canada in the fourth quarter of 2014.

In addition to the risk provision recorded in the second quarter of 2013 described above, the negative sub-segment EBIT in 2013 was mainly attributable to a loss and unfavourable cost reforecasts on certain unprofitable legacy fixed-price contracts, particularly in the hospital and road sectors, recorded by the Company in 2013 which had a total adverse impact of $192.3 million on gross margin.

8.3.2 O&M

O&M activities are provided by the Company's employees to clients in the following lines of business:

> **Integrated Real Estate Solutions:** includes all aspects of building operations and management, realty management, advisory services, project delivery and commissioning, energy management and sustainability initiatives, and program management;

> **Industrial:** includes specialized expertise to oversee the O&M of assets such as turbines, steam generators, boilers, water supply and treatment systems, oil and gas facilities, electrical systems, mechanical systems and manufacturing installations;

> **Transportation:** includes operations, maintenance and rehabilitation management for large infrastructure assets including airports, public transit systems, highways, bridges and tunnels; and

> **Defence & logistics:** includes support to Canada's Navy, servicing many different types of vessels, from research and defence boats to tugs and many other classes of ships, and also includes support to Canada's Armed Forces, strategic airlift as well as large mining, metallurgy, petrochemical, and oil and gas operations by building and maintaining remote accommodations and living facilities around the world.

The Company currently manages more than 9,000 facilities that include buildings, workforce lodges, light rail transit systems, bridges, power plants, oil and gas facilities, ships, highways and airports, spread across approximately 15 million square metres of real estate and 250,000 infrastructure sites, making SNC-Lavalin one of the largest facility operations and management providers in Canada, and a service provider mainly in the USA, Europe, the Middle East and North Africa.

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.

(IN MILLIONS CA$)	2014	2013(1)	CHANGE (%)
Revenues from O&M			
Integrated Real Estate Solutions	**$ 801.6**	$ 854.1	(6.1%)
Industrial	**179.3**	201.4	(11.0%)
Transportation	**157.9**	118.2	33.6%
Defence & logistics	**174.6**	164.6	6.1%
Total	**$ 1,313.4**	$ 1,338.3	(1.9%)
Sub-segment EBIT from O&M	**$ 40.4**	$ 45.9	(12.0%)
Sub-segment EBIT over revenues from O&M (%)	**3.1%**	3.4%	N/A
Revenue backlog at year end	**$ 1,947.9**	$ 2,228.5	(12.6%)

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.

O&M revenues in 2014 were in line with 2013.

Sub-segment EBIT from O&M decreased in 2014 compared to 2013, mainly reflecting a lower gross margin-to-revenue ratio.

8.4 INFRASTRUCTURE CONCESSION INVESTMENTS ("ICI")

As mentioned previously, SNC-Lavalin makes investments in infrastructure concessions in certain infrastructure for public services, such as airports, bridges, cultural and public service buildings, highways, mass transit systems, power and water treatment facilities.

It is the Company's view that the aggregate fair value of its ICI is much higher than their net book value of $812.8 million. Highway 407 is considered to represent the most significant portion of the total fair value of the Company's ICI portfolio.

SNC-Lavalin owns a 16.77% ownership interest in 407 International Inc. ("Highway 407"). 407 ETR, which is a wholly-owned subsidiary of Highway 407, operates, maintains and manages highway 407, which is a 108-km all-electronic toll highway in the Greater Toronto Area ("GTA") with a 99-year concession agreement that expires in 2098.

The ICI net book value, as at December 31, 2014 and 2013, can be summarized as followed:

AT DECEMBER 31 (IN MILLIONS CA$)	NET BOOK VALUE	
	2014	2013
Highway 407 [(1)]	**$ –**	$ –
AltaLink [(2)]	**–**	1,019.5
Others	**812.8**	988.3
Total	**$ 812.8**	$ 2,007.8

(1) The net book value is $nil as the Company had previously stopped recognizing its share of the losses of Highway 407 when the recognition of such losses resulted in a negative balance for the Company's investment in Highway 407.

(2) The Company's ownership interest in AltaLink was sold in December 2014. Refer to section 8.4.3.3 for details.

The Company provides, in section 8.4.3.1, additional information on Highway 407 due to the significance that this ICI may have on the Company's value and net income.

8.4.1 ICI ACCOUNTING METHODOLOGY

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. The revenues included in the Company's consolidated income statement are influenced by the consolidation method applied to an ICI, as described below:

ACCOUNTING METHODS FOR THE COMPANY'S INVESTMENTS IN ICI	REVENUES INCLUDED IN THE COMPANY'S CONSOLIDATED INCOME STATEMENT
Full consolidation	**Revenues** that are recognized and reported by the ICI
Equity method	SNC-Lavalin's **share of net results** of the ICI or **dividends** from its ICI for which the carrying amount is $nil
Cost method	**Dividends and distributions** from the ICI

In evaluating the performance of the segment, the relationship between revenues and EBIT 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.

8.4.2 REVENUES, SEGMENT EBIT AND DIVIDENDS OF THE ICI SEGMENT

For the year ended December 31, 2014, the ICI segment EBIT increased to $2,160.5 million, compared to $484.7 million in 2013 and $288.0 million in 2012. EBIT from Highway 407, which corresponds to the dividends paid to SNC-Lavalin (see explanations below), increased to $122.5 million in 2014 from $114.1 million in 2013, while EBIT from AltaLink increased to $412.5 million in 2014 from $247.3 million in 2013.

(IN MILLIONS CA$)	2014	2013[1]	2012[1]
Revenues from ICI	**$ 904.1**	$ 763.8	$ 565.1
Segment EBIT from ICI:			
From Highway 407	**$ 122.5**	$ 114.1	$ 100.6
From AltaLink [2]	**412.5**	247.3	177.2
From other ICI [3]	**10.1**	50.3	10.1
From gain on disposals or partial disposal of ICI	**1,615.4**	73.0	–
Segment EBIT from ICI	**$ 2,160.5**	$ 484.7	$ 288.0
Dividends and distributions received by SNC-Lavalin from ICI accounted for by the equity method:			
From Highway 407	**$ 122.5**	$ 114.1	$ 100.6
From other ICI	**36.2**	44.8	11.8
Total	**$ 158.7**	$ 158.9	$ 112.4

(1) Comparative figures have been restated to reflect changes made to segment reporting structure and measure of profit and loss for the Company's reportable segments.
(2) Starting May 1, 2014, the Company ceased to depreciate and amortize non-current assets of AltaLink on a prospective basis. Refer to section 8.4.3.3 for explanations. The Company completed the sale of its 100% ownership interest in AltaLink in December, 2014, date at which it ceased to consolidate the results of operations from AltaLink.
(3) Net income from other ICI is net of divisional and allocated corporate selling, general and administrative expenses, as well as from selling, general and administrative expenses from all other ICI accounted for by the full consolidation method.

Under the equity method of accounting, distributions from a joint venture reduce the carrying amount of the investment. The equity method of accounting requires the Company to stop recognizing its share of the losses of a joint venture when the recognition of such losses results in a negative balance for its investment, or where dividends payable by the joint venture are in excess of the carrying amount of the investment. In these events, the carrying value of the investment is reduced to $nil, but does not become negative, unless the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture. In these situations, the Company no longer recognizes its share of net income of ICI based on its ownership, but rather recognizes the excess amount of dividends payable by a joint venture in its net income.

The Company recognized in its income statement dividends received from Highway 407 of $122.5 million in 2014 (2013: $114.1 million) and did not recognize its share of Highway 407's net income of $37.4 million (2013: $41.7 million) in the same period, as the carrying amount of its investment in Highway 407 was $nil at December 31, 2014 and December 31, 2013.

The Company's **ICI revenues increased in 2014** compared to 2013, mainly due to higher revenues from AltaLink, partially offset by lower revenues from SKH. **Gross margin increased in 2014** compared to 2013, mainly attributable to a higher gross margin from AltaLink, partially offset by a lower contribution from SKH.

Segment EBIT from ICI increased in 2014 compared to 2013, principally due to the net gain on disposal of AltaLink, Astoria and Ovation further described in section 8.4.3.3, as well as a higher contribution from AltaLink, and the Company ceasing to depreciate and amortize AltaLink's non-current assets starting May 1st, 2014, resulting from the classification of AltaLink's assets and liabilities as assets and liabilities of a disposal group classified as held for sale at that date. The increase was partially offset by a lower contribution from SKH.

As described in Note 4 to the Company's 2014 audited consolidated financial statements, an amount of impairment losses of $19.1 million was recognized in ICI in 2014. Also, uncertainties on dividend collection from one of the Company's ICI accounted for by the equity method were resolved in 2013, positively impacting segment EBIT from ICI in 2013.

8.4.3 ICI PORTFOLIO

The following table presents a list of SNC-Lavalin's main ICI.

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	STATUS	DESCRIPTION OF ACTIVITIES
407 East Development Group General Partnership ("407 EDGGP")	50%	Equity	Yes	2012	2045	Under construction	Upon completion of the design and construction, it will operate, maintain and rehabilitate Phase 1 of the new highway 407 East.
Groupe immobilier santé McGill ("MIHG")	60%	Equity	Yes	2010	2044	Under construction(1)	Once construction is completed, it will operate and maintain the McGill University Health Centre's new Glen Campus.
InPower BC General Partnership ("InPower BC")	100%	Full consolidation	Yes	2014	2033	Under construction	Designs, builds, partially finances, maintains and rehabilitates the John Hart Generating Replacement Facility, in Canada
Rainbow Hospital Partnership ("Rainbow")	100%	Full consolidation	Yes	2011	2044	Under construction(1)	Designs, builds, commissions, finances and, once construction is completed, will operate and maintain certain functions of the new Restigouche Hospital Centre for psychiatric care in Campbellton, New Brunswick.
Rayalseema Expressway Private Limited ("REPL")	36.9%	Equity	Yes	2010	2040	Under construction	Builds and will operate a 189-kilometre section of a toll highway in India, under a 30-year concession agreement.
Rideau Transit Group Partnership ("Rideau")	40%	Equity	Yes	2013	2043	Under construction	Designs, builds, finances and, once construction is completed, will maintain the Confederation Line, City of Ottawa's light rail transit system.
Ambatovy Nickel Project ("Ambatovy") (see section 8.4.3.2 for more details on the investment in Ambatovy)	5%	Cost	N/A	2007	N/A	In operation	An open-pit mine operation, and a hydrometallurgical processing plant in Madagascar that produces mainly nickel and cobalt.
Astoria Project Partners II LLC ("Astoria II")	6.2%	Cost	No	2008	N/A	In operation	Astoria II owns and operates a 550-MW natural gas-fired combined cycle power plant in Queens, New York. Astoria II signed a 20-year firm Power Purchase Agreement with the New York Power Authority ("NYPA").
Chinook Roads Partnership ("Chinook")	50%	Equity	Yes	2010	2043	In operation	Operates and maintains the southeast Stoney Trail, being the southeast leg of the Ring Road for the City of Calgary.
407 International Inc. ("Highway 407")	16.77%	Equity	No	1999	2098	In operation	Operates, maintains and manages highway 407, a 108-km all-electronic toll highway in the Greater Toronto Area, under a 99-year concession agreement.
InTransit BC Limited Partnership ("InTransit BC")	33.3%	Equity	Yes	2005	2040	In operation	InTransit BC operates and maintains the Canada Line, a 19-kilometre rapid transit line connecting the cities of Vancouver and Richmond with Vancouver International Airport in British Columbia under a 35-year concession agreement.
Malta International Airport p.l.c.	15.5%	Equity	No	2002	2067	In operation	Has the right to own and manage the Malta International Airport under a 65-year concession agreement.

NAME	OWNERSHIP INTEREST	ACCOUNTING METHOD	SUBJECT TO IFRIC 12	HELD SINCE	MATURITY OF CONCESSION AGREEMENT	STATUS	DESCRIPTION OF ACTIVITIES
Myah Tipaza S.p.A. (“Myah Tipaza”)	25.5%	Equity	No	2008	N/A	In operation	Myah Tipaza owns, operates and maintains a 120,000 m^3pd seawater desalination plant in Algeria and sells the total capacity of treated water to Sonatrach and l’Algérienne des Eaux (“ADE”) under a 25-year take-or-pay agreement.
Okanagan Lake Concession Limited Partnership (“Okanagan Lake Concession”)	100%	Full consolidation	Yes	2005	2035	In operation	Operates, maintains and manages the five-lane, 1.1-km William R. Bennett Bridge in Kelowna, British Columbia, under a 30-year concession agreement.
Shariket Kahraba Hadjret En Nouss S.p.A. (“SKH”)	26%	Equity	No	2006	N/A	In operation	Owns, operates and maintains a 1,227-MW gas-fired thermal power plant in Algeria; the total capacity of electricity is sold to Sonelgaz S.p.A. under a 20-year take-or-pay agreement.
Société d’Exploitation de l’Aéroport de Mayotte S.A.S. (“Mayotte”)	100%	Full consolidation	Yes	2011	2026	In operation	Upgrades the infrastructure, builds a new terminal building, manages and maintains the airport under a 15-year concession agreement.
TC Dôme S.A.S. (“TC Dôme”)	51%	Equity	Yes	2008	2043	In operation	Operates a 5.3 -km electric cog railway in France.
Highway Concessions One Private Limited (Previously Piramal Roads Infra Private Limited)	10%	Cost	N/A	2012	N/A	Ongoing activities (construction and operation)	Engages in the business of bidding for, owning, acquiring, investing, developing, implementing and operating infrastructure in the roads sector of India.

N/A: not applicable

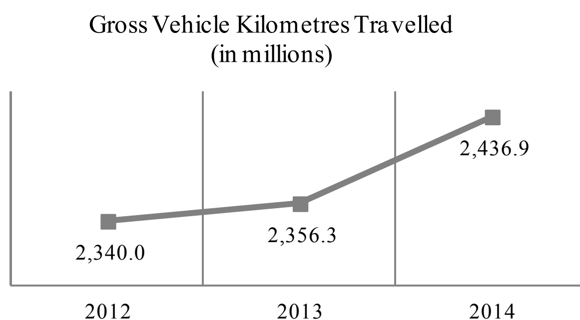
(1) Substantial completion certificate received in 2014

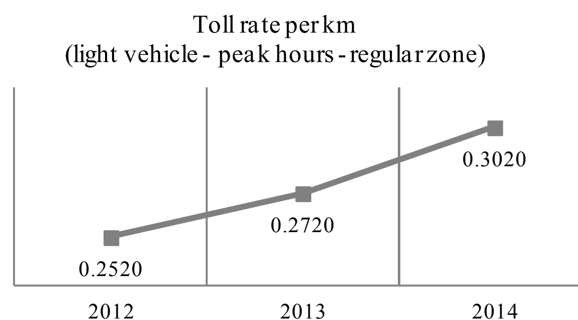
8.4.3.1 HIGHWAY 407

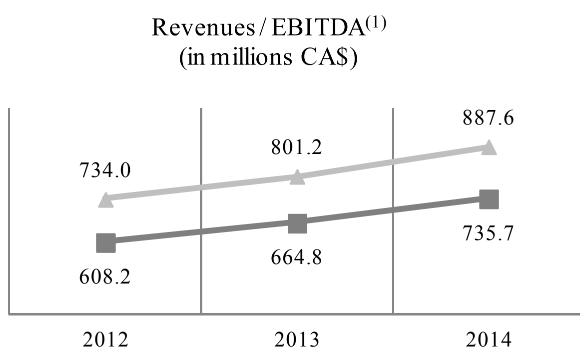
The following information is intended to provide the reader with a general understanding of the operations and key metrics of Highway 407. As 407 International Inc. issue public debt, 407 International Inc. financial statements, MD&A and other relevant financial materials can be found on www.sedar.com, which is the website maintained by the Canadian Securities regulators. The following section is only intended to provide the reader with a general understanding of the operations and key metrics of this ICI, for full financial disclosure, the reader should refer to 407 International Inc. official documents.

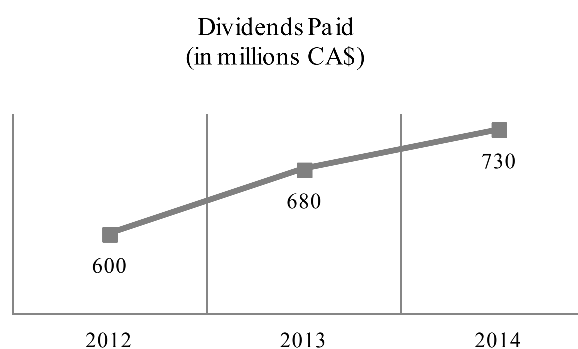
The Company’s investment in Highway 407 is accounted for by the equity method, however the Company recognized in its 2014, 2013 and 2012 income statement the dividends from Highway 407 instead of its share of Highway 407's net income because the carrying amount of its investment was $nil at the end of each of these years. The dividends received by SNC-Lavalin are not taxable.

407 INTERNATIONAL INC.– KEY HISTORICAL INDICATORS









(1) EBITDA: Earnings before interest and other expenses, deferred income tax expense, depreciation and amortization.

407 INTERNATIONAL INC. FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014	2013
Revenues	**$ 887.6**	$ 801.2
Operating expenses	**151.9**	136.4
EBITDA	**735.7**	664.8
Depreciation and amortization	**78.4**	62.6
Interest and other expenses	**354.6**	264.7
Deferred income tax expense	**79.8**	88.8
Net income	**$ 222.9**	$ 248.7

407 INTERNATIONAL INC. TRAFFIC RESULTS

YEAR ENDED DECEMBER 31 (EXCEPT TRANSPONDERS IN CIRCULATION)	2014	2013
Traffic/Trips (in millions)	**118.2**	114.9
Average Workday Number of Trips (in thousands)	**391.5**	381.3
Vehicle Kilometres Travelled ("VKT", in millions)	**2,436.9**	2,356.3
Average Trip Length ("ATL", in kilometres)	**20.6**	20.5
Unbillable traffic (percent)	**2.3**	2.3
Transponder Penetration rate (percent)	**82.0**	81.5
Transponders in Circulation at December 31	**1,202,393**	1,157,830

407 International Inc. is owned by Cintra Infraestructuras Internacional S.L., a wholly owned subsidiary of Ferrovial S.A. (43.23%), by indirectly owned subsidiaries of Canada Pension Plan Investment Board (total 40%), and by SNC-Lavalin (16.77%). 407 International Inc., through its wholly-owned subsidiary, 407 ETR, operates, maintains and owns the right to toll an all-electronic, open-access toll highway which is situated just north of Toronto.

Based on Government of Ontario reports, the population of the Greater Toronto Area ("GTA") exceeds six million and is projected to exceed nine million by the year 2031. Future growth in the GTA will spread further north, north-west and northeast past the Highway 407 corridor, as Lake Ontario prevents growth to the south. What makes Highway 407 particularly attractive is that unlike many other toll roads, Highway 407 is an "urban highway", i.e. the majority of users make it an integral part of their daily routine, providing stable and recurring revenues. Another attractive factor is that the GTA road network is already congested and this situation will only worsen over time. Highway 401, QEW and several other main arteries are already running at full capacity. The Province has few alternatives to add capacity on the existing road network and is limited to iniating minor projects that provide little relief. Highway 407 is therefore a convenient alternative in the region, and a growing capacity to provide further congestion relief. What also differentiates Highway 407 from most private toll highways in the world is that the concession agreement provides the operator of the highway flexibility in setting toll rates. No approval is required from the Province of Ontario before increasing rates, however the concession needs to ensure traffic volume remain above certain thresholds. Failing to do so obliges the concession to pay a non-material financial penalty to the Province of Ontario. The concession continues to improve the highway through construction projects designed to improve traffic flow and customer convenience. The concession is investing in widening bridge structures and adding new lanes to the highway to increase capacity and improve traffic flow.

407 International Inc.'s acquisition of 407 ETR in May 1999 was, and the development of Highway 407 is, partially financed with debt. In conjunction with its financial advisors, 407 International Inc. developed a financing plan referred as the "Capital Markets Platform". This financing plan encompasses an ongoing program capable of accomodating a variety of corporate debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly issued and privately placed debt securities, commercial paper, medium-term notes, interest rate and currency swaps and other hedging instruments. Standard & Poor's Ratings Services ("S&P") has assigned "A", "A-" and "BBB" ratings to 407 International Inc.'s Senior Debt, Junior Debt and Subordinated Debt, respectively. DBRS Limited ("DBRS") has assigned "A", "A-low" and "BBB" ratings to 407 International Inc.'s Senior Debt, Junior Debt and Subordinated Debt, respectively.

8.4.3.2 AMBATOVY

SNC-Lavalin has a 5% ownership interest in Ambatovy, in Madagascar, on which it was awarded an EPCM contract in 2007. In March 2008, Ambatovy obtained senior debt project financing whereupon each shareholder concurrently provided the Ambatovy senior lenders with a financial guarantee in proportion to their respective ownership interests. Also, to support the portion of the financial guarantee issued by one of the shareholders who is also the project operator of Ambatovy ("Project Operator"), the remaining shareholders ("Other Shareholders"), including SNC-Lavalin, provided cross guarantees to the Ambatovy senior lenders. Until certain legal, financial and operating conditions are satisfied upon completion of construction and commissioning of the project (the "Completion Date"), the financial guarantee of US$105 million and cross-guarantee of US$70 million will remain outstanding. The guarantees were initially recognized at their fair value of approximately $9 million in the Company's consolidated statement of financial position, and not at their aggregated nominal value of US$175 million. Both guarantees could be called by the lenders if such conditions are not met by the Completion Date. In July, 2013, lenders to the Ambatovy project agreed to extend the Completion Date from September 2013 to September 2015. A key milestone defined in the operating conditions of the Completion Date is the production of nickel at a rate of 90% of nameplate capacity measured over 90 days in a 100 day continuous period.

The Other Shareholders also entered into limited recourse subordinate loan agreements to finance a portion of the Project Operator's equity contribution in Ambatovy (the "Loans to Project Operator").

Upon Completion Date, a put/call arrangement between SNC-Lavalin and two shareholders of Ambatovy, including the Project Operator, will be exercisable. Under this put/call arrangement, SNC-Lavalin will have, for a period of two years after the Completion Date, the option ("put option") to divest from its 5% ownership interest in Ambatovy and the balance of its Loans to Project Operator, and the two shareholders will have the option ("call option") to acquire SNC-Lavalin's 5% ownership interest in Ambatovy and repay to SNC-Lavalin the outstanding balance of its Loans to Project Operator. Upon the exercise of the put or call option, the amount to be received by SNC-Lavalin will provide for a specific return (a higher return for the call option than for the put option) on its equity investment and for the repayment of principal and accrued interest on its Loans to Project Operator.

In January 2014, the Project Operator announced that commercial production had been achieved at Ambatovy. Commercial production is defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuit on average over a thirty-day period and is the point at which all revenue and operating costs ceased to be capitalized in the project.

The following table summarizes SNC-Lavalin's disbursements and remaining commitments at December 31, 2014 related to the Ambatovy project, presented in "ICI accounted for by the cost method":

(IN MILLIONS CA$)	December 31 2014
Equity contributions in Ambatovy [1]	
Amount disbursed	**$ 297.0**
Remaining commitments	**10.1**
Loans to Project Operator [1][2]	**92.8**
Net book value of SNC-Lavalin's investment in Ambatovy	**$ 399.9**

(1) SNC-Lavalin's total equity contributions, disbursed and committed, and Loans to Project Operator are presented as "ICI accounted for by the cost method". The remaining commitment to invest in Ambatovy, representing the amount of commitment not yet disbursed, is presented in "Other current financial liabilities" on the Company's consolidated statement of financial position.

(2) These interest-bearing variable-rate loans have a 15-year term and will be repaid from a portion of the Project Operator's share of the project's future distributions.

8.4.3.3 ADDITION/DISPOSALS OF ICI IN 2014

INPOWER BC GENERAL PARTNERSHIP

In February 2014, the Company announced that InPower BC General Partnership, its wholly owned subsidiary, signed an agreement with BC Hydro to design, build, partially finance, maintain and rehabilitate the John Hart Generating Replacement Facility, in Canada, under a 20-year contract. The wholly owned subsidiary is an ICI accounted for by the full consolidation method.

ALTALINK HOLDINGS, L.P. ("AHLP" OR "ALTALINK")

On May 1, 2014, SNC-Lavalin announced that it had entered into a binding agreement to sell 100% of its interest in AltaLink Holdings, L.P. ("AHLP"), the ultimate parent company of AltaLink, L.P. (together with other related holding entities referred to as "AltaLink"), the owner and operator of transmission lines and substations subject to rate regulation in Alberta, to Berkshire Hathaway Energy. On December 1, 2014, SNC-Lavalin completed the sale transaction. The total cash consideration received amounted to $3.1 billion.

Impact on the Consolidated Statement of Financial Position

Upon the sale of AltaLink, the Company derecognized all assets and liabilities of AltaLink. The main categories of assets related to property and equipment, and goodwill while the main categories of liabilities consisted of debt, as well as deferred revenues.

As AltaLink ceased to be a subsidiary of the Company, trade receivables from AltaLink that were previously eliminated upon consolidation were recognized at that same date.

AS AT DECEMBER 1 (IN MILLIONS CA$)	2014
Current assets	$ 197.1
Non-current assets	7,463.3
Assets disposed of	$ 7,660.4
Current liabilities	$ 977.5
Non-current liabilities	5,264.8
Liabilities disposed of	$ 6,242.2
Net assets disposed of	**$ 1,418.1**

Impact on the Consolidated Income Statement

Upon signature of a binding agreement to sell AltaLink on May 1, 2014, the Company reclassified the aggregate amount of assets and liabilities of AltaLink as assets and liabilities of a disposal group classified as held for sale, in accordance with IFRS 5, on its consolidated statement of financial position. At that same date, the Company ceased to depreciate and amortize non-current assets of AltaLink.

The excess amount of the consideration received, net of disposition-related costs, over AltaLink's net book value was recorded as a gain on disposal, which included a cumulative loss on cash flow hedges reclassified from equity on loss of control of AltaLink.

Following completion of the sale, the Company recognized all E&C revenues generated from transactions with AltaLink whereas only profits from these projects, which were deemed to have been realized by AltaLink, were recognized prior the transaction date, as explained in section 8.4.4. As such, while the recognition of gross margin amounts remains unchanged, the gross margin-to-revenue ratio on revenues generated from these projects is lower due to the additional revenues being presented at the consolidated level.

Impact on the Consolidated Statement of Comprehensive Income

Upon the loss of control of the Company over AltaLink, the cumulative loss on cash flow hedges previously recorded in the Company's other components of equity was reclassified to net income.

Impact on the Consolidated Statement of Cash Flows

In December 2014, following the disposition of AltaLink, the Company repaid in full the outstanding balance of the Acquisition Facility, which was cancelled at the same time.

Impact on the Company's Revenue Backlog

E&C revenue backlog, which was eliminated upon consolidation, except for the profit component, is now presented in a way consistent with revenues generated from transactions with AltaLink in the Company's consolidated income statement. This resulted in an increase in Packages revenue backlog as shown in section 6.2.

ASTORIA PROJECT PARTNERS LLC ("ASTORIA")

On October 15, 2014, SNC-Lavalin announced that it sold its 21% ownership interest in Astoria, the owner of the legal entity that owns and operates a gas-fired combined-cycle power plant in New York City. The total cash consideration received amounted to US$93.5 million (CA$104.9 million).

OVATION REAL ESTATE GROUP (QUEBEC) INC. ("OVATION")

On September 30, 2014, SNC-Lavalin sold for a total consideration of $77.6 million its 100% ownership interest in Ovation which principal activity was to build, operate and maintain an acoustic concert hall in Montreal, Canada. SNC-Lavalin will continue to provide operations and maintenance services for this acoustic concert hall and its new owner, until 2038.

8.4.4 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, 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.

The accounting treatment of intragroup profits is summarized below:

ICI	ACCOUNTING METHOD	ACCOUNTING TREATMENT OF INTRAGROUP PROFITS
AltaLink [(1)]	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.

(1) Up until December 1, 2014, effective disposal date of AltaLink (see Note 5A to the the 2014 audited annual consolidated financial statements), AltaLink was a subsidiary of the Company.

For the year ended December 31, 2014, SNC-Lavalin recognized revenues of $607.8 million (2013: $734.8 million) from contracts with ICI accounted for by the equity method. SNC-Lavalin also recognized its share of net income from these ICI accounted for by the equity method of $171.4 million for the year ended December 31, 2014 (2013: $183.9 million). Intragroup revenues generated from transactions with AltaLink, which amounted to $1,290.7 million in the period from January 1, 2014 to December 1, 2014 (year ended December 31, 2013: $1,529.9 million), were eliminated upon consolidation, while profits from those transactions were not eliminated. Following the disposal of AltaLink, revenues generated from transactions with AltaLink that were realized after December 1, 2014 were recognized by the Company in its consolidated income statement.

SNC-Lavalin's trade receivables from ICI accounted for by the equity method amounted to $60.7 million as at December 31, 2014 (2013: $35.3 million). SNC-Lavalin's other current financial assets receivables from these ICI accounted for by the equity method amounted to $96.4 million as at December 31, 2014 (2013: $300.0 million). SNC-Lavalin's remaining commitment to invest in these ICI accounted for by the equity method was $45.9 million as at December 31, 2014 (2013: $155.2 million).

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

9. FOURTH QUARTER RESULTS

For the fourth quarter of 2014, net income attributable to SNC-Lavalin shareholders was $1,146.6 million ($7.51 per share on a diluted basis), compared to $92.5 million ($0.61 per share on a diluted basis) for the comparable quarter in 2013, notably from a gain on disposal of the Company's ownership interest in AltaLink, partially offset by a higher net loss attributable to SNC-Lavalin shareholders from E&C.

For the fourth quarter of 2014, there was a net loss attributable to SNC-Lavalin shareholders from E&C of $255.6 million, compared to $31.3 million for the same period last year, mainly due to:

> $149.9 million ($149.0 million after taxes) of additional reserves mainly due to increased counterparty credit risk, impairment of an investment, as well as other charges relating to the restructuring and right-sizing plan announced on November 6, 2014;

> $94.0 million ($87.5 million after taxes) of restructuring costs in the fourth quarter of 2014, compared to $55.2 million ($49.7 million after taxes) of restructuring costs and goodwill impairment in the corresponding period of 2013;

> $31.6 million ($24.2 million after taxes) of financing, acquisition-related and integration costs, related to the acquisition of Kentz;

> $24.2 million ($17.6 million after taxes) of amortization of intangible assets related to the acquisition of Kentz on August 22, 2014.

When excluding the abovementioned items, there was a higher contribution from REW and a foreign exchange gain, partially offset by a higher negative segment EBIT in Infrastructure combined with a lower contribution from Power, compared to the fourth quarter of 2013.

The higher contribution from REW primarily reflected the incremental contribution from Kentz, partially offset mainly by an unfavourable cost reforecast on a legacy fixed-price project in North Africa. The negative variance for Infrastructure was mainly due to a higher negative sub-segment EBIT from Infrastructure & Construction, principally due to unfavourable cost reforecasts in the fourth quarter of 2014, mainly in the hospitals and mass transit sectors, negatively impacting gross margin by a total of $106.1 million, compared to a negative impact of $18.0 million in the fourth quarter of 2013 from unfavourable cost reforecasts on certain unprofitable legacy fixed-price contracts in the road sector. The lower contribution from Power mainly reflected a lower gross margin-to-revenue ratio, including a negative impact of certain reserves and unfavourable cost reforecasts on certain major projects in the fourth quarter of 2014. The gross margin from Power, in the fourth quarter of 2013, was negatively impacted by unfavourable cost reforecasts on a major project in North Africa totalling $28.0 million.

Net income attributable to SNC-Lavalin shareholders from ICI increased to $1,402.2 million in the fourth quarter of 2014, compared to $123.8 million for the fourth quarter of 2013, principally due to the net gain of $1,337.3 million on disposals of AltaLink and Astoria further described in section 8.4.3.3, compared to a net gain of $36.2 million on partial disposal of Astoria II. The increase was partially offset by an impairment of investment as well as a lower dividend received from Highway 407.

Revenues for the fourth quarter of 2014 increased compared to 2013, mainly reflecting an increase in Packages and Services from the acquisition of Kentz, partially offset by lower revenues from ICI, principally due to the disposals of AltaLink and Astoria.

The Company's backlog as at December 31, 2014 amounted to $12.3 billion, **in line** with the end of the third quarter of 2014, as a decrease in Packages and O&M was offset by an increase in Services.

At the end of December 2014, the Company's cash and cash equivalents were $1.7 billion, compared to $1.1 billion at the end of September 2014, mainly due to net cash generated from operating activities and net cash inflow on disposals of ICI, partially offset by repayment of recourse debt used to finance the Acquisition.

10. LIQUIDITY AND CAPITAL RESOURCES

This Liquidity and Capital Resources section has been prepared to provide the reader with a better understanding of the major components of the Company's liquidity and financial position and has been structured as follows:

> A **financial position** analysis, which has been prepared with the objective of providing additional information on the major changes in the Company's consolidated statements of financial position in 2014 and 2013;

> A review of the **cash net of recourse debt** of the Company;

> A **cash flow** analysis, providing details on how the Company generated and used its cash and cash equivalents;

> A discussion on the Company's **working capital, recourse revolving credit facilities, credit ratings,** and **recourse debt to capital**;

> A review of the Company's **contractual obligations** and **derivative financial instruments**, which provides additional information for a better understanding of the Company's financial situation; and finally

> The presentation of the Company's **dividends declared** and **ROASE** over the past three years.

In terms of the shareholders' capital adequacy, the Company seeks to maintain an adequate balance between ensuring sufficient capital for financing net asset positions, maintaining satisfactory bank lines of credit and capacity to absorb project net retained risks, while at the same time optimizing return on equity.

The Company's liquidity is generally provided by available cash and cash equivalents, cash generated from operations, credit facilities and access to capital markets, as needed, which are all elements specifically discussed in the following section. While liquidity remains subject to numerous risks and limitations, including but not limited to the risks described under Section 13 "Risks and Uncertainties" and in this section, the Company believes that its current liquidity position, including its cash position, unused credit capacity and cash generated from its operations, should be sufficient to fund its operations for the foreseeable future.

The Company's liquidity strategy is driven by two key objectives:

i) the maintenance of an investment grade credit rating; and

ii) the maintenance of adequate available cash and/or credit facilities to (a) meet ongoing working capital requirements, in particular for Packages projects, and (b) meet ongoing commitments to invest in, or self-finance, ICI projects.

10.1 FINANCIAL POSITION ANALYSIS

AT DECEMBER 31 (IN MILLIONS CA$)	**2014**	2013	2012
Current assets	**$ 5,050.9**	$ 3,915.8	$ 3,794.1
Non-current assets	**4,960.4**	7,856.9	5,816.8
Total assets	**10,011.3**	11,772.6	9,610.9
Current liabilities	**5,195.0**	4,442.7	4,062.0
Non-current liabilities	**1,499.6**	5,289.7	3,470.5
Total liabilities	**6,694.6**	9,732.4	7,532.5
Equity attributable to SNC-Lavalin shareholders	**3,305.6**	2,036.7	2,075.4
Non-controlling interests	**11.1**	3.6	3.0
Total liabilities and equity	**$ 10,011.3**	$ 11,772.6	$ 9,610.9

10.1.1 TOTAL CURRENT ASSETS

Total current assets increased by $1,135.1 million between December 31, 2013 and **December 31, 2014,** reflecting primarily:

From E&C	From ICI
An increase of $1,184.5 million mainly reflecting: > An increase of $582.0 million in cash and cash equivalents as explained in section 10.3; > An increase of $228.1 million in trade receivables as a decrease due to various ongoing projects was more than offset by an increase from incremental trade receivables of Kentz, as well as the recognition of trade receivables from AltaLink following the sale of this subsidiary on December 1, 2014 as explained in section 8.4.3.3; > An increase of $190.6 million in contracts in progress, mainly due to the same factors explaining the increase in trade receivables; > An increase of $69.1 million in other current assets; and > Inventories of Kentz totalling $111.4 million.	A decrease of $49.4 million mainly reflecting: > A decrease of $80.1 million in trade receivables mainly due to the derecognition of trade receivables of AltaLink; > A decrease of $34.3 million in other current assets; partially offset by > An increase of $40.7 million in other current financial assets, mainly due to an increase from InPower BC partially offset by a decrease from Rainbow.

Total current assets increased by $121.7 million between December 31, 2012 and December 31, 2013, reflecting primarily:

From E&C	From ICI
An increase of $99.2 million mainly reflecting: > An increase of $332.0 million in other current financial assets, mainly due to an increase in retentions on client contracts, mainly from MIHG and the Evergreen line rapid transit project, and an increase in advances to suppliers, subcontractors and employees and deposits on contracts; partially offset by > A decrease of $118.5 million in contracts in progress due to various ongoing projects; and > A decrease of $83.1 million in trade receivables, due to various ongoing projects.	An increase of $22.5 million mainly reflecting: > An increase of $14.3 million in trade receivables; and > An increase of $8.0 million in restricted cash.

10.1.2 TOTAL NON-CURRENT ASSETS

Total non-current assets decreased by $2,896.4 million from December 31, 2013 to **December 31, 2014**, mainly due to:

From E&C	From ICI
An increase of $2,821.8 million mainly reflecting: > Goodwill of $2,206.9 million and intangible assets of $320.0 million recognized upon acquisition of Kentz; > An increase of $128.6 million in deferred income tax asset; and > An increase of $65.7 million in property and equipment mainly from the acquisition of Kentz.	A decrease of $5,718.2 million mainly reflecting: > The derecognition of property and equipment, goodwill and other non-current assets from AltaLink; > A decrease of $86.3 million in investments accounted for by the equity method mainly due to the sale of the Company's investment in Astoria as described in section 8.4.3.3, as well as to an impairment of investment.

Total non-current assets increased by $2,040.0 million from December 31, 2012 to December 31, 2013, mainly due to:

From E&C	From ICI
An increase of $19.8 million mainly reflecting: > An increase of $77.1 million in deferred income tax asset; partially offset by > A decrease in Goodwill, mainly reflecting a $56.5 million goodwill impairment charge in 2013.	An increase of $2,020.2 million mainly reflecting: > An increase of $1,662.0 million in property and equipment, from AltaLink, to reinforce and expand the transmission system; > An increase of $87.9 million in ICI accounted for by the cost method, mainly reflecting an increase in the investment in Ambatovy and the remaining ownership interest in Astoria II being accounted for as an available-for-sale financial asset following its partial disposal in December 2013; > An increase of $86.9 million in non-current financial assets, mainly from third party deposits from AltaLink; and > An increase of $75.2 million in ICI accounted for by the equity method, mainly reflecting an increase in the investments in Rideau and InTransit BC.

10.1.3 TOTAL CURRENT LIABILITIES

Total current liabilities increased by $752.3 million between December 31, 2013 and **December 31, 2014,** mainly due to:

From E&C	From ICI
An increase of $1,371.7 million mainly resulting from: > The acquisition of Kentz which contributed to: > An increase of $661.9 million in trade payables; > An increase of $202.5 million in deferred revenues; > An increase of $96.7 million in current portion of provisions; > An increase of $82.1 million in other current liabilities; > As well as an increase of $232.1 million in advances under contract financing arrangements related to certain major projects in Canada, primarily from the Evergreen line rapid transit project; and > An increase of $72.9 million in other current financial liabilities, mainly from an increase in retentions on suppliers contracts.	A decrease of $619.4 million mainly reflecting: > A decrease of $435.2 million in trade payables and a decrease of $269.6 million in current portion of long-term recourse debt mainly due to the sale of AltaLink; and > A decrease of $129.6 million in other current financial liabilities mainly due to payments of commitments to invest in MIHG and Ambatovy; partially offset by > An increase of $249.5 million in other current liabilities, mainly reflecting income taxes payable on the gain from disposal of AltaLink.

Total current liabilities increased by $380.7 million between December 31, 2012 and December 31, 2013, mainly due to:

From E&C	From ICI
An increase of $364.0 million mainly reflecting: > An increase of $324.5 million in trade payables mainly due to certain major Packages projects; > An increase of $76.4 million in other current financial liabilities, mainly from an increase in retentions on supplier contracts; > An increase of $55.9 million in current portion of provisions; and An increase of $43.9 million in advances under contract financing arrangements, primarily from the Evergreen line rapid transit project; partially offset by > A decrease of $120.8 million in downpayments on contracts.	An increase of $16.7 million mainly reflecting: > An increase of $171.5 million in trade payables; > An increase of $32.5 million in commitments to invest in ICI accounted for by the equity and cost methods; and > An increase of $20.0 million in deferred revenues; partially offset by > A decrease of $207.2 million in non-recourse short term debt and current portion of non-recourse long-term debt, primarily from AltaLink.

10.1.4 TOTAL NON-CURRENT LIABILITIES

Total non-current liabilities decreased by $3,790.1 million from December 31, 2013 to **December 31, 2014**, mainly reflecting:

From E&C	From ICI
An increase of $65.0 million mainly reflecting: > An increase of $89.1 million in provisions; partially offset by > A decrease of $18.4 million in deferred tax liability.	A decrease of $3,855.1 million mainly reflecting derecognition of non-current liabilities due to the sale of AltaLink, notably: > A decrease of $3,006.3 million in long-term recourse debt; > A decrease of $733.7 million in other non-current liabilities; and > A decrease of $110.0 million in other non-current financial liabilities.

Total non-current liabilities increased by $1,819.2 million from December 31, 2012 to December 31, 2013, mainly reflecting:

From E&C	From ICI
An increase of $103.8 million mainly reflecting: > An increase of $61.3 million in deferred tax liability; and > An increase of $38.8 million in provisions.	An increase of $1,715.4 million mainly reflecting: > An increase of $1,536.2 million in the non-recourse long-term debt, primarily relating to AltaLink, mainly to finance its capital expenditures; and > An increase of $143.2 million in other non-current liabilities, mainly due to an increase in third party contributions of AltaLink.

10.1.5 TOTAL FINANCIAL LIABILITIES

The Company's total financial liabilities, as presented in Note 31A to the 2014 audited annual consolidated financial statements, **were $4.3 billion as at December 31, 2014**, compared to $7.2 billion and $5.3 billion as at December 31, 2013 and 2012, respectively. The decrease in 2014 was mainly attributable to the disposal of AltaLink.

10.1.6 TOTAL EQUITY

Equity attributable to SNC-Lavalin shareholders increased by $1,269.0 million as at December 31, 2014, compared to December 31, 2013, mainly reflecting the Company's 2014 net income.

The decrease of $38.8 million from December 31, 2012 to December 31, 2013 mainly reflected dividends declared to SNC-Lavalin shareholders, partially offset by total comprehensive income and shares issued under stock option plans in 2013.

10.2 CASH NET OF RECOURSE DEBT

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

AT DECEMBER 31 (IN MILLIONS OF CA$)	**2014**	2013	2012
Cash and cash equivalents	**$ 1,702.2**	$ 1,108.7	$ 1,174.9
Less:			
Cash and cash equivalents of ICI accounted for by the full consolidation method	**29.3**	17.8	17.6
Recourse debt	**348.9**	348.7	348.5
Cash net of recourse debt	**$ 1,324.0**	$ 742.2	$ 808.7

The Company's cash net of recourse debt as at December 31, 2014 was $1,324.0 million, compared to $742.2 million as at December 31, 2013, mainly reflecting an increase in cash and cash equivalents as explained in section 10.3.

Management continues to believe, subject to the risks and limitations described herein, that its current liquidity position, including its cash position and unused capacity under its credit facility should be sufficient to fund its operations over the foreseeable future. Management remains focused on maintaining appropriate cash balances and intends to manage its working capital more efficiently.

10.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$)	2014	2013
Cash flows generated from (used for):		
Operating activities	**$ 264.1**	$ 333.2
Investing activities	**(499.0)**	(1,670.9)
Financing activities	**816.6**	1,269.5
Increase in exchange differences on translating cash and cash equivalents held in foreign operations	**11.8**	2.0
Net increase (decrease) in cash and cash equivalents	**593.5**	(66.2)
Cash and cash equivalents at beginning of year	**1,108.7**	1,174.9
Cash and cash equivalents at end of year	**$ 1,702.2**	$ 1,108.7

The section below explains the major cash flow items that impacted the movement of the Company's cash and cash equivalents for the year ended December 31, 2014.

OPERATING ACTIVITIES

Cash generated from operating activities totalled $264.1 million in 2014 compared to cash generated of $333.2 million in 2013. The major elements impacting operating activities were as follows:

> Net cash generated from operating activities before net change in non-cash working capital items, totalled $166.2 million in 2014, compared to $203.5 million in 2013, mainly reflecting :
- A net income of $1,334.6 million in 2014, compared to $36.4 million in 2013;
- Non-cash gains from disposal of ICI totalling $1,615.4 million, compared to a non-cash gain from partial disposal of Astoria II of $73.0 million in 2013;
- A non-cash income tax expense of $323.0 million in 2014, compared to $41.7 million in 2013, mainly due to income taxes payable on the gain on disposals of ICI;
- Non-cash impairment of investments totalling $28.5 million in 2014, compared $nil in 2013;
- A decrease in non-cash provisions related to forecasted losses on certain contracts of $21.9 million in 2014, compared to an increase of $29.6 million in 2013.

> Cash generated from the net change in non-cash working capital items totalled $98.0 million in 2014, compared to $129.7 million in 2013, reflecting working capital requirements on certain major projects.

INVESTING ACTIVITIES	**Cash used for investing activities decreased to $499.0 million in 2014** compared to cash used of $1,670.9 million in 2013. The major investing activities were as follows: > Net cash used for the acquisition of Kentz amounted to $1,763.0 million in 2014, as described in Note 6 to the 2014 audited annual consolidated financial statements. The difference between the purchase price of $2,073.6 million and the net cash used for the acquisition of Kentz represents cash and cash equivalents held by Kentz at the date of acquisition; > Net cash inflow on disposals of ICI of $3,253.3 million, resulting from the sale of the Company's 100% ownership interest in AltaLink, Astoria and Ovation as described in Note 5 to the 2014 audited annual consolidated financial statements, as well as payments for disposition-related costs on disposals of ICI of $60.3 million in 2014; > The acquisition of property and equipment from fully consolidated ICI used a total cash outflow of $1,522.4 million in 2014 compared to $1,545.9 million in 2013, both due to AltaLink, mainly relating to capital expenditures to reinforce and expand the transmission system; > The acquisition of property and equipment from E&C activities amounted to a total cash outflow of $70.2 million in 2014, compared to $55.5 million in 2013; > The cash outflow of $133.1 million relating to payments for ICI in 2014, reflecting payments for MIHG and Ambatovy, compared to $43.6 million in 2013, reflecting payments mainly for Ambatovy and Chinook; > Costs net of recovery of $34.7 million associated to a foreign exchange hedge in 2014, as described in Note 6 to the 2014 audited consolidated financial statements, compared to $nil for the corresponding period of 2013; > The investment in deposit notes of a portion of $260.5 million of proceeds resulting from the issuance by InPower BC of senior bonds in 2014 as described in Note 5 to the 2014 audited consolidated financial statements.
FINANCING ACTIVITIES	**Cash generated from financing activities totalled $816.6 million in 2014** compared to cash generated from financing activities of $1,269.5 million in 2013. The major financing activities were as follows: > An increase of $2,630.0 million in recourse debt, related to the acquisition of Kentz, to finance the purchase price of the Acquisition, and for repayment of $482.4 million of recourse debt of Kentz, as described in section 10.5, as well as the repayment of $2,630.0 millions of recourse debt using the proceeds received from the sale of AltaLink; > An increase in non-recourse debt from ICI totaling $1,657.8 million in 2014, primarily relating to AltaLink and other related holding entities up to December 1, 2014, as well as to InPower BC compared to $1,744.8 million in 2013, which related primarily to AltaLink and Rainbow. > The repayment of non-recourse debt from ICI amounted to $427.5 million in 2014, compared to $410.2 million in 2013, primarily relating to AltaLink and Rainbow, including repayment in full in 2014 of the outstanding balance from a $350.0 million credit facility used to finance equity injections in AltaLink, L.P.; > An increase in advances under contract financing arrangements of $230.1 million in 2014, compared to $159.5 million in 2013; > Dividends paid to SNC-Lavalin shareholders amounted to $146.2 million in 2014 compared to $139.4 million in 2013, mainly reflecting an increase in dividends per share. The increase in dividends reflects dividends paid of $0.96 per share in 2014 compared to $0.92 per share for 2013; > The issuance of shares pursuant to the exercise of stock options generated $26.9 million of cash in 2014 (657,869 stock options at an average price of $40.92), compared to $26.5 million in 2013 (737,876 stock options at an average price of $35.89). As at February 23, 2015, there were 3,060,069 stock options outstanding with exercise prices varying from $37.04 to $57.07 per common share. At that same date there were 152,466,586 common shares issued and outstanding.

10.4 WORKING CAPITAL

AT DECEMBER 31 (IN MILLIONS CA$, EXCEPT CURRENT RATIO)	2014	2013	2012	CHANGE FROM 2013 TO 2014	CHANGE FROM 2012 TO 2013
Current assets	**$ 5,050.9**	$ 3,915.8	$ 3,794.1	$ 1,135.1	$ 121.7
Current liabilities	**5,195.0**	4,442.7	4,062.0	752.3	380.7
Working Capital	**$ (144.2)**	$ (527.0)	$ (267.9)	$ 382.8	$ (259.0)
Current Ratio	**0.97**	0.88	0.93	0.09	(0.05)

The working capital and current ratio increased as at December 31, 2014 compared to the previous year. The variance in working capital is mainly attributable to the disposal of AltaLink and the acquisition of Kentz as explained in the financial position analysis in sections 10.1.1 and 10.1.3.

10.5 RECOURSE DEBT AND NON-RECOURSE DEBT

10.5.1 RECOURSE DEBT

10.5.1.1 RECOURSE REVOLVING CREDIT FACILITY

In December 2013, the Company entered into an unsecured revolving credit agreement (the "Facility") with a syndicate of financial institutions, totalling $3,500 million which it may use for the issuance of performance and financial letters of credit as well as cash draws, subject to a limit of $1,650 million applicable to financial letters of credit and cash draws but not to performance letters of credit. Amounts drawn under the Facility bear interest at variable rates plus an applicable margin. The Facility was initially set to mature in December 2016, with an annual extension option for a one-year period upon lenders' approval. As explained below, the Facility was amended in August 2014.

The Facility is committed and subject to affirmative, negative and financial covenants, including the requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio, as defined in the Facility, not exceeding a certain limit.

If the covenants of the Facility are not met, the lenders may, among others, terminate the right of the Company to use the Facility and demand immediate payment of the whole or part of all indebtedness outstanding under the Facility.

To finance the acquisition of Kentz Corporation Limited (see Note 6 to the Company's audited annual consolidated financial statements), SNC-Lavalin entered in June 2014 into a recourse non-revolving acquisition credit agreement (the "Acquisition Facility") for an aggregate amount of $2,750 million comprised of the following: i) an asset sale bridge facility of $2,550 million, maturing at the latest in December 2015; and ii) a term facility of $200 million, maturing at the latest in June 2016. Amounts drawn under the asset sale bridge facility and term facility bore interest at variable rates plus an applicable margin. Under the terms of the Acquisition Facility, SNC-Lavalin had to make a mandatory prepayment on the outstanding balance of borrowings under the Acquisition Facility upon the receipt by SNC-Lavalin of net proceeds from disposition of certain of its ICI, including AltaLink. The Acquisition Facility was to be used solely to fund the acquisition of Kentz and its related indebtedness, fees and expenses.

The Acquisition Facility was committed and subject to affirmative, negative and financial covenants, including a requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt (excluding borrowings made under the asset sale bridge facility) to adjusted earnings before interest, taxes, depreciation and amortization ratio, as defined in the Acquisition Facility, not exceeding a certain limit. The financial covenants of the Company's Facility were modified to exclude borrowings made under the asset sale bridge facility from the definition of net recourse debt.

In case of an event of default, the Acquisition Facility was subject to customary accelerated repayment terms.

In August 2014, in connection with the acquisition of Kentz, the Facility entered into by the Company in December 2013 was amended to: i) increase the committed amount from $3,500 million to $4,250 million which it may use for the issuance of performance and financial letters of credit as well as cash draws, subject to a limit of $1,800 million applicable to financial letters of credit and cash draws but not to performance letters of credit; and ii) extend the maturity of the Facility from December 2016 to August 2017, with an annual extension option for a one-year period upon lenders' approval.

In September 2014, the Company amended the Acquisition Facility entered in June 2014 by cancelling the term facility of $200 million, while all other terms of the Acquisition Facility remained unchanged. In addition, the Company used a portion of its unsecured recourse revolving credit facility to finance the acquisition of Kentz.

The use of funds from these facilities in 2014 is summarized in the table below:

(IN MILLIONS CA$)

Increase in recourse short-term debt	**$ 2,630.0**
Main use of funds from recourse short-term debt:	
Purchase price of Kentz	**$ (2,073.6)**
Repayment of a portion of recourse debt of Kentz	**(482.4)**
Acquisition-related costs	**(52.8)**
Excess of financing over main use of funds listed above	**$ 21.2**

In December 2014, following the disposition of AltaLink, the Company repaid in full the outstanding balance of the Acquisition Facility, which was cancelled at the same time, as well as the outstanding balance of the non-recourse debt related to the financing of the Company's equity contributions in AHLP. As such, the Company successfully completed its acquisition of Kentz without ultimately increasing its level of indebtedness.

As at December 31, 2014, $2,501.7 million of the Facility remained unused, while the balance of $1,748.3 million was exclusively used for the issuance of letters of credit, including $245.4 million of financial letters of credit.

In addition, the Facility contemplates the issuance of bilateral letters of credit on a non-committed basis for a maximum of $2,000 million, which are subject to the covenants of the Facility. As at December 31, 2014, $141.2 million was used for the issuance of bilateral letters of credit. Also, as at December 31, 2014, Kentz had $214.7 million of issued bilateral letters of credit, that were outside of the Company's Facility.

10.5.1.2 RECOURSE DEBENTURE – CREDIT RATING

On April 1, 2014, Standard & Poor's affirmed the credit rating of the Company's debenture at BBB and revised its outlook upwards to stable. On June 24, 2014, Standard & Poor's affirmed the credit rating of the Company's debenture at BBB with a stable outlook, following the Company's announcement of its acquisition of Kentz. On February 19, 2015, Standard & Poor's revised its outlook to negative from stable while affirming its credit rating of the Company's debenture at BBB, following the Charges described in section 13.

On June 23, 2014, DBRS placed the Company's rating "Under Review with Negative Implications" following the announcement of its acquisition of Kentz. On December 5, 2014, DBRS confirmed its credit rating of the Company's debenture at BBB with a stable trend, and removed "Under Review with Negative Implications", reflecting the completion of the Company's sale of its 100% ownership interest in AltaLink, and the repayment of its Acquisition Facility. On February 19, 2015, following the Charges described in section 13, DBRS issued a press release. DBRS stated that no rating action was warranted in view that there was limited near-term impact to the Company, and that the Charges were not indicative of the Company's current business strategy and conduct.

The Company retains its investment grade status from both rating agencies.

10.5.1.3 RECOURSE DEBT-TO-CAPITAL RATIO

This ratio compares the recourse debt balance to the sum of recourse debt and equity attributable to SNC-Lavalin shareholders, excluding other components of equity, and is a measure of the Company's financial capabilities. As at December 31, 2014 and 2013, the Company's recourse debt-to-capital ratio was 10:90 and 14:86, respectively, below the Company's objective, which is not to surpass a ratio of 30:70.

10.5.2 NON RECOURSE-DEBT

SNC-Lavalin does not consider non-recourse debt when monitoring its capital because such debt results from the full consolidation of certain ICI held by the Company. As such, the lenders of such debt do not have recourse to the general credit of the Company, but rather to the specific assets of the ICI they finance. The Company's ICI accounted for by the full or equity consolidation methods may, however, be at risk if such investments were unable to repay their non-recourse long-term debt.

10.6 CONTRACTUAL OBLIGATIONS AND FINANCIAL INSTRUMENTS

10.6.1 CONTRACTUAL OBLIGATIONS

In the normal course of business, SNC-Lavalin has various contractual obligations. The following table provides a summary of SNC-Lavalin's future contractual commitments specifically related to short-term debt and long-term debt repayments, commitments to invest in ICI and rental obligations:

(IN MILLIONS CA$)	2015	2016-2017	2018-2019	THEREAFTER	TOTAL
Short-term debt and long-term debt repayments:					
Recourse	$ –	$ –	$ 350.0	$ –	$ 350.0
Non-recourse from ICI	8.6	17.2	20.6	508.7	555.0
Commitments to invest in ICI	56.0	–	–	–	56.0
Rental obligations under operating lease arrangements	114.6	129.4	81.8	77.0	402.8
Total	$ 179.2	$ 146.6	$ 452.4	$ 585.7	$ 1,363.8

Additional details of the future principal repayments of the Company's recourse and non-recourse short-term debt and long-term debt are provided in Note 20D to the Company's 2014 audited annual consolidated financial statements. The commitments to invest in ICI result from SNC-Lavalin not being required to make its contribution immediately when investing, but instead contributing over time, as detailed in Note 5C to its 2014 audited annual consolidated financial statements. The commitments to invest in ICI are recognized for investments accounted for by the equity or cost methods and mainly related to Ambatovy, Rideau and 407 EDGGP. Information regarding the Company's minimum lease payments for annual basic rental under long-term operating leases can be obtained in Note 35 to its 2014 audited annual consolidated financial statements.

10.6.2 FINANCIAL INSTRUMENTS

The Company discloses information on the classification and fair value of its financial instruments, as well as on the nature and extent of risks arising from financial instruments, and related risk management in Note 31 to its 2014 audited annual consolidated financial statements.

Derivative financial instruments	**Financial arrangement**
SNC-Lavalin enters into derivative financial instruments, namely: i) forward currency exchange contracts to hedge its exposure to fluctuations in foreign currency exchange rates on projects; and ii) interest-rate swaps to hedge the variability of interest rates relating to financing arrangements.	The Company has a financial arrangement with an investment grade financial institution to limit its exposure to the variability of its cash-settled share-based payment arrangements caused by fluctuations in its share price (refer to Note 24C to the 2014 audited annual consolidated financial statements).
All financial instruments are entered into with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.	

The Company does not hold or issue any derivative instruments for speculative purposes, but rather for hedging purposes only, including entering into a foreign exchange hedge in 2014 for the foreign exchange exposure of the Acquisition, as described in Note 6 to its audited annual consolidated financial statements. The derivative financial instruments are subject to normal credit terms and conditions, financial controls and management and risk monitoring procedures.

10.7 DIVIDENDS DECLARED

The Board of Directors has decided to increase the quarterly cash dividend payable to shareholders from $0.24 per share to $0.25 per share for the fourth quarter of 2014, resulting in total cash dividends declared of $0.97 per share relating to 2014.

The table below summarizes the dividends declared for each of the past three years:

YEAR ENDED DECEMBER 31 (IN CA$)	**2014**	2013	2012
Dividends per share declared to SNC-Lavalin shareholders (1)	**$ 0.97**	$ 0.93	$ 0.89
Dividend increase (%)	**4%**	4%	5%

(1) The dividends declared are classified in the period for which the financial results are publicly announced, notwithstanding the declaration or payment date.

Total cash dividends paid in 2014 were $146.2 million compared to $139.4 million in 2013. The Company has paid quarterly dividends for 25 consecutive years and has increased its yearly dividend paid per share for each of the past 14 years.

10.8 RETURN ON AVERAGE SHAREHOLDERS EQUITY ("ROASE")

ROASE is a non-IFRS financial measure of 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".

The Company excludes "other components of equity" because this element results mainly from the accounting treatment of cash flow hedges, and is not representative of the way the Company evaluates the management of its foreign currency exchange risk. Accordingly, the "other components of equity" are not representative of the Company's financial position.

For 2014, **ROASE was 58.7%**, compared to 1.6% for 2013 and 14.6% for 2012, due to the gain on disposal of AltaLink.

11. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 2 to the Company's 2014 audited annual consolidated financial statements, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments and key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described in detail in Note 3 to the Company's 2014 audited annual consolidated financial statements.

12. ACCOUNTING POLICIES AND CHANGES

12.1 NEW ACCOUNTING POLICIES ADOPTED IN 2014

Following the acquisition of Kentz by the Company in 2014, the Company adopted two new accounting policies applicable to: i) the inventories of Kentz (see Note 2O to the Company's 2014 audited annual consolidated financial statements); and ii) the intangible assets related to Kentz acquisition (see note 2Q Company's 2014 audited annual consolidated financial statements).

12.2 INTERPRETATION AND AMENDMENTS ADOPTED IN 2014

The following interpretation and amendments to an existing standard have been adopted by the Company on January 1, 2014:

- IFRIC Interpretation 21, *Levies*, ("IFRIC 21") considers how an entity should account for levies imposed by governments, other than income taxes, in its financial statements.
- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36, *Impairment of Assets*) address the disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

The retrospective initial application of IFRIC 21 and of the amendments to IAS 36, *Impairment of Assets*, ("IAS 36") did not have any impact on the Company's financial statements.

The following amendments to existing standards have been adopted by the Company on July 1, 2014:

- Amendments to IFRS 2, *Share-based Payments*, relate to the definitions of "vesting condition" and "market condition" and add definitions for "performance condition" and "service condition" and are applicable to share-based payment transactions for which the grant date is on or after July 1, 2014.
- Amendments to IFRS 3, *Business Combinations*, ("IFRS 3") clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date for business combinations for which the acquisition date is on or after July 1, 2014, irrespective of whether the contingent consideration is a financial instrument or a non-financial asset or liability.

The adoption of the amendments listed above did not have any impact on the Company's financial statements.

12.3 STANDARDS AND AMENDMENTS ISSUED TO BE ADOPTED AT A LATER DATE

The following amendments to the standards has been issued by the International Accounting Standards Board ("IASB") and are applicable to the Company for its annual periods beginning on January 1, 2015 and thereafter, with an earlier application permitted:

- *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19, *Employee Benefits*) apply to contributions from employees or third parties to defined benefit plans, which objective is to simplify the accounting for contributions that are independent of the number of years of employee service.
- Annual improvements to IFRS (2010-2012 Cycle), which include among others:
    - Amendments to IFRS 8, *Operating Segments*, require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
    - Amendments to IFRS 13, *Fair Value Measurement*, clarify that the issuance of IFRS 13 did not remove the ability to measure current receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.
- Annual improvements to IFRS (2011-2013 Cycle), which include among others:
    - Amendments to IFRS 3, *Business Combinations*, clarify that the scope of IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
    - Amendments to IFRS 13, *Fair Value Measurement*, clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, even if those contracts do not meet the definition of financial assets or financial liabilities.

The following amendments to the standards have been issued and are applicable to the Company for its annual periods beginning on January 1, 2016 and thereafter, with an earlier application permitted:

- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*): i) amendments to IAS 16, *Property, Plant and Equipment*, prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment; and ii) amendments to IAS 38, *Intangible Assets*, introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset, except in two limited circumstances.

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*): i) when an entity sells or contributes assets that constitute a business to a joint venture or an associate or loses control of a subsidiary that contains a business but it retains joint control or significant influence, the gain or loss resulting from that transaction is recognized in full; and ii) when an entity sells or contributes assets that do not constitute a business to a joint venture or associate or loses control of a subsidiary that does not contain a business but it retains joint control or significant influence in a transaction involving an associate or a joint venture, the gain or loss resulting from that transaction is recognized only to the extent of the unrelated investors' interests in the joint venture or associate, i.e., the entity's share of the gain or loss is eliminated.

- *Disclosure Initiative* (Amendments to IAS 1, *Presentation of Financial Statements*) comprises several narrow-scope amendments to improve presentation and disclosure requirements in existing standards.

- Annual Improvements to IFRS (2012-2014 Cycle):

  - Amendments to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, introduce guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued.

  - Amendments to IFRS 7, *Financial Instruments: Disclosure*, provide: i) additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets; and ii) guidance as to whether the disclosure requirements on offsetting financial assets and financial liabilities should be included in condensed interim financial statements.

  - Amendments to IAS 19, *Employee Benefits*, clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid.

  - Amendments to IAS 34, *Interim Financial Reporting*, ("IAS 34") clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The following standard has been issued and is applicable to the Company for its annual periods beginning on January 1, 2017 and thereafter, with an earlier application permitted:

- IFRS 15, *Revenue from Contracts with Customers*, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede current revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related Interpretations.

The following standard has been issued and is applicable to the Company for its annual periods beginning on January 1, 2018 and thereafter, with an earlier application permitted:

- IFRS 9, *Financial Instruments*, covers mainly: i) the classification and measurement of financial assets and financial liabilities; ii) the new impairment model for the recognition of expected credit losses; and iii) the new hedge accounting model.

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

13. RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties in carrying out its activities and you should carefully consider the risks and uncertainties below before investing in its securities. Additional risks not currently known or that the Company currently believes are immaterial may also impair its business, results of operations, financial condition and liquidity.

RISKS RELATED TO LITIGATION, REGULATORY MATTERS AND INVESTIGATIONS

The outcome of pending and future claims and litigation could have a material adverse impact on the Company's business, financial condition and results of operation.

SNC-Lavalin and its ICI are or can be party to litigation in the normal course of business. Since the Company engages in engineering and construction, and O&M activities for facilities and projects where design, construction or systems failures can result in substantial injury or damage to employees or others, the Company is exposed to substantial claims and litigation if there is a failure at any such project. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and be brought by clients or third parties, such as those who use or reside near clients' projects. SNC-Lavalin can also be exposed to claims if it agreed that a project will achieve certain performance standards or satisfy certain technical requirements and those standards or requirements are not met. In many contracts with clients, subcontractors, and vendors, the Company agrees to retain or assume potential liabilities for damages, penalties, losses and other exposures relating to projects that could result in claims that greatly exceed the anticipated profits relating to those contracts. In addition, while clients and subcontractors may agree to indemnify the Company against certain liabilities, such third parties may refuse or be unable to pay.

Moreover, 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 defendants in the Québec Motion are SNC-Lavalin and certain of its current and former directors and officers. 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 defendants in the Ontario Action are SNC-Lavalin and certain of its current and former directors and officers. 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 "Class Period"). 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 filed 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 seeks additional damages based on various further drops in share price.

On September 19, 2012, the Ontario judge agreed to the discontinuance of the plaintiffs' claims other than the statutory misrepresentation claims under securities legislation in accordance with an agreement with the plaintiffs. The judge granted the plaintiffs leave to proceed with those statutory claims and has certified a class action covering shareholders who bought SNC-Lavalin shares during the Class Period except for Quebec residents. On January 24, 2013, a judge of the Quebec Superior Court rendered a similar judgment covering Quebec residents.

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 action lawsuits or other litigation. While SNC-Lavalin has directors' and officers' liability insurance insuring individuals against liability for acts or omissions in their capacities as directors and officers, the Company does not maintain any other insurance in connection with the Actions. The amount of coverage under the directors' and officers' policy is limited and such coverage may be an insignificant portion of any amounts the Company is required or determines to pay in connection with the Actions. In the event the Company is required or determines to pay amounts in connection with these lawsuits or other litigation, such amounts could be significant and may have a material adverse impact on SNC-Lavalin's liquidity and financial results.

On June 12, 2014, the Quebec Superior Court rendered a decision in the matter commonly referred to as the "Pyrrhotite Case" in Trois-Rivières, Quebec and in which SNC-Lavalin is one of numerous defendants. The Superior Court ruled in favour of the plaintiffs, awarding an aggregate amount of approximately $168 million in damages apportioned amongst the defendants, on an *in solidum* basis. SNC-Lavalin, among other parties, filed a Notice to Appeal the Superior Court decision both on merit and apportionment of liability. Based on the current judgment, SNC-Lavalin's share of the damages would be approximately 70%, a significant portion of which the Company would expect to recover from its external insurers. In addition to the Appeal of the decision, recourses in warranty have been filed against another party, which may result in reduction of SNC-Lavalin's share of the damages.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Company's appeal or these and other related proceedings generally, determine if the amount included in the Company's provisions is sufficient or determine the amount of any potential losses, if any, that may be incurred in connection with any final judgment on this matter.

SNC-Lavalin maintains insurance coverage for various aspects of its business and operations. The Company's insurance programs have varying coverage limits and maximums, and insurance companies may seek to deny claims the Company might make. In addition, SNC-Lavalin has elected to retain a portion of losses that may occur through the use of various deductibles, limits and retentions under these programs. As a result, the Company may be subject to future liability for which it is only partially insured, or completely uninsured.

In addition, the nature of the Company's business sometimes results in clients, subcontractors, and vendors presenting claims for, among other things, recovery of costs related to certain projects. Similarly, SNC-Lavalin occasionally presents change orders and other claims to clients, subcontractors, and vendors. If the Company fails to document properly the nature of claims and change orders or are otherwise unsuccessful in negotiating reasonable settlements with clients, subcontractors and vendors, the Company could incur cost overruns, reduced profits or, in some cases, a loss for a project. A failure to promptly recover on these types of claims could have a material adverse impact on SNC-Lavalin's liquidity and financial results. Additionally, irrespective of how well the Company documents the nature of its claims and change orders, the cost to prosecute and defend claims and change orders can be significant.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavourable rulings can and do occur. Pending or future claims against SNC-Lavalin could result in professional liability, product liability, criminal liability, warranty obligations, and other liabilities which, to the extent the Company is not insured against a loss or its insurer fails to provide coverage, could have a material adverse impact on the Company's business, financial condition and results of operations.

On February 19, 2015, the Company was charged with one count of corruption under the Corruption of Foreign Public Officials Act (Canada) (the "CFPOA") and one count of fraud under the Criminal Code (Canada) (the "Criminal Code"). The Company is also subject to other ongoing investigations which could subject the Company to criminal and administrative enforcement actions, civil actions and sanctions, fines and other penalties, some of which may be significant. These charges and investigations, and potential results thereof, could harm the Company's reputation, result in suspension, prohibition or debarment of the Company from participating in certain projects, reduce its revenues and net income and adversely affect its business.

In February 2012, the Board of Directors initiated an independent investigation (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) to construction projects to which they did not relate, and certain other contracts. On March 26, 2012, the Company announced the results of the Independent Review and related findings and recommendations of the Audit Committee to the Board of Directors and provided information to the appropriate authorities. The Company understands that investigations by law enforcement and securities regulatory authorities remain ongoing in connection with this information, which are described in greater detail below. The Company also continues to review compliance matters (including matters beyond the scope of the Independent Review), including to assess whether amounts may, directly or indirectly, have been improperly paid to persons owing fiduciary duties to the Company, and as additional information, if any, arises as a result thereof, the Company will continue to investigate and review such information as it has in the past.

Charges and RCMP Investigations

On February 19, 2015, the Royal Canadian Mounted Police (the "RCMP") and the Public Prosecution Service of Canada laid charges against the Company and its indirect subsidiaries SNC-Lavalin International Inc. and SNC-Lavalin Construction Inc. Each entity has been charged with one count of fraud under section 380 of the Criminal Code and one count of corruption under Section 3(1)(b) of the CFPOA (the "Charges"). These Charges follow the RCMP's formal investigation (including in connection with the search warrant executed by the RCMP at the Company on April 13, 2012) into whether improper payments were made or offered, directly or indirectly, to be made, to a government official of Libya to influence the award of certain engineering and construction contracts between 2001 and 2011. This investigation, referred to as Project Assistance by the RCMP, also led to criminal charges being laid against two former employees of the Company. The Company understands that the charges laid against one or both of these former employees include bribery under the CFPOA, fraud, laundering the proceeds of crime and possession of property obtained by crime under the Criminal Code, and contravention of the *Regulations Implementing the United Nations Resolutions on Libya* in Canada. Due to the inherent uncertainties of these proceedings, it is not possible to predict the final outcome of the Charges, which could possibly result in a conviction on one or more of the Charges. The Company cannot predict what, if any, other actions may be taken by any other applicable government or authority or the Company's customers or other third parties as a result of the Charges, or whether additional charges may be brought in connection with the RCMP investigation of these matters.

The RCMP is also conducting a formal investigation into whether improper payments were made or offered to government officials in Bangladesh to influence the award of a proposed construction supervision consulting contract to a subsidiary of the Company in violation of the CFPOA and its involvement in projects in certain North African countries (the "RCMP Investigation"). This investigation has led to criminal charges being laid against three former employees of a subsidiary of the Company pursuant to the anti-bribery provisions of the CFPOA. Although, to date, the Company has not been charged in connection with the subject matter of this RCMP Investigation, it may result in criminal charges being laid against the Company and/or certain of its subsidiaries under the CFPOA and could result in a conviction on one or more of such charges.

The Charges and the RCMP Investigation and potential outcomes thereof, and any negative publicity associated therewith, could adversely affect the Company's business, results of operations and reputation and could subject the Company to sanctions, fines and other penalties, some of which may be significant. In addition, potential consequences of the Charges and/or the RCMP Investigation could include, in respect of the Company or one or more of its subsidiaries, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain governments (such as the Government of Canada and/or Canadian provincial governments) or by certain administrative organizations under applicable procurement laws, regulations, policies or practices. The Company derives a significant percentage of its annual global revenue (and an even larger percentage of its annual Canadian revenue) from government and government-related contracts. As a result, suspension, prohibition or debarment, whether discretionary or mandatory, from participating in certain government and

government-related contracts (in Canada, Canadian provinces or elsewhere) would have a material adverse effect on the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities.

AMF Investigation; AMF Certification under the Quebec Public Contracts Act

The Company understands that there is an ongoing investigation being conducted in the context of applicable securities laws and regulations by the securities regulator in the Province of Quebec, the Autorité des marchés financiers (the "AMF").

In addition, as announced on February 5, 2014, the Company and certain of its subsidiaries obtained the requisite certification from the AMF to contract with public bodies in the Province of Quebec, as required pursuant to the *Act Respecting Contracting With Public Bodies*. In the event an entity or any of its affiliates is convicted of certain specified offences under the Criminal Code or the CFPOA, AMF certification can be automatically revoked. In addition, the AMF has the discretionary power to refuse to grant an authorization or revoke an authorization if it determines that the enterprise concerned fails to meet the high standards of integrity that the public is entitled to expect from a party to a public contract or subcontract.

World Bank Settlement

On April 17, 2013, the Company announced a settlement in connection with the previously announced investigations by the World Bank Group relating to the project in Bangladesh referred to above and a project in Cambodia, which includes a suspension of the right to bid on and to be awarded World Bank Group-financed projects by SNC-Lavalin Inc., a subsidiary of the Company, and its controlled affiliates for a period of 10 years (the "World Bank Settlement"). The suspension could be lifted after eight years, if the terms and conditions of the settlement agreement are complied with fully. According to the terms of the World Bank Settlement, certain of the Company's other affiliates continue to be eligible to bid on and be awarded World Bank Group-financed projects as long as they comply with all of the terms and conditions imposed upon them under the terms of the World Bank Settlement, including an obligation not to evade the sanction imposed. The World Bank Settlement also requires that the Company cooperate with the World Bank on various compliance matters in the future. The World Bank Settlement does not include a financial penalty. The World Bank Settlement has led to certain other multilateral development banks following suit, debarring SNC-Lavalin Inc. and its controlled affiliates on the same terms.

Other Investigations

The Company understands that there are also investigations by various authorities ongoing in various jurisdictions with respect to the above and other matters. In addition, Pierre Duhaime and Riadh Ben Aissa, former Company employees, have been charged by authorities in the Province of Quebec with various fraud offences allegedly in connection with a Company project in the Province of Quebec. On October 1, 2014, Mr. Ben Aissa entered guilty pleas to certain criminal charges in the Federal Criminal Court of Switzerland following a lengthy investigation by Swiss authorities and the detention of Mr. Ben Aissa by Swiss authorities since April 2012. The Company was recognized as an injured party in the context of the Swiss proceedings and is entitled to recover certain amounts of money in connection therewith.

The Company is currently unable to determine when any of the above investigations will be completed, whether other investigations of the Company by these or other authorities will be initiated or the scope of current investigations broadened. While the Company continues to cooperate and communicate with authorities in connection with all ongoing investigations as noted above, if regulatory, enforcement or administrative authorities or third parties determine to take action against the Company or to sanction the Company in connection with possible violations of law, contracts or otherwise, the consequences of any such sanctions or other actions, whether actual or alleged, could require the Company to pay material fines or damages, consent to injunctions on future conduct or lead to other penalties including temporary or permanent, mandatory or discretionary suspension, prohibition or debarment from participating in projects by certain administrative organizations (such as those provided for in the World Bank Settlement) or by governments (such as the Government of Canada and/or the Government of Quebec) under applicable procurement laws, regulations, policies or practices, each of which could, materially adversely affect the Company's business, financial condition and liquidity and the market price of the Company's publicly traded securities.

The outcomes of the above investigations or the Charges could also result in, among other things, (i) covenant defaults under various project contracts, (ii) third party claims, which may include claims for special, indirect, derivative or consequential damages, or (iii) adverse consequences on the Company's ability to secure or continue its own financing, or to continue or secure financing for current or future projects, any of which could materially adversely affect the Company's business, financial condition and liquidity and the market prices of the Company's publicly traded securities. In addition, the Charges, these investigations and

outcomes of these investigations or Charges (including the World Bank Settlement) and any negative publicity associated therewith, could damage SNC-Lavalin's reputation and ability to do business. Finally, the findings and outcomes of the Charges or these investigations (including the World Bank Settlement) may affect the course of the class action lawsuits (described above).

Due to the uncertainties related to the outcome of the Charges and each of the above investigations, the Company is currently unable to reliably estimate an amount of potential liabilities or a range of potential liabilities, if any, in connection with the Charges or any of these investigations.

The Company's senior management and Board of Directors have been required to devote significant time and resources to the investigations described above, the World Bank Settlement and ongoing related matters which have distracted and may continue to distract from the conduct of the Company's daily business, and significant expenses have been and may continue to be incurred in connection with these investigations including substantial fees of lawyers and other advisors. In addition, the Company and/or other employees or additional former employees of the Company could become the subject of these or other investigations by law enforcement and/or regulatory authorities in respect of the matters described above or other matters which, in turn, could require the devotion of additional time of senior management and the diversion or utilization of other resources.

Further regulatory developments could have a significant adverse impact on the Company's results, and employee, agent or partner misconduct or failure to comply with anti-bribery and other government laws and regulations could harm the Company's reputation, reduce its revenues and net income, and subject the Company to criminal and administrative enforcement actions and civil actions.

The Company is subject to various rules, regulations, laws, and other legal requirements, enforced by governments or other authorities. Further regulatory developments, namely abrupt changes in foreign government policies and regulations, could have a significant adverse impact on the Company's results.

In addition, misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one of the Company's employees, agents or partners could have a significant negative impact on SNC-Lavalin's business and reputation. Such misconduct could include the failure to comply with government procurement regulations, regulations regarding the protection of classified information, regulations prohibiting bribery and other foreign corrupt practices, regulations regarding the pricing of labour and other costs in government contracts, regulations on lobbying or similar activities, regulations pertaining to the internal control over financial reporting, environmental laws and any other applicable laws or regulations. For example, the CFPOA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. In addition, SNC-Lavalin provides services that may be highly sensitive or that could relate to critical national security matters; if a security breach were to occur, the Company's ability to procure future government contracts could be severely limited.

SNC-Lavalin's policies mandate compliance with these regulations and laws, and the Company takes precautions intended to prevent and detect misconduct. However, since internal controls are subject to inherent limitations, including human error, it is possible that these controls could be intentionally circumvented or become inadequate because of changed conditions. As a result, SNC-Lavalin cannot assure that its controls will protect the Company from reckless or criminal acts committed by employees, agents or partners. Failure to comply with applicable laws or regulations or acts of misconduct could subject SNC-Lavalin to fines and penalties, loss of security clearances, and suspension, prohibition or debarment from contracting, any or all of which could harm the Company's reputation, subject the Company to criminal and administrative enforcement actions and civil actions and have a negative impact on SNC-Lavalin's business.

A negative impact on the Company's public image could influence its ability to obtain future projects.

The consequence of reputational risk is a negative impact on the Company's public image, which may cause the cancellation of current projects and influence the Company's ability to obtain future projects. Reputational risk may arise under many situations including, among others, quality or performance issues on the Company's projects, a poor health and safety record, alleged or proven non-compliance with laws or regulations by the Company's employees, agents, subcontractors, suppliers and/or partners, and creation of pollution and contamination.

RISKS RELATING TO THE COMPANY'S OPERATIONS

If the Company is not able to successfully execute on its new strategic plan, its business and results of operations would be adversely affected.

On May 2, 2013, the Company announced a new strategic plan designed to strengthen its core operations with a view to increasing long-term profitability. The strategic plan, described earlier in this MD&A, outlines the sectors and geographies which the Company will target, and the integrated solutions for Infrastructure Concessions model with a disciplined approach to employing capital for its ICI portfolio. Implementation of this plan presents various managerial, organizational, administrative, operational and other challenges. Implementing the new strategic plan may require, among other things, recruiting, developing, motivating and retaining talented employees, and executing on dispositions of certain ICI assets at the appropriate time as well as potentially making strategic acquisitions to support the Company's growth strategy. If the Company is unable to successfully execute on any or all of the initiatives contained in the new strategic plan, the Company's revenues, operating results and profitability may be adversely affected. Even if the Company successfully implements its new strategic plan, there can be no guarantee that its revenues, operating results and profitability will improve.

Fixed-price contracts or the Company's failure to meet contractual schedule or performance requirements may increase the volatility and unpredictability of its revenue and profitability.

A significant portion of the Company's business and revenues is dependent on fixed-price contracts. The Company bears the risk for cost overruns from fixed-price contracts. Contract revenues and costs are established, in part, based on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, productivity, performance of the Company's employees and of subcontractors or equipment suppliers, price, availability of labour, equipment and materials and other requirements that may affect project costs or schedule, such as obtaining the required environmental permits and approvals on a timely basis. Cost overruns may also occur when unforeseen circumstances arise.

If cost overruns occur, the Company could experience reduced profits or, in some cases, a loss for that project. A significant cost overrun can occur on both large and smaller contracts or projects. If a large cost overrun occurs, or if cost overruns occur on multiple projects, such cost overruns could increase the unpredictability and volatility of the Company's profitability as well as have a material adverse impact on its business.

In addition, in certain instances, SNC-Lavalin may guarantee a client that it will complete a project by a scheduled date or that a facility will achieve certain performance standards. As such, SNC-Lavalin may incur additional costs should the project or facility subsequently fail to meet the scheduled completion date or performance standards. A project's revenues could also be reduced in the event the Company is required to pay liquidated damages or in connection with contractual penalty provisions, which can be substantial and can accrue on a daily basis.

The Company's revenue and profitability are largely dependent on the awarding of new contracts, which it does not directly control, and the uncertainty of contract award timing could have an adverse effect on the Company's ability to match its workforce size with its contract needs.

Obtaining new contract awards, which is a key component for the sustainability of net income, is a risk factor in a competitive environment. A substantial portion of SNC-Lavalin's revenue and profitability is generated from large-scale project awards. The timing of when project awards will be made is unpredictable and outside of the Company's control. SNC-Lavalin operates in highly competitive markets where it is difficult to predict whether and when it will receive awards since these awards and projects often involve complex and lengthy negotiations and bidding processes. These processes can be impacted by a wide variety of factors including governmental approvals, financing contingencies, commodity prices, environmental conditions and overall market and economic conditions. In addition, the Company may not win contracts that it has bid upon due to price, a client's perception of the Company's reputation, ability to perform and/or perceived technology or other advantages held by competitors. SNC-Lavalin's competitors may be more inclined to take greater or unusual risks or accept terms and conditions in a contract that the Company might not otherwise deem market or acceptable. Because a significant portion of the Company's revenue is generated from large projects, the Company's results of operations can fluctuate from quarter to quarter and year to year depending on whether and when project awards occur and the commencement and progress of work under awarded contracts. As a result, SNC-Lavalin is subject to the risk of losing new awards to competitors or the risk that revenue may not be derived from awarded projects as quickly as anticipated.

In addition, fluctuating demand cycles are common in the engineering and construction industries and can have a significant impact on the degree of competition for available projects and the awarding of new contracts. As such, fluctuations in the demand

for engineering and construction services or the ability of the private and/or public sector to fund projects in a depressed economic climate could adversely affect the awarding of new contracts and margin and thus SNC-Lavalin's results. Given the cyclical nature of the engineering and construction industries, the financial results of SNC-Lavalin, like others in such industries, may be impacted in any given period by a wide variety of factors beyond its control, and as a result there may, from time to time, be significant and unpredictable variations in the Company's quarterly and annual financial results.

SNC-Lavalin's estimates of future performance depend on, among other matters, whether and when the Company will receive certain new contract awards, including the extent to which the Company utilizes its workforce. The rate at which SNC-Lavalin utilizes its workforce is impacted by a variety of factors including: the Company's ability to manage attrition; the Company's ability to forecast its need for services which in turn allows the Company to maintain an appropriately sized workforce; the Company's ability to transition employees from completed projects to new projects or between internal business groups; and the Company's need to devote resources to non-chargeable activities such as training or business development. While SNC-Lavalin's estimates are based upon its good faith judgment, these estimates can be unreliable and may frequently change based on newly available information. In the case of large-scale domestic and international projects where timing is often uncertain, it is particularly difficult to predict whether and when the Company will receive a contract award. The uncertainty of contract award timing can present difficulties in matching the Company's workforce size with its contract needs. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, the Company could incur costs resulting from reductions in staff or redundancy of facilities that would have the effect of reducing the Company's operational efficiency, margins and profits.

The Company's backlog is subject to unexpected adjustments and cancellations, including under "termination for convenience" provisions, and does not represent a guarantee of the Company's future revenues or profitability.

The Company's revenue backlog is derived from contract awards that are considered firm thus an indication of expected future revenues. Project delays, suspensions, terminations, cancellations or reductions in scope do occur from time to time in the Company's industry due to considerations beyond the control of SNC-Lavalin and may have a material impact on the amount of reported backlog with a corresponding adverse impact on future revenues and profitability. In addition, many of the Company's contracts contain "termination for convenience" provisions, which permit the client to terminate or cancel the contract at its convenience upon providing the Company with notice a specified period of time before the termination date and/or paying the Company equitable compensation, depending on the specific contract terms. In the event a significant number of the Company's clients were to avail themselves of such "termination for convenience" provisions, or if one or more significant contracts were terminated for convenience, the Company's reported backlog would be adversely affected with a corresponding adverse impact on expected future revenues and profitability.

SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting.

SNC-Lavalin is a provider of services to government agencies and is exposed to risks associated with government contracting. SNC-Lavalin's failure to comply with the terms of one or more government contracts or government statutes and regulations could result in the Company's contracts with government agencies being terminated or the Company being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties and the risk of public scrutiny of the Company's performance, and potential harm to its reputation, each of which could have a material adverse effect on SNC-Lavalin's business. Other remedies that the Company's government clients may seek for improper activities or performance issues include sanctions such as forfeiture of profits and suspension of payments. In addition, virtually all of the Company's contracts with governments contain "termination for convenience" provisions, as described in the risk factor above entitled "*The Company's backlog is subject to unexpected adjustments and cancellations, including under 'termination for convenience' provisions, and does not represent a guarantee of the Company's future revenues or profitability."*

Government contracts present SNC-Lavalin with other risks as well. Legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, the Company's contracts with government agencies may be only partially funded or may be terminated, and the Company may not realize all of its potential revenues and profits from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

The Company's international operations are exposed to various risks and uncertainties, including unfavourable political environments, weak foreign economies and the exposure to foreign currency risk.

A significant portion of SNC-Lavalin's revenues are attributable to projects in international markets outside of Canada. SNC-Lavalin's business is dependent on the continued success of its international operations, and the Company expects its international operations to continue to account for a significant portion of total revenues. The Company's international operations are subject to a variety of risks, including:

- recessions and other economic crises in other regions, such as Europe, or specific foreign economies and the impact on the Company's costs of doing business in those countries;
- difficulties in staffing and managing foreign operations, including logistical, security and communication challenges;
- changes in foreign government policies, laws, regulations and regulatory requirements, or the interpretation, application and/or enforcement thereof;
- difficulty or expense in enforcing contractual rights due to a lack of a developed legal system or otherwise;
- renegotiation or nullification of existing contracts;
- the adoption of new, and the expansion of existing, trade or other restrictions;
- difficulties, delays and expense that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- embargoes;
- acts of war, civil unrest, force majeure and terrorism;
- social, political and economic instability;
- expropriation of property;
- tax increases or changes in tax laws, legislation or regulation or in the interpretation, application and/or enforcement thereof; and
- limitations on the Company's ability to repatriate cash, funds or capital invested or held in jurisdictions outside Canada.

To the extent SNC-Lavalin's international operations are affected by unexpected or adverse economic, political and other conditions, the Company's business, financial condition and results of operations may be adversely affected.

In addition, the Company's activities outside Canada expose SNC-Lavalin to foreign currency exchange risks, which could adversely impact its operating results. The Company is particularly vulnerable to fluctuations in Euros and U.S. dollars. While SNC-Lavalin has a hedging strategy in place to mitigate the effects of certain foreign currency exposures, there can be no assurance that such hedging strategy will be effective. Furthermore, the Company does not have hedging strategies in place with respect to all currencies in which it does business. The Company's hedging strategy includes the use of forward foreign exchange contracts, which also contain an inherent credit risk related to default on obligations by the counterparties to such contracts.

There are risks associated with the Company's ownership interests in ICI that could adversely affect it.

In accordance with its business strategy, SNC-Lavalin makes investments in ICI. When SNC-Lavalin holds an ownership interest in an ICI, it assumes a degree of risk associated with the financial performance of the ICI. The value of the Company's investment in such ICI is dependent on the ability of the ICI to attain its revenue and cost projections as well as the ability to secure initial and ongoing financing, which can be influenced by numerous factors, some partially beyond the ICI's control, including, but not limited to, political or legislative changes, lifecycle maintenance, operating revenues, collection success, cost management and the general state of the capital and/or credit markets. In addition, the Company is sometimes required to guarantee the obligations of the ICI or partners in such ICI, which may result in a liability for the Company in the event such guarantee is enforced or applied. See, for example, the discussion on the guarantee given by SNC-Lavalin in connection with its investment in Ambatovy (see section 8.3.4.1).

The Company makes investments in ICI where it does not hold a controlling interest. These ICI may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling entity makes decisions that negatively impact the ICI or internal control problems arise within the ICI, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company's non-recourse debt from ICI can be affected by fluctuations in interest rates.

In addition, many of the Company's ICI investments are governed by shareholder, partnership or similar joint venture agreements or arrangements, many of which restrict the Company's ability or right to freely sell or otherwise dispose of its ICI and/or that affect the timing of any such sale or other disposition. Consequently, the Company's ability to efficiently or timely dispose of or monetize one or more of its ICI could be limited by such contractual arrangements, which could in turn have an adverse impact on SNC-Lavalin's liquidity or capital resources.

The Company is dependent on third parties to complete many of its contracts.

SNC-Lavalin undertakes contracts wherein it subcontracts a portion of the project or the supply of material and equipment to third parties. If the amount the Company is required to pay for subcontractors or equipment and supplies exceeds what was estimated, the Company may suffer losses on these contracts. If a supplier or subcontractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, or provides supplies, equipment or services that are not of an acceptable quality, the Company may be required to source those supplies, equipment or services on a delayed basis or at a higher price than anticipated, which could impact contract profitability. In addition, faulty equipment or materials could impact the overall project, resulting in claims against SNC-Lavalin for failure to meet required project specifications. These risks may be intensified during an economic downturn if these suppliers or subcontractors experience financial difficulties or find it difficult to obtain sufficient financing to fund their operations or access to bonding, and are not able to provide the services or supplies necessary for the Company's business. In addition, in instances where SNC-Lavalin relies on a single contracted supplier or subcontractor or a small number of subcontractors, there can be no assurance that the marketplace can provide these products or services on a timely basis, or at the costs the Company had anticipated. A failure by a third-party subcontractor or supplier to comply with applicable laws, rules or regulations could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company.

The Company's use of joint ventures and partnerships exposes it to risks and uncertainties, many of which are outside of the Company's control.

SNC-Lavalin undertakes certain contracts with joint venture partners, as a member of partnerships, and under other similar arrangements. This situation exposes the Company to a number of risks, including the risk that its partners may be unable to fulfill their obligations to the Company or its clients. SNC-Lavalin's partners may also be unable or unwilling to provide the required levels of financial support to the partnerships. If these circumstances occur, the Company may be required to pay financial penalties or liquidated damages, provide additional services, or make additional investments to ensure adequate performance and delivery of the contracted services. Under agreements with joint and several (or solidary) liabilities, SNC-Lavalin could be liable for both its obligations and those of its partners. These circumstances could also lead to disputes and litigation with the Company's partners or clients, all of which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.

SNC-Lavalin participates in joint ventures and similar arrangements in which it is not the controlling partner. In these cases, the Company has limited control over the actions or decisions of the joint venture. These joint ventures may not be subject to the same requirements regarding internal controls and internal control over financial reporting that SNC-Lavalin follows. To the extent the controlling partner makes decisions that negatively impact the joint venture or internal control problems arise within the joint venture, it could have a material adverse impact on the Company's business, financial condition and results of operations.

The failure by a joint venture partner to comply with applicable laws, rules or regulations, or client requirements, could negatively impact SNC-Lavalin's business and, in the case of government contracts, could result in fines, penalties, suspension or even debarment being imposed on the Company, which could have a material adverse impact on the Company's reputation, business, financial condition and results of operations.

The competitive nature of the markets in which the Company does business could adversely affect it.

SNC-Lavalin operates businesses in highly competitive industry segments and geographic markets both in Canada and internationally. SNC-Lavalin competes with both large as well as many mid-size and smaller companies across a range of industry segments. In addition, an increase in international companies entering into the Canadian marketplace has also made such market more competitive. New contract awards and contract margin are dependent on the level of competition and the general state of the markets in which the Company operates. Fluctuations in demand in the segments in which the Company operates may impact the degree of competition for work. Competitive position is based on a multitude of factors, including pricing, ability to obtain adequate bonding, backlog, financial strength, appetite for risk, availability of partners, suppliers and workforce, and reputation for quality, timeliness and experience. If the Company is unable to effectively respond to these competitive factors, results of operations and financial condition will be adversely impacted. In addition, a prolonged economic slump or slower than anticipated recovery may also result in increased competition in certain market segments, price or margin reductions or decreased demand which may adversely affect results.

The Company's project execution activities may result in professional liability or liability for faulty services.

The Company's failure to act or to make judgments and recommendations in accordance with applicable professional standards could result in large monetary damages awards against the Company. The Company's business involves making professional judgments regarding the planning, design, development, construction, operations and management of industrial facilities and public infrastructure projects. A failure or event at one of SNC-Lavalin's project sites or completed projects resulting from the work it has performed could result in significant professional or product liability, warranty or other claims against the Company as well as reputational harm, especially if public safety is impacted. These liabilities could exceed the Company's insurance limits or the fees it generates, or could impact the Company's ability to obtain insurance in the future. In addition, clients or subcontractors who have agreed to indemnify SNC-Lavalin against any such liabilities or losses might refuse or be unable to pay. An uninsured claim, either in part or in whole, if successful and of a material magnitude, could have a material adverse impact on the Company's financial condition and results of operations.

In some jurisdictions where the Company does business, it may be held jointly and severally liable for both its obligations and those of other parties working on a particular project, notwithstanding the absence of a contractual relationship between the Company and such other parties.

The Company could be subject to monetary damages and penalties in connection with professional and engineering reports and opinions that it provides.

SNC-Lavalin issues reports and opinions to clients based on its professional engineering expertise, as well as its other professional credentials. The Company's reports and opinions are often required to comply with professional standards, licensing requirements, securities regulations and other laws, regulations, rules and standards governing the performance of professional services in the jurisdiction where the services are performed. In addition, the Company could be liable to third parties who use or rely upon the Company's reports or opinions even if it is not contractually bound to those third parties, which may result in monetary damages or penalties.

The Company may not have in place sufficient insurance coverage to satisfy its needs.

As part of SNC-Lavalin's business operations, the Company maintains insurance coverage. There can be no assurance that the Company has in place sufficient insurance coverage to satisfy its needs, or that it will be able to secure all necessary or sufficient insurance coverage in the future. The Company's insurance is purchased from a number of third-party insurers, often in layered insurance arrangements. If any of its third-party insurers fail, refuse to renew or revoke coverage or otherwise cannot satisfy their insurance requirements to SNC-Lavalin, then the Company's overall risk exposure and operational expenses could be increased and its business operations could be interrupted.

SNC-Lavalin has obtained directors' and officers' liability insurance insuring directors and officers against liability for acts or omissions in their capacities as directors and officers, subject to certain exclusions. Such insurance also insures SNC-Lavalin against losses which the Company may incur in indemnifying officers and directors. In addition, SNC-Lavalin may enter into indemnification agreements with key officers and directors and such persons also have indemnification rights under applicable laws and the Company's constating documents. SNC-Lavalin's obligations to indemnify directors and officers may pose substantial risks to the Company's financial condition as the Company may not be able to maintain its insurance or, even if the Company is able to maintain its insurance, claims in excess of the Company's insurance coverage could materially deplete its assets.

The Company's employees work on projects that are inherently dangerous and a failure to maintain a safe work site could result in significant losses and/or an inability to obtain future projects.

The nature of SNC-Lavalin's work places employees and others near large equipment, dangerous processes or highly regulated materials, and in challenging environments. Many clients require that the Company meet certain safety standards or criteria to be eligible to bid on contracts, and the payment of a portion of the Company's contract fees or profits may be subject to satisfying safety standards or criteria. Unsafe work conditions also have the potential of increasing employee turnover, increasing project and operating costs and could negatively impact the awarding of new contracts. If SNC-Lavalin fails to implement appropriate safety procedures and/or if its procedures fail, employees or others may suffer injuries. Failure to comply with such procedures, client contracts or applicable regulations could subject SNC-Lavalin to losses and liability and adversely impact the Company's business, financial condition and operating results as well as its ability to obtain future projects.

The Company's failure to attract and retain qualified personnel could have an adverse effect on its activities.

The success of SNC-Lavalin heavily depends on its workforce and the ability to attract and retain qualified personnel in a competitive work environment. The inability to attract and retain qualified personnel could result in, among other factors, lost opportunities, cost overruns, failure to perform on projects and inability to mitigate risks and uncertainties.

Work stoppages, union negotiations and other labour matters could adversely affect the Company.

A portion of the Company's workforce and employees working for various subcontractors are unionized. A lengthy strike or other work stoppages, caused by unionized or non-unionized employees, in connection with any of the Company's projects could have a material adverse effect on the Company. There is an inherent risk that on-going or future negotiations relating to collective bargaining agreements or union representation may not be favourable to the Company. From time to time, the Company has also experienced attempts to unionize the Company's non-unionized employees. Such efforts can often disrupt or delay work and present risk of labour unrest.

The Company relies on information systems and data in its operations. Failure in the availability or security of the Company's information systems or in data security could adversely affect its business and results of operations.

Information is critical to SNC-Lavalin's success. The integrity, reliability and security of information in all forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, delayed reaction times to the resolution of problems, privacy breaches and/or inappropriate disclosure or leaking of sensitive information.

Any acquisition or other investment may present risks or uncertainties.

The integration of a business acquisition can be a challenging task that includes, but is not limited to, realization of synergies, cost management to avoid duplication, information systems integration, staff reorganization, establishment of controls, procedures, and policies, as well as cultural alignment. The inability to adequately integrate an acquired business in a timely manner might result in departures of qualified personnel, lost business opportunities and/or higher than expected integration costs. In addition, there are risks associated with the acquisition of a business where certain liabilities including, but not limited to, contingent liabilities, legal claims and environmental exposures, were unknown at the time the acquisition was negotiated and concluded.

The Company may be unable to successfully integrate the businesses of SNC-Lavalin and Kentz and realize the anticipated benefits of the Acquisition.

The integration of the businesses of SNC-Lavalin and Kentz, which include its recently acquired subsidiary, Valerus Field Solutions, will require the dedication of substantial effort, time and resources on the part of management which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. There can be no assurance that management will be able to integrate the operations of each of the businesses successfully or achieve any of the synergies or other benefits that are anticipated as a result of the Acquisition. The extent to which synergies are realized and the timing of such cannot be assured. It is possible that the integration process could result in the loss of key employees, the disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management to maintain relationships with clients, suppliers, employees or to achieve the anticipated benefits of the Company. Any inability of management to successfully integrate the operations of SNC-Lavalin and Kentz, including, but not limited to, information technologies and financial reporting systems, could have a material adverse effect on the business, financial condition and results of operations of the Company.

RISKS RELATED TO THE COMPANY'S LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

A deterioration or weakening of the Company's financial position, including its cash net of recourse debt, would have a material adverse effect on its business and results of operations.

The Company relies both on its cash position as well as on the credit and capital markets to provide some of its capital requirements and it is, in certain instances, required to obtain bank guarantees as a means to secure its various contractual obligations. Significant instability or disruptions of the capital markets, including the credit markets, or a deterioration in or weakening of its financial position, including its cash net of recourse debt, due to internal or external factors, could restrict or prohibit the Company's access to, or significantly increase the cost of one or more of these financing sources, including credit facilities, the issuance of long-term debt, or the availability of letters of credit to guarantee its contractual and project obligations. There can be no assurance that the Company will maintain an adequate cash net of recourse debt and generate sufficient cash flow from operations in an amount to enable itself to fund its operations and liquidity needs, service its debt and/or maintain its ability to obtain and secure bank guarantees. In particular, the Company's credit facility is subject to affirmative, negative and financial covenants, including the requirement to maintain at all times, on a rolling 12-month basis, a net recourse debt to adjusted earnings before interest, taxes, depreciation and amortization ratio, as defined in the agreement, not exceeding a certain limit. If the covenants of the facility are not met, the lenders may, among others, terminate the right of the Company to use the facility and demand immediate payment of the whole or part of all indebtedness outstanding under the facility, which could have a material adverse effect on the Company's business and financial position.

A deterioration in the Company's financial condition could also result in a reduction or downgrade of its credit ratings, including to below investment grade, which could prohibit or restrict the Company from utilizing letters of credit or performance guarantees or accessing external sources of short- and long-term debt financing or could significantly increase the costs associated with utilizing such letters of credit and performance guarantees, bank credit facilities and issuing long-term debt, which would in turn have a material adverse effect on the Company's business, financial condition and results of operations.

A draw on letters of credit or bank guarantees by one or more third parties could, among other things, significantly reduce the Company's cash position and have a material adverse effect on its business and results of operations.

The Company may have significant working capital requirements, which if unfunded could negatively impact its business, financial condition and cash flows.

In some cases, SNC-Lavalin may require significant amounts of working capital to finance the purchase of materials and/or the performance of engineering, construction and other work on certain projects before it receives payment from clients. In some cases, the Company is contractually obligated to its clients to fund working capital on projects. Increases in working capital requirements could negatively impact SNC-Lavalin's business, financial condition and cash flows.

Additionally, the Company could temporarily experience a liquidity shortfall if it is unable to access its cash balances and short-term investments to meet the Company's working capital requirements. SNC-Lavalin's cash balances and short-term investments are in accounts held by banks and financial institutions, and some of the Company's deposits exceed available insurance. There is a risk that such banks and financial institutions may, in the future, go into bankruptcy or forced receivership, or be seized by governments, which may cause the Company to experience a temporary liquidity shortfall or fail to recover its deposits in excess of available insurance.

Further significant deterioration of the current global economic and credit market environment, particularly in the Eurozone countries, could challenge SNC-Lavalin's efforts to maintain a diversified asset allocation with creditworthy financial institutions.

In addition, SNC-Lavalin may invest some of its cash in longer-term investment opportunities, including the acquisition of other entities or operations, the reduction of certain liabilities such as unfunded pension liabilities and/or repurchases of the Company's outstanding shares. To the extent the Company uses cash for such other purposes, the amount of cash available for the working capital needs described above would be reduced.

An inability of SNC-Lavalin's clients to fulfill their obligations on a timely basis could adversely affect the Company.

SNC-Lavalin is subject to the risk of loss due to the client's inability to fulfill its obligations with respect to trade receivables, contracts in progress and other financial assets. A client's inability to fulfill such obligations could have an adverse impact on the Company's financial condition and profitability.

The Company may be required to impair certain of its goodwill, and it may also be required to write down or write off the value of certain of its assets and investments, either of which could have a material adverse impact on the Company's results of operations and financial condition.

In accordance with IFRS, goodwill is assessed for impairment at least annually by determining whether the recoverable amount of a cash-generating unit ("CGU") or group of CGUs exceeds its carrying amount. Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGU to which goodwill has been allocated, requiring management's estimates and judgments that are inherently subjective and uncertain, and thus may change over time. The key assumptions required for the value in use estimation are the future cash flows growth rate and the discount rate. The determination of these estimated cash flows require the exercise of judgment, which might result in significant variances in the carrying amount of these assets.

The Company cannot guarantee that new events or unfavorable circumstances will not take place that would lead it to reassess the value of goodwill and record a significant goodwill impairment loss, which could have a material adverse effect on the Company's results of operations and financial condition.

Financial assets, including the Company's investments, other than those accounted for at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. In such instance, the Company may be required to reduce carrying values to their estimated fair value. The inherent subjectivity of the Company's estimates of future cash flows could have a significant impact on its analysis. Any future write-offs or write-downs of assets or in the carrying value of the Company's investments could also have a material adverse effect on its financial condition or results of operations.

GLOBAL / MACROECONOMIC RISKS

Global economic conditions could affect the Company's client base, partners, subcontractors and suppliers and could materially affect its backlog, revenues, net income and ability to secure and maintain financing.

Fluctuations in global economic conditions may have an impact on clients' willingness and ability to fund their projects. These conditions could make it difficult for the Company's clients to accurately forecast and plan future business trends and activities, thereby causing clients to slow or even curb spending on the Company's services, or seek contract terms more favourable to them. SNC-Lavalin's government clients may face budget deficits that prohibit them from funding proposed and existing projects or that cause them to exercise their right to terminate contracts with little or no prior notice. Furthermore, any financial difficulties suffered by the Company's partners, subcontractors or suppliers could increase cost or adversely impact project schedules. These economic conditions continue to reduce the availability of liquidity and credit to fund or support the continuation and expansion of industrial business operations worldwide. Volatile financial market conditions and adverse credit market conditions could adversely affect clients', partners' or the Company's own borrowing capacity, which support the continuation and expansion of projects worldwide, and could result in contract cancellations or suspensions, project delays, payment delays or defaults by the Company's clients. SNC-Lavalin's ability to operate or expand its business would be limited if, in the future, the Company is unable to access sufficient credit capacity, including capital market funding, bank credit, such as letters of credit, and surety bonding on favourable terms or at all. These disruptions could materially impact the Company's backlog, revenues and net income.

Fluctuations in commodity prices may affect clients' investment decisions and therefore subject the Company to risks of cancellation, delays in existing work, or changes in the timing and funding of new awards, and may affect the costs of the Company's projects.

Commodity prices can affect SNC-Lavalin's clients in a number of ways. For example, for those clients that produce commodity products, fluctuations in price can have a direct effect on their profitability and cash flow and, therefore, their willingness to continue to invest or make new capital investments. To the extent commodity prices decline and the Company's clients defer new investments or cancel or delay existing projects, the demand for the Company's services decreases, which may have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

Commodity prices can also strongly affect the costs of projects. Rising commodity prices can negatively impact the profitability of future projects as well as those in progress, and could have a material adverse impact on SNC-Lavalin's business, financial condition and results of operations.

RISKS RELATING TO COMPLIANCE AND FINANCIAL REPORTING

Inherent limitations to the Company's control framework could result in a material misstatement of financial information.

SNC-Lavalin maintains accounting systems and internal controls over its financial reporting and disclosure controls and procedures. There are inherent limitations to any control framework, as controls can be circumvented by acts of individuals, intentional or not, by collusion of two or more individuals, by management override of controls, by lapses in judgment and breakdowns resulting from human error. There are no systems or controls that can provide absolute assurance that all fraud, errors, circumvention of controls or omission of disclosure can and will be prevented or detected. Such fraud, errors, circumvention of controls or omission of disclosure could result in a material misstatement of financial information. Also, projections of any evaluation of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Environmental laws and regulations expose the Company to certain risks, could increase costs and liabilities and impact demand for the Company's services.

SNC-Lavalin is exposed to various environmental risks and is subject to complying with environmental laws and regulations which vary from country to country and are subject to change. The Company's inability to comply with environmental laws and regulations could result in penalties, lawsuits and potential harm to its reputation.

14. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures as well as its 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 DISCLOSURE CONTROLS AND PROCEDURES

The CEO and CFO have designed disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that:

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

Based on their evaluation carried out to assess the effectiveness of the Company's disclosure controls and procedures, the CEO and the CFO have concluded that the disclosure controls and procedures were designed and operated effectively as at December 31, 2014, excluding Kentz's disclosure controls and procedures, as described in section 14.3.

14.2 INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and CFO have also designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Based on their evaluation carried out to assess the effectiveness of the Company's internal control over financial reporting, the CEO and the CFO have concluded that the internal control over financial reporting was designed and operated effectively as at December 31, 2014, using the *Internal Control - Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework"), excluding Kentz's internal control over financial reporting, as described in section 14.3.

At the request of the Company's Audit Committee, its independent auditor, Deloitte, conducted an audit of the effectiveness of the Company's internal control over financial reporting as at December 31, 2014 based on the COSO 2013 Framework. The audit did not include the internal control over financial reporting at Kentz. Deloitte has issued an audit report dated March 5, 2015 which concludes that, in Deloitte's opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2014, in accordance with criteria established in the COSO 2013 Framework. The Independent Auditor's Report on the effectiveness of the Company's internal control over financial reporting as at December 31, 2014 is included with the Company's 2014 audited annual consolidated financial statements and should be read in its entirety.

14.3 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period and year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting other than changes resulting from the acquisition of Kentz described below.

The Company completed its Acquisition on August 22, 2014. As a result, management's assessment and conclusion on the design of disclosure controls and procedures, and internal control over financial reporting, excludes the controls, policies and procedures of Kentz. Kentz represents 15.5% of revenues, 5.7% of net income attributable to SNC-Lavalin shareholders and 40.0% of total assets of the consolidated figures reported in the Company's 2014 audited consolidated financial statements. Note 6 to the audited consolidated financial statements presents summary financial information about the preliminary purchase price allocation, assets acquired and liabilities assumed as well as other financial information about the Acquisition and Kentz's business impact on the consolidated results of the Company.

15. QUARTERLY INFORMATION

YEAR ENDED DECEMBER 31 (IN MILLIONS CA$, EXCEPT PER SHARE AMOUNTS)	2014					2013				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER(1)	FOURTH QUARTER	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Revenues by activity:										
Services	503.6	558.6	723.2	1,030.4	2,815.8	650.7	723.1	626.8	697.1	2,697.6
Packages	610.2	625.0	726.0	1,244.3	3,205.5	723.4	736.9	819.8	833.2	3,113.4
O&M	375.2	284.0	311.6	342.6	1,313.4	382.9	298.4	318.8	338.2	1,338.3
ICI	231.2	228.8	243.3	200.7	904.1	143.3	185.0	179.7	255.9	763.8
	1,720.1	1,696.5	2,004.1	2,818.0	8,238.8	1,900.3	1,943.4	1,945.2	2,124.3	7,913.2
Gross margin	356.9	348.7	420.2	215.0	1,340.8	306.5	231.7	180.3	397.3	1,115.8
Selling, general and administrative expenses	186.8	208.3	204.3	242.0	841.4	207.1	228.7	175.7	225.1	836.6
Restructuring costs, goodwill impairment and impairment of investments	1.2	0.9	13.8	122.5	138.3	-	-	68.2	55.2	123.5
Acquisition-related costs and integration costs	-	25.9	30.0	6.7	62.5	-	-	-	-	-
Amortization of intangible assets related to the Acquisition	-	-	12.3	24.2	36.5	-	-	-	-	-
(Gain) loss from disposals of ICI	-	-	4.1	(1,619.5)	(1,615.4)	-	-	-	(73.0)	(73.0)
EBIT	168.9	113.7	155.7	1,439.1	1,877.4	99.4	3.1	(63.7)	190.0	228.8
Net financial expenses:										
From E&C	4.0	11.9	18.7	4.4	38.9	1.6	3.8	11.5	2.7	19.5
From ICI	46.6	51.8	54.8	27.7	180.9	31.6	31.3	30.5	37.8	131.2
	50.6	63.7	73.5	32.1	219.8	33.2	35.0	41.9	40.5	150.7
Earnings (Loss) before income taxes	118.3	50.1	82.2	1,407.0	1,657.6	66.2	(32.0)	(105.6)	149.4	78.1
Income taxes:										
From E&C	12.0	3.3	3.0	(41.0)	(22.7)	5.9	0.5	(41.0)	4.2	(30.3)
From ICI	11.6	14.7	18.4	301.0	345.8	6.6	5.0	7.8	52.6	72.0
	23.6	17.9	21.4	260.0	323.0	12.5	5.5	(33.1)	56.8	41.7
Net income (loss)	94.7	32.1	60.8	1,147.0	1,334.6	53.7	(37.5)	(72.5)	92.6	36.4
Net income (loss) attributable to:										
SNC-Lavalin shareholders	94.6	32.1	60.0	1,146.6	1,333.3	53.6	(37.7)	(72.7)	92.5	35.8
Non-controlling interests	0.1	0.1	0.7	0.3	1.2	0.1	0.2	0.3	0.1	0.6
Net income (loss)	94.7	32.1	60.8	1,147.0	1,334.6	53.7	(37.5)	(72.5)	92.6	36.4
Basic earnings (loss) per share ($)	0.62	0.21	0.39	7.52	8.76	0.35	(0.25)	(0.48)	0.61	0.24
Diluted earnings (loss) per share($):										
From E&C	0.20	(0.31)	(0.19)	(1.68)	(1.97)	0.12	(0.69)	(0.85)	(0.21)	(1.65)
From ICI	0.42	0.52	0.58	9.18	10.71	0.23	0.44	0.37	0.82	1.89
Diluted earnings (loss) per share ($)	0.62	0.21	0.39	7.51	8.74	0.35	(0.25)	(0.48)	0.61	0.24
Dividend declared per share ($)	0.24	0.24	0.24	0.25	0.97	0.23	0.23	0.23	0.24	0.93
Net income (loss) attributable to SNC-Lavalin shareholders from E&C	30.8	(46.9)	(28.9)	(255.6)	(300.5)	18.6	(104.7)	(128.4)	(31.3)	(245.8)
Net income (loss) attributable to SNC-Lavalin shareholders from ICI:										
From Highway 407	29.4	29.4	29.4	34.4	122.5	16.8	21.8	33.5	41.9	114.1
From AltaLink	23.2	44.7	58.9	48.8	175.6	13.7	17.5	21.3	39.3	91.8
From other ICI	11.2	4.9	0.7	1,319.0	1,335.9	4.6	27.7	0.8	42.6	75.7
Net income (loss) attributable to SNC-Lavalin shareholders	94.6	32.1	60.0	1,146.6	1,333.3	53.6	(37.7)	(72.7)	92.5	35.8
Revenue backlog (at end of quarter)										
Services	1,604.3	1,526.0	4,325.9	4,684.0		1,889.2	1,848.6	1,672.5	1,629.6	
Packages	4,780.9	4,843.4	6,085.4	5,693.5		5,954.2	5,553.4	5,050.2	4,429.7	
O&M	1,988.9	1,843.9	2,102.6	1,947.9		2,392.4	2,250.4	2,272.7	2,228.5	
	8,374.1	8,213.2	12,513.9	12,325.5		10,235.8	9,652.4	8,995.4	8,287.8	

(1) During the three-month period ended December 31, 2014, the Company modified the preliminary allocation of purchase price and has retrospectively revised the impact of changes to the preliminary allocation of purchase price.