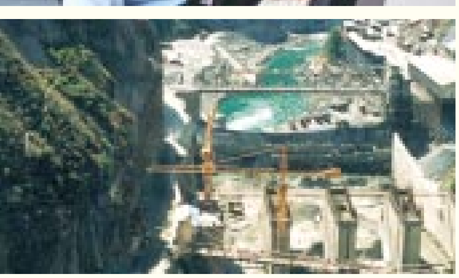




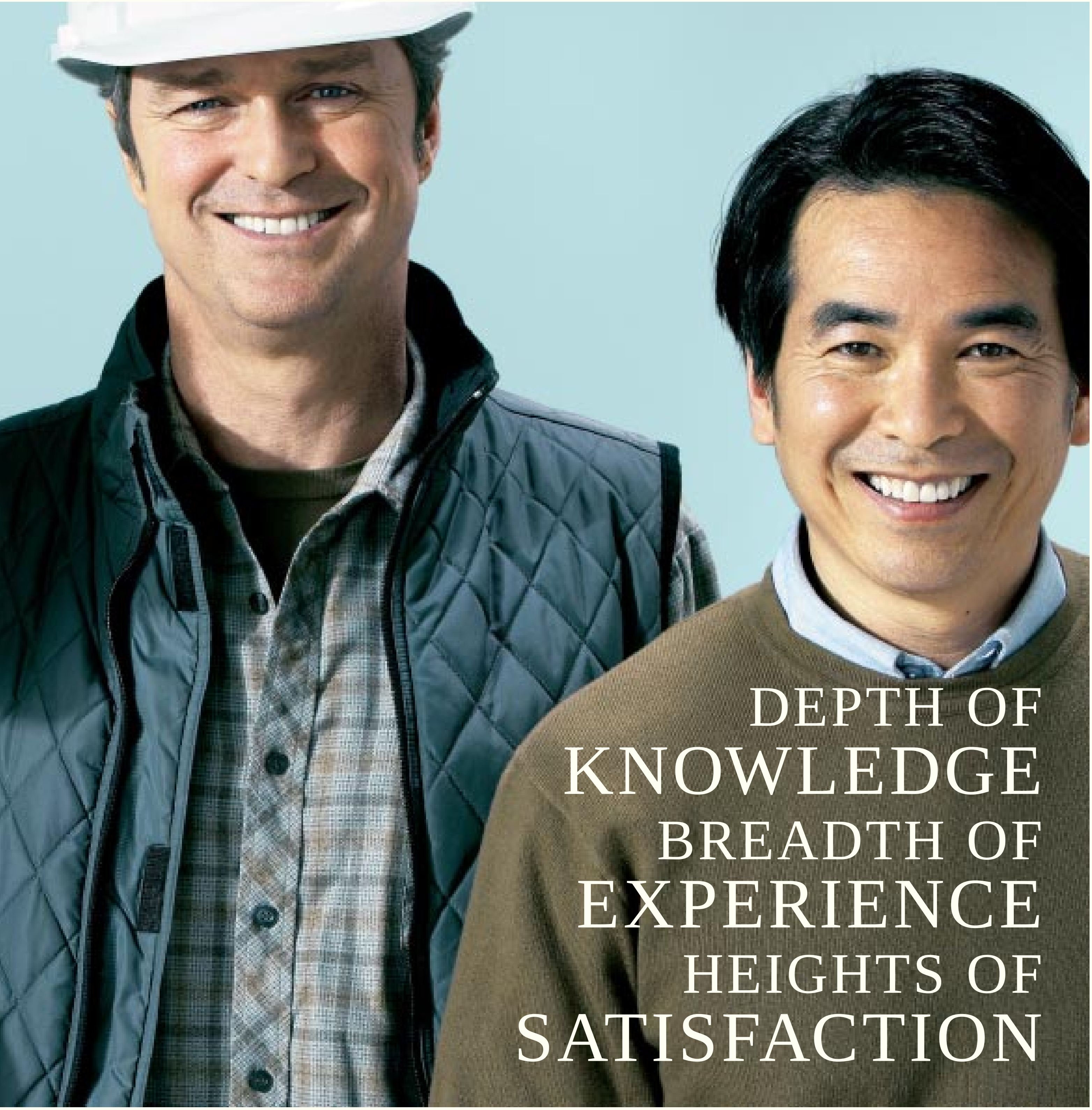
2004
ANNUAL
REPORT

SNC·LAVALIN



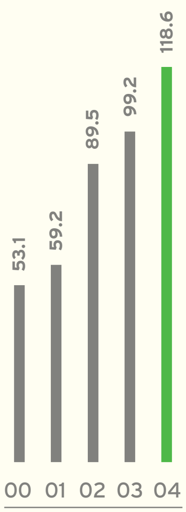



SNC-LAVALIN DESIGNS, DEVELOPS AND DELIVERS LEADING ENGINEERING, CONSTRUCTION, INFRASTRUCTURE AND OWNERSHIP SOLUTIONS WORLDWIDE. WE LISTEN CAREFULLY TO OUR CLIENTS AND THE COMMUNITIES THEY SERVE, AND WORK TO BETTER UNDERSTAND CULTURES, NEEDS, AND ISSUES. CAREFULLY, CONSISTENTLY, WE SATISFY CLIENTS AND MEET EXPECTATIONS WITH GLOBAL VERSATILITY AND WORLD-CLASS TECHNICAL EXPERTISE.

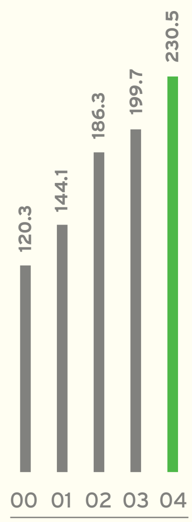


REFERENCE IN THIS ANNUAL REPORT TO "SNC-LAVALIN" MEANS, AS THE CONTEXT MAY REQUIRE, SNC-LAVALIN GROUP INC. AND ALL OR SOME OF ITS SUBSIDIARIES OR JOINT VENTURES, OR SNC-LAVALIN GROUP INC. OR ONE OR MORE OF ITS SUBSIDIARIES OR JOINT VENTURES. ADDITIONAL DEFINITIONS ARE SET OUT IN NOTE 1 TO THE CONSOLIDATED FINANCIAL STATEMENTS.

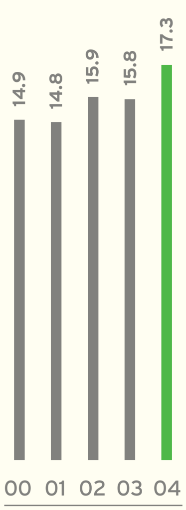
FINANCIAL HIGHLIGHTS



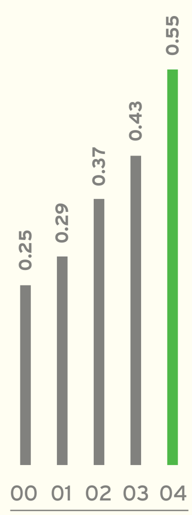
NET INCOME
(IN MILLIONS OF $, EXCLUDING HIGHWAY 407)



EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION
(IN MILLIONS OF $, EXCLUDING HIGHWAY 407)



RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY
(IN %, EXCLUDING HIGHWAY 407)



DIVIDENDS DECLARED PER SHARE
(IN $)

FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE INFORMATION AND ROASE)

INCOME STATEMENT HIGHLIGHTS

FOR YEAR ENDED DECEMBER 31

	2004	2003
REVENUES		
Services	$ 923,578	$ 888,824
Packages	1,502,692	1,463,677
Concessions	1,021,151	911,367
	$ 3,447,421	$ 3,263,868
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)		
Excluding Highway 407	$ 230,463	$ 199,734
From Highway 407	46,606	40,132
	$ 277,069	$ 239,866
NET INCOME (LOSS)		
Excluding Highway 407	$ 118,580	$ 99,185
From Highway 407	(14,467)	(12,657)
	$ 104,113	$ 86,528

BALANCE SHEET HIGHLIGHTS

AT DECEMBER 31

	2004	2003
CASH AND CASH EQUIVALENTS	$ 713,173	$ 495,800
RECOURSE LONG-TERM DEBT	$ 104,280	$ 104,154
SHAREHOLDERS' EQUITY	$ 717,841	$ 658,309

SHARE INFORMATION

FOR YEAR ENDED DECEMBER 31

	2004	2003
DILUTED EARNINGS PER SHARE		
Excluding Highway 407	$ 2.32	$ 1.94
From Highway 407	(0.28)	(0.25)
	$ 2.04	$ 1.69
DIVIDENDS DECLARED PER SHARE	$ 0.55	$ 0.43

ROASE

FOR YEAR ENDED DECEMBER 31

	2004	2003
RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY (ROASE)		
Excluding Highway 407	17.3 %	15.8 %
From Highway 407	(2.1) %	(2.0)%
	15.2 %	13.8 %

BACKLOG

AT DECEMBER 31

	2004	2003
SERVICES	$ 564,900	$ 567,700
PACKAGES	2,483,200	1,749,500
CONCESSIONS	3,281,600	1,855,700
	$ 6,329,700	$ 4,172,900

AT A GLANCE

POWER
We design, build, operate, own, finance and manage power facilities on a cost reimbursable and lump sum turnkey basis. Our areas of activity include hydroelectric, nuclear and thermal power generation, transmission and distribution projects, energy control systems and training and technology transfer.

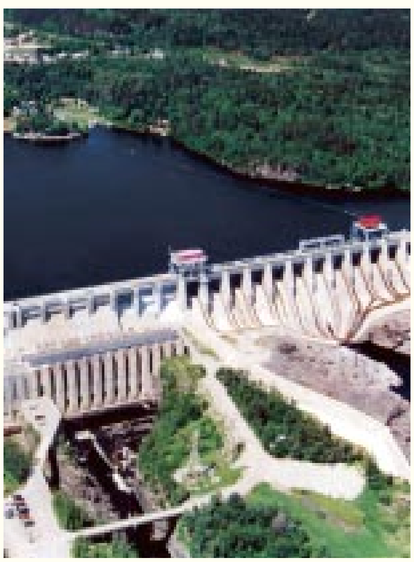
CHEMICALS AND PETROLEUM
Our expertise includes oil sands and heavy oil development, onshore and offshore oil and gas, pipelines, petroleum refining, gas storage, petrochemicals, biochemicals and fertilizers.

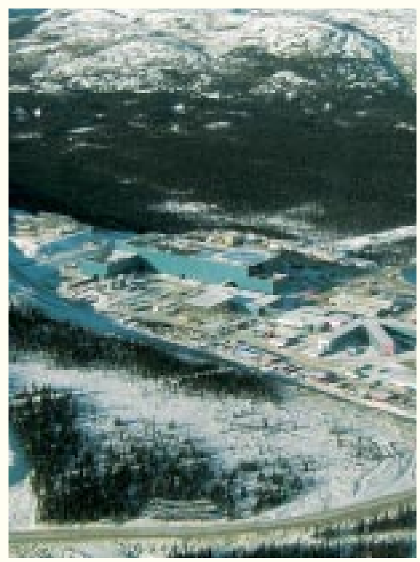
INFRASTRUCTURE
Our expertise in this sector includes water treatment and distribution facilities, hospitals, airports, container ports, ferry terminals, light and heavy rail transit systems, roads, bridges and flood control systems.

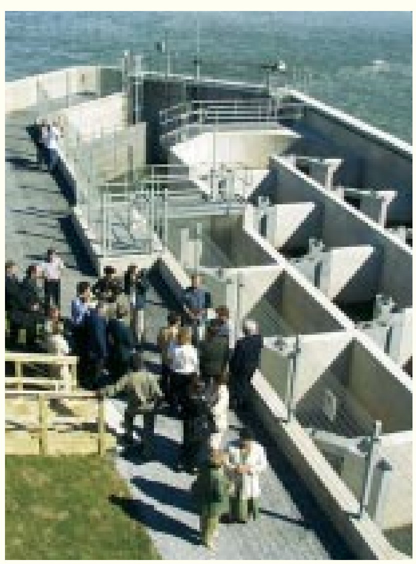
ENVIRONMENT
Our expertise includes environmental impact assessments and studies, site assessment and remediation, waste management, water and wastewater, marine and coastal management, air quality and acoustics, environmental management for mining, and institutional strengthening.

MINING AND METALLURGY
We provide all engineering, procurement, construction and management services in the fields of mining, mineral processing, pyrometallurgy, hydrometallurgy and electrometallurgy.

FACILITIES AND OPERATIONS MANAGEMENT
We provide facility operations, asset lifecycle management, real estate services and remote site logistics and operations to clients in the public, commercial and industrial sectors.







DEFENCE
SNC TEC produces an extensive line of defence products and provides research and development services for the military and law enforcement agencies. We also produce SIMUNITION® training systems and extruded propellants for commercial and military products.

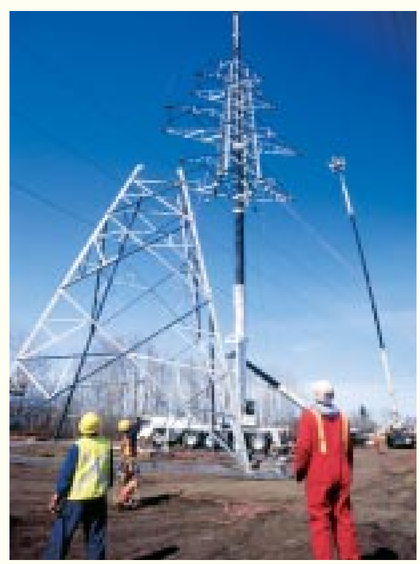
AGRIFOOD
Our services range from food processing to packaging, handling, distribution and storage facilities. We serve companies of all sizes in their domestic markets and internationally.

PHARMACEUTICALS AND BIOTECHNOLOGY
Our expertise includes conceptual design, process and facility engineering, construction and commissioning, as well as validation and regulatory compliance.

INDUSTRIAL
Our services range from process development and design, to plant commissioning and start up. We also offer complete services in the instrumentation and automation of industrial processes.

INFRASTRUCTURE CONCESSION INVESTMENTS
We have been making equity investments since the mid-1980s, giving us 20 years of experience in this field. Our complementary technical knowledge and financing expertise give us the ideal background to make fully informed investment decisions.

PROJECT FINANCING
SNC-Lavalin Capital is an accredited International Financial Centre with offices in Montreal, Toronto, Vancouver and Amsterdam. Our financial experts help arrange financing for our own projects and for third party clients in numerous business sectors around the world.



MEMBERS OF THE OFFICE OF THE PRESIDENT
Left to right:
Back row: Jean Claude Pingat _ Gilles Laramée _ Jacques Lamarre
Klaus Triendl _ Sami Bébawi _ Pierre Duhaime _ Michael Novak
Front row: Pierre Anctil _ Krish Krishnamoorthy _ Marylynne Campbell

MESSAGE TO SHAREHOLDERS

Every year at this time we measure the Company's performance by looking at indicators such as our financial performance, our business strategy, our sustainable development record and our corporate governance practices. We also provide an outlook for the following year highlighting future market opportunities.

By all measures, 2004 was a good year for SNC-Lavalin.

FINANCIAL PERFORMANCE

We assess our financial performance according to three key objectives: 1) increase our net income excluding Highway 407 by 7%–12% each year, 2) attain a return on average shareholder's equity equal to that of the Canada long-term bond yield plus 6%, which totalled 11.1% in 2004, and 3) maintain a strong balance sheet. In 2004, we met all three objectives.

Our net income excluding Highway 407 increased by 19.6% to $118.6 million. This follows more than a decade of year over year net income growth. Consolidated net income also increased, rising from $86.5 million in 2003 to $104.1 million by year end 2004.

Our return on average shareholder's equity in 2004 was 17.3%.

Our balance sheet remains strong, with a recourse debt-to-capital ratio of 13% at the end of 2004. Consolidated cash and cash equivalents amounted to $713.2 million at year end, while our recourse debt was only $104.3 million. It is worth noting that the market value of our infrastructure concession investments continued to increase in 2004, and is much higher than our recorded book value.

BUSINESS STRATEGY

The ability to win contracts around the world is a good indicator of a successful business strategy. As you will note in this Report, we won significant contracts in all our sectors of activity, and are working on projects of all sizes worldwide. In fact, our backlog increased by 52% from year end 2003, to reach $6.3 billion at year end 2004.

Our business strategy draws upon our diverse revenue base, our complementary pool of expertise, and our ability to adapt to evolving market needs. Our business is structured in a way that promotes this kind of flexibility.

A DIVERSE REVENUE BASE

We are active in numerous industry sectors and geographical regions which gives us a diverse revenue base. If business is slow in one sector or a certain region of the world, the lower revenues are mitigated by higher activity in other areas.

COMPLEMENTARY EXPERTISE

Our areas of expertise often complement each other, creating synergies that add value to our service offering. For example, our Environment business unit and the automation specialists in our Industrial business unit work with our other sectors as well as with third party clients.

ADAPTING TO THE MARKET: SERVICES, PACKAGES AND CONCESSIONS

Our three revenue categories – services, packages and concessions – also complement each other. Services consist of professional service contracts, packages include procurement and/or construction as well as services, and concessions include infrastructure investments and ongoing operations and management contracts. Each one is an integral part of our business and together they enhance it even further.

For example, SNC-Lavalin ProFac's expertise in facilities and operations management played a part in our being awarded the Greater Toronto Airport Authority (GTAA) thermal plant project, the Brun-Way Trans Canada Highway project and the

Taksebt water treatment contract. We were also officially named preferred contractor for a rapid transit project in British Columbia on the strength of our ability to own and operate the system, as well as design and build it.

We have seen a growing demand for this kind of all-inclusive contract, particularly in the Infrastructure and Power sectors. They require a company that can, not only design and build a structure, but operate and maintain it, and even arrange project financing for it. Very few companies offer such a full range of services, and the fact that we do gives us a competitive advantage.

INVESTMENTS AND ACQUISITIONS

Strategic investments and business acquisitions allow us to expand into promising new fields, enrich our existing base of technical expertise and, in the case of concession investments, complement our services and packages contracts with recurring, long-term sources of revenue.

In 2004, we added two new concessions to our investment portfolio, one in the thermal power sector, and the other in the natural gas distribution business.

We invested US$60.0 million (to be disbursed over the next two years) in the Astoria Energy project in New York State, which involves the design and construction of a 500 MW natural gas-fired power plant. In addition, as technical partner, we invested $100.8 million in the Trencap Limited Partnership. Trencap holds an indirect substantial interest in Gaz Métro, a publicly traded company involved in natural gas distribution. Our partners in the investment are pension funds based in British Columbia and Quebec.

We also acquired three engineering-construction companies and signed an agreement to purchase a fourth.

In France, we enhanced our expertise in the industrial processes and pharmaceutical sectors with the acquisitions of Chovet Engineering and Sogequip, both located in the Lyon region. The addition of their skills and expertise means we can offer even more innovative and complete services to our clients.

In Canada, we acquired all remaining shares in Canatom NPM, the country's largest private sector nuclear engineering firm. We have been a majority shareholder in Canatom NPM for many years. By becoming sole owner, we have reinforced our commitment to the nuclear industry and strengthened our position as a single-source service provider in that sector.

In India, we agreed to purchase RJ Associates, a full-service engineering and contracting company specialized in Chemicals and Petroleum, Mining and Metallurgy and other process-related industries. This acquisition will further develop and expand our operations base in India, a country we have been working in since the 1950s.

SUSTAINABLE DEVELOPMENT

Sustainable development is a key aspect of our business. It involves the well being of our employees and of the communities we work in, as well as the conservation of the earth's resources.

We require everyone involved on our projects to meet our health, safety and environmental (HSE) standards. To this end, we regularly review and expand our policies and procedures, and systematically monitor our project sites. Moreover, we have an HSE committee of 23 people, representing all our sectors of activity, working to continually improve our performance in this area.

CORPORATE GOVERNANCE

Our Board of Directors has four committees dedicated to ensuring fair and open policies and practices: the Audit Committee for financial reporting practices, the Governance Committee for corporate governance practices, the Human Resources Committee for remuneration and human resources issues, and the Health, Safety and Environment Committee for safety and environmental policies. We also have comprehensive risk and evaluation procedures to ensure that risks associated with projects and investments are identified, minimized and adequately addressed. We proactively review our policies and practices to ensure they reflect the best governance principles in keeping with the Canadian Coalition for Good Governance and similar organizations.

In 2004, we were pleased to note that the University of Toronto's Clarkson Centre for Business Ethics and Board Effectiveness gave SNC-Lavalin a top rating in the Board Shareholder Confidence Index. Only 15 out of 216 S&P/TSX-listed companies received such a rating.

OUTLOOK FOR 2005

By all measures 2004 was a good year for SNC-Lavalin, and we see excellent prospects for all our business units in the coming year. Low sulphur diesel fuel legislation and a heightened interest in oil sands projects continue to create opportunities in the Chemicals and Petroleum sector. We expect our full-service capabilities to lead to further projects and concessions in the Power and Infrastructure sectors, while a growing need for energy and potable water will create engineering and construction opportunities. The Kyoto Protocol's ratification will lead to more greenhouse gas reduction mandates on the Environment side, and high metal prices and a demand for decommissioning and clean up work should lead to Mining and Metallurgy projects. SNC-Lavalin ProFac continues to expand its scope of activities both independently and in mandates with other business units. In the Agrifood, Pharmaceutical and Industrial sectors, increasingly strict regulations are leading to opportunities in upgrade, expansion and conversion projects.

We are financially strong, we have a solid backlog and excellent market prospects for the future, and we continue to expand upon our expertise both geographically and by sector of activity. We are confident that the positive results from our strategic decisions will continue into 2005 and beyond.

In recognition of this positive outlook, the Board of Directors has increased the quarterly dividend from $0.13 per share to $0.16 per share.

ACKNOWLEDGEMENTS

Our employees are the ones who implement our strategy and ultimately make it work. Our success in 2004 is a direct result of their exemplary performance, and we sincerely thank them for their dedication and hard work.

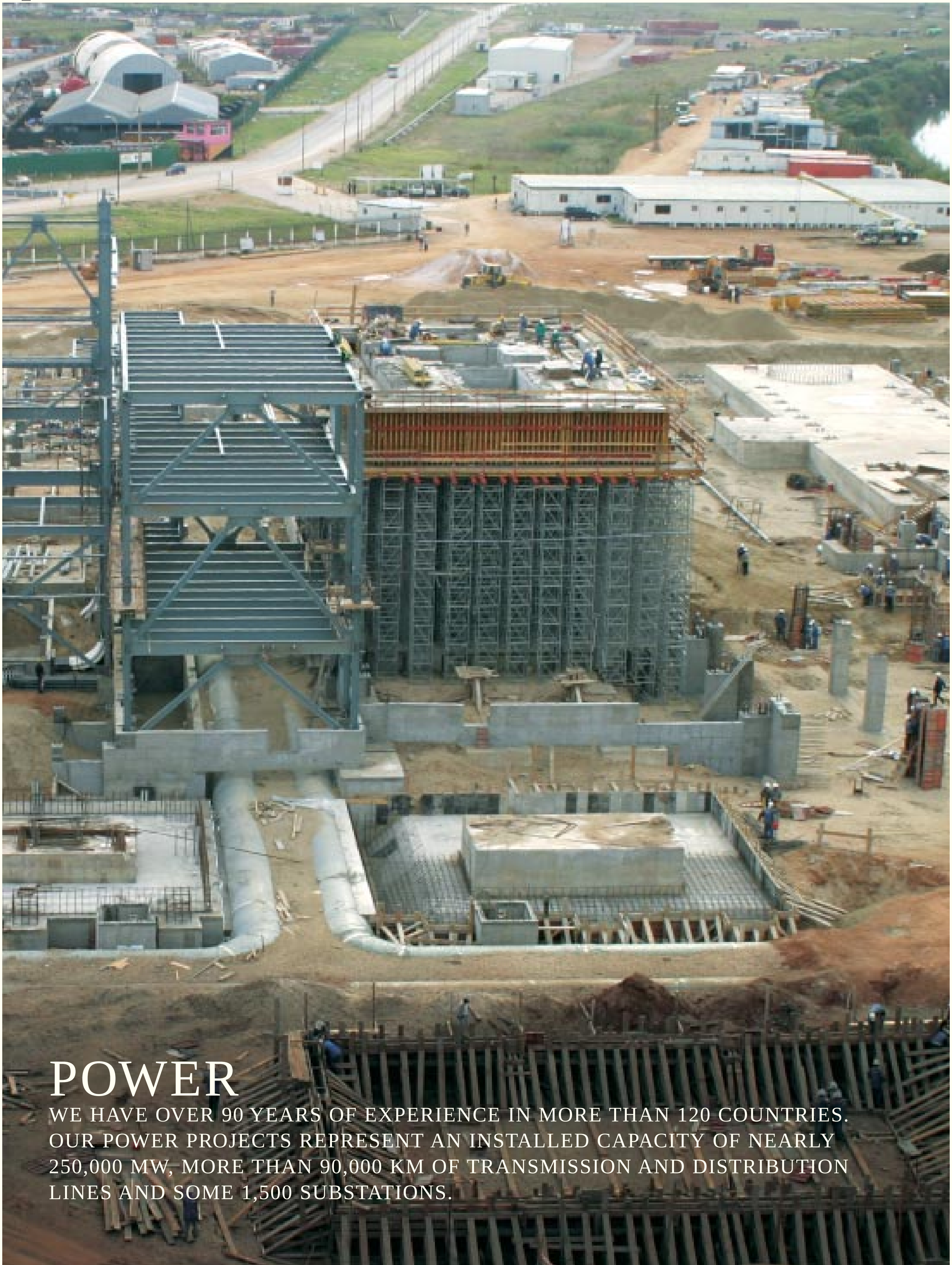
We welcomed Jean Claude Pingat to the Office of the President on January 1, 2005. Jean Claude oversees our operations in Europe, and is responsible for our Agrifood business worldwide. We look forward to his participation as a member of the Office of the President.

We bid farewell to Normand Morin, who retired from SNC-Lavalin and the Office of the President at the end of 2004 after more than 30 years of service. Normand made many important contributions to SNC-Lavalin and has been associated with some of its most prestigious projects. He will continue to act as an advisor to the Company.

In closing, we would like to thank our Board of Directors for their valued counsel and direction, and our clients and shareholders for their continued support and confidence.

JACQUES LAMARRE, ENG. _ President and Chief Executive Officer

JOHN E. CLEGHORN, O.C., FCA _ Chairman of the Board



POWER

WE HAVE OVER 90 YEARS OF EXPERIENCE IN MORE THAN 120 COUNTRIES. OUR POWER PROJECTS REPRESENT AN INSTALLED CAPACITY OF NEARLY 250,000 MW, MORE THAN 90,000 KM OF TRANSMISSION AND DISTRIBUTION LINES AND SOME 1,500 SUBSTATIONS.

SKIKDA THERMAL POWER PROJECT, ALGERIA

- In 2004, there were **no lost time incidents at all** on the 825 MW Skikda thermal power project in Algeria.
- Our rehabilitation project at Alcan's Chute-à-Caron hydroelectric power station in Quebec won an **Award of Excellence for technical innovation, environmental and economic benefits and project management expertise** from the Association of Consulting Engineers of Canada.
- Our Panda Gila River thermal project in the United States garnered an **Excellence in Construction Award** for quality and innovation from the Associated Builders and Contractors of Western Washington.
- Our power transmission specialists, SNC-Lavalin ATP, **had no lost time incidents on any of their projects in 2004**.

TransCanada Energy awarded us a contract to design, construct and commission a 550 MW natural gas-fired cogeneration power plant at the Bécancour Industrial Park in Quebec. **It will produce two forms of useful energy – steam and electricity – from a single fuel source**.

We acquired all remaining shares of Canatom NPM, **the largest private sector nuclear engineering company in Canada**, and are now sole owner. Canatom is working on a number of mandates in the Canadian provinces of Ontario, Quebec and New Brunswick.

Hydro-Québec selected us to design the 750 MW Eastmain-1-A hydropower plant near James Bay. It is the largest hydroelectric project to be undertaken in Quebec in the last 10 years, and is expected to **provide an additional output of some 8.5 TWh/yr**.

The Greater Toronto Airports Authority awarded us a contract to design and build a 117 MW cogeneration plant at Lester B. Pearson International Airport, which SNC-Lavalin ProFac will then operate and maintain. **We are one of very few companies able to provide such comprehensive services**.

In 2003, we completed a feasibility study on interconnecting the power systems of Bahrain, Kuwait, Qatar and Saudi Arabia, and are now acting as owner's engineer on the project. The interconnection involves **over 800 km of high voltage transmission lines and a direct-current, back to back tie to Saudi Arabia**.

Fibrominn LLC awarded us a contract to design and build a 50 MW biomass fuelled plant in Minnesota. It will be the first U.S. power plant to use poultry litter as its primary fuel. The plant will give the poultry industry an **alternative method of disposing of waste, while providing additional electricity** to the Northern States Power Grid.

SNC-Lavalin ATP engineered and constructed **new facilities and upgrades for over 165 high-voltage substations, transmission lines and utility communication sites**. Most projects involved compressed schedules to connect wind generators and enhance Alberta's transmission system.

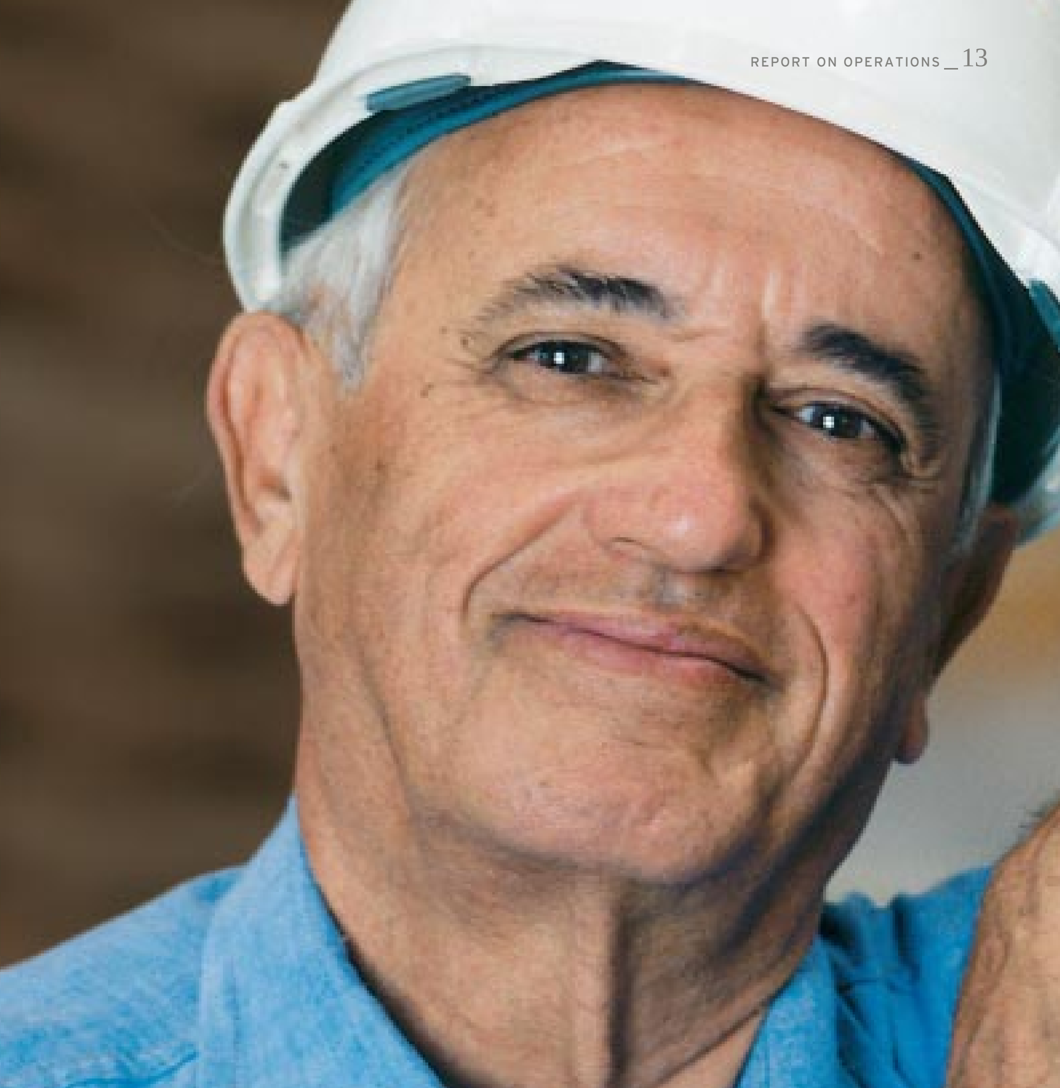
Our Energy Control Systems group won a turnkey mandate to install and commission a new Feeder Dispatch Control System for the Taiwan Power Company (TPC). The system will allow TPC to **remotely control and supervise its power distribution network in a heavily industrialized section of Taipei**.

We finished rehabilitating and upgrading the 90-year-old Iroquois Falls Hydropower Plant for Abitibi Consolidated in northern Ontario. After strengthening the powerhouse foundation, we sequentially replaced nine old power generating units with modern ones, allowing the plant to continue to operate. The rehabilitated powerhouse has a new superstructure and an **installed capacity of 31 MW, as opposed to its previous capacity of 16 MW**.

CHEMICALS AND PETROLEUM

OUR CHEMICALS AND PETROLEUM GROUP HAS BEEN SUCCESSFULLY COMPLETING MAJOR PROJECTS WORLDWIDE SINCE THE 1970s. WE ARE A SINGLE-SOURCE SOLUTION FOR OUR CLIENTS, ABLE TO CARRY OUT FRONT-END DESIGN, AND EXECUTE PROJECTS ON A COST REIMBURSABLE AND LUMP SUM TURNKEY BASIS ANYWHERE IN THE WORLD.

SAIH NIHAYDA GAS PLANT PROJECT, OMAN



- Our Saih Nihayda Gas Plant joint venture for Petroleum Development Oman achieved **four million hours without lost-time incident**.
- Our office in Houston, Texas won **five safety awards** from clients and industry associations.
- Our PTT Poly Canada project in Montreal achieved **one million hours without lost time incident**.
- Our low sulphur fuel project at Petro-Canada's Tank Farm 2 in Edmonton garnered **project management and natural resource development awards** from the Consulting Engineers of Alberta.
- The Quebec Association of Consulting Engineers selected our low sulphur gasoline project at Petro-Canada's Montreal refinery for a **Léonard engineering excellence and customer satisfaction award**.

We and a partner are working on **one of the first lump sum turnkey Steam Assisted Gravity Drainage (SAGD) heavy oil recovery projects ever undertaken** in the industry. It is a major part of Husky Energy's Tucker In-situ project in Alberta.

We are working with major petroleum companies to help them meet low sulphur fuel requirements. We successfully installed **low sulphur gasoline** processing units at two operating refineries in Edmonton, Alberta and one in Montreal, Quebec for Petro-Canada, both ahead of schedule and on or under the client's budget. We are now working on **ultra low sulphur diesel** projects for Petro-Canada in Montreal, and for Imperial Oil at its refinery sites in Nanticoke and Sarnia, Ontario. In the United States, our Houston office has begun work on an ultra low sulphur diesel project for ConocoPhillips in Texas.

We completed start-up of the **world's first commercial-scale polytrimethylene terephthalate (PTT) plant** for PTT Poly Canada in Montreal. Feed stock for the plant is supplied by an adjoining plant we completed and commissioned in 2003.

We have been working in **the Middle East** since the 1970s, and it is an important market for us in this sector. Our current projects include the Saih Nihayda gas plant for Petroleum Development Oman, the Gulf Farabi n-Paraffin and LAB plant in Saudi Arabia, a crude oil gathering centre for Kuwait Petroleum Company, and the upgrading of a phosphoric acid production unit for Arya Phosphoric Johub in Iran.

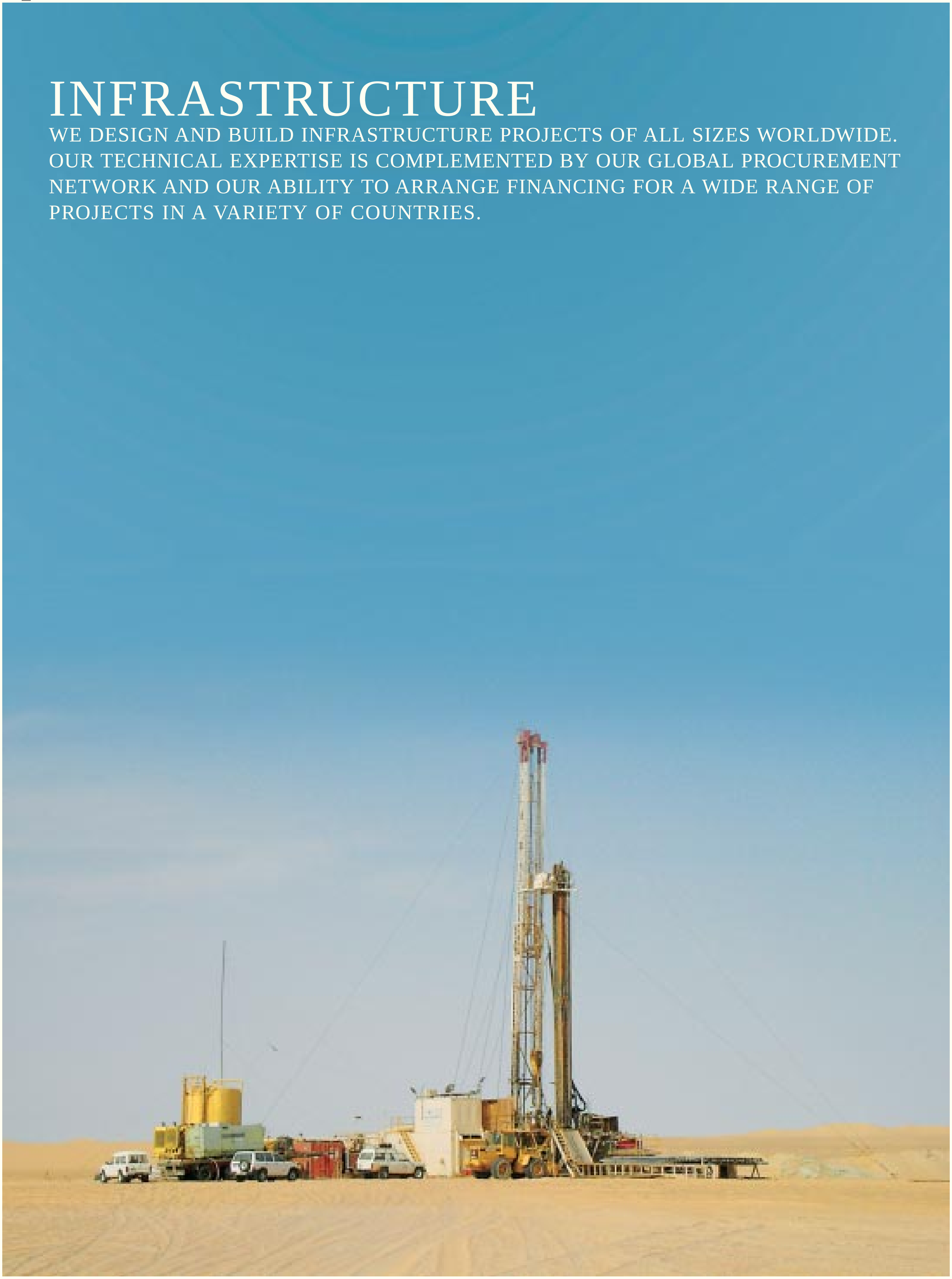
Our offices in Edmonton, Alberta and Redmond, Washington are acting as engineering, procurement and construction management consultants to Alyeska Pipeline Service Company on the **trans-Alaska pipeline** reconfiguration project. The project involves electrifying four pumping stations currently powered by turbine-driven pumps, installing upgraded control systems, and increasing automation capabilities. An integral part of our mandate is to help support Alyeska's high environmental standards.

In December 2004, first gas was achieved from the South Venture Platform off the east coast of Canada. This was the **second of the two Sable Tier II wellhead platforms** we and a partner designed for ExxonMobil Canada. We have since been awarded a contract to modify the Thebauld Platform on the Sable site for Saipem S.p.A.

NOVA Chemicals awarded our Toronto office a **North America-wide continuous services agreement** for its chemical plants on 15 sites. Our Houston office also has continuing services agreements with major blue chip refiners and petrochemical producers. Ninety percent of its revenues are from repeat clients.

INFRASTRUCTURE

WE DESIGN AND BUILD INFRASTRUCTURE PROJECTS OF ALL SIZES WORLDWIDE. OUR TECHNICAL EXPERTISE IS COMPLEMENTED BY OUR GLOBAL PROCUREMENT NETWORK AND OUR ABILITY TO ARRANGE FINANCING FOR A WIDE RANGE OF PROJECTS IN A VARIETY OF COUNTRIES.



GREAT MAN-MADE RIVER PROJECT, LIBYA

▪ Our team working on the Sarir pipe manufacturing plant, part of the Great Man-Made River project in Libya, completed **four million hours of work without a lost time incident**.
▪ The Quebec Chapter of the Canadian Institute of Steel Construction presented us with **two Awards of Excellence for structural design**: one for the expansion project at Montreal-Pierre Elliot Trudeau International Airport, and the other for the Acadie Boulevard reconstruction joint venture project.
▪ The British Columbia Ministry of Transportation awarded our Sea to Sky Highway improvement project **first prize for recognition of excellence in specialized services**.

After completing a highly successful contract to build two 10,000 ton fully automated district cooling plants in the United Arab Emirates (UAE), we **created a joint venture company with a local partner**. SNC-Lavalin Gulf Contractors is now carrying out several district cooling projects in the UAE.

Water treatment and distribution expertise is in high demand. We are currently designing and building the 600,000 m^3/day Taksebt water treatment plant and pumping station in Algeria, including 90 km of pipes and four tunnels over an area of nearly 12 km. Elsewhere, we are building a water treatment plant and conveyance system in the Dominican Republic, preparing detailed designs for all water collection, treatment and distribution infrastructure in Gambia’s major cities, and providing ongoing project and construction management services on the Greater Vancouver Water District’s water quality improvement projects. We also continue to work on the Great Man-Made River project in Libya, which we have been involved in since 1995.

In Vietnam, our ports and marine specialists are working on two navigation and transportation improvement projects on the Bassac River in the Lower Mekong Delta, and in the Mekong and Red River Deltas. In central Vietnam, we are conducting a feasibility study in Van Phong Bay, including field surveys for **a new deepwater container transhipment port able to accommodate a new generation of mega container ships**.

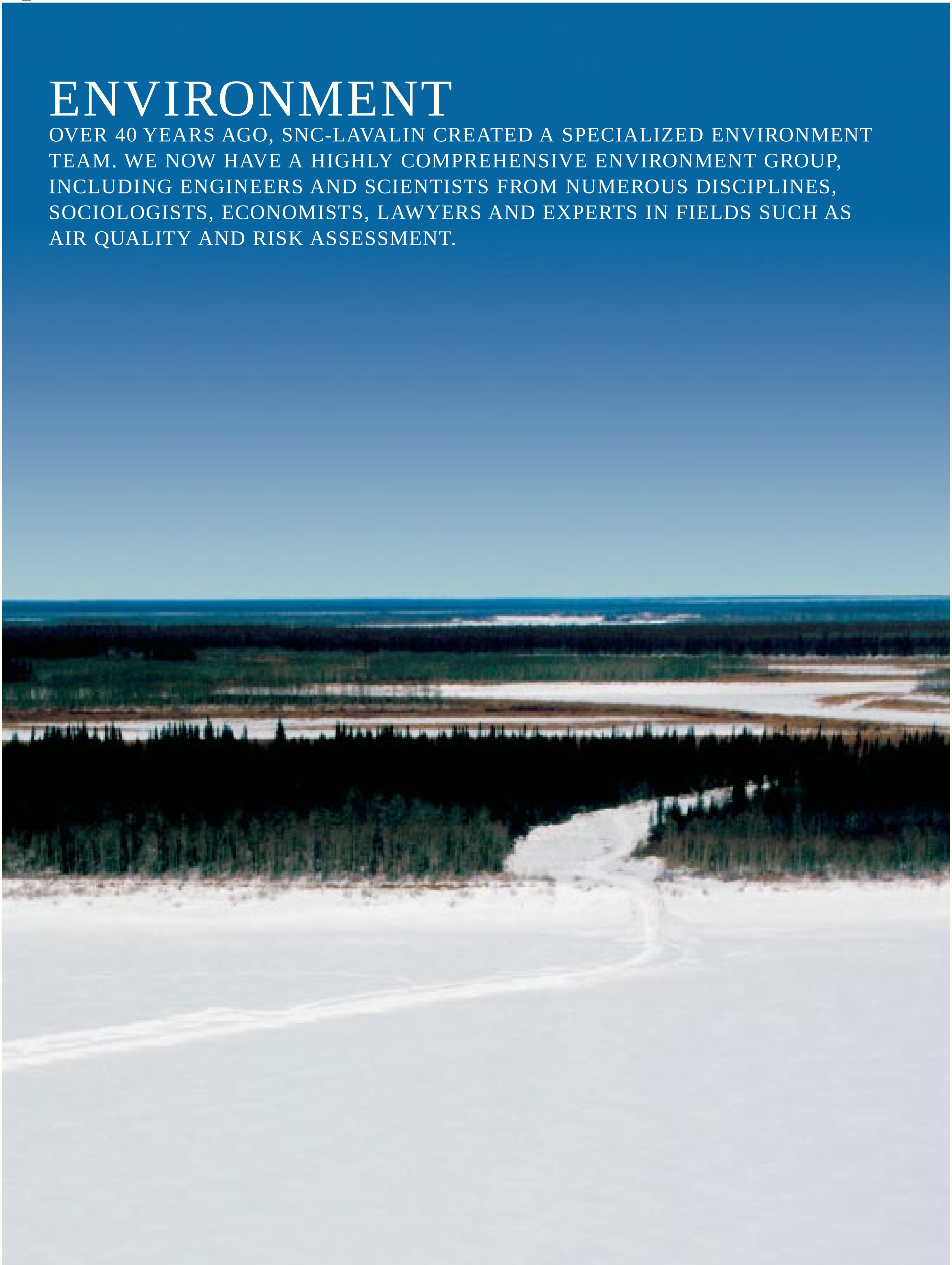
In New Brunswick, the Brun-Way Group joint venture, in which we hold a 70% interest, was selected to **design, build and finance 98 km of new highway, and upgrade 128 km of an existing four-lane highway**. Brun-Way is also responsible for the operation, maintenance and rehabilitation of the entire 226 km, and an additional 49 km in the province until 2033. Brun-Way will draw upon SNC-Lavalin ProFac's expertise for the operations, maintenance and rehabilitation work, and SNC-Lavalin Capital has been retained as its financial advisor.

The hospital and health care sector is an important market for us. In France, for example, we are working on a new 320 bed hospital in Saint-Dizier, adding an emergency room and mother/child centre to the Centre Hospitalier de Meaux, and building **a new intensive care burn unit at the Saint-Louis hospital in Paris, which will become one of the city’s main burn units**.

In the airport sector, we are working on Phase 1 of the West Chevron expansion project at Vancouver International Airport, and **upgrading the Airport’s existing hold baggage screening systems to post-9/11 standards**. In Montreal, our Automation experts’ computer simulation work saved our client over one million dollars on the prize-winning Montreal-Pierre Elliott Trudeau International Airport project. Internationally, we have an ongoing technical services agreement at Malta International Airport, and are preparing feasibility studies for the expansion of Bierset Airport in Liège, Belgium.

ENVIRONMENT

OVER 40 YEARS AGO, SNC-LAVALIN CREATED A SPECIALIZED ENVIRONMENT TEAM. WE NOW HAVE A HIGHLY COMPREHENSIVE ENVIRONMENT GROUP, INCLUDING ENGINEERS AND SCIENTISTS FROM NUMEROUS DISCIPLINES, SOCIOLOGISTS, ECONOMISTS, LAWYERS AND EXPERTS IN FIELDS SUCH AS AIR QUALITY AND RISK ASSESSMENT.



JAMES BAY ELECTRICAL TRANSMISSION LINE EXPANSION STUDY, CANADA

- The technical methodology we developed for the Strategic Action Program to reduce pollution in the Dnieper River Basin in Belarus, Russia and Ukraine was **adopted and published by the United Nations Industrial Development Organization as a model for similar projects in the future**.
- Our site/route selection, environmental and social impact assessment and resettlement plan for a transmission line project in the Democratic Republic of Congo was **completed in record time and deemed work of exceptional quality by the World Bank**.

Few companies can equal our experience in large-scale carbon dioxide (CO_2) capture projects. In 2004, we completed a study for the Abu Dhabi National Oil Company (ADNOC) examining the technical and economical feasibility of capturing CO_2 from flue gas to facilitate the recovery of oil from wells. At ADNOC's request, we devised a recovery method that required no changes to the existing facilities.

We are preparing an environmental assessment study for a proposed electrical transmission line for De Beers Canada, Five Nations Energy Inc. and Hydro One in northern Ontario. The line will supply power to De Beers' remote Victor Diamond Mine. The project is **an expansion of Five Nations Energy's Western James Bay transmission line, which connected Ontario's electricity grid to several remote communities** in 1999 and 2000. SNC-Lavalin designed the original transmission line and conducted the environmental impact assessment in 1997.

We completed cost estimates and plans to clean up Montreal's Technoparc site. **The project is complex because of the site's long and varied contamination history**, including a dump that operated between 1860 and 1966, and hydrocarbon contamination dating back to the late 1970s.

We are providing technical assistance to His Majesty's Government of Nepal to help decentralize environmental management in the country. To do this, we are reviewing and strengthening the **environmental planning, implementation and monitoring processes at the district and village levels, as well as on a national scale, to ensure a sustainable program**.

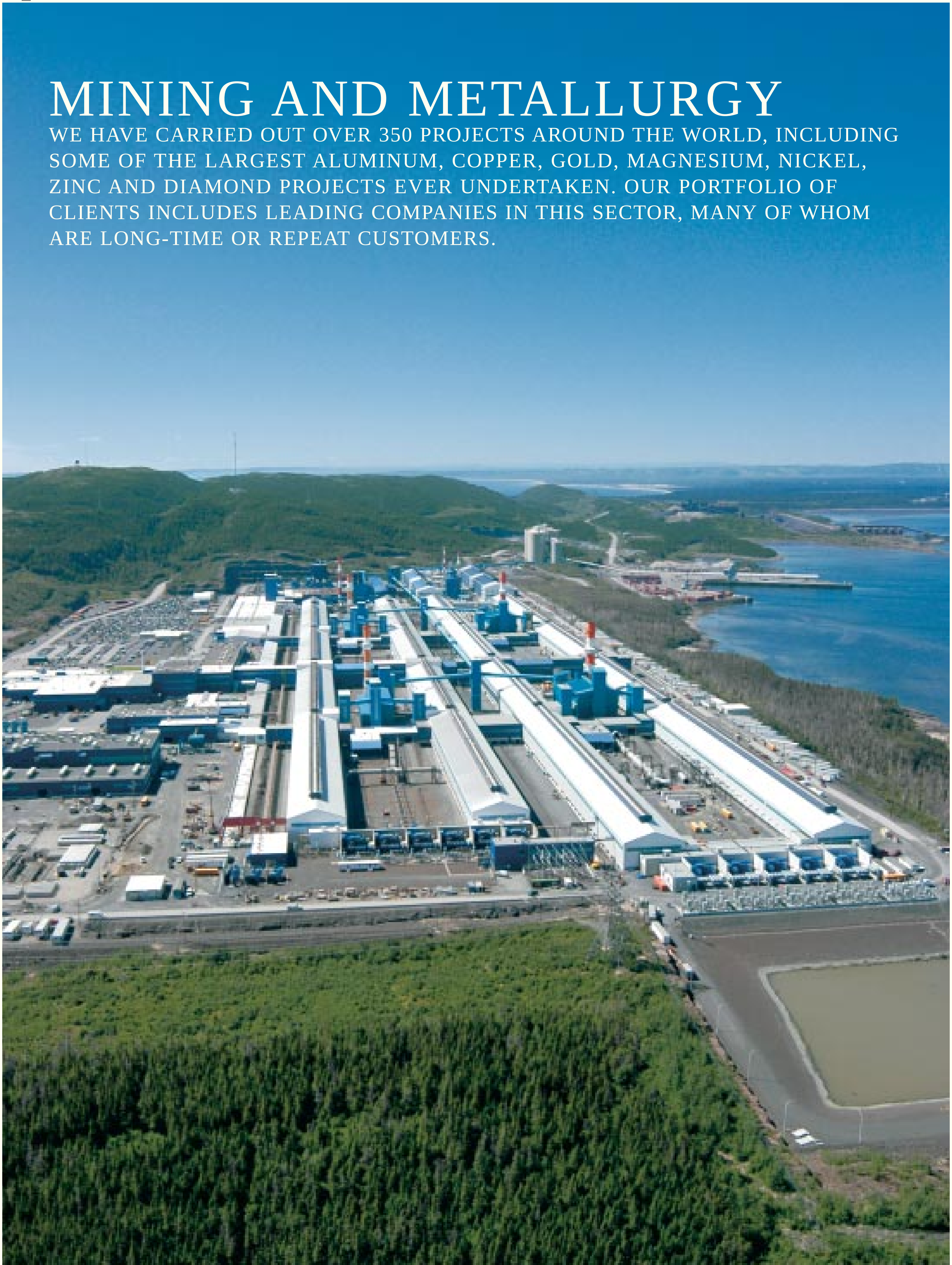
We have begun work on a project to demolish and clean up the Cape Dyer Distant Early Warning (DEW) Line site in Nunavut, Canada. A remnant of the Cold War, the DEW Line is made up of 42 military radar sites which have been abandoned since the late 1960s. **Our Aboriginal and Northern Affairs team is working with local Inuit firms and communities to ensure their involvement in the project.**

The Gambia National Water and Electric Company selected SNC-Lavalin to prepare a **feasibility study and master plan for every major urban centre in the country**. The study is funded by the African Development Bank and includes the detailed assessment of resource sustainability, water quality and sanitation requirements, social and economic studies and environmental management plans.

Our team in Newfoundland and Labrador is providing all environmental services to the Voisey's Bay nickel mine and concentrator project located in the delicate subarctic region of the province. **Working with Aboriginal monitors and the Voisey's Bay Nickel Company, we have obtained nearly 300 environmental permits for the project**.

MINING AND METALLURGY

WE HAVE CARRIED OUT OVER 350 PROJECTS AROUND THE WORLD, INCLUDING SOME OF THE LARGEST ALUMINUM, COPPER, GOLD, MAGNESIUM, NICKEL, ZINC AND DIAMOND PROJECTS EVER UNDERTAKEN. OUR PORTFOLIO OF CLIENTS INCLUDES LEADING COMPANIES IN THIS SECTOR, MANY OF WHOM ARE LONG-TIME OR REPEAT CUSTOMERS.



ALOUETTE ALUMINUM SMELTER EXPANSION PROJECT, CANADA

- Government regulators and environmental inspectors considered our work on Teck Cominco's Polaris lead-zinc mine project in Canada's High Arctic **a model for future mine decommissioning projects**.
- At Barrick Gold's Veladero gold plant project in Argentina, our team achieved **one million hours without a lost time incident** while maintaining a tight schedule under severe weather conditions at 4,000 m above sea level.
- Our site team at Barrick Gold's Alto Chicama gold project in the Andes mountains of Peru achieved **two million hours without a lost time incident**, and our team at Codelco's Chuquicamata copper project in Chile achieved **one million hours without a lost time incident**.

Construction is progressing well at Inco's Voisey's Bay nickel mine and concentrator complex in the Canadian province of Newfoundland and Labrador. Ensuring local communities benefit from the project is a primary consideration, and to date, **First Nations contractors have carried out 20% of the construction work**.

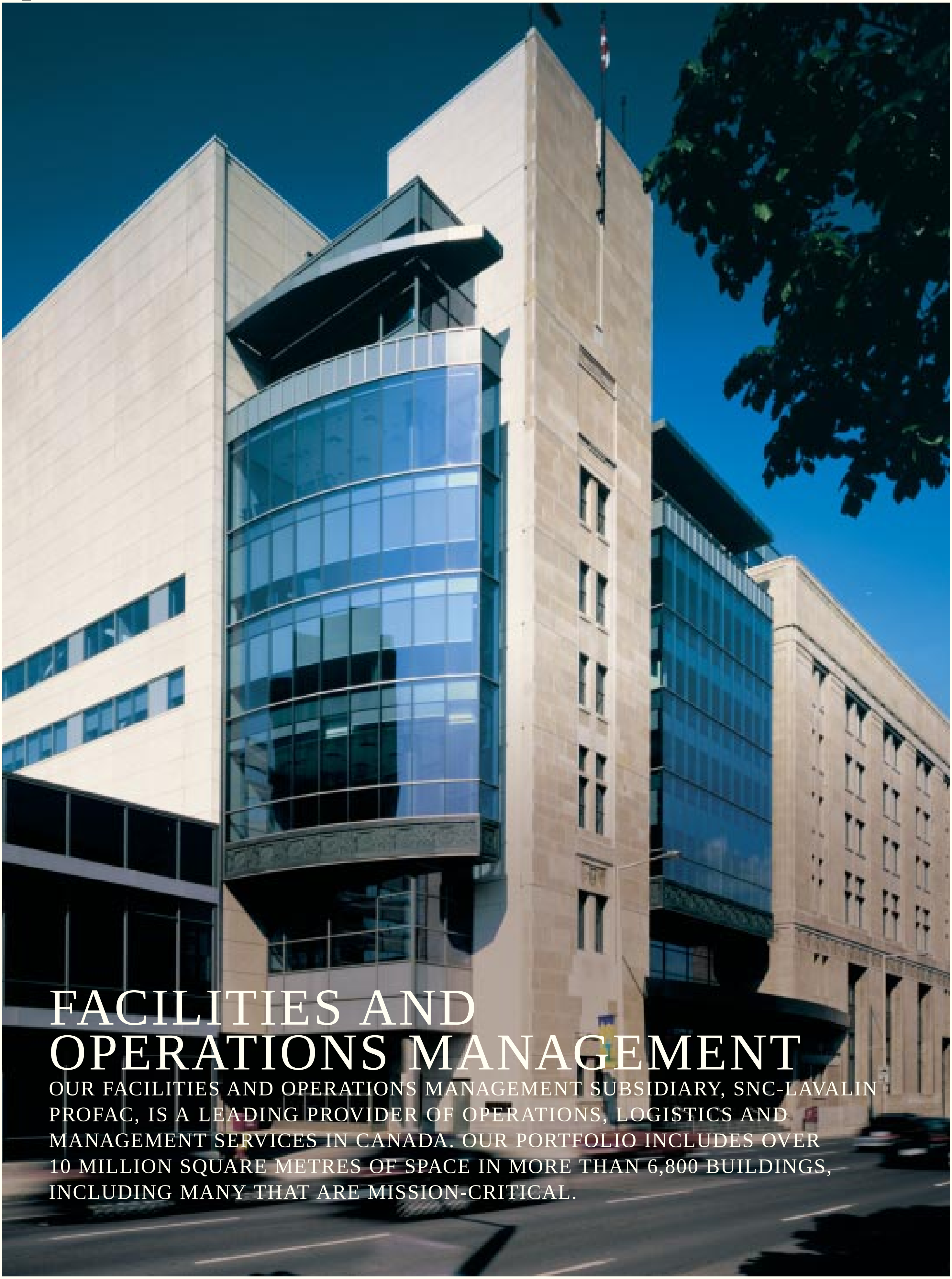
We are well advanced on the Alouette aluminum smelter expansion project in Sept-Îles, Quebec. First metal was cast in December 2004, and once the plant attains its full capacity of 550,000 tonnes/yr, it will be the largest aluminum plant of its kind in the Americas. Our Automation experts helped develop unique equipment and production control software to integrate the facility's existing operations with the new expansion. **As a result, our client was able to quickly achieve, and even surpass, the anticipated performance levels**.

In 2004, we prepared **feasibility studies for major alumina refinery projects**, including one for the development of a bauxite mine and the construction of a 1.4 million tonne/yr refinery for SUAL in Russia's sub-arctic Komi Republic.

Our Australian offices have begun work on Inco's Goro nickel project in New Caledonia. This engineering, procurement and construction management (EPCM) contract follows a previous mandate to identify value improvement measures and optimize capital costs. The plant will be designed to produce approximately 60,000 tonnes of nickel and 4,000 tonnes of cobalt annually. **It is one of the largest projects of its kind currently underway in the world**.

In the copper sector, our UK office has begun EPCM work for Phase 1 of Mopani Copper Mines' smelter upgrade project in Zambia. The client's goal is to increase the smelter's capacity by approximately 50%. Copper mining is Zambia's main industry, and **upgrade projects will help ensure it remains internationally competitive**. In Chile, our Santiago office is progressing well on the Chuquicamata copper electro-refinery, the largest refinery of its kind in the world.

We are working on **two projects for the Saudi Arabian Mining Company, Ma'aden**. Southwest of Riyadh, we are providing full EPCM services to develop the 200,000 tonne/yr Al-Amar gold mine for commercial production. We are also conducting a feasibility study with a partner for the Al-Jalamid Phosphate project. It will provide raw material to one of the world's largest phosphate-based industrial complexes, to be built at Ras Az-Zawr.



FACILITIES AND OPERATIONS MANAGEMENT

OUR FACILITIES AND OPERATIONS MANAGEMENT SUBSIDIARY, SNC-LAVALIN PROFAC, IS A LEADING PROVIDER OF OPERATIONS, LOGISTICS AND MANAGEMENT SERVICES IN CANADA. OUR PORTFOLIO INCLUDES OVER 10 MILLION SQUARE METRES OF SPACE IN MORE THAN 6,800 BUILDINGS, INCLUDING MANY THAT ARE MISSION-CRITICAL.

JOHN SOPINKA COURTHOUSE, CANADA

SNC-Lavalin ProFac won **12 Building Owners and Managers Association (BOMA) awards** in 2004.

- Seven buildings we manage for Canada Post Corporation and Ontario Realty Corporation across Ontario won **Certificates of Excellence**.
- The A. Grenville & William Davis Courthouse in Brampton won a **Certificate of Environmental Excellence**.
- The South Central Letter Mail Processing Plant in Toronto was the **Top Scoring Building in the Industrial Building Category**.
- **The Office Building of the Year (TOBY)** in the renovated building category, and the **National Office Building of the Year** awards went to the John Sopinka Courthouse in Hamilton.
- SNC-Lavalin ProFac was also awarded the coveted **Pinnacle Award** by Toronto's BOMA for excellence in customer service delivery.

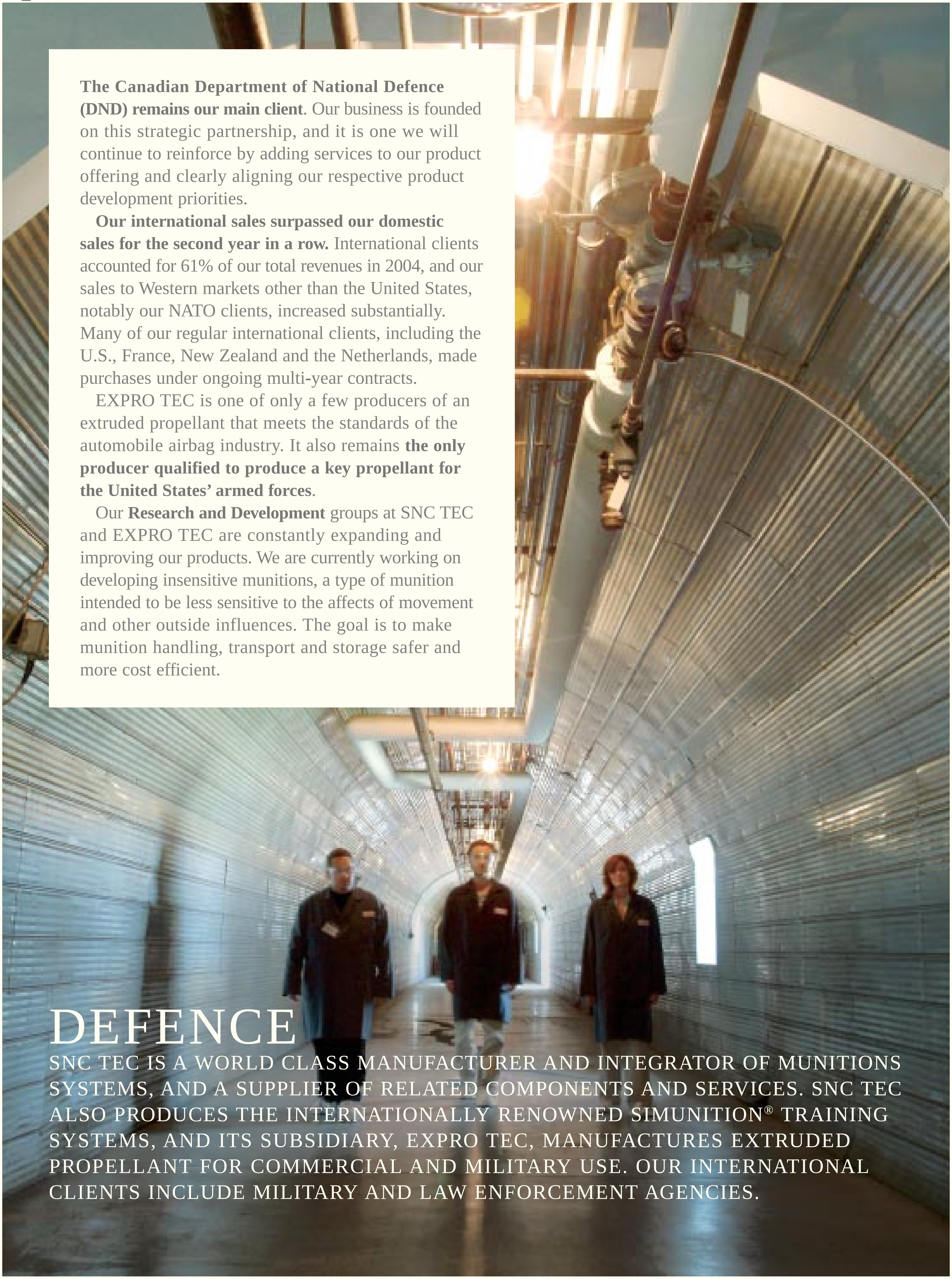
The federal department of Public Works and Government Services Canada chose SNC-Lavalin ProFac to provide property and project management services for 319 of its buildings across the country. The buildings cover a total area of 2.9 million square metres, **one of the largest such service contracts in Canada**. The contract goes into effect April 1, 2005, with a base term of four years and extension options of up to six additional years.

The Government of Alberta awarded SNC-Lavalin ProFac a 30-year contract to provide all operations and maintenance services for the new Calgary Courts Centre, slated for completion in 2007. It will be the **largest building of its kind in North America**, covering approximately 93,000 square metres of space, including two atrium-linked towers – one with 24 floors and the other with 20 floors.

SNC-Lavalin ProFac has been providing comprehensive support services to the Canadian Armed Forces in Afghanistan and Bosnia-Herzegovina under a five-year joint venture contract since 2003. Partly due to the quality of its services on those mandates, it has now been selected to provide **communications support to NATO's peacekeeping operations in Bosnia-Herzegovina**.

We were awarded the contract to manage Canada Post's Community Mailbox Program for another four years and 11 months, with an extension option of five additional years. The Program includes **over 110,000 community mailbox sites and 130,000 pieces of street furniture such as letterboxes and relay boxes**.

Our operations and management contract with Ontario Realty Corporation was **extended for another five years**. The contract, which dates from 1999, covers over three million square metres of real estate and almost 3,000 facilities in the Greater Toronto Area and Southwest regions.



The Canadian Department of National Defence (DND) remains our main client. Our business is founded on this strategic partnership, and it is one we will continue to reinforce by adding services to our product offering and clearly aligning our respective product development priorities.

Our international sales surpassed our domestic sales for the second year in a row. International clients accounted for 61% of our total revenues in 2004, and our sales to Western markets other than the United States, notably our NATO clients, increased substantially. Many of our regular international clients, including the U.S., France, New Zealand and the Netherlands, made purchases under ongoing multi-year contracts.

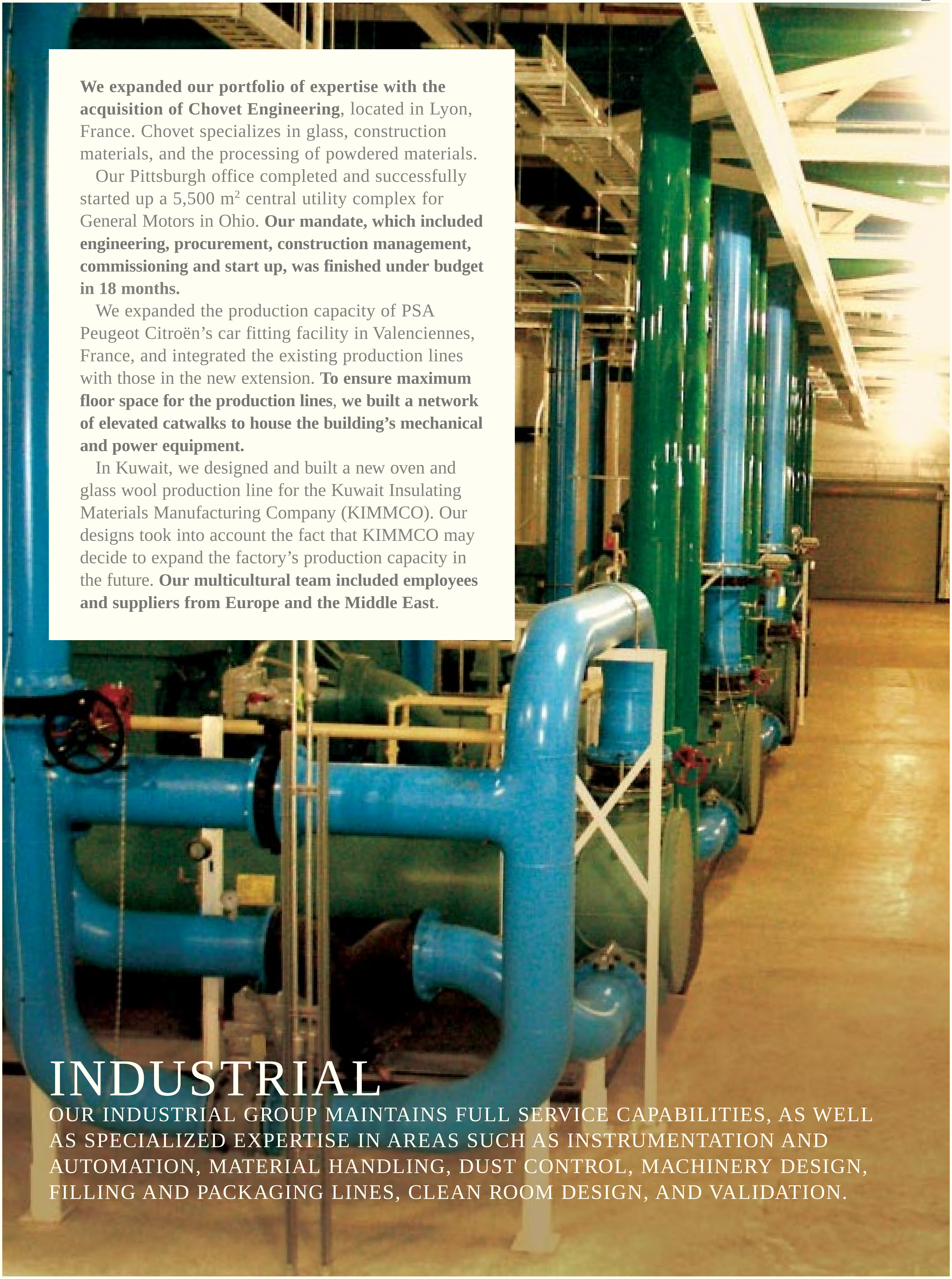
EXPRO TEC is one of only a few producers of an extruded propellant that meets the standards of the automobile airbag industry. It also remains **the only producer qualified to produce a key propellant for the United States' armed forces**.

Our **Research and Development** groups at SNC TEC and EXPRO TEC are constantly expanding and improving our products. We are currently working on developing insensitive munitions, a type of munition intended to be less sensitive to the affects of movement and other outside influences. The goal is to make munition handling, transport and storage safer and more cost efficient.

DEFENCE

SNC TEC IS A WORLD CLASS MANUFACTURER AND INTEGRATOR OF MUNITIONS SYSTEMS, AND A SUPPLIER OF RELATED COMPONENTS AND SERVICES. SNC TEC ALSO PRODUCES THE INTERNATIONALLY RENOWNED SIMUNITION® TRAINING SYSTEMS, AND ITS SUBSIDIARY, EXPRO TEC, MANUFACTURES EXTRUDED PROPELLANT FOR COMMERCIAL AND MILITARY USE. OUR INTERNATIONAL CLIENTS INCLUDE MILITARY AND LAW ENFORCEMENT AGENCIES.

LE GARDEUR PLANT, CANADA



We expanded our portfolio of expertise with the acquisition of Chovet Engineering, located in Lyon, France. Chovet specializes in glass, construction materials, and the processing of powdered materials.

Our Pittsburgh office completed and successfully started up a 5,500 m^2 central utility complex for General Motors in Ohio. **Our mandate, which included engineering, procurement, construction management, commissioning and start up, was finished under budget in 18 months.**

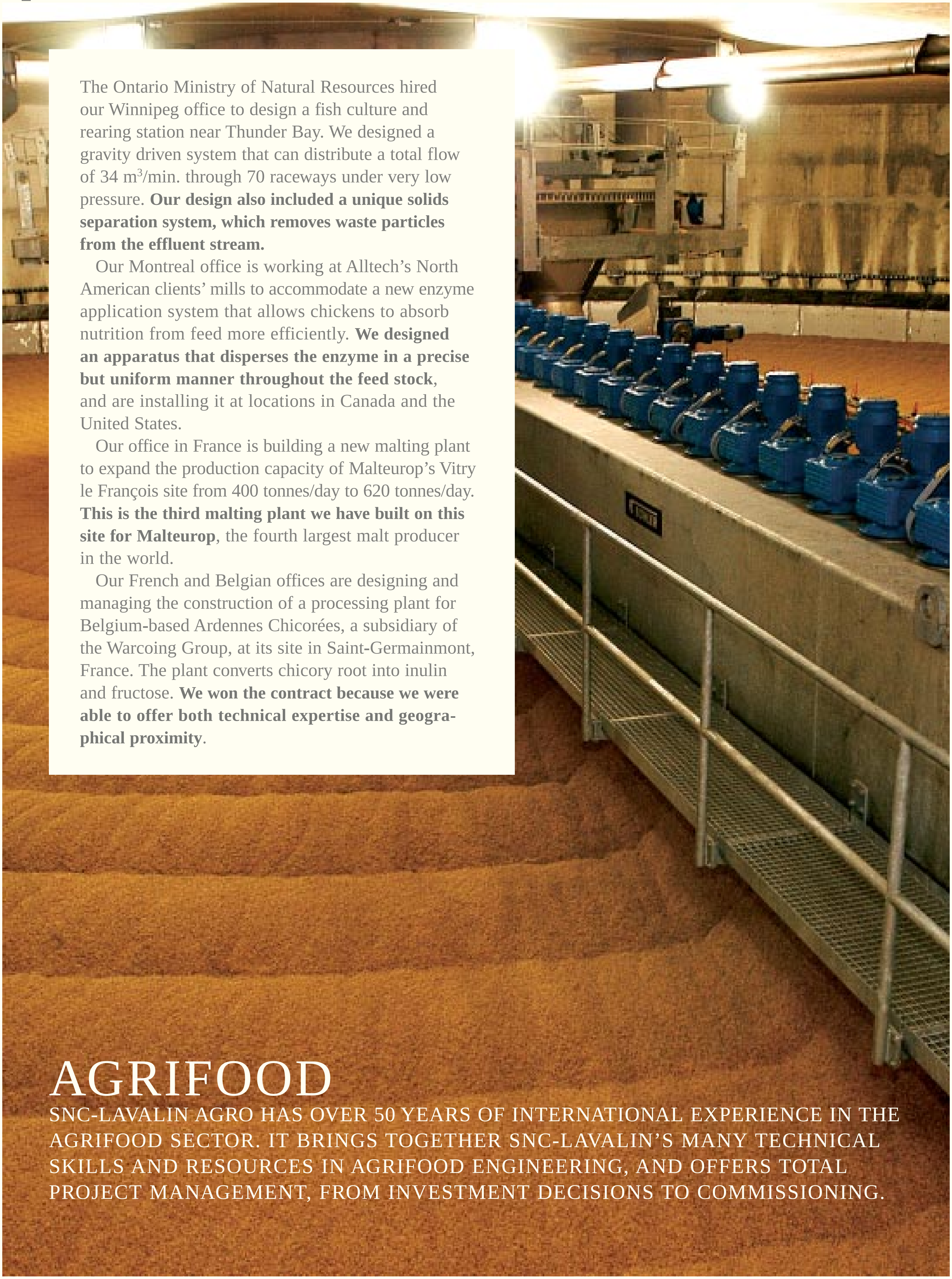
We expanded the production capacity of PSA Peugeot Citroën's car fitting facility in Valenciennes, France, and integrated the existing production lines with those in the new extension. **To ensure maximum floor space for the production lines, we built a network of elevated catwalks to house the building's mechanical and power equipment.**

In Kuwait, we designed and built a new oven and glass wool production line for the Kuwait Insulating Materials Manufacturing Company (KIMMCO). Our designs took into account the fact that KIMMCO may decide to expand the factory's production capacity in the future. **Our multicultural team included employees and suppliers from Europe and the Middle East**.

INDUSTRIAL

OUR INDUSTRIAL GROUP MAINTAINS FULL SERVICE CAPABILITIES, AS WELL AS SPECIALIZED EXPERTISE IN AREAS SUCH AS INSTRUMENTATION AND AUTOMATION, MATERIAL HANDLING, DUST CONTROL, MACHINERY DESIGN, FILLING AND PACKAGING LINES, CLEAN ROOM DESIGN, AND VALIDATION.

GENERAL MOTORS CENTRAL UTILITY COMPLEX, UNITED STATES



The Ontario Ministry of Natural Resources hired our Winnipeg office to design a fish culture and rearing station near Thunder Bay. We designed a gravity driven system that can distribute a total flow of 34 m^3/min. through 70 raceways under very low pressure. **Our design also included a unique solids separation system, which removes waste particles from the effluent stream.**

Our Montreal office is working at Alltech's North American clients' mills to accommodate a new enzyme application system that allows chickens to absorb nutrition from feed more efficiently. **We designed an apparatus that disperses the enzyme in a precise but uniform manner throughout the feed stock**, and are installing it at locations in Canada and the United States.

Our office in France is building a new malting plant to expand the production capacity of Malteurop's Vitry le François site from 400 tonnes/day to 620 tonnes/day. **This is the third malting plant we have built on this site for Malteurop**, the fourth largest malt producer in the world.

Our French and Belgian offices are designing and managing the construction of a processing plant for Belgium-based Ardennes Chicorées, a subsidiary of the Warcoing Group, at its site in Saint-Germainmont, France. The plant converts chicory root into inulin and fructose. **We won the contract because we were able to offer both technical expertise and geographical proximity**.

AGRIFOOD

SNC-LAVALIN AGRO HAS OVER 50 YEARS OF INTERNATIONAL EXPERIENCE IN THE AGRIFOOD SECTOR. IT BRINGS TOGETHER SNC-LAVALIN'S MANY TECHNICAL SKILLS AND RESOURCES IN AGRIFOOD ENGINEERING, AND OFFERS TOTAL PROJECT MANAGEMENT, FROM INVESTMENT DECISIONS TO COMMISSIONING.

NEW MALTING PLANT FOR MALTEUROP, FRANCE

We acquired Sogequip and its subsidiary, Qualifarm, both located in the Lyon region of France. Their **expertise in bulk pharmaceutical chemicals** complements our strong base in engineering, construction, compliance and validation in the pharmaceutical and biopharmaceutical fields.

Our ability to undertake projects of any size and duration distinguishes SNC-Lavalin Pharma from many other firms in the business. In 2004, we completed a second turnkey expansion project at Novocol's dental anaesthetic facility in Ontario, Canada, with an excellent safety record. Very few companies can provide the full range of services turnkey projects require.

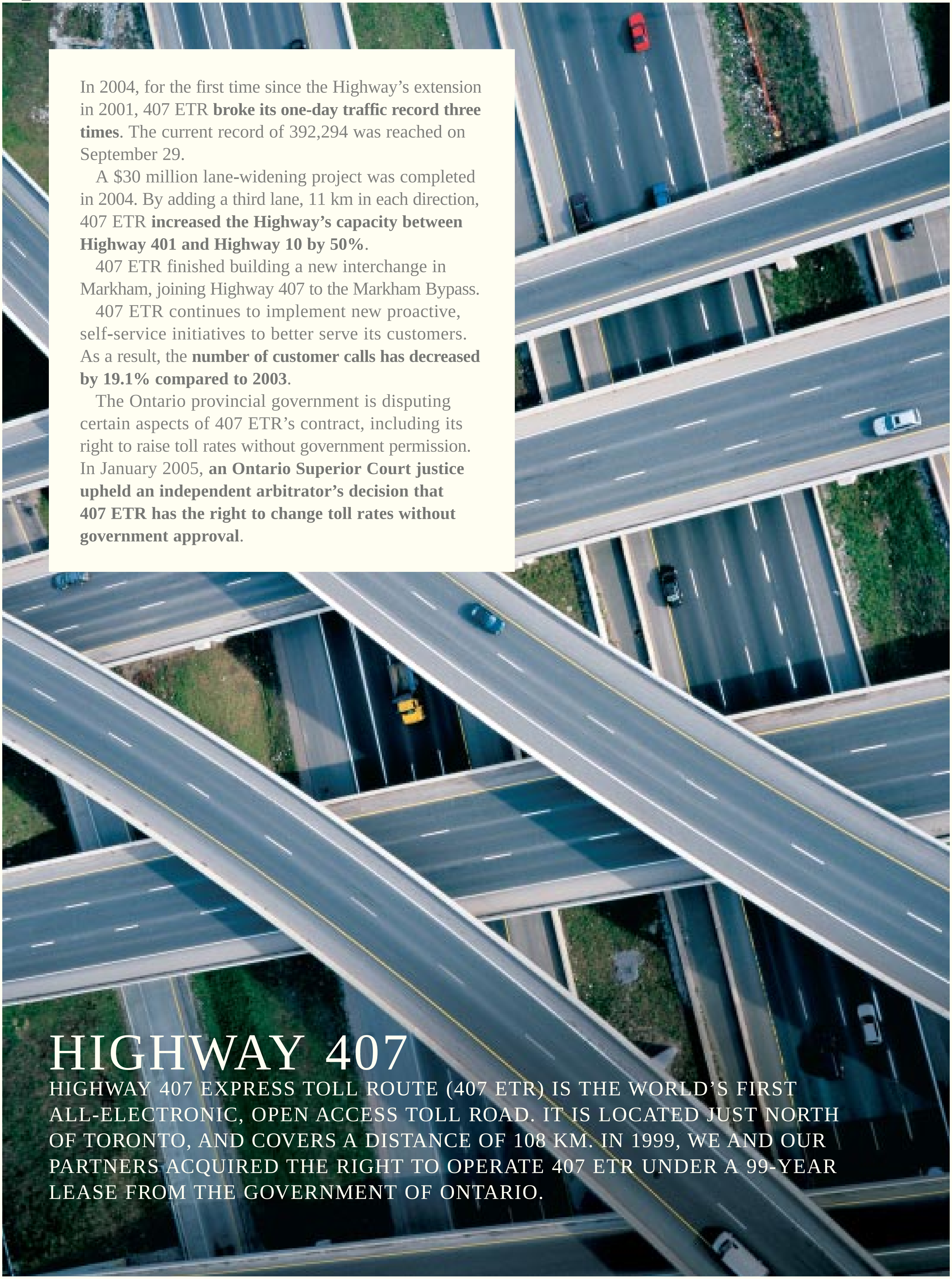
Our North American and Belgian offices have put together a coordinated, multi-disciplinary team to design a quality control laboratory and biotech vaccine production plant for GlaxoSmithKline Biologicals in Belgium. The lab will meet **both North American and European industry standards, and once completed, it will be one of the most sophisticated labs of its kind in Europe**.

Many of our clients are repeat customers. Our offices in North America and Europe have ongoing master service agreements with some of the industry's leading companies, including Aventis, GlaxoSmithKline, MDS Nordion and Merck Frosst.

PHARMACEUTICALS AND BIOTECHNOLOGY

SNC-LAVALIN PHARMA IS A LEADING ENGINEERING AND CONSTRUCTION FIRM IN THE LIFE SCIENCES SECTOR. WE HAVE A TEAM OF OVER 400 PEOPLE MEETING TIGHT DEADLINES AND TECHNICAL CHALLENGES FOR MOST OF THE WORLD'S PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES. WE ARE A TRUE SINGLE SOURCE SOLUTION FOR OUR CLIENTS, WITH A FIRM UNDERSTANDING OF THE GLOBAL MARKET AND A BROAD BASE OF EXPERTISE.

MDS NORDION PHARMACEUTICAL MANUFACTURING FACILITY, CANADA



In 2004, for the first time since the Highway's extension in 2001, 407 ETR **broke its one-day traffic record three times**. The current record of 392,294 was reached on September 29.

A $30 million lane-widening project was completed in 2004. By adding a third lane, 11 km in each direction, 407 ETR **increased the Highway's capacity between Highway 401 and Highway 10 by 50%**.

407 ETR finished building a new interchange in Markham, joining Highway 407 to the Markham Bypass.

407 ETR continues to implement new proactive, self-service initiatives to better serve its customers. As a result, the **number of customer calls has decreased by 19.1% compared to 2003**.

The Ontario provincial government is disputing certain aspects of 407 ETR's contract, including its right to raise toll rates without government permission. In January 2005, **an Ontario Superior Court justice upheld an independent arbitrator's decision that 407 ETR has the right to change toll rates without government approval**.

HIGHWAY 407

HIGHWAY 407 EXPRESS TOLL ROUTE (407 ETR) IS THE WORLD'S FIRST ALL-ELECTRONIC, OPEN ACCESS TOLL ROAD. IT IS LOCATED JUST NORTH OF TORONTO, AND COVERS A DISTANCE OF 108 KM. IN 1999, WE AND OUR PARTNERS ACQUIRED THE RIGHT TO OPERATE 407 ETR UNDER A 99-YEAR LEASE FROM THE GOVERNMENT OF ONTARIO.

We added two new investments to our portfolio in 2004: a natural gas-fired power plant, and an energy distribution business.

We invested US$60.0 million (to be disbursed over the next two years) in the **Astoria Energy project in Greater New York**. The project involves the design and construction of a 500 MW natural gas-fired power plant in Queens. Once completed, it will provide electricity to millions of customers.

We invested $100.8 million for an 11.1% share in the **Trencap Limited Partnership**. Trencap holds an indirect substantial interest in Gaz Métro, a publicly traded company involved in natural gas distribution.

INFRASTRUCTURE CONCESSION INVESTMENTS

OUR INFRASTRUCTURE CONCESSION INVESTMENTS ALSO INCLUDE OUR INTERESTS IN THE FOLLOWING:

ALTALINK REGULATED ELECTRICAL TRANSMISSION LINE – ALBERTA, CANADA 50%
HIGHWAY 407 EXPRESS TOLL ROUTE – ONTARIO, CANADA 16.77%
GAZMONT 25 MW BIOGAS THERMAL POWER STATION – QUEBEC, CANADA 50%
MALTA INTERNATIONAL AIRPORT CONCESSION – MALTA 15.5%
MURRAYLINK REGULATED ELECTRICAL TRANSMISSION LINE – AUSTRALIA 50%
SOUTHERN ELECTRIC POWER COMPANY LIMITED (SEPCOL) – PAKISTAN 21%
WEST END DAM 4.5 MW HYDRO PLANT – UNITED STATES 21%

ASTORIA ENERGY PROJECT, UNITED STATES

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

1. HIGHLIGHTS / MAJOR EVENTS OF 2004

INCREASE IN 2004 CONSOLIDATED NET INCOME

- Consolidated net income increased to $104.1 million in 2004 from $86.5 million in 2003.
- Net income excluding Highway 407 increased by 19.6% to $118.6 million in 2004 from $99.2 million in 2003, surpassing the Company's targeted annual growth range of 7% to 12%.
- ROASE excluding Highway 407 reached 17.3% in 2004 compared with 15.8% in 2003, surpassing the Company's target.

CONSOLIDATED REVENUES IN 2004

- Consolidated revenues totalled $3.4 billion, a 5.6% increase compared with 2003.

SOLID BALANCE SHEET POSITION

- The Company's consolidated balance sheet position as at December 31, 2004 remained solid, with a strong cash position, as well as a recourse debt-to-capital ratio of 13:87.
- Consolidated cash and cash equivalents totalled $713.2 million in 2004, compared with $495.8 million in 2003, due to cash generated from operations.

STRONG BACKLOG AS AT DECEMBER 31, 2004

- Consolidated revenue backlog at the end of 2004 was $6.3 billion, compared with $4.2 billion at the end of 2003, reflecting significant contract awards in all business segments during 2004.

DIVIDEND INCREASE

- Dividend per share for the fourth quarter of 2004 increased from $0.13 to $0.16.

INVESTMENTS AND BUSINESS ACQUISITIONS

- In April 2004, SNC-Lavalin invested US$60.0 million, payable during 2005 and 2006, in Phase 1 of a new 500 MW natural gas-fired power plant in Queens, New York, through an equity participation in Astoria Project Partners LLC.
- In June 2004, SNC-Lavalin invested $100.8 million in Trencap Limited Partnership, which holds an indirect substantial interest in Gaz Métro Limited Partnership, a publicly traded company involved in natural gas distribution.
- SNC-Lavalin completed the acquisitions of Chovet Engineering S.A., in May 2004, and Sogequip, in July 2004, two engineering and construction businesses located in the Lyon region of France.
- SNC-Lavalin also became, in December 2004, the sole owner of Canatom NPM, a private sector nuclear engineering company in Canada, in which it previously had a 61.25% interest.

BASIS OF PRESENTATION AND CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis is designed to provide the reader with a greater understanding of our business, our business strategy and performance, our expectations of the future, and how we manage risk and capital resources. It is intended to enhance the understanding of the audited consolidated financial statements and accompanying notes, and should therefore be read in conjunction with these documents. Statements made in this Management's Discussion and Analysis that describe the Company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements", which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates", or the negative thereof or other variations thereon. The Company cautions that, by their nature, forward-looking statements involve risks and uncertainties, and that its actual actions 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. Reference in this Management's Discussion and Analysis to the "Company" means SNC-Lavalin Group Inc. "SNC-Lavalin" means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company, or one or more of its subsidiaries or joint ventures.

2. OVERVIEW OF OUR BUSINESS AND STRATEGY

2.1 OUR BUSINESS

Along with providing engineering, procurement, construction, project management and project financing services to specific industry segments, such as Power, Chemicals and Petroleum, Infrastructure and Environment, Mining and Metallurgy and All Other, SNC-Lavalin's activities include long-term outsourcing services mainly in the Facilities and Operations Management segment, as well as manufacturing activities within the Defence segment.

SNC-Lavalin also makes selective investments in infrastructure concession-type projects that require the ability to bring together a variety of skills ranging from technical, project management and financing.

2.2 OUR BUSINESS STRATEGY

SNC-Lavalin's business strategy rests on solid pillars and provides the flexibility necessary to remain attuned to market demands and to adapt to a changing environment. These pillars are:

- Build on its recognized expertise in its core sectors and develop new expertise in technical fields with promising growth opportunities;
- Use its financing capabilities to enhance its competitiveness for major projects;
- Combine its technical expertise and financial capabilities to develop and acquire infrastructure concessions with solid fundamentals and potential;
- Continue to view the world as its marketplace through the international network it has built up over nearly 40 years.

This business strategy, associated with strong operating efficiencies which include a culture of financial accountability among its workforce, has permitted the Company to achieve sustained results for over a decade.

2.3 HOW WE ANALYZE OUR RESULTS

The Company's audited consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), in which the investment in 407 International Inc. ("Highway 407") is being accounted for using the proportionate consolidation method. Based on this accounting treatment, the Company's consolidated balance sheet reflects $715.6 million in non-recourse long-term debt from Highway 407 as at December 31, 2004, compared to the Company's total shareholders' equity of $717.8 million as at the same date. As mentioned in Note 2 to the audited consolidated financial statements, this current accounting treatment (proportionate consolidation) does not reflect the way the Company views the nature of the investment in Highway 407.

In order to provide the reader with a greater understanding of the Company's underlying assets, earnings base and financial resources, to facilitate analysis of each of SNC-Lavalin's activities, and to reflect the way the Company views the nature of this investment, the following analyses and additional financial information have been prepared with SNC-Lavalin's investment in Highway 407 accounted for on the equity basis, thereby enabling the Company to identify the results from engineering and construction and other concession-type activities separately from Highway 407. The Company is aware that showing Highway 407 results as an equity investment is not the accounting treatment required by Canadian GAAP, yet this accounting treatment could be appropriate under United States GAAP requirements.

2.3.1 RESULTS EXCLUDING HIGHWAY 407

Results excluding Highway 407 are evaluated and reported by the Company based on **industry segment,** and are also reported by **category of activity**.

RESULTS BY INDUSTRY SEGMENT

The Company's results are **primarily evaluated by industry segment.** These industry segments regroup business units with related activities within SNC-Lavalin, as follows:

- The **Power, Chemicals and Petroleum, Infrastructure and Environment, Mining and Metallurgy and All Other** industry segments incorporate both Services and Packages activities involving engineering, procurement, construction and project management and are derived primarily from cost-plus reimbursable and fixed-price contracts.
- The **Facilities and Operations Management** segment, whose major activities are the long-term outsourcing of integrated management services and solutions, and the **Defence** segment, whose major activities include the manufacturing of ammunition, propellant and propulsive powder, are concession-type activities with recurring revenues.
- The **Investments** segment consists of SNC-Lavalin's investments in infrastructure-type concessions, for which accountability lies with the SNC-Lavalin Investment unit, which is independent from other business units.

Accountability for the Company's business unit rests with senior management members, whereby a portion of their remuneration is based on the performance of their respective business units, as well as on the Company's overall financial performance and their individual objectives.

RESULTS BY CATEGORY OF ACTIVITY

Management also reviews results by category of activity (i.e., Services, Packages and Concessions) in order to assess the overall Company performance. Results by category of activity have no impact on senior management's compensation and are not used for accountability purposes, but the Company regularly reviews the performance of these categories independently as they provide different gross margin yields and have different risk profiles.

- **Services revenues** are generated by providing professional services, including engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning, and are derived from cost-plus reimbursable contracts and fixed-fee contracts.
- **Packages revenues,** in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.
- **Concessions revenues** represent SNC-Lavalin's activities in facilities and operations management, Defence manufacturing operations and investments in infrastructure-type concessions, all of which generate recurring revenues on a long-term basis.

2.3.2 KEY PERFORMANCE INDICATORS

The Company regularly evaluates its performance using key financial indicators, namely Net Income excluding Highway 407 and Return on Weighted Average Shareholder's Equity excluding Highway 407, as the Company focuses on net income growth as opposed to revenue growth. The Company also uses other indicators, such as consolidated net income, operating income by industry segment, gross margin by project and by category of activity, cash flows from operating activities, recourse debt-to-capital ratio, cash position, working capital, capital expenditures compared to depreciation, level of general and administrative expenses, and revenue backlog, to evaluate its performance.

Some of these indicators represent non-GAAP financial measures. Consequently, they do not have a standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers. Management believes that these indicators nevertheless provide useful information because they allow the evaluation of the performance of the Company and its components on various aspects, such as past, current and expected profitability and financial position. Definitions of all non-GAAP financial measures are provided throughout this document, as necessary, to give the reader a better understanding of the indicators used by management.

3. OVERALL FINANCIAL PERFORMANCE AND 2005 OUTLOOK

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2004	2003	2002
NET INCOME (LOSS)			
Excluding Highway 407	$ 118.6	$ 99.2	$ 89.5
Highway 407 net loss, net of consolidation eliminations	(14.5)	(12.7)	(16.9)
Net gain on disposal of a portion of the investment in 407 International Inc.	–	–	115.2
Gain on dilution of investment in 407 International Inc.	–	–	14.7
From Highway 407	(14.5)	(12.7)	113.0
CONSOLIDATED NET INCOME	$ 104.1	$ 86.5	$ 202.5
EARNINGS PER SHARE			
Basic	$ 2.06	$ 1.72	$ 4.04
Diluted	$ 2.04	$ 1.69	$ 3.95

3.1 CONSOLIDATED NET INCOME

Consolidated net income in 2004 was $104.1 million ($2.04 per share on a diluted basis) compared with a consolidated net income of $86.5 million in 2003 ($1.69 per share on a diluted basis), an increase of 20.3%, explained by the following:

Net income excluding Highway 407 increased to $118.6 million in 2004 compared to $99.2 million in 2003, a 19.6% increase, resulting mainly from increased contributions from the Power, Chemicals and Petroleum, Facilities and Operations Management, and Defence segments, partially offset by a decrease in the Infrastructure and Environment segment. With this increase, the Company surpassed its target of achieving an annual growth between 7% and 12%.

Highway 407 net accounting loss totalled $14.5 million in 2004 compared to $12.7 million in 2003, reflecting higher interest and other expenses, partially offset by increased revenues.

In 2002, net income from Highway 407 was due to a net after-tax gain of $115.2 million in the first quarter of 2002 related to SNC-Lavalin's disposal of a portion of its investment in 407 International Inc., and to a dilution gain of $14.7 million in the first quarter of 2002 resulting from the deemed conversion, effective January 1, 2002, of 407 International Inc.'s subordinated convertible debenture into common shares.

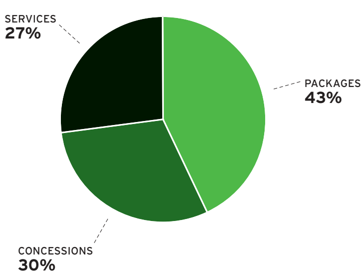
3.2 CONSOLIDATED REVENUES

Consolidated revenues were $3,447.4 million in 2004, compared with $3,263.9 million in 2003, reflecting an increase in all revenue categories. Revenues from Packages contracts increased mainly in the Power segment, partially offset by a decrease in the Chemicals and Petroleum segment, while the increase in Services contracts mainly reflects an increase in the Mining and Metallurgy segment, partially offset by a decrease in the Power segment. Concessions revenues increased to $1,021.1 million in 2004, compared with $911.4 million in 2003, in large part due to increased activities in the Facilities and Operations Management, and Defence segments.

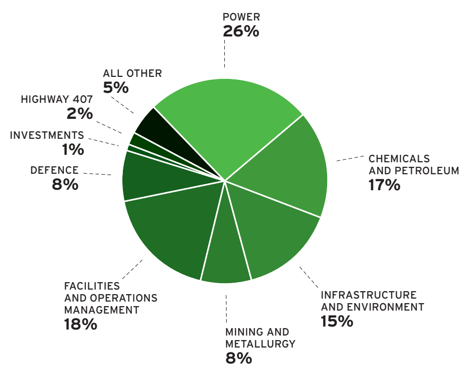
In 2003, consolidated revenues were $3,263.9 million compared to $3,431.6 million in 2002, reflecting lower activity in Packages contracts, partially offset by an increase in Services contracts, while Concessions activities in 2003 remained in line with 2002.

The diversity of the Company's revenue base and its flexibility to operate in different categories as well as industry and geographic segments, as illustrated in the charts below, have been key elements in its sustainable performance over the last decade, despite the year-to-year variations in the respective percentages.

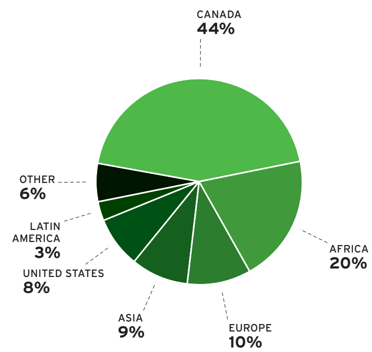
2004 REVENUES



BY CATEGORY



BY INDUSTRY SEGMENT



BY GEOGRAPHIC SEGMENT

3.3 ECONOMIC TRENDS

Growth in the world real Gross Domestic Product ("GDP") is forecast to reach approximately 3% to 4% in 2005. This represents a decrease compared to 2004, a result of anticipated rising interest rates in many major countries and expected strong energy prices. From a Canadian perspective, the national economy is expected to remain steady in 2005, with an anticipated growth of GDP between 2.5% and 3%. Part of such growth is expected to come from business investments, resulting in part from strong energy and commodity prices and from a need to expand business production capacity, as well as from infrastructure projects and improvements in the public sectors. In particular, non-residential business investments, a relevant indicator for engineering and construction companies, is expected to grow faster than the GDP in 2005, with a significant favourable contribution from the energy sector. On the other hand, the appreciation of the Canadian dollar compared to the United States dollar in 2004, and the anticipated interest rate increases in 2005 are expected to act as moderators of the Canadian growth. As mentioned last year, the impact from the appreciation of the Canadian dollar is not significant to SNC-Lavalin's activities, as it sources its project material and equipment on a global basis based on best value criteria, and the salaries component remains very competitive compared to the United States. The Canadian dollar fluctuation has an impact on SNC-Lavalin's Defence manufacturing operations; however, this is offset in part through its product differentiation. In addition, consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure.

3.4 COMPANY OUTLOOK

The expected growth of Canadian non-residential business investments, coupled with the announced and anticipated public infrastructure projects in Canada and various opportunities outside Canada, represent favourable elements for the Company. These elements, together with the Company's strong opening backlog coupled with the diversity of the Company's revenue base, provide a solid basis for continued growth in the Company's profitability in 2005.

4. GEOGRAPHIC BREAKDOWN OF REVENUES

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004		2003	
CANADA	$ 1,521.1	44%	$ 1,442.6	44%
OUTSIDE CANADA				
Africa	676.7	20%	428.0	13%
Europe	333.3	10%	144.4	4%
Asia	315.0	9%	441.0	14%
United States	281.7	8%	562.3	17%
Latin America	93.7	3%	129.7	4%
Other	225.9	6%	115.9	4%
	1,926.3	56%	1,821.3	56%
TOTAL REVENUES	$ 3,447.4	100%	$ 3,263.9	100%

4.1 REVENUES IN CANADA

Revenues in Canada, which were expected to be between $1.4 and $1.6 billion, **amounted to $1,521.1 million in 2004,** compared with $1,442.6 million in 2003, mainly due to increased activity in the Power, and Facilities and Operations Management segments, partially offset by a decrease in the Chemicals and Petroleum segment.

Revenues in Canada are expected to increase in 2005, due in part to higher activities expected in the Power, Infrastructure and Environment, Facilities and Operations Management, and Chemicals and Petroleum segments, partially offset by lower anticipated revenues in the Mining and Metallurgy segment.

4.2 REVENUES FROM OUTSIDE CANADA

As expected, **revenues from outside Canada increased, totalling $1,926.3 million in 2004,** compared with $1,821.3 million in 2003. In 2004, significant contracts in the Power segment in Africa and Europe more than offset the decrease resulting mainly from the completion in 2003 of certain gas-fired thermal power plants ("gas-fired power plants") in the United States, and the completion and near completion of major projects in the Chemicals and Petroleum segment in 2004.

- Revenues generated in Africa increased to $676.7 million in 2004, from $428.0 million in 2003, due in large part to increased activity in the Power segment, partially offset by lower volume in the Infrastructure and Environment segment.
- Revenues from Europe increased to $333.3 million in 2004, from $144.4 million in 2003, mainly due to higher activity in the Power segment and to acquired businesses in 2004.
- Revenues from Asia in 2004 were $315.0 million compared to $441.0 million the previous year, mainly reflecting lower activities in the Chemicals and Petroleum segment.
- Revenues generated in the United States decreased to $281.7 million in 2004 from $562.3 million in 2003, due in large part to revenues generated in 2003 on certain "gas-fired power plants" completed that year.
- Revenues from Latin America were $93.7 million in 2004, compared with $129.7 million in 2003, mainly due to decreased activities in the Infrastructure and Environment, and Chemicals and Petroleum segments, partially offset by higher volume in the Mining and Metallurgy segment.
- Revenues from other regions, including Eurasia and the Middle East, increased to $225.9 million in 2004 compared with $115.9 million last year, mainly due to increased activity in the Power, and Chemicals and Petroleum segments.

The Company expects revenues from outside Canada to be at least in line in 2005, as increased activities from ongoing and recently awarded projects, mostly in the Infrastructure and Environment, and Mining and Metallurgy segments, together with several opportunities, should offset the expected completion or near completion of some major projects in the Power segment.

5. BREAKDOWN OF INCOME STATEMENT

As mentioned earlier, and as in previous years, the Company presents additional financial information with Highway 407 accounted for on an equity basis (refer to Note 2 to the audited consolidated financial statements) in order to facilitate the discussion and analysis of each of SNC-Lavalin's activities. The following discussion and analysis has been prepared for the excluding Highway 407 component.

FINANCIAL RESULTS (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004		2003	
REVENUES				
Services	$ 923.6		$ 888.8	
Packages	1,502.7		1,464.1	
Concessions	956.9		853.8	
	$ 3,383.2		$ 3,206.7	
GROSS MARGIN				
Services	$ 235.5	25.5%	$ 229.1	25.8%
Packages	104.8	7.0%	136.7	9.3%
Concessions	134.1	14.0%	95.2	11.1%
	474.4	14.0%	461.0	14.4%
ADMINISTRATIVE, MARKETING AND OTHER EXPENSES	289.1		305.4	
INTEREST AND CAPITAL TAXES	11.4		8.9	
INCOME BEFORE INCOME TAXES	173.9		146.7	
INCOME TAXES	55.3		47.5	
NET INCOME EXCLUDING HIGHWAY 407	$ 118.6		$ 99.2	

5.1 REVENUE AND GROSS MARGIN ANALYSIS

Revenues totalled $3,383.2 million in 2004, compared with $3,206.7 million in 2003.

- Services revenues increased by 3.9%.
- Packages revenues increased by 2.6%.
- Concessions revenues increased by 12.1%.

Gross margin increased to $474.4 million in 2004, compared with $461.0 million in 2003, reflecting higher revenues partially offset by a slightly lower overall gross margin-to-revenue ratio than in 2003.

5.1.1 SERVICES REVENUES AND GROSS MARGIN

As expected, **Services revenues of $923.6 million in 2004 increased** compared with $888.8 million in 2003, as lower revenues in the Power segment were more than offset by higher activities in the Mining and Metallurgy segment.

Gross margin for the Services category was $235.5 million in 2004, compared with $229.1 million in 2003, mainly due to increased volume.

With activities on ongoing and recently awarded projects, coupled with various opportunities inside Canada and outside Canada, **the Company expects Services revenues to remain in line in 2005.**

5.1.2 PACKAGES REVENUES AND GROSS MARGIN

Packages revenues increased, as expected, **totalling $1,502.7 million in 2004** compared with $1,464.1 million in 2003, reflecting an increase in activities, mainly in the Power segment, partially offset by a decrease in the Chemicals and Petroleum segment.

The overall Packages gross margin amounted to $104.8 million in 2004 compared to $136.7 million in 2003, mainly reflecting lower activities in the Infrastructure and Environment segment, coupled with a decreased gross margin-to-revenue ratio in the Power segment. This decrease was partially offset by increased volume in the Power segment.

The Company expects the Packages revenues for 2005 to increase, reflecting a higher level of beginning backlog with several recent contract awards in the Infrastructure and Environment, and Power segments, coupled with various opportunities inside Canada and outside Canada.

5.1.3 CONCESSIONS REVENUES AND GROSS MARGIN

Concession activities mainly include the SNC-Lavalin ProFac subsidiary, which is involved in facilities and operations management, as well as investments in infrastructure-type concessions. Also part of the Concessions activities is the Defence segment involved in the manufacturing of ammunition, including related propellants and propulsive powder for military and paramilitary markets.

CONCESSIONS REVENUES BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Facilities and Operations Management	$ 629.1	$ 557.3
Defence	289.6	270.9
Investments	21.3	18.9
All Other	16.9	6.7
	$ 956.9	$ 853.8

While the Company expected revenues to be slightly higher, **Concessions revenues increased to $956.9 million in 2004,** compared with $853.8 million in 2003, primarily due to increased activities in the Facilities and Operations Management, and Defence segments.

Concessions gross margin increased to $134.1 million in 2004, compared with $95.2 million in 2003, mainly due to increased volume in the Facilities and Operations Management, and Defence segments.

The Company expects Concessions revenues to increase in 2005, mainly from the recently awarded contracts in the Facilities and Operations Management segment and the continued contributions from the Defence and Investments segments.

5.2 ADMINISTRATIVE, MARKETING AND OTHER EXPENSES ANALYSIS

Administrative, marketing and other expenses, which were expected to remain in line with 2003, totalled $289.1 million in 2004 compared with $305.4 million in the previous year, as lower expenses in some business units were partially offset by additional expenses from businesses acquired. With the full year expenses from the 2004 business acquisitions, coupled with anticipated increased marketing and proposals costs, **the Company expects administrative, marketing and other expenses to increase in 2005.** Despite this anticipated increase, the Company continues to maintain an appropriate balance between revenues and administrative expenses, while maintaining the necessary investment in marketing and selling activities to achieve growth.

5.3 INTEREST AND CAPITAL TAXES ANALYSIS

Interest and capital taxes expenses of $11.4 million in 2004, compared with $8.9 million in 2003, were higher than expected, mainly due to lower than anticipated interest income reflecting lower average cash balance and effective interest yields during 2004. **In 2005, the Company expects a decrease in interest and capital taxes expenses** due to an anticipated higher average cash balance and effective interest yield.

5.4 INCOME TAXES ANALYSIS

As expected, the effective income tax rate, excluding Highway 407, decreased in 2004, totalling 31.8% compared with 32.4% in 2003, while the consolidated effective tax rate was 34.8% in 2004 compared with 35.8% in 2003. **The Company expects its effective tax rate, excluding Highway 407, to be lower in 2005,** mainly due to the expected mix of activities in Canada and internationally.

6. BACKLOG

The Company records backlog based on contract awards that are considered firm, as well as on a five-year rolling basis for recurring revenues on certain concession-type agreements and for Highway 407.

REVENUE BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
BY CATEGORY		
Services	$ 564.9	$ 567.7
Packages	2,483.2	1,749.5
Concessions	2,886.7	1,484.9
Total – Excluding Highway 407	5,934.8	3,802.1
From Highway 407	394.9	370.8
CONSOLIDATED REVENUE BACKLOG	$ 6,329.7	$ 4,172.9
BY REGION		
Canada		
Excluding Highway 407	$ 3,570.2	$ 1,634.8
From Highway 407	394.9	370.8
Total Canada	3,965.1	2,005.6
Outside Canada	2,364.6	2,167.3
TOTAL	$ 6,329.7	$ 4,172.9

Revenue backlog excluding Highway 407 increased to $5.9 billion as at December 31, 2004, compared with $3.8 billion as at December 31, 2003.

- Services backlog remained in line with 2003.
- Packages backlog grew by 41.9%.
- Concessions backlog increased by 94.4%, mainly due to significant bookings in Facilities and Operations Management.
- Backlog from Canada excluding Highway 407 increased to $3.6 billion at the end of 2004, from $1.6 billion at the end of the previous year, mainly in the Facilities and Operations Management, and Power segments.
- Backlog outside Canada increased by 9.1% over last year, reflecting major bookings in the Infrastructure and Environment segment, partially offset by a decrease in the Power, and Chemicals and Petroleum segments.

6.1 SERVICES BACKLOG

Services backlog totalled $564.9 million at the end of 2004, in line with the previous year.

RECONCILIATION OF SERVICES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Opening backlog	$ 567.7	$ 416.2
Add: Contract bookings during the year	920.8	1,040.3
Less: Revenues recognized during the year	923.6	888.8
Ending backlog	$ 564.9	$ 567.7

Services bookings for 2004 totalled $920.8 million, compared with $1,040.3 million in the previous year, which included the impact of the acquisition of GDS Engineers Inc. Contract bookings of 2004 include notable additions such as:

- The engineering, procurement and construction management ("EPCM") services for Phase 3 of a nickel project in New Caledonia, in Mining and Metallurgy;
- The continuous involvement in the front-end engineering, project management, detailed engineering and procurement services for the ExxonMobil Refining and Chemical complexes located in Baytown, Texas, in Chemicals and Petroleum;
- The EPCM services to upgrade pump stations for a pipeline in Alaska, in Chemicals and Petroleum;
- The EPCM services contract for a gold mine project in Venezuela, in Mining and Metallurgy;
- The EPCM services contract for the rehabilitation and the construction of electrolytic cells for potlines at an aluminum smelter in Dubai, United Arab Emirates, in Mining and Metallurgy;
- The EPCM services contract for conversion to clean fuels of refinery in Prince George, British Columbia, in Chemicals and Petroleum.

6.2 PACKAGES BACKLOG

Packages backlog of $2,483.2 million at the end of 2004 represents a significant increase compared with the backlog of $1,749.5 million at the end of 2003, with most of the increase coming from the Infrastructure and Environment, and Power segments.

RECONCILIATION OF PACKAGES BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Opening backlog	$ 1,749.5	$ 1,715.4
Add: Contract bookings during the year	2,236.4	1,498.2
Less: Revenues recognized during the year	1,502.7	1,464.1
Ending backlog	$ 2,483.2	$ 1,749.5

Packages bookings in 2004 amounted to $2,236.4 million, a 49.3% increase compared with the previous year. Major bookings in 2004 included contracts such as:

- The turnkey contract to design and build a water treatment plant and pumping station in Algeria, in Infrastructure and Environment;
- The engineering, procurement and construction ("EPC") contract for a 550 MW natural gas-fired cogeneration power plant in Bécancour in Canada, in Power;
- The EPC contract for a 50 MW biomass fuelled power plant in Minnesota, United States, in Power;
- The turnkey contract to design and build, through a joint venture, the in-situ Steam Assisted Gravity Drainage ("SAGD") heavy oil recovery plant for Husky Energy, in northern Alberta, Canada, in Chemicals and Petroleum;
- The turnkey contract to upgrade, modify and expand a crude oil gathering centre in Kuwait, in Chemicals and Petroleum;
- The contract to design and build a 117 MW cogeneration power plant at Lester B. Pearson International Airport in Canada, in Power.

6.3 CONCESSIONS BACKLOG

BREAKDOWN OF CONCESSIONS BACKLOG

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Facilities and Operations Management	$ 2,212.3	$ 762.2
Defence	673.2	720.5
Other	1.2	2.2
Excluding Highway 407	2,886.7	1,484.9
From Highway 407	394.9	370.8
TOTAL CONCESSIONS	$ 3,281.6	$ 1,855.7

Concessions backlog excluding Highway 407 increased sharply to $2,886.7 million at the end of 2004 from $1,484.9 million at the end of 2003, mainly due to the award and renewal of major contracts in the Facilities and Operations Management segment, namely:

- The award of contracts to provide comprehensive property and project management for 319 buildings located from coast to coast, encompassing a total of 2.9 million square metres, in the Canadian federal government's real estate property portfolio;
- The five-year extension agreement for operations and management services for nearly 3,000 facilities with Ontario Realty Corporation;
- The renewal of the Community Mailbox Program ("CMB") contract, with Canada Post Corporation.

7. OPERATING RESULTS BY INDUSTRY SEGMENT

As mentioned previously, the Company's results are primarily evaluated by industry segment, in which each of the Company's segmented results, namely the Power, Chemicals and Petroleum, Infrastructure and Environment, Mining and Metallurgy, Facilities and Operations Management, Defence, Investments and All Other are used as a basis for accountability by management. The following discussion and analysis has been prepared for the excluding Highway 407 component (refer to Note 18 to the audited consolidated financial statements for a reconciliation to consolidated net income as well as a description of each segment).

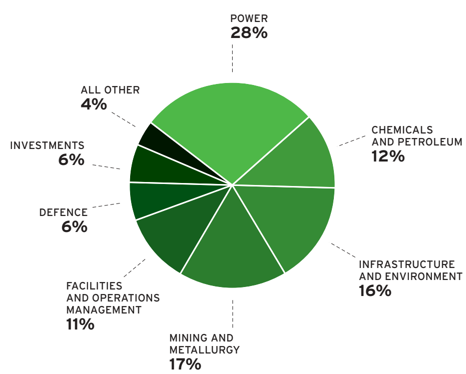
OPERATING RESULTS BY INDUSTRY SEGMENT (EXCLUDING HIGHWAY 407)

YEAR ENDED DECEMBER 31

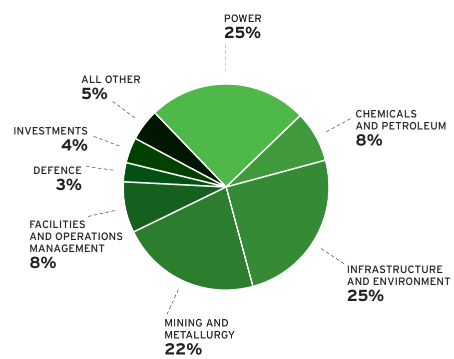
(IN MILLIONS OF DOLLARS)	2004		2003	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
Power	$ 891.0	$ 51.2	$ 607.2	$ 37.2
Chemicals and Petroleum	584.2	21.8	818.5	12.6
Infrastructure and Environment	527.9	27.9	570.9	37.9
Mining and Metallurgy	279.8	31.3	239.3	33.8
Facilities and Operations Management	629.1	20.4	557.3	12.1
Defence	289.6	10.7	270.9	4.3
Investments	21.3	10.5	18.9	6.2
All Other	160.3	7.4	123.7	7.4
TOTAL	$ 3,383.2	$ 181.2	$ 3,206.7	$ 151.5

The charts below illustrate the diversity of the operating income contributors, from an industry segment stand-point, as decreases in the relative contributions of some segments in 2004, such as Infrastructure and Environment, and Mining and Metallurgy, were compensated by an increased share of operating income from other segments, such as Chemicals and Petroleum, Power, and Facilities and Operations Management.

OPERATING INCOME BY INDUSTRY SEGMENT



2004



2003

7.1 POWER

Power revenues increased to $891.0 million in 2004, compared with $607.2 million in 2003, as revenues from certain major projects completed in 2003 were replaced by contributors such as:

- The contract to design, build, operate and maintain an 825 MW combined cycle thermal power plant in the Skikda region of Algeria;
- The EPC contract for a 550 MW natural gas-fired cogeneration power plant in Bécancour, Canada;

- The EPC contract for a 150 MW combined heat and power plant near the City of Limerick, in Ireland;
- The contract to design and build a 117 MW cogeneration power plant at Lester B. Pearson International Airport in Canada;
- The EPC contract to design and construct a 60 MW combined cycle thermal power in the City of Farmington, New Mexico.

As expected, **operating income increased in 2004, amounting to $51.2 million,** compared with $37.2 million in 2003, as the higher gross margin-to-revenue ratio on certain projects completed in 2003 was more than offset by increased revenues and lower overhead expenses in 2004.

In December 2004, SNC-Lavalin acquired all remaining shares of Canatom NPM, a private sector nuclear engineering company in Canada, strengthening its position as a single source service provider to the nuclear industry.

In 2005, the Company expects the contribution from the Power segment to remain in line with 2004, with activities from ongoing and recently awarded projects and from various opportunities inside and outside Canada.

7.2 CHEMICALS AND PETROLEUM

Revenues from Chemicals and Petroleum decreased to $584.2 million in 2004, from $818.5 million in 2003, mainly due to the completion or near completion of certain major projects in 2004. Revenues in 2004 included activities from contributors such as:

- The EPC contract of an anhydrous ammonia production plant in Australia;
- The contract for the design, construction and first year of operational support of the Saih Nihayda Gas Plant in Oman;
- The front-end engineering, project management, detailed engineering and procurement services for the ExxonMobil Refining and Chemical complexes located in Baytown, Texas;
- The detailed engineering and procurement services for an upgrader expansion oil sands project in Fort McMurray, Alberta, in Canada;
- The EPCM services to upgrade pump stations for a pipeline in Alaska;
- The EPC contract for an n-Paraffin and Linear Alkyl Benzene (“LAB”) Plant Project in Saudi Arabia.

As expected, **operating income increased, totalling $21.8 million in 2004,** compared with $12.6 million in 2003, as the decrease in volume was more than offset by higher gross margins, due in part to lower margins on certain packages projects in 2003.

The Company expects the contribution from the Chemicals and Petroleum segment to increase in 2005, with activities from certain ongoing and recently awarded projects, together with oil sands and various oil and gas upstream opportunities in Canada and outside Canada.

7.3 INFRASTRUCTURE AND ENVIRONMENT

Infrastructure and Environment revenues totalled $527.9 million in 2004 compared with $570.9 million in 2003, mostly due to the completion or near completion of major projects outside Canada in 2004. Major revenue contributors to the Infrastructure and Environment segment during the year were:

- The Sarir Plant contract for the rehabilitation of a Pre-Stressed Concrete Cylinder Pipe plant as well as the manufacturing of 15,000 pipes in Libya;
- The EPC contract to design and build a water treatment plant and water conveyance system in the Dominican Republic;
- The Oued Chiffa Water diversion project, in Algeria.

As expected, **operating income decreased in 2004 and totalled $27.9 million,** compared with $37.9 million in 2003, mainly due to a lower level of activity in 2004.

The Company expects contributions from the Infrastructure and Environment segment to increase in 2005, with increased activities from the solid opening backlog and from opportunities, such as public infrastructure projects in Canada and various projects outside Canada.

7.4 MINING AND METALLURGY

Mining and Metallurgy revenues totalled $279.8 million in 2004, a 16.9% increase compared with $239.3 million in 2003, reflecting activities from major contributors such as:

- The EPCM services for the increased capacity of Aluminerie Alouette Inc.'s aluminum smelter, in Canada;
- The EPCM services for the Las Cristinas, Alto Chicama and Veladero gold mine projects, in Venezuela, Peru and Argentina, respectively;
- The EPCM services contract for the new mine, concentrator and related facilities complex to be located at Voisey's Bay, in Canada;
- The decommissioning and reclamation of the Polaris Mine in the Canadian High Arctic;
- The joint venture contract for engineering, planning and related activities as part of Phase 2 review of the Goro nickel project in New Caledonia and the commencement of Phase 3 EPCM services.

As expected, **operating income decreased in 2004, totalling $31.3 million** compared with $33.8 million in 2003. The decrease resulted primarily from favourable margins on certain completed projects in 2003, in large part offset by increased volume in 2004.

The Company expects the 2005 contribution from the Mining and Metallurgy segment to remain in line with 2004.

7.5 FACILITIES AND OPERATIONS MANAGEMENT

Facilities and Operations Management revenues increased to $629.1 million in 2004, compared to $557.3 million in 2003, resulting mainly from higher activities in long-term outsourcing of integrated management services and solutions for facilities, infrastructure and real estate as well as in support services to the Canadian military during deployment on international operations.

While it was expected that the Facilities and Operations Management segment would provide continuous profitability, **operating income was $20.4 million in 2004,** compared with $12.1 million in 2003, reflecting an increased volume of activities while maintaining about the same level of overhead expenses.

With an expected increase of activities from the recent contract award from the Canadian federal government's real property portfolio, coupled with continuous contributions from its ongoing and renewed contracts, **the Company expects the contribution from the Facilities and Operations Management segment to increase in 2005.**

7.6 DEFENCE

The Defence segment includes the manufacturing of ammunition, including related propellants and propulsive powder, for military and paramilitary markets. As opposed to other segments, the Defence segment requires significant investments in property, plant and equipment. In order to evaluate the segment's overall use of the Company's resources, the Company modified, effective January 1, 2004, with the corresponding reclassification of the 2003 results, its calculation of the internal imputed interest for the Defence segment (please refer to Note 18 to the audited consolidated financial statements for further details).

Defence revenues were $289.6 million in 2004, compared with $270.9 million in 2003. As expected, **the operating income of this segment increased in 2004, totalling $10.7 million,** compared with a reclassified operating income of $4.3 million in 2003. This increase reflects higher volume while maintaining about the same level of overhead expenses and the lower contributions from certain activities in 2003. **The Company expects contributions from the Defence segment in 2005 to remain in line with 2004,** with continuous Canadian and international activities.

7.7 INVESTMENTS

The Investments segment represents SNC-Lavalin's participation in the following investments:

- The 50% participation in the **AltaLink Consortium**, acquired in 2002, which owns and operates approximately 12,000 km of transmission lines and over 250 substations in Alberta on a rate regulated basis;
- The US$60.0 million investment in **Astoria Project Partners LLC** (**Astoria**) in April 2004, which is the parent company of Astoria Energy LLC that will own Phase 1 of a new 500 MW natural gas-fired power plant in Queens, New York;
- The 50% investment in **Gazmont Limited Partnership**, in 1996, which operates a 25 MW biogas thermal power plant in Québec;
- The 15.5% indirect interest in **Malta International Airport p.l.c. (MIA)**, concluded in July 2002, which acquired the right to own and manage the Malta International Airport under a 65-year concession agreement;
- The 50% participation in **Murraylink**, acquired in 2001, which owns and operates an interconnector on a rate regulated basis between the electricity transmission grids of the Australian states of Victoria and South Australia;
- The 21.1% investment in **Southern Electric Power Company Limited** in Pakistan in 1999, a 117 MW thermal power plant;
- The 11.1% interest in **Trencap Limited Partnership**, acquired in June 2004, which holds an indirect substantial interest in Gaz Métro Limited Partnership, a publicly traded company involved in natural gas distribution in Canada;
- The 21% investment in the **West End Dam Associates**, in 1985, a 4.5 MW mini-power generation facility in New York State.

The equity requirements for all of these investments, except for Astoria, have been funded, and their respective debts are non-recourse to the Company. The US$60.0 million investment in Astoria, reflected on the consolidated balance sheet under "other assets – investments accounted for by the equity method", is payable based on a Progress Payment Schedule ("Schedule"). Under this Schedule, SNC-Lavalin will pay US$45.9 million (CA$55.8 million as at December 31, 2004) within one year of December 31, 2004 and US$14.1 million (CA$17.2 million as at December 31, 2004) between January 2006 and April 2006.

These investments are accounted for using the cost, equity or proportionate consolidation method depending on whether SNC-Lavalin exercises, or not, significant influence or joint control. In evaluating the performance of the segment, the relationship between revenues and operating income may not be meaningful, as a significant portion of these investments is accounted for using the cost and equity methods, which does not reflect the line by line items of the financial results.

As expected, **operating income increased and amounted to $10.5 million in 2004** compared with $6.2 million in 2003. The increase mainly reflects improved results from Murraylink and a contribution from the participation in Trencap Limited Partnership, acquired in June 2004, partially offset by a loss on an interest swap instrument, recognized due to an anticipated refinancing of debt facilities to occur in 2005, in Astoria Energy LLC. The participation in Astoria is not expected to contribute to the investments segment until the completion of its natural gas power plant, which should occur in 2006.

The Company expects the 2005 performance from the Investments segment to remain in line with 2004.

7.8 ALL OTHER

All Other includes activities in Pharmaceuticals and Biotechnology, Agrifood, Telecommunications and other Industrial activities.

Revenues in 2004 totalled $160.3 million compared with $123.7 million in 2003, mainly due to higher activities in France from the acquired businesses in 2004 and from certain Packages projects, mainly in the Agrifood sector. **Operating income totalled $7.4 million in 2004,** in line with 2003, as increased activities were more than offset by a decrease in the gross margin-to-revenue ratio.

The Company expects the 2005 performance from the All Other segment to remain in line with 2004.

7.9 HIGHWAY 407

The following analysis highlights the operating results of SNC-Lavalin's 16.77% investment in the Highway 407 concession, which operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area.

HIGHWAY 407

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
HIGHWAY 407 RESULTS (AT 100% LEVEL)		
Revenues	$ 383.0	$ 343.3
Income before interest, other expenses and taxes	$ 222.5	$ 186.7
Interest and other expenses	(307.5)	(257.4)
Loss before income taxes	(85.0)	(70.7)
Income taxes	(1.7)	(4.5)
Net loss	$ (86.7)	$ (75.2)
SNC-LAVALIN'S PROPORTIONATE SHARE		
Share of the net loss @ 16.77%	$ (14.5)	$ (12.6)
Consolidation eliminations	–	(0.1)
Net loss, net of consolidation eliminations	$ (14.5)	$ (12.7)

SNC-Lavalin's proportionate share of Highway 407 net accounting loss in 2004 was $14.5 million, compared with a net accounting loss of $12.7 million in 2003.

Net accounting loss (at 100% level) was $86.7 million in 2004 compared with $75.2 million in 2003. The increase in the net accounting loss was due in large part to higher interest and other expenses, including a one-time $23.2 million premium and accelerated amortization of charges related to the early redemption of senior bonds, which were refinanced with a longer term instrument at a lower net carrying cost, in the fourth quarter of 2004, partially offset by increased revenues.

Highway 407's revenues in 2004 increased to $383.0 million, compared with $343.3 million in 2003. The growth in revenues comes primarily from increased traffic coupled with a toll rate increase in February 2004. Vehicle kilometres travelled (VKT), which represents the total kilometres travelled for all vehicles, increased by 7.5% to 1,959.5 million in 2004 compared with 1,823.6 million in 2003. The average workday number of trips, another key indicator of Highway 407's traffic, increased by 5.0% in 2004 to 329,475.

As noted in previous years, SNC-Lavalin does not anticipate an accounting profit from its participation for the initial years of the 99-year concession. This is not unusual since highway concessions typically incur net accounting losses in the initial years, mainly due to the high levels of financing costs. Positive cash flows generated from Highway 407, whereby the refinancing of the original debt was structured so as to match the expected revenues, have enabled 407 International Inc. to make dividend payments to its investors despite net accounting losses. Accordingly, Highway 407 paid SNC-Lavalin dividends totalling $12.6 million in 2004, compared with $11.1 million in 2003, and expects to generate sufficient cash on a prospective basis to continue paying quarterly dividends.

As mentioned last year, the Ministry of Transportation of Ontario ("MTO") is challenging certain clauses in the Concession and Ground Lease Agreement, signed in April of 1999 between the Province of Ontario and Highway 407. Notably, the MTO is challenging the right of Highway 407 to increase tolls without obtaining its approval. Since the beginning of this dispute, there have been a declaration from the Ontario Superior Court of Justice, on February 9, 2004, and a ruling from an independent arbitrator, on July 10, 2004, both in favour of Highway 407. The ruling from the independent arbitrator was upheld, on January 6, 2005, by the Ontario Superior Court of Justice, dismissing an appeal from the MTO. Despite the decision from the MTO to appeal the February 9, 2004 declaration and to seek leave of the Court of Appeal for Ontario to appeal the January 6, 2005 decision of the Ontario Superior Court of Justice, Highway 407's management expects to resolve this dispute without a material impact on the business or financial position of Highway 407.

OWNERSHIP OF HIGHWAY 407

On October 26, 2004, Macquarie Infrastructure Group ("MIG") acquired, in a private transaction, 107.5 million common shares of 407 International Inc. from Cintra Concesiones de Infraestructuras de Transporte, S.A. ("Cintra"), representing 13.87% of the common shares of 407 International Inc. on a fully diluted basis. As part of the transaction, MIG transferred to Cintra approximately 53.8 million shares of Cintra which, on the basis of Cintra's IPO offering price, established the value of the consideration paid at approximately $693.8 million.

The value of the transaction between MIG and Cintra, when applied to the 16.77% share owned by SNC-Lavalin, would represent approximately $839.1 million compared with the $6.9 million carrying value, as at December 31, 2004, of the investment in 407 International Inc. when accounting for Highway 407 under the equity method (refer to Note 2 to the audited consolidated financial statements).

Following the transaction described above, MIG converted a previously issued debenture into 125.0 million common shares of Highway 407, representing an interest of approximately 16.13% in the concession. As a result, Highway 407 is currently owned by a consortium comprised of Cintra (53.23%), MIG (30%) and SNC-Lavalin (16.77%).

8. FINANCIAL POSITION AND RESOURCES

The following analysis is based on the financial position and cash flows of the Company with Highway 407 accounted for using the equity method, as opposed to proportionate consolidation (refer to Note 2 to the audited consolidated financial statements).

8.1 BALANCE SHEET

VARIATION IN TOTAL ASSETS

(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM I.E. EQUITY METHOD)

AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
TOTAL ASSETS AT THE BEGINNING – USING EQUITY METHOD FOR THE INVESTMENT IN HIGHWAY 407	$ 1,952.1	$ 1,906.2
CHANGE IN ASSETS DURING THE YEAR		
Increase in cash and cash equivalents	207.9	4.9
Increase in current assets, excluding cash and cash equivalents	140.0	48.4
Decrease in property, plant and equipment	(19.6)	(11.8)
Decrease in book value of investment in 407 International Inc.	(27.1)	(23.7)
Increase in goodwill from acquisitions	20.2	21.4
Increase in cost and equity investments	180.8	2.4
Change in other assets	(10.5)	4.3
TOTAL ASSETS AT THE END – USING EQUITY METHOD FOR THE INVESTMENT IN HIGHWAY 407	$ 2,443.8	$ 1,952.1

Total assets, with Highway 407 accounted for using the equity method, totalled $2,443.8 million as at December 31, 2004 compared with $1,952.1 million as at December 31, 2003. The $491.7 million increase was mainly due to:

- The $207.9 million increase in cash and cash equivalents, resulting in large part from cash generated from operations;
- The $140.0 million increase in current assets, excluding cash and cash equivalents, mainly reflecting a higher level of activity on major projects in the Power segment in 2004;
- The $180.8 million increase in cost and equity investments, reflecting the newly acquired participation in Trencap Limited Partnership. and in Astoria.

Total consolidated assets, which include the proportionate share of Highway 407's assets, were $3,173.7 million as at December 31, 2004, compared to $2,624.4 million as at December 31, 2003, an increase of $549.3 million.

Total consolidated short-term liabilities amounted to $1.5 billion, $1.1 billion and $1.2 billion as at December 31, 2004, 2003 and 2002, respectively. The increase from 2003 to 2004 reflects mainly an increase in deferred revenue, and accounts payable and accrued charges, partially offset by a decrease in downpayments on contracts.

Total consolidated long-term liabilities were $935.1 million as at December 31, 2004, compared with $868.7 million as at December 31, 2003 and $803.7 million as at December 31, 2002, mainly due to SNC-Lavalin's proportionate share in the increase of Highway 407 non-recourse debt.

Shareholders' equity was $717.8 million at December 31, 2004 compared with $658.3 million at December 31, 2003 and $597.1 million at December 31, 2002. For 2004 and 2003, the change is primarily due to net income for the year combined with the issuance of shares pursuant to the exercise of stock options, partially offset by dividends and from repurchases of shares.

8.2 NET CASH POSITION (EXCLUDING HIGHWAY 407)

NET CASH POSITION (EXCLUDING HIGHWAY 407)

AS AT DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Cash and cash equivalents	$ 692.5	$ 484.7
Short-term and long-term debt	151.2	153.7
NET CASH POSITION	$ 541.3	$ 331.0

The 2004 net cash position excluding Highway 407 increased compared to 2003, as the positive cash flows from operations, resulting mainly from net income and a favourable change in non-cash working capital items, more than offset the cash used for the investment in Trencap Limited Partnership and the acquisition of businesses, payment of dividends to shareholders, redemption of shares and capital expenditures.

8.3 CASH FLOWS ANALYSIS

SUMMARY OF CASH FLOWS

(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM I.E. EQUITY METHOD)

YEAR ENDED DECEMBER 31

(IN MILLIONS OF DOLLARS)	2004	2003
Operating activities	$ 394.4	$ 195.1
Investing activities	(135.6)	(164.1)
Financing activities	(51.0)	(26.0)
Net increase in cash and cash equivalents	207.8	5.0
Cash and cash equivalents at beginning of year	484.7	479.7
Cash and cash equivalents at end of year	$ 692.5	$ 484.7

Cash and cash equivalents excluding Highway 407 amounted to $692.5 million in 2004, compared with $484.7 million in 2003.

8.3.1 CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operating activities totalled $394.4 million in 2004, compared with $195.1 million in 2003, mainly from:

- Continued growth in net income excluding Highway 407;
- Fluctuation in non-cash working capital items, totalling $232.2 million, mainly due to progress on certain major ongoing packages projects in 2004.

8.3.2 CASH USED FOR INVESTING ACTIVITIES

Cash used for investing activities was $135.6 million in 2004 compared with $164.1 million in 2003.

2004 major investing activities were as follows:

- The $100.8 million cash investment made in Trencap Limited Partnership;
- The acquisitions of Chovet Engineering S.A. and Sogequip, both in France, and of the remaining shares of Canatom NPM, for a total consideration of $15.3 million;
- The acquisitions of property, plant and equipment for $26.1 million versus depreciation of property, plant and equipment totalling $42.0 million. Approximately 58% of the acquisitions were related to information technology in 2004.

2003 major investing activities were as follows:

- The payment of $69.1 million in 2003, relating to SNC-Lavalin's 50% share of Murraylink transmission assets;
- Taxes paid from the 2002 gain on disposal of a portion of SNC-Lavalin's investment in 407 International Inc. totalling $28.1 million;
- The acquisitions of GDS Engineers, Inc. in January 2003 and of Trouvin, Fimatec France and S.A.M. Fimatec in June 2003 for a total of $26.7 million;
- Cash was also used for acquisitions of other property, plant and equipment totalling $26.2 million versus depreciation of other property, plant and equipment of $37.6 million.

8.3.3 CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities was $51.0 million in 2004 compared to $26.0 million in 2003.

- Under its normal course issuer bid, the Company repurchased shares for a total amount of $25.0 million in 2004 (507,900 shares at an average price of $49.30) compared to $23.9 million in 2003 (617,200 shares at an average price of $38.77). The Company expects to be as active in repurchasing its shares, and proposes to introduce another one-year normal course issuer bid program when the current program expires in May 2005.
- Dividends paid amounted to $26.3 million in 2004, compared to $20.2 million in 2003, reflecting a dividend increase effective in the fourth quarter of 2003. Based on the Company's solid results and positive outlook, the Board of Directors has decided to increase the quarterly dividend paid to shareholders from $0.13 per share to $0.16 per share for the fourth quarter of 2004, resulting in total cash dividends declared of $0.55 per share in 2004 ($0.43 in 2003 and $0.37 in 2002).
- The issuance of shares pursuant to the exercise of stock options generated cash for a total of $6.4 million in 2004 (347,964 stock options at an average price of $18.49), compared to $17.0 million in 2003 (1,128,138 stock options at an average price of $15.03). As at December 31, 2004, there were 1,248,850 stock options outstanding with exercise prices varying from $11.95 to $49.99 per common shares. 50,447,881 shares are issued and outstanding as at February 24, 2005.

8.4 REVOLVING CREDIT FACILITIES

The Company has access to $467.5 million of long-term revolving lines of credit. As at December 31, 2004, $194.7 million of the Company's credit lines remained unused, with the balance of $272.8 million used for the issuance of letters of credit. In addition, the Company has other lines of credit specifically for letters of credit.

Letters of credit are provided, under certain circumstances, as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. Historically, SNC-Lavalin has fulfilled the necessary contractual obligations thereby obtaining release of such letters of credit upon project completion.

8.5 WORKING CAPITAL

WORKING CAPITAL (EXCLUDING HIGHWAY 407)

AT DECEMBER 31

(IN MILLIONS OF DOLLARS, EXCEPT CURRENT RATIO)	2004	2003
Current Assets	$ 1,759.8	$ 1,411.9
Current Liabilities	1,510.7	1,089.3
Working Capital	$ 249.1	$ 322.6
Current Ratio	1.16	1.30

Working capital excluding Highway 407 as at December 31, 2004 was $249.1 million (current ratio of 1.16), compared with $322.6 million (current ratio of 1.30) in the previous year. The $73.5 million decrease in working capital reflects mainly the impact of the $100.8 million cash investment in Trencap Limited Partnership and the $55.8 million of scheduled payments relating to the participation in Astoria, partially offset by the increase in shareholders' equity.

8.6 DEBT TO CAPITAL

This ratio compares the recourse long-term debt balance to the sum of recourse long-term debt and shareholder's equity, and is a measure of the Company's financial capabilities. As at December 31, 2004, **the Company's recourse debt-to-capital ratio was 13:87,** compared with 14:86 as at December 31, 2003, both well below the Company's objective not to surpass a ratio of 30:70. The recourse debt-to-capital ratio is the same whether or not Highway 407 is accounted for under the proportionate consolidation method, as all Highway 407's debt is non-recourse to SNC-Lavalin.

8.7 CREDIT RATINGS

On February 1st, 2005, Standard & Poor's upgraded its outlook on the Company to positive from stable, and affirmed its BBB rating on the debenture, while Dominion Bond Rating Service Limited ("DBRS") upgraded, on February 24, 2005, its rating for the debenture to BBB (high), from BBB, with a stable trend.

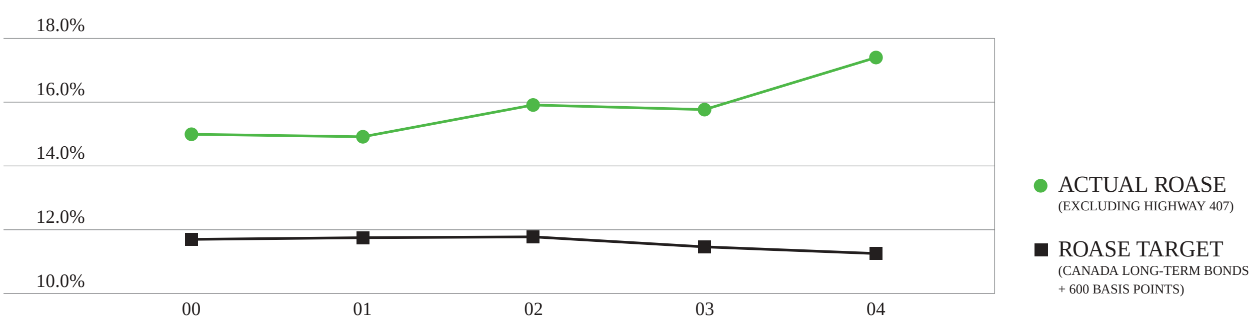
8.8 FINANCIAL POSITION, ROASE AND ROCE

The Company has cash and cash equivalents as well as access to sufficient sources of funds and credit facilities to meet its expected operating, investing and financing plans, including financing of business and concession acquisitions, share repurchases and business growth, as well as its contractual obligations. 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 credit lines and capacity to absorb project net retained risks on the one hand, and to optimize return on weighted average shareholders' equity on the other.

8.8.1 RETURN ON WEIGHTED AVERAGE SHAREHOLDERS' EQUITY ("ROASE")

ROASE, as calculated by the Company, corresponds to after-tax earnings divided by a trailing thirteen-month weighted average shareholders' equity.

ROASE excluding Highway 407 was 17.3% in 2004, compared with 15.8% in 2003, which is considerably higher than the Company's objective of long-term Canada Bond Yield plus 600 basis points (i.e.: 11.14% in 2004 and 11.35% in 2003).



8.8.2 RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE, as calculated by the Company, corresponds to after-tax earnings before interest divided by total capital (average shareholders' equity plus average short and long-term borrowings less average cash position). The ROCE calculation is an indicator that the Company uses to evaluate itself with its peers and is not only an evaluation of the Company's return on capital, but also a gauge of the strength of the Company's financial position, whereby a company with a better net cash position will show a higher ROCE. With the Company's strong financial position and results, **ROCE excluding Highway 407 totalled 32.5% in 2004,** compared with 34.9% in 2003, all while surpassing its ROASE objective, as mentioned above, reflecting the Company's ability to generate returns for shareholders, while maintaining a strong financial position.

8.9 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 relating specifically to long-term debt and rental obligations:

CONTRACTUAL OBLIGATIONS (EXCLUDING HIGHWAY 407)

(IN MILLIONS OF DOLLARS)	2005	2006-2007	2008-2009	THEREAFTER	TOTAL
Long-term debt – refer to Note 9 to the audited consolidated financial statements	$ 3.6	$ 6.8	$ 28.0	$ 112.8	$ 151.2
Rental obligations – refer to Note 17 to the audited consolidated financial statements	25.6	36.1	20.9	13.2	95.8
Total	$ 29.2	$ 42.9	$ 48.9	$ 126.0	$ 247.0

8.10 OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that are likely to have a current or future effect on the results of operations or its financial condition.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions relating to the reporting of results of operations, financial conditions and related disclosure of contingent liabilities at the date of the financial statements. Actual results may differ from those estimates under different assumptions or conditions. The following are our most critical accounting estimates, which are those that require management's most difficult, subjective and complex judgements, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities. Revenues on both services and packages contracts are derived primarily from cost-plus reimbursable contracts and fixed-price contracts. On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. Revenue recognition for cost-plus reimbursable contracts does not usually involve significant estimates.

On fixed-price contracts, revenues are recorded on the percentage-of-completion basis. The percentage of completion is determined by dividing the cumulative cost incurred as at the balance sheet date by the total of incurred and anticipated costs for completing a contract. The percentage of completion is then applied to the contract value to determine the cumulative revenue earned. This method of revenue recognition requires SNC-Lavalin to prepare cost estimates to complete contracts in progress, and in making such estimates, judgments are required to evaluate contingencies such as potential variances in scheduling, the cost of materials, labour costs and productivity, the impact of change orders or liability claims. All known or anticipated losses based on these estimates are provided for in their entirety without regard to the percentage of completion.

SNC-Lavalin recognizes claims for recovery of incurred costs when there is reasonable assurance that the claim will result in additional contract revenue and when the amount of the claim can be reliably established.

These estimates are based on SNC-Lavalin's business practices as well as its historical experience, and management regularly reviews underlying estimates of project profitability.

ASSET IMPAIRMENT

Asset impairment incorporates an evaluation of SNC-Lavalin's goodwill as well as its long-lived assets for impairment.

Goodwill is subject to at least an annual assessment of impairment by applying a fair value based test at the reporting unit level. An impairment loss is recognized to the extent that the carrying amount of goodwill for each reporting unit exceeds its estimated fair market value. The fair market values of the reporting units are derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. All factors used in the valuation models are based on management's estimates and are subject to uncertainties and judgments. Changes in any of these estimates could affect the fair value of the reporting units and, consequently, the value of the reported goodwill. The Company performs an annual review of goodwill as at October 31 of each year, and based on the impairment test performed as at October 31, 2004 and 2003, the Company concluded that no goodwill impairment loss was required.

In addition, SNC-Lavalin reviews its **long-lived assets**, which include property, plant and equipment, for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. To determine whether impairment exists, management compares the estimated undiscounted future cash flows that are projected to be generated by those assets to their respective carrying value. If the undiscounted future cash flows and fair value are lower than the carrying value, then an impairment loss is recognized. Estimated undiscounted future cash flows reflect management's estimates, and changes in those estimates could affect the carrying amount of the long-lived assets. The Company concluded that no impairment charge was required for its long-lived assets for 2004 and 2003.

PENSION PLANS

SNC-Lavalin's obligations and expenses relating to pension are determined using actuarial valuations, and are dependent on significant weighted average assumptions such as the expected long-term rate of return on plan assets and the rate of compensation increase as determined by management. While management believes these assumptions are reasonable, differences in actual results or changes in assumptions could have an impact on the obligations and expenses recorded by the Company. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, if such difference exceeds a certain threshold, and will then have an impact on the obligations and expenses in future periods. Please refer to Note 15 to the audited consolidated financial statements for further details.

10. ACCOUNTING CHANGES

INITIAL ADOPTION IN 2004

During the year ended December 31, 2004, the Company adopted the following new accounting policies, new accounting standards and changes to existing accounting standards:

- **Stock-Based Compensation**. Effective January 1, 2004, the Company adopted the amended Canadian Institute of Chartered Accountants ("CICA") standards on stock-based compensation and other stock based payments and, accordingly, records a compensation cost, based on the fair value method, for stock option awards. Further details, including the complete accounting policy and the impact of the retroactive adjustment for stock-based compensation, are provided in Notes 1p and 10d to the audited consolidated financial statements.
- **Impairment of Long-Lived Assets and Asset Retirement Obligations**. Starting January 1, 2004, the Company adopted the new CICA recommendations relating to the impairment of long-lived assets and the asset retirement obligations, without any material impact on the Company's consolidated financial statements. Please refer to Notes 1q and 1r to the audited consolidated financial statements for the newly adopted accounting policies.
- **Hedging Relationships**. The Company applied, to hedging relationships in effect on January 1, 2004 and subsequent to that date, the CICA Accounting Guideline 13 ("AcG-13") entitled "Hedging Relationships", which deals with the identification, documentation, designation and effectiveness of hedges, as well as the discontinuance of hedge accounting. SNC-Lavalin's hedging relationships are documented according to related foreign exchange transactions, which in turn are continuously monitored to ensure effectiveness, and as such the adoption of this new recommendation did not have any material impact on the Company's consolidated financial statements.
- **Employee Future Benefits**. The Company included the additional CICA disclosure requirements in relation to its employee future benefits in its Note 15 to the 2004 audited consolidated financial statements and the additional interim disclosure requirements in its notes to the interim consolidated financial statements of 2004.
- **Cash and cash equivalents**. Effective January 1, 2004, the Company includes short-term liquid investments with original maturities of more than three months as a component of its cash equivalents. This change was made to better reflect the nature of the Company's cash position. Accordingly, the 2003 figures have been restated by reclassifying the short-term, liquid investments with original maturities of more than three months, initially presented as short-term investments, into the cash and cash equivalents account, on the 2003 consolidated balance sheet and statement of cash flows, without any change to the consolidated results of operations.

TAKING EFFECT IN 2005

- **Variable Interest Entities**. On September 1, 2004, the CICA issued an amended version of Accounting Guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities", originally issued as a draft Accounting Guideline in June 2003. This Guideline requires enterprises to identify Variable Interest Entities ("VIE") in which they have an interest, to determine if they are the primary beneficiary of such entities and, if so, to consolidate them. AcG-15 applies to annual and interim periods beginning on or after November 1, 2004. The Company is in the process of evaluating its contractual, ownership or other pecuniary interests in entities to determine the impact of this new guideline on its consolidated financial statements.

11. RISK MANAGEMENT

OVERVIEW

SNC-Lavalin's business is conducted under various types of contractual arrangements, including cost-plus, fixed-fee, unit price, and firm price contracts as well as long-term outsourcing, investments in infrastructure-type concessions and other concession-type arrangements. SNC-Lavalin has developed and applies rigorous risk assessment, mitigation and management practices to reduce the nature and extent of the financial, technical and legal risks under each of these types of contractual agreements.

RISK MANAGEMENT PRACTICES

SNC-Lavalin's continued commitment to sound risk management practices when underwriting and undertaking services and packages type contracts, includes technical risk assessment, rigorous drafting and legal review of contracts, applying stringent cost and schedule control of projects, the regular review of project forecasts to complete, the structuring of positive cash flow arrangements on projects, securing project insurance, obtaining third party guarantees and other risk mitigating measures. Maintaining insurance coverage for various aspects of its business and operations is an important element in SNC-Lavalin's risk management process. SNC-Lavalin elects, at times, to retain a portion of losses that may occur by applying selective self-insurance practices and professionally managing such retention through its regulated captive insurance company.

Furthermore, risks associated with certain categories of projects are analyzed by a Risk Evaluation Committee composed of managers with appropriate expertise who are responsible for recommending a course of action to senior management in respect of the project under consideration. In addition, the Company has a Bid and Investment Approval Committee composed of senior executives, which is responsible for considering bids on certain categories of projects, and proposed acquisitions or dispositions of businesses.

While management is positive about the Company's long-term outlook, SNC-Lavalin is subject to the following **risks and uncertainties**:

COST OVERRUNS

SNC-Lavalin bears all or a significant portion of the risk for cost overruns for fixed-fee and fixed-price contracts. Contract revenues and costs are established, in part, on estimates which are subject to a number of assumptions, such as those regarding future economic conditions, price, availability of labour, equipment and materials and other requirements that may affect project cost. The risk of cost overruns is mitigated by regular and proactive monitoring by employees with appropriate expertise and regular review by senior management.

PROJECT PERFORMANCE

In certain instances, SNC-Lavalin may guarantee a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. Should the project or facility subsequently fail to meet the schedule or performance standards, SNC-Lavalin may incur additional costs.

CONTRACT AWARDS

Obtaining new contract awards, which is a key component for the sustainability of profits, is a risk factor for which the diversity of SNC-Lavalin's activities, industry segments and geographic base have proven to be mitigating factors.

BACKLOG

Backlog includes contract awards that are considered firm as well as a five-year rolling basis for recurring revenues on certain concession-type agreements and for Highway 407, and is thus an indication of future revenues. However, there can be no assurance that cancellations or scope adjustments will not occur, or when revenues and earnings from such backlog will be realized.

CONCESSION INVESTMENTS

Certain concession activities include SNC-Lavalin's investments in infrastructure-type concessions as well as investments in other concession-type projects. The Company strives to limit its risk to the investment value in such concessions, whereby all risks associated with the operation and financing of these concessions remain at the concessionaire level. Erosion of the Company's investment value, which is dependent on the ability of the concession to attain its revenues and cost projections as well as the ability to obtain financing, is mitigated by sound risk management practices when investing in such concessions, such as:

- Independence of the Investment unit from the engineering and construction groups within SNC-Lavalin;
- Detailed review and structuring of concession contract arrangements;
- Detailed analysis of the risks specific to each investment, such as environment and supply and demand estimates;
- Ensuring the financial strength of equity partners, as well as ensuring that SNC-Lavalin's interests in the concession are well aligned with those of its equity partners;
- In-depth financial modeling performed in-house, coupled with independent third party modeling review;
- Independent third party consultants to review financial projections and forecasts performed in-house.

JOINT VENTURE PARTNERS

The success of its joint ventures relies on the satisfactory performance of SNC-Lavalin's joint venture partners of their joint venture obligations. The failure of the joint venture partners to perform their obligations could impose additional financial and performance obligations on SNC-Lavalin that could result in increased costs.

FOREIGN CURRENCY RISK

The significant effect of international business volume could expose SNC-Lavalin to greater foreign currency exchange risks, which could adversely impact its operating results. SNC-Lavalin has a hedging strategy in place to protect itself against foreign currency exposure.

CREDIT RISK

Credit risk corresponds to the risk of loss due to the client's inability to fulfill its obligations with respect to accounts receivable and contracts in progress. The concentration of credit risk is limited due to the large number of clients comprising SNC-Lavalin's client base, and their dispersion across different business and geographic areas.

ECONOMIC AND POLITICAL CONDITIONS

A significant portion of the Company's revenues is attributable to projects in international markets, which exposes the Company to a number of risks, such as: uncertain economic conditions in the countries in which SNC-Lavalin does business, abrupt changes in foreign government policies and regulations, restrictions on the right to convert and repatriate currency, political risks due to international hostilities, and the lack of well-developed legal systems in some countries, which could make it difficult to enforce SNC-Lavalin's contractual rights. SNC-Lavalin has about 40 years of involvement in international markets, which provides a valuable source of experience in assessing risks related to economic and political conditions.

12. QUARTERLY INFORMATION

(IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	2004 FIRST QUARTER	2004 SECOND QUARTER	2004 THIRD QUARTER	2004 FOURTH QUARTER	2004 ANNUAL
Consolidated revenues	$ 759.8	$ 774.0	$ 784.7	$ 1,128.9	$ 3,447.4
Net income (loss)					
Excluding Highway 407	$ 23.9	$ 29.2	$ 28.3	$ 37.2	$ 118.6
From Highway 407	(5.1)	(3.8)	0.9	(6.5)	(14.5)
	$ 18.8	$ 25.4	$ 29.2	$ 30.7	$ 104.1
Basic earnings per share					
Excluding Highway 407	$ 0.47	$ 0.58	$ 0.56	$ 0.74	$ 2.34
From Highway 407	(0.10)	(0.08)	0.02	(0.13)	(0.28)
	$ 0.37	$ 0.50	$ 0.58	$ 0.61	$ 2.06
Diluted earnings per share					
Excluding Highway 407	$ 0.47	$ 0.57	$ 0.55	$ 0.73	$ 2.32
From Highway 407	(0.10)	(0.07)	0.02	(0.13)	(0.28)
	$ 0.37	$ 0.50	$ 0.57	$ 0.60	$ 2.04
Dividend declared per share	$ 0.13	$ 0.13	$ 0.13	$ 0.16	$ 0.55

	2003 FIRST QUARTER	2003 SECOND QUARTER	2003 THIRD QUARTER	2003 FOURTH QUARTER	2003 ANNUAL
Consolidated revenues	$ 883.1	$ 846.3	$ 714.1	$ 820.4	$ 3,263.9
Net income (loss)					
Excluding Highway 407	$ 21.9	$ 26.5	$ 25.5	$ 25.3	$ 99.2
From Highway 407	(3.6)	(3.3)	(0.2)	(5.5)	(12.7)
	$ 18.3	$ 23.2	$ 25.3	$ 19.8	$ 86.5
Basic earnings per share					
Excluding Highway 407	$ 0.43	$ 0.53	$ 0.51	$ 0.50	$ 1.97
From Highway 407	(0.07)	(0.07)	(0.01)	(0.11)	(0.25)
	$ 0.36	$ 0.46	$ 0.50	$ 0.39	$ 1.72
Diluted earnings per share					
Excluding Highway 407	$ 0.43	$ 0.52	$ 0.50	$ 0.49	$ 1.94
From Highway 407	(0.07)	(0.07)	(0.01)	(0.11)	(0.25)
	$ 0.36	$ 0.45	$ 0.49	$ 0.38	$ 1.69
Dividend declared per share	$ 0.10	$ 0.10	$ 0.10	$ 0.13	$ 0.43

FOURTH QUARTER RESULTS

For the fourth quarter of 2004, consolidated net income totalled $30.7 million, compared with $19.8 million for the corresponding period last year. Excluding Highway 407, net income for the fourth quarter of 2004 was $37.2 million compared with $25.3 million last year. The increase reflects higher contributions from the Power, Defence, Chemicals and Petroleum, and Infrastructure and Environment segments. SNC-Lavalin's share of net accounting losses from Highway 407 was $6.5 million, compared with $5.5 million in the corresponding quarter of 2003.

Consolidated revenues for the fourth quarter of 2004 were $1,128.9 million, up from $820.4 million last year. The increase was mainly due to increased volume in the Power segment, partially offset by a decrease in Chemicals and Petroleum.

The **overall backlog totaled $6.3 billion at the end of December 2004**, compared with $4.6 billion at the end of the third quarter of 2004, mainly due to major contract awards in the Facilities and Operations Management, and Infrastructure and Environment segments in the fourth quarter of 2004.

At the end of December 2004, the Company's **consolidated cash and cash equivalents were $713.2 million**, up from $398.4 million at the end of September 2004, reflecting continuous profitability and the impact of the change in non-cash working capital during the fourth quarter of 2004.

13. ADDITIONAL INFORMATION

All financial information in this Management's Discussion and Analysis is in Canadian dollars, unless otherwise stated.

The Company's quarterly and annual financial information and its Annual Information Form are available on the Company's website (www.snclavalin.com) as well as on SEDAR (www.sedar.com).

February 24, 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of SNC-Lavalin Group Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate for the circumstances.

The significant accounting policies used are described in Note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

SNC-Lavalin maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that SNC-Lavalin's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are outside directors. The Audit Committee meets periodically with management, as well as with the internal and external auditors, to discuss internal controls, accounting, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements, the management's discussion and analysis and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited, on behalf of the shareholders, by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards. The external auditors have full and free access to the Audit Committee.

JACQUES LAMARRE

PRESIDENT AND
CHIEF EXECUTIVE OFFICER

GILLES LARAMÉE

EXECUTIVE VICE-PRESIDENT AND
CHIEF FINANCIAL OFFICER

MONTREAL, CANADA
FEBRUARY 18, 2005

AUDITORS' REPORT

To the shareholders of SNC-Lavalin Group Inc.

We have audited the consolidated balance sheets of SNC-Lavalin Group Inc. as at December 31, 2004 and 2003 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of SNC-Lavalin Group Inc. as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DELOITTE & TOUCHE LLP

CHARTERED ACCOUNTANTS

MONTREAL, CANADA
FEBRUARY 18, 2005

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31

(IN THOUSANDS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS)	2004	2003
Revenues	$ 3,447,421	$ 3,263,868
Gross margin	$ 517,234	$ 497,651
Administrative, marketing and other expenses	294,518	310,810
Interest and capital taxes	62,988	52,039
Income before income taxes	159,728	134,802
Income taxes (Note 12)	55,615	48,274
Net income	$ 104,113	$ 86,528
Earnings per share (Note 1o)		
Basic	$ 2.06	$ 1.72
Diluted	$ 2.04	$ 1.69

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31

(IN THOUSANDS)

2004

	SHARE CAPITAL COMMON SHARES	SHARE CAPITAL AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT BEGINNING OF YEAR	50,668	$ 336,380	$ –	$ 4,691	$ 317,238	$ 658,309
Retroactive adjustment for stock-based compensation (Note 10d)	–	–	1,754	–	(1,754)	–
Net income	–	–	–	–	104,113	104,113
Currency translation adjustment	–	–	–	(2,643)	–	(2,643)
Dividends	–	–	–	–	(26,311)	(26,311)
Stock-based compensation (Note 10d)	–	–	2,983	–	–	2,983
Shares issued under stock option plan	348	6,432	–	–	–	6,432
Shares redeemed and cancelled (Note 10e)	(508)	(3,413)	–	–	(21,629)	(25,042)
BALANCE AT END OF YEAR	50,508	$ 339,399	$ 4,737	$ 2,048	$ 371,657	$ 717,841

YEAR ENDED DECEMBER 31

(IN THOUSANDS)

2003

	SHARE CAPITAL COMMON SHARES	SHARE CAPITAL AMOUNT	CONTRIBUTED SURPLUS	CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
BALANCE AT BEGINNING OF YEAR	50,157	$ 323,524	$ –	$ 2,887	$ 270,703	$ 597,114
Net income	–	–	–	–	86,528	86,528
Currency translation adjustment	–	–	–	1,804	–	1,804
Dividends	–	–	–	–	(20,163)	(20,163)
Shares issued under stock option plan	1,128	16,954	–	–	–	16,954
Shares redeemed and cancelled (Note 10e)	(617)	(4,098)	–	–	(19,830)	(23,928)
BALANCE AT END OF YEAR	50,668	$ 336,380	$ –	$ 4,691	$ 317,238	$ 658,309

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31

(IN THOUSANDS OF DOLLARS)	2004	2003
ASSETS		
Current		
Cash and cash equivalents (Note 1e)	$ 713,173	$ 495,800
Accounts receivable	804,422	566,740
Contracts in progress and inventories (Note 5)	289,637	369,224
TOTAL CURRENT ASSETS	1,807,232	1,431,764
Property, plant and equipment (Note 6)	587,669	606,000
Goodwill (Note 7)	107,700	87,438
Other assets (Note 8)	671,141	499,184
TOTAL ASSETS	$ 3,173,742	$ 2,624,386
LIABILITIES		
Current		
Accounts payable and accrued charges	$ 1,037,332	$ 747,101
Downpayments on contracts	125,913	249,902
Deferred revenues	352,379	96,556
Current portion of non-recourse long-term debt (Note 9)	5,226	3,816
TOTAL CURRENT LIABILITIES	1,520,850	1,097,375
Long-term debt (Note 9)		
Recourse	104,280	104,154
Non-recourse	758,966	705,232
Other liabilities	71,805	59,316
TOTAL LIABILITIES	2,455,901	1,966,077
SHAREHOLDERS' EQUITY	717,841	658,309
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,173,742	$ 2,624,386

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD:

JACQUES LAMARRE,
DIRECTOR

CLAUDE MONGEAU,
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31 (IN THOUSANDS OF DOLLARS)	2004	2003
OPERATING ACTIVITIES		
Net income	$ 104,113	$ 86,528
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	54,353	53,025
Accrued interest	18,373	17,105
Future income tax benefit (Note 12)	(11,063)	(12,659)
Stock-based compensation (Note 10d)	2,983	–
Income from investments accounted for by the equity method	(11,558)	(10,011)
Other	3,280	7,775
Dividends received from equity investments	2,198	5,640
	162,679	147,403
Net change in non-cash working capital items	230,865	44,973
	393,544	192,376
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		
Transmission assets	–	(69,085)
Other	(34,928)	(31,186)
Acquisition of businesses (Note 3)	(15,255)	(26,744)
Acquisition of an investment (Note 3)	(100,833)	–
Income taxes related to the 2002 gain on disposal of a portion of the investment in 407 International Inc.	–	(28,084)
Restricted cash	(19,603)	(2,725)
Other	6,855	(14,479)
	(163,764)	(172,303)
FINANCING ACTIVITIES		
Repayment of long-term debt	(119,699)	(38,597)
Increase in long-term debt	156,665	45,820
Net proceeds from issuance of shares	6,432	16,954
Redemption of shares (Note 10e)	(25,042)	(23,928)
Dividends paid	(26,311)	(20,163)
Other	(4,452)	4,061
	(12,407)	(15,853)
NET INCREASE IN CASH AND CASH EQUIVALENTS	217,373	4,220
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	495,800	491,580
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1e)	$ 713,173	$ 495,800
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 45,937	$ 41,322
Income taxes paid	$ 56,530	$ 79,129

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

(ALL DOLLAR FIGURES IN TABLES ARE EXPRESSED IN THOUSANDS, EXCEPT PER-SHARE AMOUNTS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) PRINCIPLES OF CONSOLIDATION AND PRESENTATION

The consolidated financial statements of SNC-Lavalin Group Inc. (the “Company”), incorporated under the Canada Business Corporations Act, are prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company, its subsidiaries and its pro-rata share of each of the assets, liabilities, revenues and expenses of its joint ventures. Investments in companies in which SNC-Lavalin has significant influence are accounted for using the equity method. Investments in companies in which SNC-Lavalin does not have significant influence are accounted for using the cost method. “SNC-Lavalin” means, as the context may require, the Company and all or some of its subsidiaries or joint ventures, or the Company, or one or more of its subsidiaries or joint ventures.

SNC-Lavalin owns 16.77% of 407 International Inc., the principal business of which is the ownership of 407 ETR and through 407 ETR operates, maintains and manages highway 407, an all-electronic toll highway in the Greater Toronto area. In accordance with the recommendations of the Canadian Institute of Chartered Accountants (“CICA”), SNC-Lavalin’s investment in Highway 407 is accounted for using the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro-rata share of each of the assets, liabilities, revenues and expenses of Highway 407. The Company provides additional information, in Note 2, whereby Highway 407 is accounted for as a single line item as opposed to the line by line pro-rata share of financial results. In the consolidated financial statements of the Company, “Highway 407” means SNC-Lavalin’s proportionate share of the results of 407 International Inc., including related consolidation eliminations.

B) USE OF ESTIMATES

The preparation of the Company’s financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

C) TRANSLATION OF FOREIGN CURRENCIES

For self-sustaining foreign operations, assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of SNC-Lavalin’s net equity investment in these operations are included as part of shareholder’s equity, under “Cumulative Currency Translation Adjustment”.

For integrated foreign operations and foreign transactions of Canadian operations, monetary items are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, non-monetary items are translated at historical exchange rate and revenues and expenses are translated at the average monthly exchange rates during the year. Any gains or losses that may result from translation are charged to income unless they qualify for hedge accounting.

SNC-Lavalin enters into forward contracts to hedge exposure to fluctuations in foreign exchange rates. The Company does not enter into forward foreign exchange contracts for speculative purposes. All forward contracts are designated to hedge specifically identified foreign exchange exposures which are formally documented and regularly assessed. Accordingly, any foreign exchange gains or losses related to the hedges are deferred and recognized into income over the same period as the underlying hedged item. In the event that a designated hedging relationship ceases to qualify for hedge accounting, any foreign exchange gains or losses previously deferred would be recognized into income over the same period as the underlying hedged item or immediately charged to income, if the underlying hedged item ceases to exist.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D) REVENUE RECOGNITION

Revenues are generated from Services, Packages and Concessions activities.

SERVICES AND PACKAGES

Services revenues, which are derived primarily from cost-plus reimbursable contracts and fixed-fee contracts, are generated by providing professional services, including engineering, feasibility studies, planning, detailed design, contractor evaluation and selection, construction management and commissioning. Packages revenues, in which SNC-Lavalin also undertakes procurement and/or construction activities, are mainly generated from fixed-price contracts.

On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. On fixed-price contracts, revenues are recorded on the percentage-of-completion basis. The percentage of completion is determined by dividing the cumulative cost incurred as at the balance sheet date by the total of incurred and anticipated costs for completing a contract.

The value of goods and services purchased by SNC-Lavalin, when acting as purchasing agent for a client, is not recorded as revenue.

All known or anticipated losses are provided for in their entirety without regard to the percentage of completion. Estimated revenues on contracts include future revenues from claims when such additional revenues can be reliably established. SNC-Lavalin has numerous contracts that are in various stages of completion. Estimates are required to determine the appropriate anticipated cost and revenue.

Any billings in advance of services rendered are recorded as deferred revenues.

CONCESSIONS

SNC-Lavalin's activities from investments in infrastructure-type concessions, together with long-term outsourcing and other concession-type arrangements are reported as "Concessions" activities.

Revenues from Concessions activities are recorded based on units delivered, resources used or services rendered. For most of the contracts related to the supply of ammunition, revenues are recorded according to the percentage-of-completion method. Toll revenues, relating to Highway 407, are recognized from customers' use of the highway once toll rates are assigned to trips and trips are matched to customers' accounts.

E) CASH AND CASH EQUIVALENTS

Effective January 1, 2004, the Company includes its short-term liquid investments with original maturities of more than three months in cash equivalents to better reflect the nature of its cash position. Accordingly, cash equivalents include investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less, and short-term liquid investments with original maturities of more than three months. Prior to January 2004, cash equivalents consisted only of investments that had an original maturity of three months or less. Accordingly, the 2003 figures have been restated to reflect this change.

F) CONTRACTS IN PROGRESS AND INVENTORIES

CONTRACTS IN PROGRESS

Contracts in progress relate to revenues recognized, according to the related revenue recognition method, in excess of amounts billed and are recorded at their estimated realizable value.

INVENTORIES

Inventories relate principally to contracts for the manufacturing of ammunition. For most of these contracts, work in progress and finished goods are recorded at their estimated realizable value. Other inventories are recorded at the lower of average cost and replacement value or net realizable value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation is recorded at rates set to charge operations with the cost of depreciable assets over their estimated useful lives, as follows:

FOR PROPERTY, PLANT AND EQUIPMENT EXCLUDING HIGHWAY 407

Buildings and surface installations, using the straight-line method over a period of 25 to 40 years or the diminishing balance method at rates varying from 5% to 7%.

Office furniture and machinery, using the diminishing balance method at rates varying from 20% to 25%.

Computer equipment, using the straight-line method over a period of two years.

Transmission assets, using the straight-line method over a period of 39 years to reflect the weighted average useful life of the different components of these assets.

FOR HIGHWAY 407'S PROPERTY, PLANT AND EQUIPMENT

The toll highway is depreciated, for each significant components parts, on a usage basis over their respective useful lives, which is calculated based on projected Vehicle Kilometres Travelled.

Toll equipment is depreciated using the straight-line method over a period of ten years.

H) GOODWILL

Goodwill represents the excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is tested for impairment on an annual basis, in October, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

I) HIGHWAY 407'S CONCESSION RIGHT

Highway 407's concession right, which is included in "Other Assets", is amortized using projected revenues over 99 years to reflect the duration of the Highway 407 Concession and Ground Lease Agreement with the Province of Ontario.

J) DEFERRED FINANCING COSTS

Deferred financing costs, which are included in "Other Assets", are amortized using the straight-line method over the term of the related debt. The amortization of these costs is included as part of interest on long-term debt.

K) INCOME TAXES

The Company uses the liability method of accounting for income taxes, which requires the establishment of future tax assets and liabilities, as measured by enacted or substantially enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements. Future income tax assets are recognized only to the extent that it is more likely than not that they will be realized.

L) MARKETING EXPENSES

All costs related to contract proposals are expensed as incurred.

M) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except if the costs are related to the development and setup of new products, processes and systems and satisfy generally recognized conditions for capitalization, including reasonable assurance that they will be recovered. All capitalized development costs are included in "Other Assets", and amortized when commercial production begins, using the straight-line method over a period of three to five years. Where permanent impairment occurs, such capitalized costs are written off. The unamortized amounts included in "Other Assets" totalled $1.1 million as at December 31, 2004 (2003: $1.3 million).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N) PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

All accrued obligations for employee future benefits have been determined using the projected benefit method. In valuing cost of pension benefits as well as other post-retirement benefits, the Company uses management's best estimate assumptions except for the discount rate, where the Company uses the market interest rate at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees to receive benefits under the plans. Pension plan assets are valued at fair value. The defined benefit cost includes the expected return on the fair value of the plan assets.

O) EARNINGS PER SHARE

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the year by the basic and diluted weighted average number of common shares, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of grant, using the treasury stock method, with deemed proceeds from the exercise of such dilutive options used to repurchase common shares at the average market price for the period.

The weighted average number of outstanding shares used in the calculation of earnings per share for the year are:

(IN THOUSANDS)	2004	2003
Weighted average number of outstanding shares – basic	50,605	50,377
Dilutive effect of stock options	544	836
Weighted average number of outstanding shares – diluted	51,149	51,213

P) STOCK-BASED COMPENSATION

Effective January 1, 2004, the Company expenses stock-based compensation using the fair value method. The estimated fair value of the options is being amortized on a straight-line basis over the vesting period, which is two years from the date the stock options were granted, and was determined using the Black-Scholes option pricing model.

Q) IMPAIRMENT OF LONG-LIVED ASSETS

On January 1, 2004, the Company adopted the new recommendations under the CICA Handbook Section 3063 regarding "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived asset held for use by the Company, including mainly property, plant and equipment, and which requires that a long-lived asset be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. These new recommendations did not have any material impact on the Company's consolidated financial statements.

R) ASSET RETIREMENT OBLIGATIONS

On January 1, 2004, the Company adopted the new recommendations under the CICA Handbook Section 3110 regarding "Asset Retirement Obligations". The section is effective for years beginning on or after January 1, 2004. It describes how to recognize and measure liabilities related to the legal obligations of retiring property, plant and equipment. These obligations are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into income over time. These new recommendations did not have any material impact on the Company's consolidated financial statements.

2. ACCOUNTING FOR HIGHWAY 407 – ADDITIONAL INFORMATION

In 1999, SNC-Lavalin and its partners acquired, through 407 International Inc., the right to operate 407 ETR, an all-electronic open-access toll road, under a 99-year lease from the Government of Ontario. SNC-Lavalin invested, in 1999, $175.0 million in common shares of 407 International Inc., representing a 26.92% non-diluted equity interest. In 2002, SNC-Lavalin's interest decreased to 16.77% following the dilution and disposal of a portion of SNC-Lavalin's investment.

In accordance with the recommendations of the CICA, SNC-Lavalin's investment in Highway 407 is currently accounted for using the proportionate consolidation method, whereby the consolidated financial statements reflect, line by line, the pro-rata share of each of the assets, liabilities, revenues and expenses of Highway 407. Given the significant effect of Highway 407 on the Company's consolidated financial statements and to reflect the way the Company views the nature of this investment, the Company provides the following additional information about its accounts, in which the investment in Highway 407 is being accounted for as a single line item as opposed to the line by line pro-rata share of financial results, thereby enabling the reader a greater understanding of the Company's underlying assets, earnings base and financial resources.

FINANCIAL POSITION OF SNC-LAVALIN GROUP INC.

(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM)

AT DECEMBER 31

	2004	2003
ASSETS		
Current		
Cash and cash equivalents (Note 1e)	$ 692,548	$ 484,662
Accounts receivable	777,567	558,001
Contracts in progress and inventories (Note 5)	289,637	369,224
TOTAL CURRENT ASSETS	1,759,752	1,411,887
Property, plant and equipment (Note 6)	225,069	244,689
Investment in 407 International Inc.	6,865	33,912
Goodwill (Note 7)	107,700	87,438
Other assets (Note 8)	344,463	174,147
TOTAL ASSETS	$ 2,443,849	$ 1,952,073
LIABILITIES		
Current		
Accounts payable and accrued charges	$ 1,028,825	$ 739,582
Downpayments on contracts	125,913	249,902
Deferred revenues	352,379	96,556
Current portion of non-recourse long-term debt	3,584	3,249
TOTAL CURRENT LIABILITIES	1,510,701	1,089,289
Long-term debt (Note 9)		
Recourse	104,280	104,154
Non-recourse	43,345	46,281
Other liabilities	67,682	54,040
TOTAL LIABILITIES	1,726,008	1,293,764
SHAREHOLDERS' EQUITY	717,841	658,309
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,443,849	$ 1,952,073

2. ACCOUNTING FOR HIGHWAY 407 – ADDITIONAL INFORMATION (CONTINUED)

The following table provides a reconciliation of SNC-Lavalin's investment in 407 International Inc. from its acquisition in 1999 to December 31:

	2004	2003
Investment at original cost	$ 175,000	$ 175,000
SNC-Lavalin's proportionate share of cumulative losses, net of consolidation eliminations	(119,155)	(104,688)
Gain on dilution	14,673	14,673
Carrying value of shares sold	(28,214)	(28,214)
Cumulative dividends received	(35,439)	(22,859)
BALANCE AT END OF YEAR	$ 6,865	$ 33,912

RESULTS OF OPERATIONS OF SNC-LAVALIN GROUP INC.

(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM)

YEAR ENDED DECEMBER 31

	2004	2003
Revenues	$ 3,383,238	$ 3,206,663
Gross margin	$ 474,420	$ 460,954
Administrative, marketing and other expenses	289,147	305,363
Interest and capital taxes	11,402	8,868
Income before income taxes	173,871	146,723
Income taxes (Note 12)	55,291	47,538
Net income, excluding Highway 407	118,580	99,185
Highway 407 net loss, net of consolidation eliminations	(14,467)	(12,657)
Net income	$ 104,113	$ 86,528
BASIC EARNINGS PER SHARE (Note 1o)		
Excluding Highway 407	$ 2.34	$ 1.97
From Highway 407	(0.28)	(0.25)
	$ 2.06	$ 1.72
DILUTED EARNINGS PER SHARE (Note 1o)		
Excluding Highway 407	$ 2.32	$ 1.94
From Highway 407	(0.28)	(0.25)
	$ 2.04	$ 1.69

2. ACCOUNTING FOR HIGHWAY 407 – ADDITIONAL INFORMATION (CONTINUED)

CASH FLOWS OF SNC-LAVALIN GROUP INC.
(WITH THE INVESTMENT IN HIGHWAY 407 ACCOUNTED FOR AS A SINGLE LINE ITEM)
YEAR ENDED DECEMBER 31

	2004	2003
OPERATING ACTIVITIES		
Net income	$ 104,113	$ 86,528
Items not involving a movement of cash:		
Depreciation of property, plant and equipment and amortization of other assets	45,190	44,143
Highway 407 net loss, net of consolidation eliminations	14,467	12,657
Future income tax benefit	(11,098)	(12,640)
Stock-based compensation (Note 10d)	2,983	–
Income from investments accounted for by the equity method	(11,558)	(10,011)
Other	3,391	7,885
Dividends received from 407 International Inc. and equity investments	14,778	16,711
	162,266	145,273
Net change in non-cash working capital items	232,208	49,815
	394,474	195,088
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment		
Transmission assets	–	(69,085)
Other	(26,089)	(26,161)
Acquisition of businesses (Note 3)	(15,255)	(26,744)
Acquisition of an investment (Note 3)	(100,833)	–
Income taxes related to the 2002 gain on disposal of a portion of the investment in 407 International Inc.	–	(28,084)
Other	6,544	(14,011)
	(135,633)	(164,085)
FINANCING ACTIVITIES		
Repayment of long-term debt	(3,068)	(4,167)
Increase in long-term debt	408	–
Net proceeds from issuance of shares	6,432	16,954
Redemption of shares (Note 10e)	(25,042)	(23,928)
Dividends paid	(26,311)	(20,163)
Other	(3,374)	5,239
	(50,955)	(26,065)
NET INCREASE IN CASH AND CASH EQUIVALENTS	207,886	4,938
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	484,662	479,724
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1e)	$ 692,548	$ 484,662
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	$ 12,923	$ 12,970
Income taxes paid	$ 55,726	$ 78,208

3. ACQUISITIONS OF BUSINESSES AND INVESTMENTS

BUSINESSES

SNC-Lavalin completed two acquisitions in the Lyon region of France: Chovet Engineering S.A. in May 2004, specialized in industrial processes, and Sogequip in July 2004, specialized in the fields of pharmaceuticals, fine chemicals and industrial refrigeration.

In December 2004, SNC-Lavalin acquired all remaining shares of Canatom NPM, a private sector nuclear engineering company in Canada, in which it previously had a 61.25% interest.

In 2003, SNC-Lavalin completed the acquisition of Texas-based GDS Engineers, Inc., an engineering firm which specializes in the refining, chemical and petrochemical industries, and the acquisitions of Trouvin in France and Fimatec in southeastern France, engineering firms which provide services in the agrifood and industrial processes and infrastructure sectors.

These acquisitions have been accounted for using the purchase method and consolidated from the effective date of acquisition.

The above businesses were acquired for a total cash consideration of $15.3 million in 2004 and $26.7 million in 2003, as described below:

	2004	2003
Current assets	$ 34,753	$ 14,498
Property, plant and equipment	1,113	1,026
Goodwill	20,262	21,355
Other assets	872	1,012
Liabilities assumed	(41,745)	(11,147)
Net assets of businesses acquired	$ 15,255	$ 26,744

INVESTMENTS

In June 2004, SNC-Lavalin invested $100.8 million (representing an 11.1% interest) in Trencap Limited Partnership. This investment is accounted for using the cost method. Trencap Limited Partnership holds an indirect substantial interest in Gaz Métro Limited Partnership, a publicly traded company involved in natural gas distribution.

In April 2004, SNC-Lavalin invested US$60.0 million (CA$73.0 million as at December 31, 2004) in Phase 1 of a new 500 MW natural gas-fired power plant in Queens, New York, through an equity participation in Astoria Project Partners LLC. This investment is accounted for using the equity method and is reflected on the consolidated balance sheet under "other assets – investments accounted for by the equity method" (refer to Note 8). The US$60.0 million investment is payable based on a Progress Payment Schedule ("Schedule"). Under this Schedule, SNC-Lavalin will pay US$45.9 million (CA$55.8 million as at December 31, 2004) within one year of December 31, 2004 and US$14.1 million (CA$17.2 million as at December 31, 2004) between January 2006 and April 2006, which are reflected on the consolidated balance sheet under "accounts payable and accrued charges" and "other liabilities", respectively.

4. JOINT VENTURE ACTIVITIES

SNC-Lavalin carries out part of its activities through joint ventures. SNC-Lavalin's pro-rata share of the assets, liabilities, net income and cash flows of such joint ventures, including Highway 407, is summarized by the following financial information:

	2004	2003
BALANCE SHEETS		
Current assets	$ 183,663	$ 148,442
Long-term assets	781,958	785,478
	$ 965,621	$ 933,920
Current liabilities	$ 213,018	$ 204,435
Long-term liabilities	724,664	671,411
Pro-rata share of net assets of joint ventures	27,939	58,074
	$ 965,621	$ 933,920
STATEMENTS OF INCOME		
Revenues	$ 360,387	$ 416,752
Expenses	350,427	409,888
Pro-rata share of net income of joint ventures	$ 9,960	$ 6,864
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):		
Operating activities	$ 28,330	$ (37,367)
Investing activities	(30,405)	(77,459)
Financing activities	19,619	67,852
Pro-rata share of changes in cash and cash equivalents of joint ventures	$ 17,544	$ (46,974)

5. CONTRACTS IN PROGRESS AND INVENTORIES

	2004	2003
Contracts in progress	$ 190,274	$ 269,841
Inventories	99,363	99,383
	$ 289,637	$ 369,224

6. PROPERTY, PLANT AND EQUIPMENT

	2004		2003	
	COST	ACCUMULATED DEPRECIATION	COST	ACCUMULATED DEPRECIATION
EXCLUDING HIGHWAY 407				
Buildings and surface installations	$ 130,982	$ 42,684	$ 127,670	$ 38,149
Office furniture and machinery	164,074	132,172	162,042	126,271
Computer equipment	191,450	172,787	178,432	153,361
Transmission assets	82,229	6,596	85,122	2,778
Other	35,124	24,551	33,458	21,476
	603,859	378,790	586,724	342,035
HIGHWAY 407				
Toll highway	340,079	10,500	334,507	8,600
Toll equipment	41,739	16,516	40,183	12,279
Other	12,400	4,602	10,491	2,991
	394,218	31,618	385,181	23,870
	998,077	$ 410,408	971,905	$ 365,905
Accumulated depreciation	410,408		365,905	
NET BOOK VALUE	$ 587,669		$ 606,000	

7. GOODWILL

As at October 31, 2004, date of the last impairment test, the fair value of each reporting unit exceeded its carrying amount, goodwill is therefore considered not to be impaired.

The following table discloses a reconciliation of the carrying amount of the Company's goodwill:

	2004			2003		
	FACILITIES AND OPERATIONS MANAGEMENT	OTHERS	TOTAL	FACILITIES AND OPERATIONS MANAGEMENT	OTHERS	TOTAL
Balance at beginning of year	$ 20,418	$ 67,020	$ 87,438	$ 20,418	$ 45,665	$ 66,083
Goodwill acquired during the year	–	20,262	20,262	–	21,355	21,355
Balance at end of year	$ 20,418	$ 87,282	$ 107,700	$ 20,418	$ 67,020	$ 87,438

8. OTHER ASSETS

	2004	2003
EXCLUDING HIGHWAY 407		
Investments accounted for by the equity method	$ 218,507	$ 137,457
Investments accounted for by the cost method	108,766	9,038
Other	17,190	27,652
	344,463	174,147
HIGHWAY 407		
Concession right	274,683	275,582
Restricted cash and deferred financing costs	51,995	49,455
	326,678	325,037
	$ 671,141	$ 499,184

9. LONG-TERM DEBT

	2004	2003
RECOURSE (TO THE GENERAL CREDIT OF THE COMPANY):		
Debentures, 7.70%, due in 2010	$ 104,280	$ 104,154
NON-RECOURSE (SECURED ONLY BY SPECIFIC ASSETS):		
HIGHWAY 407		
Senior bonds, 2.70% to 6.90%, due from 2006 to 2039	557,685	496,894
Junior bonds, 7.00%, due in 2010	27,656	27,652
Subordinated bonds, 4.00% and 9.00%, due in 2006 and 2007	130,262	88,951
Subordinated term credit facility, 6.40%, due in 2004	–	36,902
Other	1,660	9,119
COMPANY HEADQUARTERS		
9.39%, due in 2008, secured by a first ranking hypothec on the building, including a hypothec upon all rents payable in respect of such property. A balance of capital repayment of $25.4 million is due at maturity	31,684	33,309
OTHER	15,245	16,221
	764,192	709,048
LESS: PORTION DUE WITHIN ONE YEAR FOR NON-RECOURSE DEBT	5,226	3,816
NON-RECOURSE LONG-TERM DEBT	758,966	705,232
TOTAL LONG-TERM DEBT	$ 863,246	$ 809,386

9. LONG-TERM DEBT (CONTINUED)

RECOURSE

REVOLVING CREDIT FACILITIES

The Company has access to committed long-term revolving lines of credit with banks, upon which it may borrow at variable rates not exceeding the prime rate, up to a maximum of $467.5 million. As at December 31, 2004, $194.7 million of these credit lines remained unused, the difference of $272.8 million was exclusively used for the issuance of letters of credit. Also, the Company has other lines of credit specifically for letters of credit. All the above-mentioned lines of credit are unsecured and subject to negative pledge clauses.

DEBENTURES

The face value of the debentures totalling $105.0 million are repayable at maturity. These debentures are unsecured and subject to negative pledge clauses.

NON-RECOURSE

HIGHWAY 407

The senior bonds, junior bonds, subordinated bonds and subordinated term credit facility are secured under a Master Trust Indenture (the "Indenture"), which establishes common security and a set of common covenants given by 407 International Inc. for the benefit of all its lenders. The security comprises substantially all of the assets of both 407 International Inc. and of its wholly-owned subsidiaries, which primarily includes 407 ETR Concession Company Limited, including an assignment of future revenues. Pursuant to the Indenture, 407 International Inc. established cash reserves in accordance with the terms and conditions of these bonds.

In addition, SNC-Lavalin has pledged, as security for obligations under the subordinated bonds due in 2007, its interest in shares of 407 International Inc. under a Master Security Agreement.

LONG-TERM DEBT IS DUE AS FOLLOWS:

	2005	2006	2007	2008	2009	THEREAFTER	TOTAL
Excluding Highway 407	$ 3,584	$ 3,421	$ 3,317	$ 26,954	$ 1,098	$ 112,835	$ 151,209
Highway 407	1,642	106,613	124,295	1,239	68,335	415,139	717,263
	$ 5,226	$ 110,034	$ 127,612	$ 28,193	$ 69,433	$ 527,974	$ 868,472

10. SHARE CAPITAL

A) AUTHORIZED

- **Unlimited number of common shares**
- **Unlimited number of first preferred shares and second preferred shares**

The Board of Directors is authorized to issue such preferred shares in one or more series and to establish the number of shares in each series and the conditions attaching thereto, prior to their issue.

10. SHARE CAPITAL (CONTINUED)

B) STOCK OPTION PLANS

The Company has stock option plans under which the options granted may only be exercised two years after the date of the grant for a period not exceeding four years. The exercise price per option is equal to the market value of a share on the day immediately preceding the date of grant. Options terminate upon cessation of employment, except in case of death or Company-approved retirement. In December 2003, the Company's Board of Directors decided that stock options will no longer be granted to non-employee directors.

The number of options varied as follows:

	2004			2003		
	NUMBER OF OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)	NUMBER OF OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
Options outstanding, at beginning of year	**1,382,614**	**$**	**24.58**	2,021,852	$	17.25
Granted	**278,200**	**$**	**49.79**	509,700	$	32.36
Exercised	**(347,964)**	**$**	**18.49**	(1,128,138)	$	15.03
Cancelled	**(64,000)**	**$**	**23.61**	(20,800)	$	20.59
Options outstanding, at end of year	**1,248,850**	**$**	**31.95**	1,382,614	$	24.58

The table below summarizes information regarding the stock options outstanding and exercisable, under the terms of the plans, as at December 31, 2004.

	OPTIONS OUTSTANDING				OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING OPTIONS TERM (MONTHS)		WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)	NUMBER EXERCISABLE		WEIGHTED AVERAGE EXERCISE PRICE (DOLLARS)
$11.95 to $13.90	67,700	17.16	$	13.02	67,700	$	13.02
$21.60	364,000	32.00	$	21.60	364,000	$	21.60
$27.98 to $30.05	321,000	50.02	$	29.91	21,000	$	27.98
$32.22 to $36.55	220,450	52.27	$	35.48	24,250	$	34.01
$49.48 to $49.99	275,700	66.84	$	49.79	–	$	–
	1,248,850	47.10	$	31.95	476,950	$	21.29

C) PERFORMANCE SHARE UNIT PLAN

The Company has a Performance Share Unit Plan, under which the Board of Directors, through its Human Resources Committee, grants a number of Performance Share Units (PSU) to the plan participants. The PSU vest at a rate of 20% per year in respect of each grant and on each anniversary of such grant. Under certain conditions vesting could be immediate. Vested PSU of a participant are redeemable for cash by the Company within three months of a participant's termination of employment depending on certain conditions. The redemption price of PSU is the average closing price per share on the Toronto Stock Exchange on the day of termination and the last trading day of each of the twelve weeks preceding the date of termination of employment. The compensation expense recorded for the year ended December 31, 2004 in respect of this plan was $5.3 million (2003: $7.2 million). As at December 31, 2004 the value of PSU outstanding which is included in "Accounts payable and accrued charges" was $17.9 million (2003: $14.3 million).

10. SHARE CAPITAL (CONTINUED)

D) STOCK-BASED COMPENSATION

Effective January 1, 2004, the Company adopted the amended CICA Section 3870 for “Stock-Based Compensation and Other Stock-Based Payments”. Under the amended recommendations, a compensation cost, based on the fair value method, has to be accounted for as a charge to the consolidated statement of income for stock option awards.

The amended recommendations have been applied retroactively for all awards from January 1, 2002 to December 31, 2003, without restatement of prior years figures. Accordingly, the January 1, 2004 consolidated accounts reflect a cumulative increase to contributed surplus and a cumulative decrease to retained earnings of $1,754,000, which is reflected in the consolidated statements of shareholders' equity under “retroactive adjustment for stock-based compensation”. This amount represents the total compensation cost which would have been charged to the consolidated statements of income had a fair value based method been used for stock options granted from January 1, 2002 to December 31, 2003 (2002: $25,000; 2003: $1,729,000). Stock-based compensation cost charged to the consolidated statement of income for the year ended December 31, 2004 was $2,983,000, with a corresponding increase to contributed surplus.

The estimated fair value of the options is being amortized on a straight-line basis over the vesting period, which is two years from the date the stock options were granted, and was determined using the Black-Scholes option pricing model with the following assumptions:

	2004	2003
Risk-free interest rate	3.74%	3.96%
Expected stock price volatility	25.48%	28.59%
Expected option life	4 years	4 years
Expected dividend yield	1.0%	1.0%

During 2004, the Company granted 278,200 stock options (2003: 509,700) to employees with a weighted average fair value of $11.75 per stock option (2003: $8.43).

If prior years figures had been restated to include compensation cost using the fair value based method at the grant date for options granted between January 1, 2002 and December 31, 2003, the Company's pro-forma net income and earnings per share, for the year ended December 31, 2003, would have been as indicated below:

	2003
NET INCOME:	
as reported	$ 86,528
pro forma	$ 84,799
EARNINGS PER SHARE:	
Basic:	
as reported	$ 1.72
pro forma	$ 1.68
Diluted:	
as reported	$ 1.69
pro forma	$ 1.66

10. SHARE CAPITAL (CONTINUED)

E) REDEMPTION OF SHARES

In May 2004, the Board of Directors authorized the renewal of its normal course issuer bid to purchase for cancellation, on the open market, up to 4.0 million (2003: 4.0 million) common shares within a one-year period. The renewal of the Company's normal course issuer bid requires annual approval by the Board of Directors.

The redemption of shares in 2004 and 2003 were as follows:

	2004	2003
Redeemed and cancelled		
Portion allocated to share capital	$ 3,413	$ 4,098
Portion allocated to retained earnings	21,629	19,830
	$ 25,042	$ 23,928
Number of shares redeemed and cancelled	507,900	617,200
Average redemption price per share	$ 49.30	$ 38.77

11. INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME

The following are included in the consolidated statements of income:

	2004	2003
EXCLUDING HIGHWAY 407		
Depreciation and amortization	$ 45,190	$ 44,143
Interest revenues	$ 7,855	$ 9,626
Interest on long-term debt	$ 14,694	$ 13,436
Income from investments accounted for by the equity method	$ 11,558	$ 10,011
HIGHWAY 407		
Depreciation and amortization	$ 9,163	$ 8,882
Interest revenues	$ 1,818	$ 1,663
Interest on long-term debt	$ 52,013	$ 44,942

12. INCOME TAXES

Temporary differences and tax loss carry forwards which give rise to future income tax assets and liabilities, as at December 31, are as follows:

	2004	2003
EXCLUDING HIGHWAY 407		
Provision and reserves	$ 42,063	$ 31,054
Tax loss carry forwards	6,138	3,869
Contracts in progress and inventories	(22,035)	(20,365)
Future employee benefits	12,820	13,027
Property, plant and equipment	(5,254)	(9,050)
Book value in partnership in excess of tax basis	(7,009)	(4,314)
Other	1,588	2,576
	28,311	16,797
HIGHWAY 407		
Tax loss carry forwards	12,826	12,759
Long term debt and accrued liabilities	3,554	236
Deferred gains	1,489	1,906
Property, plant and equipment	(15,432)	(12,611)
Other	(2,437)	(2,290)
	–	–
FUTURE INCOME TAX ASSET, NET	$ 28,311	$ 16,797
RECORDED AS FOLLOWS:		
FUTURE INCOME TAX ASSET – CURRENT (1)	$ 20,017	$ 10,896
FUTURE INCOME TAX ASSET – LONG-TERM (2)	$ 8,294	$ 5,901

(1) The current future income tax asset is reflected in the consolidated balance sheet under “Accounts receivable”.
(2) The long-term future income tax asset is reflected in the consolidated balance sheet under “Other assets”.

12. INCOME TAXES (CONTINUED)

The effective income tax rate in the Company's consolidated statements of income differs from the statutory Canadian tax rates mainly as a result of the following:

	2004		2003	
	AMOUNT	%	AMOUNT	%
EXCLUDING HIGHWAY 407				
Income tax expense at statutory Canadian rates	$ 56,544	32.5	$ 51,016	34.8
Increase (decrease) resulting from:				
Non-deductible expenses	2,078	1.2	2,143	1.4
Net losses not affected by tax	1,738	1.0	703	0.5
Effect of foreign tax rates	(3,437)	(2.0)	(4,840)	(3.3)
Income from investments accounted for by the equity method	(2,938)	(1.7)	(1,838)	(1.3)
Other	1,306	0.8	354	0.3
	55,291	31.8	47,538	32.4
HIGHWAY 407				
Income tax benefit at statutory Canadian rates	(5,148)	(36.4)	(4,343)	(36.4)
Increase resulting from:				
Net losses not affected by tax	5,148	36.4	4,343	36.4
Other	324	2.3	736	6.2
	324	2.3	736	6.2
Total income tax expense	$ 55,615	34.8	$ 48,274	35.8
Current income tax expense	$ 66,678		$ 60,933	
Future income tax benefit	(11,063)		(12,659)	
	$ 55,615		$ 48,274	

As at December 31, 2004, the Company's share of Highway 407's unused non-capital tax loss carryovers totalled $110.3 million which are available to offset Highway 407's future taxable income and are expiring as follow:

2007	2008	2009	2010	2014
$ 25,603	$ 8,807	$ 136	$ 42,183	$ 33,544

A future income tax net asset position related to Highway 407 will be recorded upon realization of certain conditions.

13. FINANCIAL INSTRUMENTS

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of SNC-Lavalin's financial instruments are as follows:

SHORT-TERM FINANCIAL ASSETS AND LIABILITIES

Cash equivalents consist principally of high-grade financial instruments. Due to the short duration of such investments, their carrying amount approximates their fair value. For other short-term financial assets and liabilities, the carrying amounts are a reasonable estimate of the market values of these items due to their short-term nature.

LONG-TERM DEBT

The carrying amount and estimated fair value of the long-term debt as at December 31, 2004, was $868.5 million (2003: $813.2 million) and $994.8 million (2003: $884.2 million), respectively. These amounts include SNC-Lavalin's proportionate share of Highway 407's carrying amount and fair value of its long-term debt of $717.3 million (2003: $659.5 million) and $822.6 million (2003: $712.3 million), respectively. The fair value was determined using public quotations or the discounted cash flow method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates offered to SNC-Lavalin for debt with the same terms and conditions.

LETTERS OF CREDIT

Under certain circumstances, SNC-Lavalin provides letters of credit as collateral for the fulfillment of contractual obligations, including guarantees for performance, advance payments, contractual holdbacks and bid bonds. Certain letters of credit decrease in relation to the percentage of completion of projects. As at December 31, 2004, SNC-Lavalin had outstanding letters of credit of $949.8 million (2003: $671.3 million).

FORWARD FOREIGN EXCHANGE CONTRACTS

SNC-Lavalin enters into forward foreign exchange contracts with banks to hedge foreign currency denominated assets and liabilities, and foreign currency transactions against currency fluctuations.

The table below summarizes the major forward foreign exchange contracts that are outstanding as at December 31:

2004			2003		
BUY	SELL	MATURITY	BUY	SELL	MATURITY
CA$509,109	**US$391,206**	**2005-2008**	CA$403,082	US$290,495	2004-2006
CA$ 77,857	**EUR 48,970**	**2005-2006**	CA$ 95,497	EUR 61,635	2004-2006
US$ 51,177	**CA$ 64,467**	**2005-2008**	US$ 37,966	CA$ 50,519	2004-2005
EUR 48,509	**US$ 60,136**	**2005-2006**	EUR 89,342	US$100,671	2004-2006

Forward foreign exchange contracts contain an inherent credit risk relating to default on obligations by the counterpart. SNC-Lavalin reduces this credit risk by entering into foreign exchange contracts with sound financial institutions, which SNC-Lavalin anticipates will satisfy their obligations under the contracts.

13. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of forward foreign exchange contracts generally reflects the estimated amounts SNC-Lavalin would receive on settlement of favourable contracts, or be required to pay in order to terminate unfavourable outstanding contracts as at the balance sheet date. The fair values are estimated by obtaining quotes from financial institutions. The estimated fair values as at December 31, if settlement were to occur, would be as follows:

	2004	2003
Favourable forward foreign exchange contracts	$ 49,182	$ 40,379
Unfavourable forward foreign exchange contracts	(7,643)	(12,435)
	$ 41,539	$ 27,944

Consistent with its policy not to speculate on foreign currency positions, SNC-Lavalin does not usually incur favourable and unfavourable settlement variances given that the forward foreign exchange contracts normally maintain their initial anticipated hedging relationships up to maturity.

B) CONCENTRATION OF CREDIT RISK

Concentration of credit risk with respect to accounts receivable and contracts in progress is limited due to the large number of clients comprising SNC-Lavalin's client base, and their dispersion across different business and geographic areas.

14. GUARANTEES

In April 2004, SNC-Lavalin invested US$60.0 million (CA$73.0 million as at December 31, 2004) in Astoria Project Partners LLC (refer to Note 3), which is the parent company of Astoria Energy LLC (Owner) that will own Phase 1 of a new 500 MW natural gas-fired power plant in Queens, New York. In addition to its investment, the Company provided to the Owner a guarantee of the obligations of the contractor which will build the plant, in consideration of which the Company is receiving a compensation as a guarantor. Under the guarantee, the Company guarantees to the Owner the full and punctual payment when due and the full and faithful performance of all the contractor's obligations under the engineering, procurement and construction contract.

15. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

PENSION PLANS

SNC-Lavalin has several types of defined contribution pension plans for which its contributions are recorded as expenses in the year in which they are incurred (2004: $23.4 million ; 2003: $19.4 million), as well as defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

The total cash amount paid or payable by SNC-Lavalin for its pension plans, consisting of contributions to its defined contribution and defined benefit pension plans was $29.6 million for 2004 (2003: $22.8 million).

15. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following table sets forth the change in benefit obligation, plan assets and funded status of SNC-Lavalin's defined benefit pension plans:

	2004	2003
CHANGE IN PENSION BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 139,141	$ 129,797
Current service cost	3,197	3,891
Interest cost	8,742	8,242
Benefits paid	(8,602)	(7,891)
Actuarial losses	8,549	2,950
Other	1,546	2,152
Benefit obligation at end of year	$ 152,573	$ 139,141
CHANGE IN PLAN ASSETS		
Fair value at beginning of year	$ 107,838	$ 102,523
Actual return on plan assets	9,407	7,591
Benefits paid	(8,602)	(7,891)
Employer contributions	6,527	3,077
Other	(126)	2,538
Fair value at end of year	$ 115,044	$ 107,838
FUNDED STATUS		
Funded status – plan deficit	$ (37,529)	$ (31,303)
Unamortized net actuarial loss	22,774	16,483
Unamortized past service costs	207	241
Net accrued benefit liability*	$ (14,548)	$ (14,579)

* The net accrued benefit liability is reflected in the consolidated balance sheet under "Other liabilities".

SNC-Lavalin has several defined benefits pension plans, for which an individual actuarial valuation is performed every three years for each respective plan. For the principal pension plans, the actuarial valuations were performed on December 31, 2003 and the next required actuarial valuations will be on December 31, 2006. The measurement date use for the above benefit obligation and plan assets is December 31 of each year.

The following table presents the asset allocation, as at December 31, of SNC-Lavalin's funded defined benefit pension plans :

	ASSET ALLOCATION	
	2004	2003
ASSET CLASS		
Equity securities	47%	47%
Debt securities	53%	53%
Total	100%	100%

15. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following is a summary of significant weighted average assumptions used in measuring SNC-Lavalin's accrued benefit obligation and net benefit costs:

	2004	2003
ACCRUED BENEFIT OBLIGATION AS AT DECEMBER 31		
Discount rate	5.75%	6.25%
Rate of compensation increase	3.80%	3.25%
NET BENEFIT COSTS FOR YEAR ENDED DECEMBER 31		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	6.25%	6.50%
Rate of compensation increase	3.25%	3.25%

SNC-Lavalin's net defined benefit costs recognized is as follows:

	2004	2003
Current service cost	$ 3,197	$ 3,891
Interest cost on benefit obligation	8,742	8,242
Actual return on plan assets	(9,407)	(7,591)
Actuarial losses on benefit obligation	8,549	2,950
Curtailment*	–	4,266
Other	–	(500)
ELEMENTS OF EMPLOYEE FUTURE BENEFIT COSTS BEFORE ADJUSTMENTS TO RECOGNIZE ITS LONG-TERM NATURE	11,081	11,258
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets	2,703	933
Difference between actuarial losses recognized and actual actuarial losses on benefit obligation	(7,280)	(2,183)
Amortization of past service costs	34	950
	(4,543)	(300)
Valuation allowance	(341)	(4,385)
DEFINED BENEFIT COSTS	$ 6,197	$ 6,573

* A curtailment of one of SNC-Lavalin's pension plans occurred as at December 31, 2003, due to members ceasing to accumulate credited service under the plan.

OTHER POST-RETIREMENT BENEFITS

As at December 31, 2004, the obligation for other post-retirement benefits amounted to $18.5 million (2003: $16.7 million) and is reflected on the consolidated balance sheet under "Other liabilities".

16. CONTINGENCIES

The Company and certain of its subsidiaries have been named as defendants along with other parties in a number of class action lawsuits and other actions filed in Canada and the United States by or on behalf of shareholders of Bre-X Minerals Ltd. and Bresea Resources Ltd. seeking to recover damages allegedly sustained by them as a result of the Bre-X affair. The complaints with respect to these actions generally allege that the Company and/or its subsidiaries were negligent, negligently or fraudulently misrepresented or failed to disclose information relating to Bre-X's Busang gold project, and violated US securities laws. The Company denies these allegations and is vigorously contesting these lawsuits. These lawsuits remain at an early stage and, as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of these lawsuits or to estimate the loss, if any, which may result. However, management believes that the Company's subsidiaries have acted professionally and appropriately at all times in carrying out the work, which was performed in connection with Bre-X's Busang project and, after having consulted with legal counsel, believes that the Company and its subsidiaries have strong grounds to contest these claims. The Company's insurers have been advised of these claims and are cooperating with the Company in the defense of these lawsuits subject to policy deductibles, limits, and terms and conditions.

In the normal conduct of operations, there are other pending claims by and against SNC-Lavalin. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these other litigations will not materially affect the Company's consolidated financial position or results of operations.

17. COMMITMENTS

SNC-Lavalin's minimum lease payments for annual basic rental under long-term operating leases amount to $95.8 million. The annual minimum lease payments are as follows: 2005 – $25.6 million; 2006 – $20.2 million; 2007 – $15.9 million; 2008 – $11.7 million; 2009 – $9.2 million and thereafter – $13.2 million.

18. SEGMENT DISCLOSURES

The Company provides engineering, procurement, construction and project management services, including long-term outsourcing services, as well as manufacturing and other concessions activities. These activities are grouped by industry segment, described as follows:

- Power segment is engaged in hydroelectric, nuclear and thermal power generation, in transmission and distribution projects, as well as in energy control systems.
- Chemicals and Petroleum segment is comprised of projects in the oil sands and heavy oil development, onshore and offshore oil and gas, pipelines, petroleum refining, gas storage, chemicals, biochemicals, petrochemicals and fertilizers.
- Infrastructure and Environment segment is engaged in a full range of activities in infrastructure projects, including airports, buildings, rail-based rapid transit systems, roads, bridges, systems implementation, water treatment and distribution facilities, water well drilling, as well as environment projects, including impact assessment and studies, audits, analysis and testing, decontamination and waste management.
- Mining and Metallurgy segment provides a full range of services for the treatment of ores and recovery of minerals and metals. This segment also includes aluminum industry projects.
- Facilities and Operations Management segment is engaged in a full range of activities in the management of facilities, real estate and infrastructure, including mission-critical facilities, ships, military camps, power plants and roads.
- Defence segment mainly includes the manufacturing of ammunition, including the related propellants and propulsive powder, for military and paramilitary markets.
- Investments segment represents SNC-Lavalin's interest in AltaLink L.P., Astoria Project Partners LLC, Gazmont Limited Partnership, Malta International Airport p.l.c., Murraylink Transmission Company Pty. Ltd., Southern Electric Power Company Limited, Trencap Limited Partnership and West End Dam Associates.

18. SEGMENT DISCLOSURES (CONTINUED)

- Highway 407 segment, represents SNC-Lavalin's proportionate share of 407 International Inc. results, net of related consolidation eliminations. The principal business of 407 International Inc. is the ownership of 407 ETR, and through 407 ETR, the operation, maintenance and management of highway 407 in the Greater Toronto area.
- "All Other" segment combines activities of several sectors, namely pharmaceuticals and biotechnology, agrifood, telecommunications, as well as other industrial plants.

The accounting policies for the segments are the same as those described in the Summary of Significant Accounting Policies (Note 1) except for imputed interest. Imputed interest is calculated on non-cash working capital position except for the Defence segment for which imputed interest, effective January 1, 2004, is calculated on total net assets employed. Therefore, the Company reclassified the 2003 operating income of the Defence segment for the purpose of segment disclosure only, with no change to its reported consolidated net income, as any internal imputed interest charged to a segment is eliminated on consolidation. The Company evaluates segment performance, except for Highway 407 and Investments segments, using operating income net of imputed interest which is allocated monthly to the segments at a rate of 10% per year resulting in a cost or revenue depending on whether the segment's current assets exceed current liabilities or vice versa. Corporate general and administrative costs are allocated based on the gross margin of each segment. Corporate income taxes are not allocated to segments.

The Company evaluates the Investments segment performance using SNC-Lavalin's share of the net results of its investments based on their respective financial statements using Canadian generally accepted accounting principles.

Highway 407 segment performance is reported using net income (loss), net of consolidation eliminations.

Revenues by category reflect SNC-Lavalin's activities in Services, Packages and Concessions.

Revenues by geographical segment have been allocated according to project location.

SNC-Lavalin has numerous clients. In any one year, a given client may represent a material portion of the Company's consolidated revenues due to the size of a particular project and the progress accomplished on such project.

YEAR ENDED DECEMBER 31

	2004		2003	
	REVENUES	OPERATING INCOME	REVENUES	OPERATING INCOME
EXCLUDING HIGHWAY 407				
Power	$ 891,039	$ 51,174	$ 607,151	$ 37,206
Chemicals and Petroleum	584,232	21,853	818,522	12,628
Infrastructure and Environment	527,923	27,884	570,893	37,872
Mining and Metallurgy	279,772	31,353	239,343	33,839
Facilities and Operations Management	629,126	20,354	557,331	12,063
Defence	289,610	10,730	270,921	4,275
Investments	21,279	10,495	18,849	6,170
All Other	160,257	7,391	123,653	7,453
	$ 3,383,238	181,234	$ 3,206,663	151,506
Reversal of total imputed interest cost included in segment operating income		4,039		4,085
Income before interest and taxes		185,273		155,591
Interest and capital taxes		(11,402)		(8,868)
Income before income taxes		173,871		146,723
Income taxes		(55,291)		(47,538)
Net income, excluding Highway 407		118,580		99,185
HIGHWAY 407, NET LOSS		(14,467)		(12,657)
NET INCOME		$ 104,113		$ 86,528

18. SEGMENT DISCLOSURES (CONTINUED)

Details of SNC-Lavalin's proportionate share (16.77%) of Highway 407 results, are as follows:

YEAR ENDED DECEMBER 31	2004	2003
Revenues	$ 64,239	$ 57,586
Gross margin, after deducting $9,163 (2003: $8,882) of depreciation	$ 42,704	$ 36,758
Administrative, marketing and other expenses	(5,371)	(5,447)
Interest and other expenses	(51,586)	(43,171)
Loss before income taxes	(14,253)	(11,860)
Income taxes	(289)	(755)
Net loss, before consolidation eliminations	(14,542)	(12,615)
Consolidation eliminations	75	(42)
Net loss	$ (14,467)	$ (12,657)

The Company evaluates a segment's performance whereby the segments net assets (liabilities) are based on the segment's non-cash working capital position, except for the Defence segment which are based on total net assets employed as it requires significant investment in property, plant and equipment. Total segments net assets (liabilities) is reconciled to the consolidated total assets as follows:

AT DECEMBER 31	2004	2003
EXCLUDING HIGHWAY 407		
Segments net assets (liabilities), as defined above		
Power	$ (191,519)	$ (73,292)
Chemicals and Petroleum	(14,923)	(19,767)
Infrastructure and Environment	(88,531)	(13,522)
Mining and Metallurgy	(8,829)	7,862
Facilities and Operations Management	(50,704)	(7,798)
Defence	168,730	166,732
All Other	(17,150)	(4,367)
Total segments net assets (liabilities)	(202,926)	55,848
Current liabilities and Defence segment's property, plant and equipment included in segments net assets (liabilities)	1,270,130	871,377
Current assets, excluding cash and cash equivalents	1,067,204	927,225
Cash and cash equivalents	692,548	484,662
Property, plant and equipment, goodwill and other long-term assets	677,232	506,274
Total assets excluding Highway 407	2,436,984	1,918,161
PROPORTIONATE SHARE OF HIGHWAY 407 TOTAL ASSETS	736,758	706,225
TOTAL ASSETS	$ 3,173,742	$ 2,624,386

18. SEGMENT DISCLOSURES (CONTINUED)

YEAR ENDED DECEMBER 31

REVENUES BY CATEGORY	2004	2003
Services	$ 923,578	$ 888,824
Packages	1,502,692	1,463,677
Concessions	1,021,151	911,367
	$ 3,447,421	$ 3,263,868

YEAR ENDED DECEMBER 31

REVENUES BY GEOGRAPHIC SEGMENT	2004	2003
Canada	$ 1,521,081	$ 1,442,567
Africa	676,680	428,014
Europe	333,307	144,426
Asia	315,000	440,977
United States	281,674	562,250
Latin America	93,733	129,718
Other	225,946	115,916
	$ 3,447,421	$ 3,263,868

AT DECEMBER 31

PROPERTY, PLANT AND EQUIPMENT, AND GOODWILL	2004	2003
Canada		
Excluding Highway 407	$ 222,311	$ 237,206
Highway 407	362,600	361,311
Outside Canada	110,458	94,921
	$ 695,369	$ 693,438

19. COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform with the presentation adopted in 2004.

MANAGEMENT TEAM

OFFICE OF THE PRESIDENT

- **JACQUES LAMARRE**
President and Chief Executive Officer
- **PIERRE ANCTIL**
Executive Vice-President
Investment, Infrastructure, Environment and Pharmaceutical
- **SAMI BÉBAWI**
Executive Vice-President
Infrastructure and Construction
- **MARYLYNNE CAMPBELL**
Executive Vice-President
Infrastructure; Facilities and Operations Management; Human Resources; Health, Safety and Environment and Aboriginal Affairs
- **PIERRE DUHAIME**
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Mining and Metallurgy and Industrial
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Chemicals and Petroleum
- **GILLES LARAMÉE**
Executive Vice-President and Chief Financial Officer
- **MICHAEL NOVAK**
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Agrifood, Fertilizer, Glass and Construction Materials
- **KLAUS TRIENDL**
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Power, Transportation and International

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- **LOUIS DAGENAIS**
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Director, Business Development, Thailand and Indochina

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HANS KUIKEN
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General Manager

SNC-Lavalin International Inc.

MOHAMED EID (Dubai)
General Manager

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Vice-President, Copper

ANDREI ORLOV
Vice-President, Business Development

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SNC-Lavalin Constructors Inc.

▪ John Gillis (Redmond, WA)
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STEVE DANIELS (Redmond, WA)
Senior Vice-President, Business Development

SNC-Lavalin GDS, Inc.

▪ JAMES M. WALTERS (Houston, TX)
Senior Vice-President and General Manager (Chemicals and Petroleum)

SNC-Lavalin International Inc.

DAVID BROWN (Washington, DC)
Representative, International Development

VIETNAM

SNC-Lavalin International Inc.

TRAN TUAN DUNG
Manager

▪ Member of the Management Committee

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SNC-LAVALIN PHARMA INC.
3rd Floor
8000 Décarie Blvd.
Montreal QC H4P 2S4
Telephone (514) 735-5651
Fax (514) 737-7988

EXPRO TECHNOLOGIES INC.
55 Masson Street
Saint-Timothée QC J6S 4V9
Telephone (450) 371-5520
Fax (450) 377-7800

NEXACOR REALTY MANAGEMENT INC.
2nd Floor
87 Ontario Street West
Montreal QC H2X 1Y8
Telephone (514) 840-8400
Fax (514) 840-8428

SNC TECHNOLOGIES INC.
5 Montée des Arsenaux
Le Gardeur QC J5Z 2P4
Telephone (450) 581-3080
Fax (450) 585-7302

SNC TECHNOLOGIES INC.
40 d'Anvers Street
Saint-Augustin QC G3A 1S4
Telephone (450) 878-4480
Fax (450) 878-4337

TERRATECH
Suite 208
14056 Curé-Labelle Blvd.
Mirabel QC J5A 2E4
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Fax (450) 979-9333

TERRATECH
275 Benjamin-Hudon Street
Montreal QC H4N 1J1
Telephone (514) 331-6910
Fax (514) 331-7632

QUEBEC CITY & AREA

SNC-LAVALIN INC.
Local 80
5410 de la Rive-Sud Blvd.
Lévis QC G6V 4Z2
Telephone (418) 837-3621
Fax (418) 837-2039

SNC-LAVALIN INC.
Suite 200
5500 des Galeries Blvd.
Quebec City QC G2K 2E2
Telephone (418) 621-5500
Fax (418) 621-9090

RIMOUSKI

SNC-LAVALIN INC.
Suite 222
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Rimouski QC G5L 1A6
Telephone (418) 723-4717
Fax (418) 723-1571

THETFORD MINES

SNC-LAVALIN INC.
69 Notre-Dame Street South
Thetford Mines QC G6G 1J4
Telephone (418) 338-4631
Fax (418) 338-6564

ONTARIO

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SNC-LAVALIN ENGINEERS & CONSTRUCTORS INC.
2200 Lake Shore Blvd. West
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Fax (416) 231-5356

SNC-LAVALIN PHARMA INC.
Suite 1000
789 Don Mills Road
Don Mills ON M3C 1T5
Telephone (416) 422-4056
Fax (416) 422-4638

SNC-LAVALIN PROFAC INC.
Suite 900
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Toronto ON M9B 6E2
Telephone (416) 207-4700
Fax (416) 207-4702

CANATOM NPM INC.
Suite 180
2655 North Sheridan Way
Mississauga ON L5K 2P8
Telephone (905) 829-9188
Fax (905) 829-8810

NEXACOR REALTY MANAGEMENT INC.
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Telephone (416) 207-3200
Fax (416) 207-3202

KINGSTON

SNC-LAVALIN PAE INC.
Suite 202
80 Queen Street
Kingston ON K7K 6W7
Telephone (613) 547-7155
Fax (613) 544-3829

OTTAWA

SNC-LAVALIN DEFENCE PROGRAMS INC.
Suite 1100
170 Laurier Avenue West
Ottawa ON K1P 5V5
Telephone (613) 567-7004
Fax (613) 567-7022

SNC-LAVALIN INTERNATIONAL INC.
Suite 1100
170 Laurier Avenue West
Ottawa ON K1P 5V5
Telephone (613) 567-8517
Fax (613) 567-5509

SARNIA

SNC-LAVALIN ENGINEERS & CONSTRUCTORS INC.
Suite 301
265 North Front Street
Sarnia ON N7T 7X1
Telephone (519) 336-0201
Fax (519) 336-0209

WOODBRIDGE

407 INTERNATIONAL INC.
6300 Steeles Avenue West
Woodbridge ON L4H 1J1
Telephone (905) 264-5242
Fax (905) 265-4071

ALBERTA

CALGARY

SNC-LAVALIN INC.
14th Floor
605 – 5th Avenue SW
Calgary AB T2P 3H5
Telephone (403) 294-2100
Fax (403) 237-8365

SNC-LAVALIN ATP INC.
1035 – 7th Avenue SW
Calgary AB T2P 3E9
Telephone (403) 539-4550
Fax (403) 539-4551

ALTALINK MANAGEMENT LTD.
1035 – 7th Avenue SW
Calgary AB T2P 3E9
Telephone (403) 267-3400
Fax (403) 267-3454

EDMONTON

SNC-LAVALIN INC.
608 Oxford Tower
10235-101 Street
Edmonton, AB T5J 3G1
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Fax (780) 426-4131

BRITISH COLUMBIA

VANCOUVER

SNC-LAVALIN INC.
18th Floor
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12th Floor
1075 West Georgia Street
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Telephone (604) 662-3555
Fax (604) 662-7688

PACIFIC LIAICON AND ASSOCIATES INC.
Suite 950
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Fax (604) 299-8722

MANITOBA

SNC-LAVALIN ENGINEERS & CONSTRUCTORS INC.
200 – 1600 Ness Avenue
Madison Square
Winnipeg MB R3J 3W7
Telephone (204) 786-8080
Fax (204) 786-7934

NEW BRUNSWICK

SNC-LAVALIN INC.
500 Beaverbrook Court
Fredericton NB E3B 5X4
Telephone (506) 459-2645
Fax (506) 444-9419

NEWFOUNDLAND AND LABRADOR

BAE-NEWPLAN GROUP LIMITED
1133 Topsail Road
Mount Pearl NL A1N 5G2
Telephone (709) 368-0118
Fax (709) 368-3541

NORTHWEST TERRITORIES

NISHI-KHON / SNC-LAVALIN LIMITED
100 Borden Drive
9 Stanton Plaza, Box 998
Yellowknife NT X1A 2N7
Telephone (867) 873-6242
Fax (416) 231-5356

NOVA SCOTIA

SNC-LAVALIN INC.
40 Fielding Avenue
Dartmouth NS B3B 1E4
Telephone (902) 468-6230
Fax (902) 468-7864

SNC-LAVALIN INC.
Park Lane Terraces
Suite 200
5657 Spring Garden Road
Halifax NS B3J 3R4
Telephone (902) 492-4544
Fax (902) 492-4540

SASKATCHEWAN

SNC-LAVALIN AUDET
P.O. Box 492
642, 3rd Street East
Bruno SK S0K 0S0
Telephone (306) 369-7689
Fax (306) 369-2940

YUKON

KASKA / SNC-LAVALIN INC.
Suite 200
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Whitehorse YT Y1A 2H2
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Fax (416) 231-5356

UNITED STATES

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SNC TECHNOLOGIES CORP.
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Avon CT 06001-0575
Telephone (860) 404-0162
Fax (860) 404-0169

PENNSYLVANIA

SNC-LAVALIN AMERICA, INC.
6585 Penn Avenue
Pittsburgh PA 15206
Telephone (412) 363-9000
Fax (412) 365-3303

TEXAS

SNC-LAVALIN GDS, INC.
Suite 800
9009 West Loop South
Houston TX 77096-1719
Telephone (713) 667-9162
Fax (713) 667-9241

WASHINGTON

SNC-LAVALIN CONSTRUCTORS INC.
15011 NE 36th Street
Redmond WA 98052
Telephone (425) 896-4000
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WASHINGTON, DC

SNC-LAVALIN INTERNATIONAL INC.
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EUROPE

BELGIUM

S.A. SNC-LAVALIN EUROPE N.V.
S.A. COPPÉE-COURTOY N.V.
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Telephone (322) 643.15.11
Fax (322) 647.74.35
Telex B 21139 CORUBX

FRANCE

SNC-LAVALIN FRANCE S.A.S.
16 cours J.B. Langlet
51723 Reims cedex
Telephone (33 3) 26.77.60.00
Fax (33 3) 26.77.61.70

SNC-LAVALIN FRANCE S.A.S.
3 ter rue d'Athènes
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Telephone (33 2) 51.89.50.50
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8e étage
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Telephone (33 1) 47.20.83.88
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CHOVET ENGINEERING S.A.
« Britannia » – Tour A
20 boulevard Eugène Deruelle
69432 Lyon cedex 03
Telephone (33 4) 72.84.79.90
Fax (33 4) 72.84.79.91

EUROTEC S.A.S.
3 bis rue des archives
94006 Créteil cedex
Telephone (33 1) 41.94.36.00
Fax (33 1) 41.94.36.01

PINGAT INGÉNIERIE S.A.S.
4 C allée Claude Debussy
Espace Européen
69130 Ecully
Telephone (33 4) 78.33.60.52
Fax (33 4) 78.33.56.98

SOGEQUIP S.A.
C.D. 12
69360 Solaize
Telephone (33 4) 78.02.77.44
Fax (33 4) 78.02.04.84

QUALIFARM S.A.R.L.
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69360 Solaize
Telephone (33 4) 78.02.24.60
Fax (33 4) 78.02.04.84

TROUVIN S.A.S.
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261 rue de Paris
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HUNGARY

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Fax (36-1) 214-02-03

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LATIN AMERICA

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HAITI

SOCIÉTÉ D'EXPERTISE ET D'INGÉNIERIE LGL S.A.
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SNC-LAVALIN INTERNATIONAL INC.
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PERU

SNC-LAVALIN PERÚ S.A.
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SOCODEC VENEZUELA C.A.
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Avenida Paseo Colón
Urbanización Maripérez
Caracas 1050
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SNC-LAVALIN MAGHREB EURL
B.P. 274
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SNC-LAVALIN INTERNATIONAL INC.
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SNC-LAVALIN INTERNATIONAL INC.
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Telephone (2542) 74.50.71
Fax (2542) 75.03.94

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SNC-LAVALIN INTERNATIONAL INC.
Anbasibn Malek Street
Garyounes Area
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Fax (218 61) 22.26.163

SENEGAL

SNC-LAVALIN INC.
38, Route de la Pyrotechnie
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Fax (221) 860 1424

SOUTH AFRICA

SNC-LAVALIN SOUTH AFRICA (PTY) LTD.
First Floor, Block B, Cullinan Place
2, Cullinan Close, Morningside Sandton
P.O. Box 784593, Sandton 2146
Telephone (2711) 535-4900
Fax (2711) 884-6363

TUNISIA

SNC-LAVALIN INTERNATIONAL (TUNISIA) INC.
4, rue Abdelhamid Ibn Badis
1002 Tunis
Telephone (216-71) 28.54.66
Fax (216-71) 84.17.00

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SNC-LAVALIN (SAUDI ARABIA BRANCH)
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Al Khobar 31952
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Fax (9663) 858-0661

TURKEY

SNC-LAVALIN MÜHENDISLIK VE TAAHHÜT LTD. SIRKETI
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Gaziomanpasa
06700 Ankara
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Fax (90-312) 447.58.37

UNITED ARAB EMIRATES

SNC-LAVALIN GULF CONTRACTORS COMPANY LLC
4th Floor, West Tower
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Abu Dhabi
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Fax (971 2) 644-6649

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PT SNC LAVALIN TPS
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OCEANIA

AUSTRALIA

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Telephone (61-7) 3002-1000
Fax (61-7) 3221-2600

SNC-LAVALIN AUSTRALIA PTY LTD.
Level 10, 190 St George's Terrace
Perth, W.A. 6000
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Fax (61-8) 9321-4660

MURRAYLINK TRANSMISSION COMPANY PTY LTD.
GPO Box 7077
Riverside Centre
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Brisbane QLD 4000
Telephone (61-7) 3229-5887
Fax (61-7) 3211-8619

TEN-YEAR STATISTICAL SUMMARY

YEAR ENDED DECEMBER 31 (IN MILLIONS OF DOLLARS)	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Revenues										
Services	**923.6**	888.8	777.2	583.2	544.9	531.0	537.9	533.8	559.3	405.6
Packages	**1,502.7**	1,463.7	1,769.3	863.2	523.6	438.8	687.8	619.1	595.9	425.9
Concessions	**1,021.1**	911.4	885.1	880.4	671.9	301.0	281.8	260.0	206.6	197.8
	3,447.4	3,263.9	3,431.6	2,326.8	1,740.4	1,270.8	1,507.5	1,412.9	1,361.8	1,029.3
Gross margin	**517.2**	497.6	466.2	373.4	310.8	300.9	281.3	270.4	259.2	205.9
Administrative, marketing and other expenses	**294.5**	310.8	298.0	234.4	202.5	206.1	199.7	199.5	196.3	163.6
Interest (revenues) and capital taxes	**63.0**	52.0	57.0	67.8	47.1	25.1	4.0	3.4	(1.1)	(10.0)
Income before gains, income taxes and amortization of goodwill	**159.7**	134.8	111.2	71.2	61.2	69.7	77.6	67.5	64.0	52.3
Gain on disposal of a portion of the investment in 407 International Inc.	**–**	–	149.3	–	–	–	–	–	–	–
Gain on dilution of investment in 407 International Inc.	**–**	–	14.7	–	–	–	–	–	–	–
Income before income taxes and amortization of goodwill	**159.7**	134.8	275.2	71.2	61.2	69.7	77.6	67.5	64.0	52.3
Income taxes	**55.6**	48.3	72.7	30.2	26.8	25.8	24.6	20.9	20.0	17.7
Income before amortization of goodwill	**104.1**	86.5	202.5	41.0	34.4	43.9	53.0	46.6	44.0	34.6
Amortization of goodwill (net of income taxes)	**–**	–	–	14.6	10.5	7.6	7.4	6.4	7.0	3.3
Net income (loss)										
Excluding Highway 407	**118.6**	99.2	89.5	59.2	53.1	49.5	45.6	40.2	37.0	31.3
From Highway 407	**(14.5)**	(12.7)	113.0	(32.8)	(29.2)	(13.2)	–	–	–	–
	104.1	86.5	202.5	26.4	23.9	36.3	45.6	40.2	37.0	31.3
Earnings before interest, taxes, depreciation and amortization										
Excluding Highway 407	**230.5**	199.7	186.3	144.1	120.3	107.2	109.9	99.4	88.7	62.9
From Highway 407	**46.6**	40.1	196.8	45.4	31.1	18.7	–	–	–	–
	277.1	239.8	383.1	189.5	151.4	125.9	109.9	99.4	88.7	62.9
Return on weighted average shareholders' equity										
Excluding Highway 407	**17.3 %**	15.8 %	15.9 %	14.8 %	14.9 %	14.2 %	14.3 %	13.5 %	14.9 %	13.7 %
From Highway 407	**(2.1)%**	(2.0)%	20.1 %	(8.2)%	(8.2)%	(3.8)%	–	–	–	–
	15.2 %	13.8 %	36.0 %	6.6 %	6.7 %	10.4 %	14.3 %	13.5 %	14.9 %	13.7 %

YEAR ENDED DECEMBER 31

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Basic earnings per share ($)										
Excluding Highway 407	**2.34**	1.97	1.79	1.24	1.14	1.06	0.98	0.84	0.79	0.67
From Highway 407	**(0.28)**	(0.25)	2.25	(0.69)	(0.63)	(0.28)	–	–	–	–
	2.06	1.72	4.04	0.55	0.51	0.78	0.98	0.84	0.79	0.67
Weighted average number of shares – basic (in thousands)	**50,605**	50,377	50,139	47,914	46,350	46,628	46,560	48,083	46,711	46,838
Dividends declared per share ($)	**0.55**	0.43	0.37	0.29	0.25	0.24	0.21	0.20	0.17	0.14

AT DECEMBER 31

(IN MILLIONS OF DOLLARS, EXCEPT PER-SHARE AMOUNTS AND NUMBER OF EMPLOYEES)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Number of employees	**11,098**	10,510	14,538	8,819	8,174	6,643	6,383	6,286	6,226	4,846
Backlog	**6,329.7**	4,172.9	4,169.4	3,497.0	3,974.1	2,759.3	1,941.6	2,191.1	2,447.6	2,226.9
Cash and cash equivalents	**713.2**	495.8	491.6	323.2	255.8	110.3	217.6	146.5	146.0	282.5
Shareholders' equity	**717.8**	658.3	597.1	443.0	358.2	357.9	317.8	318.3	237.7	231.8
Book value per share	**14.21**	12.99	11.90	8.89	7.80	7.63	7.08	6.63	5.32	5.07
Number of outstanding common shares (in thousands)	**50,508**	50,668	50,157	49,813	45,924	46,883	44,871	47,999	44,661	45,714
Closing market price per share (1)	**58.00**	51.00	34.05	28.90	13.95	10.95	11.55	11.00	13.85	8.83

(1) Based on closing market prices listed on the Toronto Stock Exchange

BOARD OF DIRECTORS' COMMITTEES

BOARD OF DIRECTORS' COMMITTEES

The Board of Directors has four committees, all of which are composed entirely of outside and unrelated directors.

AUDIT COMMITTEE

This committee is responsible for assisting the Board in carrying out its responsibilities relating to the Company's accounting policies, financial reporting practices, internal controls and continuous disclosure. As part of its role, the committee reviews financial statements prior to their approval by the Board, and monitors the effectiveness of the Company's internal control procedures and information systems.

HUMAN RESOURCES COMMITTEE

This committee reviews and monitors human resources policies and management development programs, and reviews and approves compensation policies and succession plans for senior officers.

GOVERNANCE COMMITTEE

This committee monitors the Company's corporate governance practices and evolving governance standards being advocated by various organizations and makes related recommendations to the Board. It also assesses, annually, the effectiveness of the Board and recommends candidates for election as directors.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

This committee reviews SNC-Lavalin's health and safety, and environmental policies and the implementation of these policies. It also reviews the effectiveness of SNC-Lavalin's responses to health and safety, and environmental issues, applicable legislation and reports and recommendations relating to such issues.

A more detailed description of the responsibilities of the Board committees is provided on our website at the address shown below. Additional information about the Company's corporate governance practices is presented in our Management Proxy Circular, which can also be viewed on our website, or a copy of which can be obtained from our Corporate Secretary.

CORPORATE POLICIES

SNC-Lavalin has adopted comprehensive policies regarding quality, the environment, and health and safety. These policies are available on our website at **www.snclavalin.com**.

BOARD OF DIRECTORS

ANGUS A. BRUNEAU, O.C., Ph.D. (3), (4)
Chairman of the Board
Fortis Inc.
St. John's, Newfoundland and Labrador
Canada

JOHN E. CLEGHORN, O.C., FCA (3)
Chairman of the Board
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

JACQUES A. DROUIN (1), (4)
Managing Director
Canada Country Head
Lazard & Co., Limited
London
United Kingdom

DAVID GOLDMAN (1), (2)
Executive Chairman
Mamma.com Inc.
Montreal, Quebec
Canada

JACQUES LAMARRE
President and
Chief Executive Officer
SNC-Lavalin Group Inc.
Montreal, Quebec
Canada

ALLAN F. LEACH (4)
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Allan Leach Consultants Inc.
Toronto, Ontario
Canada

PIERRE H. LESSARD (1), (2)
President and
Chief Executive Officer
Metro Inc.
Montreal, Quebec
Canada

CLAUDE MONGEAU (1), (3)
Executive Vice-President
and Chief Financial Officer
Canadian National
Montreal, Quebec
Canada

EDYTHE A. PARKINSON-MARCOUX (3), (4)
Company Director
Gibsons, British Columbia
Canada

HUGH D. SEGAL (2), (4)
President
Institute for Research on Public Policy
Montreal, Quebec
Canada

LAWRENCE N. STEVENSON (2), (3)
Chairman and Chief Executive Officer
Pep Boys Inc.
Philadelphia, Pennsylvania
United States

(1) Member of the Audit Committee
(2) Member of the Human Resources Committee
(3) Member of the Governance Committee
(4) Member of the Health, Safety and Environment Committee

SHAREHOLDER INFORMATION AND IMPORTANT DATES

WEBSITE: WWW.SNCLAVALIN.COM

COMMON SHARE INFORMATION

Listed: Toronto Stock Exchange
Symbol: SNC
At December 31, 2004
- Closing price: CA$58.00
- Market capitalization: CA$2,929 million
- Number of outstanding common shares: 50,508,000
- 52-week high/low: $59.46 / $42.50

Dividend declared for 2004: $0.55 per share

DEBT INSTRUMENT

Debenture, $105 million face value
7.7%, maturing 2010
Credit Ratings
- Standard & Poor's: BBB
- Dominion Bond Rating Service: BBB (high)

In February 2005, Standard & Poor's upgraded its outlook on the Company to positive from stable and affirmed its BBB rating on the debenture, while Dominion Bond Rating Service Limited upgraded its rating for the debenture to BBB (high), from BBB, with a stable trend.

ANNUAL MEETING

The Annual Shareholders' Meeting will be held on Thursday May 5, 2005 at 11:00 a.m. in "The Gallery", Toronto Stock Exchange, 130 King St. West, Toronto.

IMPORTANT DATES FOR 2005

	QUARTERLY REPORTS	DIVIDEND RECORD	DIVIDEND PAYMENT
Fourth Quarter 2004	March 4	March 18	April 1
First Quarter 2005	May 5	May 19	June 2
Second Quarter 2005	August 5	August 19	September 2
Third Quarter 2005	November 3	November 17	December 1

Note: Dividends are subject to approval by the Board of Directors. In exceptional circumstances, these dates may change without prior notice.

COMMON SHARE TRADING ACTIVITY

2004	VOLUME	HIGH	LOW
Fourth Quarter	**4,639,000**	**$ 59.46**	**$ 48.64**
Third Quarter	**2,802,000**	**$ 50.25**	**$ 45.02**
Second Quarter	**2,818,000**	**$ 50.00**	**$ 46.30**
First Quarter	**5,888,000**	**$ 51.20**	**$ 42.50**

COMMON SHARE TRADING ACTIVITY

2003	VOLUME	HIGH	LOW
Fourth Quarter	5,436,000	$ 52.00	$ 42.99
Third Quarter	5,636,000	$ 45.00	$ 36.96
Second Quarter	6,322,000	$ 40.47	$ 33.20
First Quarter	4,978,000	$ 35.45	$ 29.02

REGISTRAR AND TRANSFER AGENT

For information on matters such as share transfers, dividend cheques and changes of address, inquiries should be directed to:
Computershare Trust Company of Canada, 1500 University Street, Suite 700, Montreal, Quebec H3A 3S8
service@computershare.com tel: 1-800-564-6253

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EXEMPLAIRES FRANÇAIS

Pour recevoir ce rapport
en français, s'adresser au :

SERVICE DES RELATIONS PUBLIQUES
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Montréal (Québec)
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(514) 393-1000, poste 2121

ADDITIONAL COPIES

To receive additional copies of this report in English or French, or to be placed on our corporate mailing list, please contact:
(514) 393-1000, ext. 2121

INVESTOR RELATIONS

Stéphane Roy
Vice-President,
Investor Relations
stephane.roy@snclavalin.com
(514) 393-1000

HEALTH & SAFETY, THE ENVIRONMENT (HSE) AND SUSTAINABILITY REPORT

Our commitment to the health and safety of our employees, the communities in which we work, and to sustainable development is one of our key values. It incorporates measures to ensure sustainability in all aspects of our business – including ongoing commitments to recruiting and maintaining a highly skilled workforce, and to ensuring we leave a positive legacy behind, once a project is completed.

IN 2004, SOME OF THOSE SUSTAINABLE MEASURES INCLUDED

- Developing community roads, a bridge, sewage treatment facilities, school health education and HIV/AIDS programs in South Africa; helping a community in Bosnia build a school in the neighbourhood where we provided communications' logistics for NATO Peacekeepers; providing training in project management, proposals and environment management in countries like China and Vietnam; continuing to build on our historic relationships with aboriginal communities to identify and develop opportunities; and supporting Habitat for Humanity by sponsoring a house for a low income family in Toronto – just one of our many community-related initiatives where employees contribute time and money to programs and projects that improve the lives of others.

HEALTH & SAFETY, AND THE ENVIRONMENT– A PROGRESS REPORT

A Zero Harm work environment is our objective

A safe and healthy work environment is the responsibility of every employee, and our goal and commitment each year is zero harm to our employees, our clients and to the environment. No accident or incident is acceptable. We measure our success using a number of indicators, such as our HSE construction-based Lost Time Injury Rate, which is calculated by multiplying the number of lost work days by 200,000 and then dividing that by the total number of hours worked. This is closely monitored by business unit leaders, the Company's senior management, and the Board of Directors.

- Our success in 2004 is reflected in a number of projects totalling over 10 million man-hours worked without a Lost Time Injury (LTI) on sites under the direction of our Mining and Metallurgy, Chemicals and Petroleum and Infrastructure business units in Peru, Chile, Argentina, Oman, Libya, the United States and Canada, among others. A number of these projects are ongoing, and employees are now working on their 2nd and 3rd sets of million man-hours worked without LTIs.
- Our success is also reflected in acknowledgements received from clients and industry: SNC-Lavalin GDS was honoured with five key safety achievement awards; and SNC-Lavalin ProFac won two environment-related awards from industry in the province of Ontario.

OTHER KEY DEVELOPMENTS IN 2004 IN SUPPORT OF HSE AND SUSTAINABILITY

- Our Environmental Management Plan for construction sites is customized to meet the individual needs of projects worldwide. It is a key tool to efficiently and effectively monitor compliance to environmental standards. Signing on to SNC-Lavalin's Environmental Policy is a requirement for every project manager.
- SNC-Lavalin's Environmental team participates in the environmental assessment of projects in a wide range of countries, including, in 2004, Malaysia, Guinea, Peru, Algeria, Kuwait and the UAE to help meet comprehensive environmental assessment requirements by export credit agencies such as Export Development Canada.
- Ongoing and systematic audits on business units by SNC-Lavalin's 23 Health & Safety professionals to confirm HSE compliance.
- Development of new HSE software to formally incorporate HSE requirements directly into SNC-Lavalin's worldwide PM+ project management procedures – thus facilitating injury and accident reporting.

TRAINING ACTIVITIES

- SNC-Lavalin is committed to providing a trained Safety Officer for every project site worldwide, and monthly HSE reporting responsibilities for all projects are mandatory; training programs in 2004 provided a pool of 60 qualified Safety Officers to ensure all business units meet these requirements; joint health and safety training best practices will be developed with our clients, suppliers and sub-contractors; a new computer-based training program will be available later this year (2005) so that new Safety Officers' can be trained, or updated, on site, anywhere in the world.

Respect for Health & Safety, and the Environment is a commitment that goes beyond our working day. It is an integral part of each individual's life.

FOR A BETTER WORLD

SNC-Lavalin is committed to providing safe and healthy work environments for all employees, in offices and on worksites worldwide. We believe this commitment plays a key role in the success of our projects. Our ultimate goal is zero lost-time incidents on every project.

SNC-Lavalin believes that sustainable development will improve the future for all people, and affirms that sound environmental management is one of the pillars of a good project. SNC-Lavalin expects all employees – from the CEO down – to share the responsibility of meeting our Environmental commitments to our clients and the communities in which we operate.

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SNC·LAVALIN






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